

Financial Strategic Plan



Preface

Responsible financial management and effective stewardship of the city's assets are among the most important responsibilities of any local government. The Mayor and City Council have again demonstrated their commitment to planning a financially sustainable future for our City in a responsible, open and accountable manner through the Financial Strategic Plan (Plan).

The Plan demonstrates visionary community leadership by bringing together input from the many stakeholders in the community. The Plan also serves as the blue print for the financial sustainability of our City and it ensures that our goals and aspirations are both, realistically and responsibly, matched with the City's ability to deliver those outcomes.

I. Background

The Plan is the City's multi-year budget planning tool used to project and track fluctuations in structural revenues and expenses within the General Fund. Its main goal is to ensure the City maintains a structural balance in the General Fund. Initially created to successfully eliminate a projected structural deficit between the fiscal years 2004 – 2007, the Plan became the City's ongoing fiscal planning tool after reaching a balanced budget in FY 2007. Thanks to the Plan, the Mayor and City Council have successfully adopted structurally balanced General Fund budgets for four consecutive years with the adoption of the FY 10 Budget. With a continual three-year revenue and expense projection, the Plan allows for increased accuracy in updated projections based on concrete operational and financial assumptions, and provides a roadmap for the development of future years' budgets.

The Plan, as has been the case since its inception, will be updated each year to reassess the condition of the General Fund, address changes in the financial and service delivery environment, and to make appropriate adjustments to ensure it reflects the City Council's priorities and input from the community. However, in an effort to provide a longer outlook on the City's fiscal condition, the City is collaborating with Public Financial Management, Inc. to develop a Long-term Financial Plan (LTFP) that will project the City's expected revenue flows and expenditure commitments for at least five years into the future. This section of the budget book is designed to provide a brief synopsis of the Plan's history, detailed information on the Plan's direction for FY 10 and the current outlook for the subsequent two fiscal years.

II. Development of the Financial Strategic Plan

The City of Long Beach had sustained a structural budget deficit in its General Fund for almost two decades. However, through the use of one-time revenues and savings the City was able to support ongoing expenses. Nevertheless, in September 2002 the Mayor and City Council directed City staff to create a Plan to address the City's escalating structural deficit in the General Fund, which was projected to reach \$102 million by FY 06 if it continued to go unchecked. The Plan would eliminate the City's reliance on one-time revenues to balance its budget by rationally and responsibly, although with much sacrifice, bringing ongoing spending in line with ongoing revenue. Seeking a reasoned approach within which the organization could make the necessary adjustments, the Mayor and City Council called for the development of a three-year Plan to balance the budget.

The Plan was unveiled to the City Council on January 7, 2003. To ensure a broad base of support, the City Manager and his staff presented the proposed Plan to the City Council and held over 80 community meetings to brief community stakeholders on the Plan's approach to balancing the budget, discuss potential service and organizational impacts and to answer questions and collect input for the City Council's consideration. After two months of intense review, the City Council officially endorsed the Plan on March 25, 2003. Each spring and summer since the Plan

was endorsed, the City has updated the Plan’s assumptions and proposals while maintaining a tradition of transparency and inclusiveness.

III. Plan Accomplishments FY 04 – FY 09

Since the Plan’s inception six years ago, the City has implemented sweeping and innovative policies in its effort to eliminate the structural deficit within General Fund. Under the Mayor and City Council’s leadership, Plan solutions were adopted as a part of the annual budget each fiscal year, which lead to the implementation of \$124.5 million in structural deficit solutions from FY 04 – FY 09. Hundreds of difficult decisions were made in an effort to eliminate the structural deficit, including \$87 million in cost reductions, (e.g., the removal of over 250 vehicles (or 10 percent) from the City’s fleet, eliminating 527 positions of the General Fund workforce (or 10 percent), consolidating bureaus and divisions to streamline the organization, instituting employee contributions for the cost of health and retirement benefits, salary increase freezes per MOU agreements, reducing service levels throughout the organization, and optimizing various City operations to save money including Fleet and Towing, Custodial Services, Code Enforcement and the Workers’ Compensation.)

