

City Manager's Budget Message

Fiscal Year 2002

August 1, 2001

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

SUBJECT: Fiscal Year 2002 Proposed Resource Allocation Plan

I am pleased to submit my proposed budget for Fiscal Year 2002 (FY 02). Input solicited in public workshops in May and June provided a context for this budget. As you know, this year the major issue has been the energy crisis. Much attention has focused on the impact of this crisis on the State's budget, as well as its effect on Long Beach ratepayers, including the City government. Most of the local discussion has focused on the impacts of the natural gas component of the crisis on our utility customers. The uncertainties of rising energy costs, a potential economic recession, and the implications for local government caused by the State budget situation are factors that may affect the viability of the proposed budget for Fiscal Year 2002.

In spite of these uncertainties, you will find in this proposed budget many deserving enhancements in areas requested by the public and the City Council. Further, the proposed budget continues to support the City Council's policy to maintain a reserve of 10 percent of the General Fund operating budget.

CITYWIDE BUDGET

The Citywide proposed FY 02 budget totals \$1.8 billion, most of which is restricted by State or Federal law or grant requirements. The Citywide budget finances a multitude of operations including City utilities (gas, sewer, water), refuse collection, the airport, harbor operations, marinas, redevelopment activities, oil operations and also traditional municipal services that are typically funded by the General Fund such as police, fire, public works, parks and recreation, libraries, and general government services.

GENERAL FUND

The FY 02 proposed General Fund expenditure budget totals \$352 million while projected revenues total \$334 million. The \$18 million difference between revenues and expenditures is offset by \$19 million in estimated carryover from FY 01. Carryover is simply savings and/or additional revenues generated during the current year that can be carried forward to help balance the subsequent year's budget. The total of beginning carryover plus revenue minus proposed expenditures results in a projected ending fund balance for FY 02 of approximately \$1 million, which will remain in reserve and available during the year for unanticipated needs, or for appropriation as the City Council deems appropriate.

Typically, balancing the General Fund budget is not an easy task. The FY 02 proposed budget is no exception. The energy crisis and its impact on City expenses and revenues has presented

multiple budgetary challenges, particularly since there is no history upon which to base projections and, therefore, no guarantee that this phenomenon will continue into next year or beyond.

The ending fund balance for FY 01 was initially expected to be about \$6 million, which is anticipated annually from departments expending no more than 98% of their budgets, as per the annual budget policy. However, actual savings are expected to be minimal, primarily due to unbudgeted wage increases for Miscellaneous Bargaining Unit employees (non-safety) and higher than anticipated natural gas and electricity costs.

On the revenue side, as reported in the Mid-Year Budget Report, all major revenues (Property Taxes, Sales Taxes, Transient Occupancy Taxes) are performing higher than budget. During the mid-year budget workshop, I recommended that an additional month's revenue and expenditure data be accumulated in order to validate these positive trends. With only two months remaining in the fiscal year, we are now able to validate projected revenue increases. The positive performance in property, sales and transient occupancy taxes is largely as a result of the Mayor and City Council's leadership in support of economic development over the last decade; these efforts are bearing fruit for the City and its citizens. The more significant revenue increases are primarily a function of the energy crisis and the resulting moderate growth in gas and electric Utility Users Taxes (UUT). Gas Pipeline Franchise fee payments, however, have experienced dramatic growth due to the transport of natural gas through City pipelines by the Southern California Gas Company (SoCal Gas). This is discussed later in this transmittal. As a result of these higher revenues, there is projected to be a significant carryover amount available from the current fiscal year to help balance the FY 02 budget.

With regard to the UUT, on a budget to budget basis, the cost of electricity and natural gas for the City's own use has more than offset gains resulting from the increase in tax collected, resulting in a net cost to the City. Beyond that, the continued upswing in Gas Pipeline Franchise fees was unanticipated. I must emphasize that Long Beach ratepayers do not pay this fee; Southern California Gas Company pays these franchise fees for the right to transport gas to its customers through Long Beach pipelines. This revenue increase is a by-product of the near round-the-clock operations of generation plants in our area. The result of these increases and other economic factors is that revenues have far outpaced increased expenses through three full quarters of the current fiscal year.

