

City Council's Stated Priorities

It is the mission of the City Council to continually improve the quality of life in our neighborhoods by ensuring public safety, supporting programs that encourage the public's health and well being; promoting quality housing developments, thereby improving home ownership opportunities for Long Beach residents; and ensuring that the city grows "Green" by creating appropriate environmental policies.

Essential to our success as a city is to ensure that City policy creation is done in a transparent manner with extensive community involvement.

City Council's Stated Priorities:

- *Adopt an annual budget that is structurally balanced*
- *Improve the City's infrastructure, including streets, sidewalks, curbs, alleys and city facilities*
- *Enhance neighborhood economic development efforts, particularly on the commercial corridors*
- *Promote workforce and business development efforts to create new jobs; ensure Long Beach becomes more business friendly*
- *Improve the transportation system to efficiently and effectively move goods and people through the city without negatively impacting the neighborhoods*

Elected Officials City of Long Beach

Mayor
Bob Foster

City Council

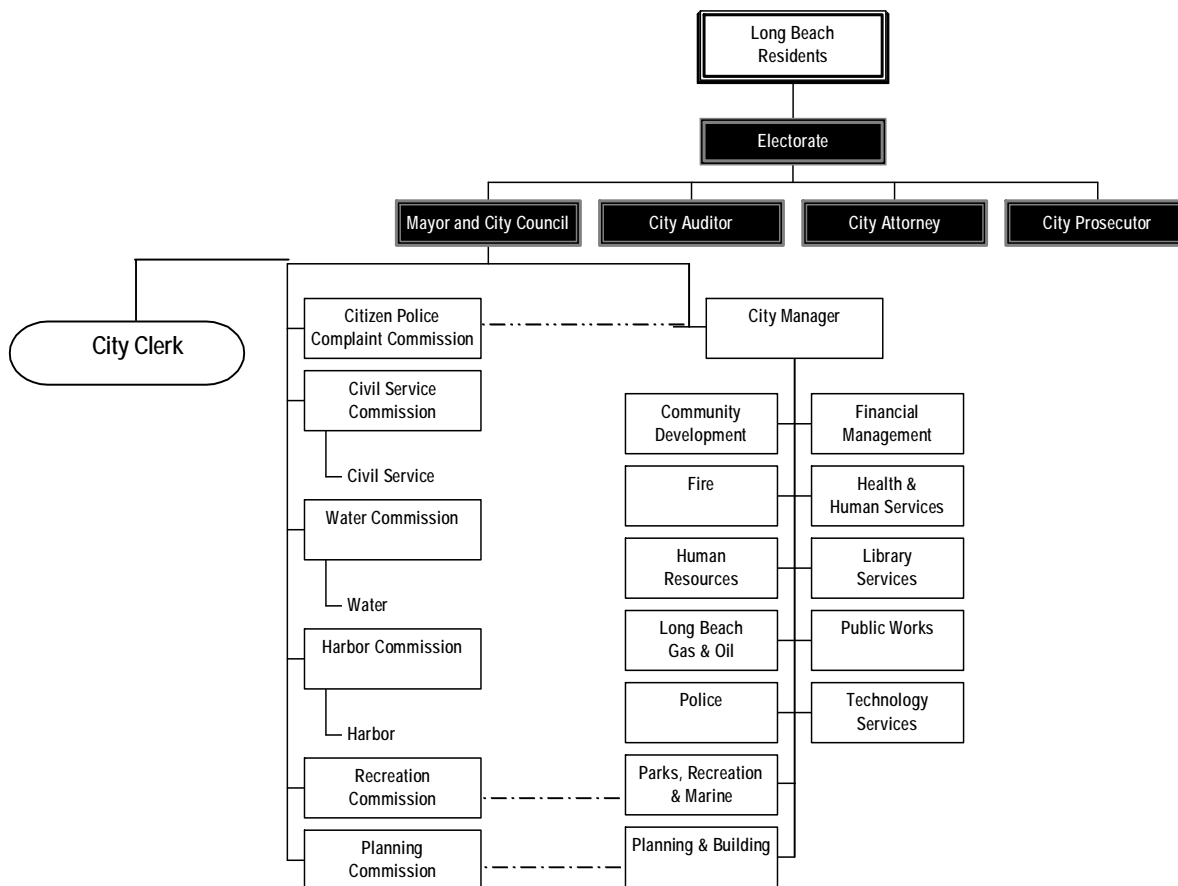
Bonnie Lowenthal, District 1
 Suja Lowenthal, District 2
 Gary DeLong, District 3
 Patrick O'Donnell, District 4
 Gerrie Schipske, District 5
 Dee Andrews, District 6
 Tonia Reyes Uranga, District 7
 Rae Gabelich, District 8
 Val Lerch, Vice-Mayor, District 9

