Financial Strategic Plan

Preface

Fiscal responsibility is a core function of local government, and as administrators for the City of Long Beach we are tasked with utilizing these funds in a manner that best serve the interests of the community. The Mayor and City Council have 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). Initially, the Plan started with visionary community leadership bringing together input from the many stakeholders in the community, but as the purse strings became tighter, the Mayor and City Council have been forced to reflect new fiscal realities and make the difficult choices that lend to a structurally balanced budget. The Plan also serves as the blueprint for the financial sustainability of our City and ensures that our goals and aspirations are realistically and responsibly matched with the City's ability to deliver those outcomes in these dire economic times.

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 that 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 07. Thanks to the Plan with the adoption of the FY 11 Budget, the Mayor and City Council have successfully adopted structurally balanced General Fund budgets for five consecutive years. With a continual three-year revenue and expense projection, the Plan allows for increased accuracy in updated projections based on careful analysis of 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, is 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 as well as input from the community. However, in an effort to provide a longer outlook on the City's fiscal condition, as requested by the Mayor and City Council, a long-term financial plan will be developed to 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 and detailed information on the Plan's direction for FY 12.

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 grow 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.

III. Plan Accomplishments FY 04 – FY 11

Since the Plan's inception eight years ago, the City has implemented sweeping and innovative policies in its effort to eliminate the structural deficit within the 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 $188.4 million in structural deficit solutions from FY 04 – FY 11. Hundreds of difficult decisions were made in an effort to eliminate the structural deficit, including $141.4 million in cost reductions, (e.g., the removal of over 280 vehicles from the City's fleet, eliminating over 644 positions in the General Fund workforce (19 percent), consolidating bureaus and divisions to streamline the organization, instituting employee contributions for the cost of health and retirement benefits, deferred salary increases and achieved freezes through 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 Workers' Compensation.

With these and other cost reductions, exacerbated by an increased level of retirements and attrition of senior staff to other organizations, and a strict hiring freeze, 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/offs, tree trimming, street repair and facility maintenance. To avoid further service reductions, a total of $47 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 12.

Table 1: Impact on the Structural Deficit, FY 04 – FY 12

Plan Year One: FY 04 Adopted Solutions	$41.0 million
Plan Year Two: FY 05 Adopted Solutions	$29.0 million
Plan Year Three: FY 06 Adopted Solutions	$22.0 million
Plan Year Four: FY 07 Adopted Solutions	$10.0 million
Plan Year Five: FY 08 Adopted Solutions	$10.0 million
Plan Year Six: FY 09 Adopted Solutions	$16.9 million
Plan Year Seven: FY 10 Adopted Solutions	$38.3 million
Plan Year Eight: FY 11 Adopted Solutions	$21.2 million
Plan Year Nine: FY 12 Adopted Solutions	$20.3 million
Total Structural Solutions: FY 04 - FY 12	**208.7 million**

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

Table 2: Summary of Financial Strategic Plan Solutions, FY 04 – FY 12

(in millions)	**FY 04**	**FY 05**	**FY 06**	**FY 07**	**FY 08**	**FY 09**	**FY 10**	**FY 11**	**FY 12**	**Total**
Structural Budget Gap	$60	$39	$3	$ -	$10	$16.9	$38.3	$21.2	$20.3	**$208.7**
Prior Year Deficit	-	19	29	10	-	-	-	-	-	**-**
Cost Reductions	28	22	16	7.4	7	11.4	31.1	18.5	20.3	**161.7**
Revenue Adjustments	13	7	6	2.6	3	5.5	7.2	2.7	-	**47**
Remaining Structural Deficit	**$19**	**$29**	**$10**	**$0**	**$0**	**$0**	**$0**	**$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."*

IV. Restoring a Structural Balance: FY 12

The FY 12 Adopted Budget represents a continuation of the concepts introduced last year and a new emphasis on pension reform with our employee groups. Recognizing the need to evolve the Plan toward even more structural, lasting solutions, the FY 12 Adopted Budget also includes deficit reduction solutions for three fiscal years. The Mayor and City Council have indicated their intent to solve our City's financial problems with long-term solutions. This policy direction led the City Manager to present a $54.7 million three-year structural deficit amount at the February 22, 2011 City Council Study Session.