Thus, these additional, unanticipated revenues have eliminated the FY 02 deficit that had been projected earlier this year. This unforeseen circumstance enables me to recommend budgetary options to provide relief to gas ratepayers and to fund worthy enhancements.

The natural gas component of the energy crisis has had an adverse impact on our ratepayers and, therefore, on all of our residents. There has been much discussion about using the Gas Fund to provide rate relief. The ability of the fund to provide meaningful relief is limited, however, by the need to maintain a reasonable fund balance for emergencies and to continue to augment municipal services.

Moreover, the UUT rate has been programmed for a five-percentage point, or 50%, reduction over a period of five years. In response to the energy crisis, the Mayor and City Council have already accelerated the reduction of the UUT from a rate of 9% to 8% six months sooner than required. I view a reduction of the UUT, rather than the use of the Gas Fund, as the most broad-based, practical and equitable means for providing further rate relief. As you are aware, reducing the UUT ahead of schedule on telephone and electricity requires a long lead-time in order to avoid the

costs chargeable to the City. However, we can make changes on the City's own utility bill within 30 days with no additional programming cost.

As a result, I have incorporated the following provisions in my proposed FY 02 budget for your consideration. I recommend a reduction of the UUT on natural gas as follows:

Effective Date	Rate	Estimated Revenue Loss	Calculation Period
July 1, 2001	7%	\$ 300,000	(3 mo.)
October 1, 2001	6%	\$2,368,750	(Full year)
April 1, 2002	5%	<u>\$ 514,499</u>	(6 mo.)
		\$3,183,249	

This will provide immediate relief to both residential and commercial ratepayers in time for the winter season. This, I believe, is responsive to the energy crisis in the most equitable and responsible manner.

Budget Enhancements

It should be noted that over \$5 million in enhancements were not funded or implemented during the current budget year. However, the proposed FY 02 budget includes \$8.4 million in program and/or service enhancements in the General Fund; due to identified offsets, the net cost to the General Fund is only \$2.5 million. This is because most General Fund enhancements are self-funded by ongoing or onetime cost savings and/or additional revenue available to offset the cost of the program increase.

Additional enhancements in other funds total \$4.5 million and are offset by either cost savings, additional revenue or from available fund balances, with a net cost of \$2.6 million. These enhancements are in addition to increases in departmental budgets required as a result of the negotiated employee labor agreements' costs and costs associated with the expiration of federal grants. Attachment A lists all proposed City Manager department enhancements.

In addition, I am recommending that approximately one-half million dollars of recreational programs that were begun in FY 01 with Mayor and City Council enhancement and discretionary funds be continued as listed in Attachment B.

The following highlights several significant budget changes and enhancements.

Capital Improvement Program:

(Please refer to the separate One-Year Capital Improvement Program document for details on capital budgets.)

- ❖ The Neighborhood Infrastructure Program will be continued with funding of \$3 million.
- ❖ The commitment to the disabled community through adherence to the Americans with Disabilities Act (ADA) Transition Plan will continue at \$3 million.
- ❖ The new Public Safety facilities discussed during FY 01 are included. The facilities include the Emergency Communications Operations Center, the Public Safety Building Retrofit, the Edison Building temporary Police Headquarters, the Police Lab and Property Warehouse and the North Division Substation.

- ❖ The Alley Study will be completed in FY 02 and submitted to the City Council for consideration.
- ❖ The slurry seal preventive street maintenance program will continue and is funded at \$1.6 million.

Business Related:

- ❖ A new Technology Business Division will be added in the Community Development Department to attract and retain new and emerging technology businesses throughout the City. (\$600,000)
- ❖ A Business Help Desk will be added in the Department of Planning and Building and staffed by an Ombudsman to help new businesses successfully navigate the processes of permitting and approvals in order to help them establish their business as soon and as smoothly as possible. (\$100,000)
- ❖ Two additional Building Inspectors will be added in the Department of Planning and Building which will also aid in the processing of permits. (\$203,980)
- ❖ An additional Fire Prevention Plan Checker and an additional Fire Prevention Inspector for new construction will be added to the Fire Department. This additional staffing will also help accelerate the processing of applications for permits. (\$174,777)
- ❖ A Diversity Outreach Officer will be added to the Department of Financial Management to enhance the City's outreach efforts to disadvantaged, minority, women-owned, and Long Beach businesses seeking to provide goods and services to the City through contracting opportunities. This position will improve the City's existing diversity outreach efforts. (\$106,165)