With these and other cost reductions, exacerbated by an increased level of retirements and attrition of senior staff to other organizations, remaining employees were asked to “do more with less,” resulting in increased turnaround and response times for traditional customer service activities such as gas turn-ons/off, tree trimming, street repair and facility maintenance. To avoid further service reductions, a total of \$37.5 million in annual revenue adjustments were made with increased return on assets and improved cost recovery through new and updated fees. **Table 1** below reflects the success of the Plan in addressing the structural deficit from FY 04 – FY 09.

Table 1: Impact on the Structural Deficit, FY 04 - FY 09

Plan Year One: FY 04 Achieved Solutions	-	\$41 million
Plan Year Two: FY 05 Achieved Solutions	-	\$29 million
Plan Year Three: FY 06 Achieved Solutions	-	\$22 million
Plan Year Four: FY 07 Achieved Solutions	-	\$10 million
Plan Year Five: FY 08 Adopted Solutions	-	\$5.6 million
Plan Year Six: FY 09 Adopted Solutions	-	\$16.9 million
Total Structural Solutions: FY 04 - FY 09		\$124.5 million

Table 2 below summarizes the deficit reduction solutions, including a breakdown between cost reductions and revenue enhancements, developed during the six years since the Plan was first endorsed by the City Council.

Table 2: Summary of Financial Strategic Plan Solutions, FY 04 - FY 09

<i>(in millions)</i>	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	Total
Structural Budget Gap	\$60	\$39	\$3	\$ -	\$5.6	\$16.9	\$124.5
Prior Year Deficit	-	19	29	10	-	-	-
Cost Reductions	28	22	16	7.4	2.2	11.4	87.0
Revenue Adjustments	13	7	6	2.6	3.4	5.5	37.5
Remaining Structural Deficit	\$19	\$29	\$10	\$0	\$0	\$0	

As a testament to the significance of what has been accomplished to date, the City's approach to long-range planning through the Plan has been highlighted as a best practice by the Government Finance Officers' Association (GFOA) in the book entitled, *Long-Term Financial Planning*. According to the GFOA:

"The elements of revenue and expenditure projection, fiscal environment analysis, gap identification, gap-closing strategy development, and cooperation and communication between a wide-range of stakeholder groups, including elected officials, staff, and citizens, are all hallmarks of successful long-term financial planning. Long Beach's story demonstrates the critical role that long-term financial planning can play in securing the financial position of a government. Long-term financial planning is not just a one-time event in response to crisis. Long Beach's experience illustrates this point, too."

FY 09 presented a unique set of fiscal challenges for the City, the Plan, and its balanced budget. While the City achieved a structurally balanced budget using conservative estimates for revenue, as soon as the budget was adopted, the economy entered into a global recession and oil prices, along with all major revenue sources, began to fall dramatically. By the end of October 2008, with General Fund revenue projected to fall short by \$14 million of the budgeted levels, the City Manager put into place emergency budget balancing measures, including creating a Budget Stabilization Fund with one-time revenues, placing budgeted one-time expenditures on hold, exploring a 40-hour furlough for City employees and maintaining hiring freezes and restrictions on discretionary spending.

By December, when the projected revenue shortfall grew to approximately \$20 million, these mid-year corrective measures were expanded to include mandatory department savings of 2 percent – 6 percent, reduced department contracting authority to slow down the pace of expenditures and the deferral of State-funded capital projects. The end of FY 09 proved these measures crucial efficiency by ending the fiscal year with a balanced General Fund. However, given the deepening detrimental impact of the global recession as well as the budgetary strains created by the commitments made to the workforce through long-term contracts, the City faced a shortfall between ongoing revenues and ongoing expenses of \$38.3 million in FY 10 if the City did not take action to align its expenses with available revenues.