Since then, we have received updated CalPERS rate projections for the out-years, which improved our market gain and actuarial assumptions. This has revised the total three-year deficit projection to $40.5 million and the FY 12, FY 13 and FY 14 deficits are now projected to be $20.3 million, $14.0 million and $6.2 million, respectively. Approximately, $13.2 million of the $40.5 million deficit is due to increases in the PERS rate, which can range from $13.1 million to $16.4 million depending on PERS investment returns. The other $23.6 million is related to negotiated increases for employee groups. A last minute budget decision by the State on June 29, 2011, reduced the City's Motor Vehicle License Fee (VLF) revenue by $1.7 million in the General Fund, adding this additional burden of expense reductions to Departments in FY 12, for a total $20.3 million deficit.

The FY 12 Plan utilizes the following principles to once again guide the City's resource allocation planning and the strategy to deliver a balanced budget for FY 12.

These principles include:

- Maintain core services and priority programs;
- Enhance community-oriented governance – in additional to public safety, preserve services that provide the building blocks for a healthy, safer community including libraries, parks and public works services;
- Maintain each department's proportional share of the General Fund budget as in FY 10; and
- Structurally balance the budget using a multi-pronged approach, including—Potential New Revenue, Department Reductions, Employee Participation, Government Reform and Pension Reform—to enhance the breadth and scope of solutions available for FY 11 and beyond.

Each Department received their proportional share of the $20.3 million FY 12 structural deficit. This required Departments to look at every aspect of their budget and plan for the next three years. Ultimately there will be service impacts to the community, but Departments will continue to provide essential core services to residents of Long Beach.

Utilizing these principles, the City Manager's Adopted Budget includes $20.3 million in department reductions, once again structurally balancing the General Fund for the sixth consecutive year. If these recommendations are adopted, Long Beach will have implemented a total of $208.7 million in deficit reductions in just nine years. Long Beach has learned its lessons in prudent budgeting, specifically relating to the price of oil per barrel. Past experience is a great indicator for what practices do not work well; in FY 09 the City increased its structurally budgeted price of oil from $45/bbl to $85/bbl, at that time believed to be conservative. Mid-way through the fiscal year the price dropped to $25/bbl, leaving an enormous deficit in the FY 09 budget. For the FY 12 Adopted Budget the price per barrel of oil will be structurally budgeted at $55/bbl, providing an additional $6 million in the Upland Oil Fund transfer to the General Fund, which will allow the City to appropriately budget consistently underperforming revenues.

With steadfast resolve, Long Beach has weathered the worst of the financial storms; however, over the next three fiscal years, the City faces deficits in fiscal years 2013 and 2014.

V. Positioning for the Future: FY 13 – FY 14

As part of the FY 12 budget development process, staff provided several briefings to the Budget Oversight Committee (BOC) and the City Council on the City's fiscal outlook. While the Plan reflects a structural balance for FY 12, we cannot ignore the fact that the General Fund continues to be impacted by the loss of $42 million per year in Utility User Tax revenue. In addition, due to the continued year-on-year reduction in discretionary revenue and the cost of future commitments, the pressure will continue to mount on the City to manage expenditures, which continue to significantly outpace General Fund revenue growth.

Given the best information available, staff has projected the General Fund's two-year outlook. The pension costs for FY 12 are certain and will be fairly close for FY 13. For FY 14 and onwards the costs are uncertain. This outlook calculates the future shortfalls using a high, mid and low range of pension costs in the future based on a range of potential investment returns. The mid-point used to develop the projected deficits uses a PERS official expected investment return rate of 7.75 percent. The City's General Fund is facing estimated structural deficits of $14.0 million and $6.2 million in fiscal years 2013 and 2014, respectively, if nothing is done to address the cost growth and revenue performance as projected. Of this $20.2 million shortfall, $17.4 million is attributed to negotiated increases alone. If an alternative solution with our employee groups is not identified and implemented, there will be a profound impact on the services the City will be able to provide.