Public Safety Related:

- ❖ The Fire Department budget will be supplemented to ensure that emergency and personal safety equipment is replaced on a scheduled cycle. (\$267,865)
- ❖ Three additional Police Officers have been added to support the Task Force for Regional Autotheft Prevention, the California Methamphetamine Strategy Task Force and the Code Enforcement Incentive Program (CEIP) grant. The costs are offset by program and grant revenues. (\$241,174)
- ❖ Five additional Security Officers positions will be added for expanded Civic Center security and for monitoring other City sites. (\$257,500)
- ❖ Four Security Officers positions will be added for comprehensive Airport security as a result of increased airline activity. (\$169,364)
- ❖ Six additional defibrillators will be added to the City Hall complex for the protection of visitors and employees. (\$22,122)
- ❖ An Assistant Fire Chief will be added to oversee the third of three fire districts. (\$167,326)

Library and Recreation Related:

- ❖ The Library book and materials budget will be increased to provide additional resources to maintain the size and depth of the City collection. (\$200,000)
- ❖ The Burnett Branch Library will be open to the public 10 additional hours per week. The extended hours include an additional day (Monday) and an additional hour on Tuesday, Wednesday, and Thursday. The Teen program will also be expanded at Burnett in support of the Library's Strategic Plan. (\$136,100)
- ❖ Funding is included for development of three to four additional "Pocket Parks" in the City. These mini-parks provide needed leisure and recreational space in neighborhoods. (\$250,000)
- ❖ The Youth Sports Program (basketball, indoor soccer, flag football, softball, and volleyball) will be expanded to provide more coaches, as well as training for referees and officials and provide team t-shirts for participating youth. This enhancement ensures inclusion of all youth who apply, or approximately 10,000 participants. (\$150,000)
- ❖ Outreach by the Junior Golf program will be enhanced with additional clinics and exhibitions. (\$25,000)
- ❖ Staffing for the Mobile Skate parks will be enhanced and additional ramps, rails and safety equipment will be purchased. (\$50,000)
- ❖ A new Natural Resources Stewardship Program will be added which will facilitate natural resource conservation, education, and public information; perform planning, research, and management policy formation for open space and wetlands; and assist in the development of natural resources and restoration goals. (\$180,000)
- ❖ The Extended Day childcare programs at Houghton, Silverado and Veterans Parks will be enhanced with additional supervision and recreational supplies and equipment. The program is open to youth ages 5 -12. Children are walked to and from nearby schools, or can be transported by parents. (\$70,000)

Highlights of Other Continuing Recreation Programs:

- ❖ Middle School Teen Programs
Year-round after school drop-in programs will continue to be provided in FY 02 at the following six sites: Jefferson, Hamilton, Franklin, Lindbergh, and Stephens Middle Schools and Veterans Park Fishbowl. Other activities for youth ages 11-14 include drop-in programs at Ramona, Chavez, King, Admiral Kidd, MacArthur, Pan Am, and Scherer Parks. There are also numerous contract classes and camps available for youth (up to age 17) Citywide.
- ❖ Senior Programs
The Long Beach Senior Center, located at 4th and Orange, continues to thrive and is open Monday through Saturday. Features at the Center include a computer room, fitness room, game room, library, and gift and coffee shops. Seniors enjoy dances, special interest

clubs, nutrition and health programs. Senior activities are also provided at the El Dorado West, Houghton, Silverado, and California Recreation Centers. (\$780,000)

OTHER GENERAL FUND DEPARTMENTS

Budget enhancements in non-City Manager departments include an increase of 8.1 positions. These additions are described below:

- Mayor and City Council
A net increase of 2.1 FTE positions is proposed department-wide, which resulted from increases in part-time employee hours, partially offset by reductions in other classifications throughout the department.
- City Clerk
An additional 2.8 FTE temporary Election Employee positions have been included to staff next year's election.
- City Prosecutor
The budget includes an additional 3.2 FTE positions, of which the new Code Enforcement Grant supports two and the Community Prosecution Grant supports the balance.