City Attorney
Robert E. Shannon

City Auditor
Laura Doud

City Prosecutor
Thomas M. Reeves

City Organizational Chart



City of Long Beach Financial Policies

1) Structurally Balanced Budget

The annual budgets for all City funds will be structurally balanced throughout the budget process. Recurring revenue will equal or exceed recurring expenditures in both the Proposed and Adopted Budgets. If a structural imbalance occurs, a plan will be developed and implemented to bring the budget back into structural balance.

2) Report on How the Budget is Balanced

The City Manager will include in the narrative transmitting the Proposed Budget a concise discussion on how the proposed budget is balanced. If the structural balance changes between the Proposed and Adopted Budgets, the City Manager will clearly delineate the changes and the resulting structural balance in the Adopted Budget.

3) General Fund Reserves

The City shall maintain an Emergency Reserve equivalent to 10 percent of General Fund recurring expenditures and an Operating Reserve equivalent to 10 percent of General Fund recurring expenditures. Once the General Fund budget is brought into structural balance, a minimum of 5 percent of all new (ongoing) discretionary revenue will be devoted to the operating fund reserve. If these reserves are used, a plan will be developed and implemented to replenish the funds used.

4) Use of One-Time Resources

Once the General Fund budget is brought into structural balance, one-time resources such as proceeds from asset sales, debt refinancing, one-time grants, revenue spikes, budget savings and similar nonrecurring revenue shall not be used for current or new ongoing operating expenses. Appropriate uses of one-time resources include establishing and rebuilding the Emergency Reserve and the Operating Reserve, early retirement of debt, capital expenditures and other nonrecurring expenditures.

5) Use of New Discretionary Revenue

Once the General Fund budget is brought into structural balance, a minimum of 10 percent of all new (ongoing) discretionary revenue will be devoted to capital projects including deferred maintenance and infrastructure needs.

6) Accounting and Financial Reporting

The City will conform to Generally Accepted Accounting Principles as promulgated by the Governmental Accounting Standards Board (GASB). Reporting will include the following:

- Interim Financial Reports: staff will prepare monthly reports for the City Council that analyze and evaluate financial performance.

City of Long Beach Financial Policies

- Red Flag Exceptions: The City Manager shall advise the City Council of troubling and/or positive financial information including an assessment of the impact on the City budget and financial condition. Thresholds for this reporting include:
 - Whenever a major expenditure exception occurs that will impact a fund's expenditure budget by one percent or totals over \$500,000; or
 - Whenever a major revenue exception occurs that will impact a fund's revenue budget by one percent or totals over \$500,000.

7) User Fees and Charges

The City of Long Beach is empowered to recapture, through fees, up to the full cost of providing specific services. Regular and consistent review of all fees is necessary to ensure that the costs associated with delivery of individual services have been appropriately identified, and that the City is fully recovering those costs. It is the City's policy to set user fees at full cost recovery levels, except where a greater public benefit is demonstrated to the satisfaction of the City Council, or when it is not cost effective to do so.

8) Grants

City staff will seek out, apply for and effectively administer federal, state and other grants that address the City's priorities and policy objectives and provide a positive benefit to the City. Before any grant is pursued, staff shall provide a detailed pro-forma that addresses the immediate and long-term costs and benefits to the City.

9) Long-Term Financial Plan

Each year, staff shall develop a Long-Term Financial Plan that forecasts operating expenditures and revenue for the next three to five years and capital expenditures and revenue for the next seven years. The Long-Term Financial Plan will be updated prior to the start of the annual budget process. As part of the budget message, the City Manager will advise the City Council of potential long-term positive and adverse trends along with his or her analysis of the trends. The Long-Term Financial Plan will include, but not be limited to, an analysis of such factors as:

- Economic Growth Rates
- Retail Sales Activity
- State of California Revenue and Expenditure Impacts
- Census Data
- Residential Development Activity
- Industrial Activity
- Demographic Changes
- Legal and Regulatory Changes