Considering the majority of the projected deficit is related to employee groups, and the magnitude of the deficit is such that major service changes will be required, without any employee concessions in FY 13 and FY 14 the City will need to take the following reductions:

- Close one Engine Company in FY 13 and an additional Engine Company in FY 14
- Reduce the remaining six Engines to 3-person staffing levels,
- Closures and/or conversions of branch libraries to "reading rooms,"
- Sworn or civilian police layoffs,
- Reduce grounds maintenance of parks and implement a "passive park" model.

All these potential reductions are preliminary but could result in loss of 200 to 240 additional positions beyond the FY 12 reductions, many of them through layoffs. These deficit amounts for FY 13 and FY 14 assume no concessions from employees, but that picture would be significantly different if the unions were to participate. Departments provided these potential solutions to FY 13 and FY 14 deficits, which are estimates and subject to change as future budgets are developed (Attachment A). The most viable and appropriate solutions will be developed to address this multi-year challenge in partnership with all stakeholders, both inside the City and throughout the community.

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. To this end, the City Manager and Financial Management Department's staff thus far this year supported a total of nine public discussions about the FY 12 budget: five monthly BOC meetings and four City Council Special Meetings and/or Budget Hearings. Staff has tentatively scheduled an additional sixteen Budget Hearings or BOC Meetings to discuss the specific proposals contained in the City Manager's FY 12 Adopted Budget.

Attachment A

Provided below is the summary of City Manager-recommended General Fund deficit reductions for departments in FY 13.

CITY ATTORNEY	Impact on Deficit	Positions
Eliminate 2 Legal Records Specialist positions of which .72 FTEs are budgeted in the General Fund and associated expenses.	(53,805)	(.72)

CITY AUDITOR	Impact on Deficit	Positions
Increase PERS payback.	$(14,010)	
Eliminate ability to fill position.	(13,142)	

CITY CLERK	Impact on Deficit	Positions
Eliminate a portion of a Clerk Specialist position in the record center.	$(85,439)	(.90)

CITY MANAGER	Impact on Deficit	Positions
Reduce General Fund personal services allocation for the City Manager, Assistant City Manager, and Assistant to the City Manager and reallocate to the Special Advertising and Promotion Fund.	$(30,882)	(0.18)

CITY PROSECUTOR	Impact on Deficit	Positions
Reduce budgeted expenditures for personnel, supplies, and administrative costs in the General Fund.	$(120,232)	TBD

CIVIL SERVICE	Impact on Deficit	Positions
Reduce budgeted expenditures for travel, recruitment, and testing.	$(45,465)	

DEVELOPMENT SERVICES	Impact on Deficit	Positions
Eliminate a portion of a Combination Building Inspector position from Neighborhood Services Code Enforcement.	$(61,849)	(0.50)

FIRE	Impact on Deficit	Positions
Close an Engine Company (3-person company). Personnel displaced from the closed Engine Company may be re-assigned to other stations. Depending on the number of existing vacancies at the time of closure, if any, this may result in layoffs.	$(1,618,536)	(9.00 sworn)
Reduce remaining six Engines to 3-person staffing levels, eliminating 18 Firefighter positions and associated call-back overtime.	(2,321,735)	(18.00 sworn)

FINANCIAL MANAGEMENT	Impact on Deficit	Positions
Downgrade Buyer II position to a Buyer I level in the Purchasing Division	$(10,067)	
Eliminate an Administrative Analyst III position and Business License Inspector I-NC positions.	(171,449)	(1.50)

Outsource mail opening and payment processing of mailed in payments. Estimated cost savings are achieved with the elimination of one Customer Service Representative II position ($66,000) and the elimination of the maintenance contracts for the remittance processors and mail opening machines ($25,000). This would require an RFP and a Prop. L finding.	(91,000)	(1.00)
Further reduce administrative costs in the Accounting Bureau.	(115,436)	

HUMAN RESOURCES	Impact on Deficit	Positions
Reduce budgeted expenditures for personnel, supplies, and administrative costs.	$(4,630)	