OTHER FUNDS

Gas

The Gas Fund (Long Beach Energy Department) has been able to support the General Fund with an annual transfer of funds that were not needed to maintain gas utility operations. As permitted under the Charter, funds determined by the City Manager to be unnecessary to meet Gas Fund operating requirements may be transferred into the General Fund of the City as approved in the annual budget by the City Council. The transfer is in lieu of the amounts the City would receive in property taxes, franchise fees and other fees and taxes if the utility were privately owned.

The FY 02 budget assumes the planned transfer from the Gas Fund of \$12 million. You may recall that our Multi-Year Plan contemplated a reduction of the transfer each year. The budgeted amount for FY 01 is \$15 million. However, the expected transfer would only be \$14 million due to consumer relief approved by the City Council for low income seniors and low income disabled utility customers. On the advice of the City Attorney, we will transfer only \$6.0 million this year, and "escrow" the remaining \$8.0 million in the Gas Fund. The escrowed amount is equivalent to the percentage of gross revenues (53%) earned by the Gas Fund from December 2000 through March 2001, the period of extraordinarily high gas bills.

Health Fund

The Social Services Grant Program was established in 1985 by the City Council to support social service agencies in the City and is administered by the Health and Human Services Department. The source of the funding was originally the annual interest earned by the subfund that held the proceeds of the Pacific Hospital land sale and was estimated at \$450,000 annually. However, additional Health Department obligations have been paid out of the subfund over the years, requiring a draw on the principal portion as well.

The current proforma indicates that the subfund will be exhausted in FY 03. Staff is currently working on a plan to maintain the solvency of the grant program thereafter. The solution will likely involve a variety of revenue sources. The resolution of this issue will be presented to the City Council with the FY 03 proposed budget.

Tidelands

Revenue from oil operations will help generate sufficient carryover during the current fiscal year to help balance the FY 02 operating budget. The Tidelands Operations Fund finances a myriad of services in the Tidelands area including beach maintenance, lifeguards, fire, and police. The fund is dependent on the annual transfer from the Harbor Department of 10% of its net operating profit; we are grateful for their continued assistance. In addition, the Board of Water Commissioners has offered water service at no charge to those City Tidelands accounts without a dedicated revenue source and which are not enterprise functions. The value of this offer is estimated to be approximately \$100,000 to the Tidelands Fund. We thank the Board for their support in assisting the City to continue to maintain Tidelands services. The Water Board has also committed to study the feasibility of administering the Clean Water Act by assigning staff for FY 02 to the program.

Oil revenues are also a big factor in financing these services and, as the price of oil increases, the amount of the transfer to Tidelands increases. The FY 02 budget is constructed based on \$17 per barrel oil, which is the same as FY 01. Both these sources fluctuate yearly but, nonetheless, we have been able to balance the budget on a year-to-year basis.

Fee Adjustments

After considerable study, several fee adjustments are recommended to help offset the cost of specific services. All fee adjustments are listed in Attachment C of this letter. In addition, we are continuing to monitor and manage the Refuse Fund closely; it has not experienced a rate increase since 1995 in spite of increases in operating costs. An increase may be required in the next few years, depending on the financial condition of the Fund.

STATE BUDGET

As of the date of this writing, it has been announced that the legislature and Governor have adopted the State budget. It has been reported that several projects, including the Wrigley Heights park acquisition, the Colorado Lagoon Project, the Los Angeles River Project, Drake Park, and the Multi-Cultural Health Center, have received some level of funding for the City. City staff will confirm the facts relative to the State budget and communicate to the City Council subsequently concerning allocations to Long Beach.

OUTLOOK FOR FY 03

The near term outlook appears relatively stable. However, a deficit for FY 03 may occur should energy related revenues return to lower historical levels and also due to diminished UUT revenues. In addition, the State's fiscal situation is uncertain and a recession is forecasted by some; as a result, there was once again some discussion at the State level regarding the potential use of cities' revenues to help balance future State budgets. On the expense side, funding the cost of debt service for the new public safety facilities will be required, a major Police Department grant subsidy will terminate, and employee labor agreements are scheduled to expire at the end of FY 02.

