



Mayor's Budget Recommendations

Fiscal Year 2014

Presented August 1, 2013



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Members of the City Council:

I hereby transmit to you the 2014 fiscal year budget, prepared by the City Manager with my recommendations attached. The Long Beach City Charter requires that the budget be delivered with the Mayor's recommendations by August 2nd and as usual we have fully complied with the Charter provisions.

The City management is to be commended for a job well done, not only on this year's budget but also during the past six years. We have weathered the largest financial crisis in nearly 75 years. Since 2007, we have reduced the City's General Fund by \$134 million, removed 786 positions, reorganized our structure to be more efficient, and instituted comprehensive pension reform for city employees.

We have achieved all this while still providing essential services and experiencing generational low crime levels. Indeed, we are now in a position to fund both a fire and police academy to replenish our public safety personnel. We have improved the environment at the Port, dramatically improved water quality on our beaches, helped introduce technical training in our schools, resurfaced or repaved 200 miles of streets, reformed our building permit process to be user friendly, understandable and less expensive, and added several parks to the City.

We have performed all of this without tax increases and by living within our means. Sound fiscal policies have been a large part of our success and will help us build even greater success in the future.

One very successful program that will not be available to us is Redevelopment. It has been responsible for vast improvement in our City. Indeed, much of the rebirth of parts of Long Beach is the result of Redevelopment. It produced over \$100 million a year for economic development and blight removal and, as you know, it has been terminated by the State. The testimony of Redevelopment's success is that the end of the program will bring additional ongoing property tax revenue to our city; revenue that only exists because Redevelopment increased property values and hence property tax. We will not have this tool for our future and will need to find another path to build areas of our City that need the incentive Redevelopment provided.

I'm proud to say that the budget I deliver to you is structurally balanced and, if my recommendations are followed, will be essentially balanced for the next three fiscal years. In addition, this year we will have \$57 million to spend on capital items, infrastructure like streets, parks, roads, and management systems that will improve our City in the future.

None of this capital spending would be possible without following our fiscal policies for one-time revenue and being prudent with oil revenues. Our policy has been to use one-time revenue, revenue that is unlikely to reoccur in future years, for discrete, one-time expenditures. Thus, we spend the windfall one-time revenue from Redevelopment dissolution, oil revenue and other sources on infrastructure, facilities, finance systems or other capital items that are purchased one-time and are unlikely to have to be replaced anytime in the near future.

Oil revenues are a little different in that they are likely to occur each year but are very volatile. In 2008 we saw oil drop from \$125 to around \$25 in less than six months, causing the City to make cuts to “make up” for the \$6 million “loss.” To hedge the volatility in oil, we select a price (\$70) and treat all revenue above that price as “one-time”; all revenue below the price is considered ongoing. This is a prudent and wise practice. We need to be conservative here because we don't want to be forced to cut programs mid-stream or create future deficits.

Every year, we debate this issue. There are those who want to treat more of our oil revenue as ongoing and therefore available to fund programs. Let us end this silly debate. We cannot treat oil like we treat property or utility users tax. Those revenue sources are far more stable and any volatility can be hedged with our reserves. In order for property tax revenue to be as volatile as oil revenue, it would have to move by a factor of more than 5. Property tax revenue moves slowly up or down. If property tax revenue were to move on an annualized basis like oil did in 2008, the \$82 million we receive from property tax would have to drop to \$16 million. Said another way, the assessed value of property would have to change by 500% to match the oil experience. Even in this very deep recession we only fell a few million dollars in property tax revenue. To compare this revenue source to oil is beyond reason.

We have been successful doing the right thing and we need to continue our policy to help assure a future without deficits and with opportunity for our young people.

While we have been successful in achieving structural fiscal balance, there are challenges ahead. The two major unknowns for the future are pensions and unfunded liabilities. We are the largest city in the California Public Employees Retirement System (CalPERS) and as such we are subject to its rules and demands for payment. CalPERS is changing the way it does business to make the system more sustainable by spreading gains and losses over 5 years instead of over 15 years. This will produce a more prudently funded system but the rates CalPERS charge the City each year will be more volatile. Thus, we will see much more change in our annual pension costs, both up and down, as CalPERS investment earnings change.

To “hedge” this risk, we will need to establish a reserve fund to meet these needs and manage it well. The fund will be necessary if we are to avoid future cuts to programs or deficits because of demands from CalPERS.

Unfunded liabilities are the second unknown for the future. The major items here are pensions, sick leave, retiree health, and worker's compensation. The figures illustrated in the Manager's budget are snap shots in time and these numbers will move up and down as a result of a variety of factors. However, much like pensions, we need to address these problems now to minimize their impact on future programs. We have made as start, but more needs to be done.

In closing, I want to make mention of the Harbor Department in two specific areas; first, they are in the process of unprecedented construction on key physical assets that enhance their business case and improve efficiency. I want to thank interim director Al Moro and his staff for their efforts to keep those projects on schedule despite complexities and cost issues that in some instances, were not easily predicted. The interim headquarters tenant improvement costs still hold some question for me; there are costs there that need to be better understood and I think the Council will rightly ask questions about during budget adoption process.

Secondly, there are items in their budget that I think deserve mention for the positive aspects both on operations and community impacts: this year marks the largest Tidelands transfer ever which is a mark of their commercial success this past year. They are also taking advantage of cheap money in the market right now in anticipation of the costs on the substantial capital projects I mentioned earlier coming due. Finally, they are hiring just about 50 additional people in the engineering bureau to support project management and operations. That is a substantial investment in human capital and one that I believe will pay dividends for years to come.

It is within this framework that I make the following recommendations to the Manager's budget.

1. Use the \$3.5 million surplus to offset future budget shortfalls in 2015 and 2016. We should not build this money into ongoing costs, but rather, stay within our budget and treat the \$3.5 million as one-time revenue reserved for expected future CalPERS costs due to temporary investment earnings changes. This will save future programs and keep us structurally balanced for three years.
2. Maintain the oil benchmark price at \$70 and continue to treat all revenue above that level as one-time and all revenue below that level as ongoing. It is financially risky and problematic to suggest otherwise.
3. There will be considerable one-time revenue available for capital spending; indeed, perhaps a once in a generation opportunity to invest in systems that increase productivity, support enhanced efficiency for City workers and allow for stronger controls on public funds. Our estimate is that an additional \$45 million will be available this year. There are many needs in our City and I know that there will be more need than revenue. It is the Council's job to

appropriate this money and select what should be done. I believe the Manager has done a very good job of recommending projects. Replacing our dangerously outdated and deficient financial and management systems now is also of critical importance. Replacement of these systems has been deferred so long, that without their replacement, day-to-day operations could be adversely affected. They are in danger of failing to meet our basic ability to control and manage the City and its finances.

4. In addition to the \$45 million discussed above, the Council took action in June to apportion \$12 million by council district to pay for streets, sidewalks and parks. As the City Council allocates funding for these projects, I will be particularly vigilant to ensure that projects are appropriate and efforts to shift these funds into other areas do not happen. We cannot allow things to be called infrastructure if they are not. I will be particularly vigilant on this issue.
5. In the past two years, my recommendations have included a review of various programs that might better be performed by the private sector as cost savings measures, items such as refuse, street sweeping and information technology among them. As part of this year's recommendation, those projects need to be brought to completion.