HEALTH & HUMAN SERVICES	Impact on Deficit	Positions
Reduce General Fund revenue transfer to the Health Fund for administrative costs.	$(13,380)	
Reduce Health Facilities Center's budgeted expenditures for materials and supplies.	(4,409)	

LIBRARY SERVICES	Impact on Deficit	Positions
A combination of branch libraries closures and the conversion to "Reading Room" libraries.	$(444,839)	TBD

MAYOR & CITY COUNCIL (LEGISLATIVE)	Impact on Deficit	
Reduce budgeted expenditures for personnel, supplies, and administrative costs.	$(182,024)	

PARKS, RECREATION & MARINE	Impact on Deficit	Positions
The lease for the old North PAL building expires at the end of FY 12. The revenue generated from bus shelter advertising was used to reduce the subsidy from the General Fund for the rent. In FY 13, this revenue source will now be used to continue youth recreation services without disruption.	$(320,000)	
Reduce the support for Rancho Los Alamitos and Rancho Los Cerritos by 5% each.	(50,000)	
Identify efficiencies in the administrative functions across the Department. May result in reductions to staffing and supplies.	(25,000)	TBD
Reduce staffing the Grounds Maintenance Division. This will decrease the number of staff available to provide contract monitoring and other related duties.	(111,693)	TBD
Reallocate charges from the General Fund by increasing the amount recovered by the project budgets in the Capital Projects Fund.	(70,000)	
The Department will continue to explore innovative models of service delivery to keep parks green and facilities safe. These include the possibility of implementing a passive park use model where, forming strategic partnerships for programming, and identifying internal efficiencies to cut costs.	(204,611)	TBD
Expansion of animal license fees through the implementation of new technologies	(73,000)	

POLICE	Impact on Deficit	Positions
Savings target will be achieved through layoffs of civilians, or sworn personnel, or a combination thereof. It is estimated that as many as 44 positions would be eliminated.	$(6,764,757)	TBD
Lease expiration at 11 Golden Shore. Personnel will be transferred to other existing facility without additional rental costs.	(92,749)	

Public Works	Impact on Deficit	Positions
Eliminate two Senior Equipment Operator positions.	$(189,422)	(2.0)
Eliminate a Real Estate Technician II position, a Development Project Manager III position, and a Clerk Typist II position.	(225,837)	(2.28)
Eliminate two Engineering Technician I positions in the Construction Services Division.	(156,162)	(2.0)
Eliminate two Parking Control vehicles.	(17,600)	
Eliminate one Maintenance Assistant II position.	(54,124)	(1.0)
Eliminate a Traffic Signal Technician I position, a Traffic Engineer Associate I position, and Equipment Operator III position.	(222,389)	(2.70)

Provided below is the summary of City Manager-recommended deficit reductions for other funds in FY 13.

Capital Projects Fund (Public Works)	Impact on Deficit	Positions
Eliminate a Traffic Engineer Associate I position.	$(26,662)	(.30)

Health Fund (Health & Human Services)	Impact on Deficit	Positions
Reduction in General Fund revenue transfer to the Health Fund for administrative costs.	$13,380	

Redevelopment Fund (Public Works)	Impact on Deficit	Positions
Eliminate a Real Estate Technician II position.	$(42,355)	(.50)

Special Advertising & Promotion Fund (City Manager)	Impact on Deficit	Positions
Increase personal services allocation for the City Manager, Assistant City Manager, and Assistant to the City Manager.	$30,882	.18

Transportation Fund (Public Works)	Impact on Deficit	Positions
Eliminate a Clerk Typist II position.	$(11,268)	(.20)

Provided below is the summary of City Manager-recommended General Fund deficit reductions for departments in FY 14.

FIRE

	Impact on Deficit	Positions
Additional closure of an Engine Company and partial staffing reduction of another existing apparatus. Personnel displaced from the closed Engine Company may be re-assigned to other stations. Depending on the number of existing vacancies at the time of closure, if any, this will likely result in layoffs.	$(2,271,822)	(9.0 sworn)

POLICE

	Impact on Deficit	Positions
Savings target will be achieved through layoffs of civilians, or sworn personnel, or a combination thereof. It is estimated that as many as 26 positions may be eliminated.	$(3,956,721)	TBD