Earlier during the current fiscal year (FY 01), based on October/November 2000 revenue performance, it appeared that a significant gap between projected FY 02 expenditures and revenues could be expected. At the time, the City had not yet felt the impact on revenue of the gas and energy crisis - the cost of natural gas had only recently increased, dramatically, and the State had not yet adopted electricity rate hikes or taken any action with regard to energy production. The result of the crisis has been felt both in increased costs for the City, and in unanticipated and significant increases in energy related City revenues. The largest, and most significant, revenue impact has been on the Gas Pipeline Franchise Fee, which is paid by SoCal Gas through its ratepayers.

We have assumed a continuation of the higher pipeline fee revenue into Fiscal Year 2002. However, I must caution that, a return of costs and usage to lower historical levels would result in lower pipeline franchise fees to the City. The pipeline fee is calculated based on the cost or price of natural gas and the volume transported through city pipelines by SoCal Gas. New gas field exploration could result in increased supply and lower natural gas prices. In addition, there is no way to determine today how the construction and operation of new energy plants will affect gas transport through Long Beach pipelines.

Finally, we have read recent good news that California energy usage, through conservation, has dropped by 12% in recent months. All of these efforts and trends could ultimately result in a reduction of City pipeline franchise fee revenue to lower historical levels. To place this in perspective, the FY 02 proposed budget includes a somewhat conservative projection of \$13 million in pipeline franchise fees, which represents a 27% reduction from the FY 01 projection but is still more than 160% above recent historical levels. Other revenues, such as the gas and electric UUTs, would also be affected by a return to historical cost levels. That occurrence would be terrific news for Long Beach gas and energy customers, but at the same time, could result in a gap, once again, between General Fund revenues and expenditures.

I believe that the City will begin to feel the impact of positive events with regard to the energy crisis in mid FY 02. While it is difficult at this time to state with any degree of certainty whether or not the FY 02 budget would be in jeopardy, it is likely that the FY 03 budget could be difficult to balance should energy related revenues decrease back to normal levels.

CONCLUSION

Although the California economy has slowed, and some are predicting a recession, good things are happening in Long Beach. The success of completed retail centers such as the Towne Center, Los Altos, Marina Pacifica, Wrigley Market Place and the Los Altos Gateway continue to generate much needed sales tax revenue for the City. City sales tax revenues are expected to total \$39.9 million by the end of the current fiscal year. Secured property tax revenues are also increasing and will total approximately \$42.8 million in FY 01, although this is still less than the high of \$49.5 million received in 1992, prior to the State's ERAF incursion on cities' property tax revenues.

We expect to end the current fiscal year with a substantial amount to carry over into FY 02. Since the impact of the State's budget is not entirely known, the FY 02 proposed budget has been prepared without assuming any reduction in those revenues that may be impacted by the final State budget. It is also assumed that current revenue trends will continue, but we will be cautious about the more volatile sources.

Throughout the last decade the City has been able to maintain basic services by diversifying revenue sources, seeking out grants and reducing expenses, while managing the challenge of rising costs. These continuing efforts will help sustain the City in the face of a slowing economy and in our quest to address the \$800 million in deferred infrastructure repair and construction, and in restoring library, recreation and other services that were reduced during the recession of the 1990s.

As examples of this progress, I am pleased to report that the construction of the new Companion Animal Village is completed and it will open in August 2001. The new Emergency Communications and Operations Center (ECOC) will break ground in October 2001. Also, the rebuilding of City Place, formerly the Long Beach Plaza, will be an important component in the revitalization of the downtown area this year, along with the Camden Property Trust, an apartment, condominium, office and hotel complex, which began construction last month.

I would like to thank the Mayor and the City Council for their guidance and direction in developing this budget, as well as the City employees who helped put it together, and the community for their input during the May/June workshops and at other public sessions. I look forward to discussing this proposed budget in detail during the public workshops and hearings that will take place in the coming weeks.

Respectfully submitted,

HENRY TABOADA
CITY MANAGER

ATTACHMENT A: RECOMMENDED ENHANCEMENTS
ATTACHMENT B: MAYOR AND CITY COUNCIL ENHANCEMENTS AND CONTINUING DISCRETIONARY PROGRAMS
ATTACHMENT C: FEE CHANGES

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