City of Long Beach Financial Policies

- The costs that are deferred or postponed until the future
- The full ongoing impacts of grants
- The future costs of PERS
- The accumulation of benefit liabilities
- The costs of new programs that are not fully funded
- The difference between ongoing and one-time expenses and revenue
- The operating costs associated with capital improvement projects
- The impact of demographic and economic changes on services, revenue and program costs
- Analyze financial trends
- Assess problems and opportunities facing Long Beach
- Identify alternative strategies needed to address the issues
- Develop long-term forecasts and revenue and expenditures using alternative economic, planning and policy assumptions

10) Debt Issuance

General Fund long-term debt payments shall not exceed 10 percent of operating expenditures. In addition, the City shall not issue long-term (over 1-year) General Fund debt to support operating costs. All General Fund debt issuances shall identify the method of repayment (or have a dedicated revenue source).

11) Budget Requests During the Fiscal Year

All elected officials and departments requesting new programs, services or staff requests during the fiscal year that are unbudgeted must propose a spending offset at the time of the request (if costs are known) or before final approval, so that the request has a net zero effect on the budget. Individual and/or collective requests from elected officials and departments made during a City Council meeting or separately must be approved by a majority of the City Council if there is a potential fiscal or service impact.

*City Manager's Budget Message
Fiscal Year 2009
July 1, 2008*

City Manager's Budget Message
Fiscal Year 2009

July 1, 2008

HONORABLE MAYOR AND CITY COUNCIL

City of Long Beach
California

SUBJECT: Many Unique Neighborhoods, One Great City

It is with pleasure that I present the Fiscal Year 2009 (FY 09) Proposed Budget for your consideration, my first as your City Manager. In my 28-year career in municipal government, I have never been as excited and optimistic about the year ahead. Long Beach for many years has been known as "Iowa by the Sea", or more recently as a working class quilt of cultures, industries and diverse neighborhoods. But after many years of growth and reinvestment we are now poised to take our position as the "crown jewel" of Southern California's coastal communities.

Our municipal miracle continues to manifest itself throughout the community. With violent crime rates at or near historic lows and the demolishing of 12 properties that had attracted 11,860 police calls for service since 2004, Long Beach remains a safe place to live. Quality of life has improved, with a total of 2,908 acres of open space, including seven new parks opening in areas of the City that have been traditionally underserved or densely populated. The Aquarium of the Pacific is enjoying its 10th Anniversary as an environmental and educational icon for Southern California, welcoming over 1.4 million students and visitors through its doors annually. The Long Beach Museum of Latin American Art is thriving after its renovation, elevating Long Beach's profile as a metropolitan center for the arts.

While the national, State and local economies have all suffered from declines in the housing and financial markets, Long Beach is well positioned to persevere through this downturn. We have more than doubled the areas eligible for Enterprise Zone benefits, issued over 4,000 new business licenses over the past 18 months and added several new restaurants along the waterfront. Over 181 new residential units have been added to the City's affordable and market rate housing stock. Home ownership rates are 43.4 percent, which is 2.4 percent higher than last year.

As a nation, we are undergoing unprecedented demographic change with the retirement of the Baby Boom generation. This shift has placed a great strain on the workforce and has made the attraction and retention of highly skilled and dedicated public servants a difficult challenge. Without a stable and qualified workforce, the ability to deliver services to the community is greatly compromised. I am pleased to report that through the interest-based negotiation process we have been able to

City Manager's Budget Message
Fiscal Year 2009
July 1, 2008

secure five-year contracts with our Firefighter and Miscellaneous employee unions through Fiscal Year 2012. These contracts will bring predictability to the annual budget process, stability for existing employees and provide sufficient incentives to attract new talent as retirements occur, all while preserving the quality of services our employees deliver to the community.

The FY 09 Proposed Budget of \$3.1 billion will support Programs and services that build upon this track record of successes. The Harbor Department, whose \$1.0 billion proposed budget comprises almost 33 percent of the entire City budget, will not only continue to be a major national, regional and local economic engine, but it will also elevate its role as an environmental steward, investing approximately \$443 million in its Clean Air and Clean Truck Initiatives and local wetlands support. The Redevelopment Agency (RDA) will invest another \$142.4 million in making our neighborhoods free from blight, eliminating additional crime infested properties and attracting economic development. Community Development Block Grant monies will further support the revitalization of our diverse neighborhoods with \$26.6 million in continued spending.