IV. Restoring a Structural Balance: FY 10

The current fiscal reality of cost increases with lagging revenues created a projected \$38.3 million structural deficit for FY 10. The massive deficit required all stakeholders in the General Fund and related funds to take deliberate and proactive steps to restore the General Fund's structurally balanced budget for FY 10. Utilizing an objective Three-pronged Approach of new revenue, employee contributions and department reductions to balance the budget, the FY 10 Adopted General Fund budget was adopted without a structural budget deficit for a fourth year in a row.

To avoid any unintended and negative community impacts from drastic reductions in services and, especially in this economy, to avert hundreds of unnecessary layoffs, the development of the FY 10 Adopted Budget directly addressed the structural deficit's three main sources (revenue losses, increased employee compensation and department expenditures). The framework utilized in the Adopted Budget was based upon finding permanent deficit-reducing solutions from each of these three primary factors. The strategy to deal with the \$38.3 million structural deficit enabled all areas of the City to reasonably share in the responsibility so that the disproportionate allocation of resources will not be perpetuated and no single stakeholder would bear the brunt of this significant deficit.

Specifically, the FY 10 Adopted Budget required \$2 million in new revenue sources, \$18 million or approximately 6 percent of each department's discretionary budgets, in service reductions or cost efficiencies and \$18 million in cost savings solutions generated by employee unions through deferred compensation increases to balance the General Fund budget. This distribution of solutions mitigated the level of service cuts required and decreased the number of layoffs to our workforce and maintained current compensation levels while still delivering a structurally-balanced budget. For more information on these and all strategies employed for FY 10, please see the City Manager's Budget Transmittal Letters at the front of the budget book.

Despite these adopted strategies for FY 10, the structural balance in the General Fund for FY 10 is tenuous at best. The ongoing global economic crisis, upcoming commitments to employees and the inability of the State to balance its budget, make maintaining a Plan to guide funding decisions all the more critical going forward.

V. Positioning for the Future: FY 11 – FY 12

As part of the FY 10 budget development process, staff provided several briefings to the Budget Oversight Committee and the City Council on the City's fiscal outlook, and provided a multiyear outlook on the City's future liabilities and its ability to pay for them. The Plan highlights four pivotal issues that will have a long-standing impact on the City's ability to maintain a structural balance in its General Fund.

- Employee compensation
- Losses incurred by PERs, the City's State-run retirement plan
- Economic impacts from recession
- Revenue impacts from State take-aways

While the Plan reflects a structural balance for FY 10, we cannot ignore the fact that the General Fund continues to be dramatically impacted by the loss of \$43 million per year in Utility User Tax revenue and over \$25 million per year from the State Property Tax takeaways. In addition, the lack of any appreciable discretionary revenue growth and the cost of future commitments, the pressure will continue to mount on the City without any significant change in how the General Fund is supported.

Over the next several months, staff will refine its deficit projections for FY 11, FY 12 and beyond and share them with the City Council as part of the budget development process for FY 11. One thing is clear, a return to a structural imbalance by funding ongoing costs with one-time resources is not recommended, as it would be a violation of the City Council's Financial Policies, a contradiction to the City Council's priority for a structurally-balanced budget and a threat to the stable fiscal outlook the City currently enjoys from credit rating agencies.

VI. Continued Community Outreach and Participation

Over the past several years, the budget development and adoption process has been increasingly transparent, allowing for as much public input and City Council deliberation as possible before adoption. Based upon direct feedback from the Mayor and City Council, an effort was made to bring additional transparency and dialogue to the budget development process for FY 10.

To this end, the City Manager and Financial Management Department's staff supported a total of 50 public discussions about the FY 10 budget: eight (8) monthly Budget Oversight Committee meetings beginning in December through September; seven (7) City Council Special Budget Hearings from January – July 2009; the City Manager and Financial Management staff attended

24 community meetings during the months of April through September to share information on the City's fiscal situation and encourage direct community input on the budget; and approximately 11 formal City Council Special Meetings, Budget Workshops and Hearings were held during August and September. With input through these open and public discussions about the budget, the Mayor and City Council adopted the FY 10 Budget on September 15, 2009.