The Water Department will continue to provide the safest, cleanest drinking water as well as environmentally responsible reclaimed water to irrigate our open spaces, all while becoming a regional leader in the conservation movement to preserve our precious water resources. The Department of Gas and Oil, as one of three municipal gas utilities in the State of California, will continue to deliver affordable natural gas to our homes and businesses, while continuing to replace the pipelines that safely deliver this resource to our homes and businesses.

These and other investments representing \$2.7 billion, or 87 percent of the budget, are supported either through federal, State or other restricted revenue sources, which, while far from guaranteed, provide a level of stability for our future.

The remainder of the budget however, continues to face certain challenges. The \$404.2 million General Fund, which supports core municipal services such as police, fire, parks, recreation, library services, public works, and our elected offices, once again faces a structural budget deficit for FY 09, this one in the amount of \$16.9 million.

General Fund Performance

Despite maintaining a structural balance in FY 08, the slowing economy and resultant stagnation or decline in critical General Fund revenue sources are impacting the General Fund considerably. As such, structural expenses will outpace structural revenue in FY 09 without deliberate action. There are several key cost drivers for FY 09 that are impacting the General Fund. The largest of these are previously negotiated (2004 and 2006) Police Department salary increases, an adjustment to bring the Police overtime budget up to actual spending levels and the loss of federal COPS grant funding, all totaling \$11.4 million. The impact of the newly approved five-year contracts with the Firefighters Association (FFA) and Miscellaneous employees (IAM) total approximately \$9.6 million.

City Manager's Budget Message
Fiscal Year 2009
July 1, 2008

An additional \$556,000 has been reserved in the FY 09 proposed budget for the impact of other bargaining unit negotiations. Lastly, employee health insurance and general liability costs are increasing by an estimated \$2.4 million, while other uncontrollable cost increases (CPI escalators in contracts, utility costs increases, etc.) are expected to total \$810,000. Total cost increases equal approximately \$24.8 million. A summary of major cost drivers for the FY 09 General Fund budget can be found in the chart below.

Major FY 09 Cost Drivers for General Fund		<i>% of Total</i>
		<i>Increases</i>
POA Negotiated Salary Increases	\$ 6,643,326	
Police Overtime Adjustment	\$ 3,500,000	
Phase-out of Federal COPS Grant Funding	\$ 1,255,000	
Subtotal Police Department Increases	\$ 11,398,326	46%
FFA Negotiated Salary Proposal (FY 08 and FY 09)	\$ 5,191,976	
Subtotal Fire Department Increases	\$ 5,191,976	21%
Subtotal All Public Safety Increases	\$ 16,590,302	67%
IAM Negotiated Salary Proposal (FY 08 and FY 09)	\$ 4,432,918	
Other Potential Bargaining Unit Increases	\$ 556,092	
Increased Employee Healthcare Costs	\$ 1,013,284	
Increased General Liability Costs	\$ 1,431,415	
Other Uncontrollable Cost Increases	\$ 810,188	
Total Base Budget Increases	\$ 24,834,199	100%
Base Revenue Increases	\$ 7,908,188	
Total Projected Structural Deficit	\$ 16,926,011	

These costs are offset by projected net growth in recurring revenues of approximately \$7.9 million. Most notably, structural Uplands Oil revenue has increased by an unprecedented \$4.6 million over base budget projections, assuming an annual average price per barrel of \$85. An extended discussion about anticipated General Fund revenue from oil operations can be found later in this letter. Other revenues showing positive growth over base budget assumptions are:

	(in millions)
Prior Year Delinquent Property Tax	\$1.3
Redevelopment Loan Repayments	\$1.0
Pipeline Franchise Fees	\$0.9
Gas and Water Utility Users Taxes	\$0.7

This revenue growth is offset in part by losses in other major revenues impacted by the slumping economy, high gas prices and the downturn in the real estate and financial markets in particular. Secured Property Taxes have been hit the hardest, estimated to produce \$67.6 million, or \$2.3 million lower than projected in the base budget and \$2.6 million lower than FY 08 estimated receipts. Transient Occupancy Tax (TOT) revenue is expected to come in at \$9.2 million, which is \$1.2 million lower than base projections. As such, the FY 09 Proposed Budget does not anticipate a transfer of TOT revenue to the Housing Trust Fund. In addition, both Telephone and Electric Utility Users Taxes are impacted by consumer choices, resulting in an expected decrease of approximately \$500,000 from base budget projections. The

ability to weather shifts in major revenues is a benefit of having such a diverse funding base in Long Beach. For a complete list of the Top 40 General Fund revenues, please see the Budget Summaries section of the Budget Book.

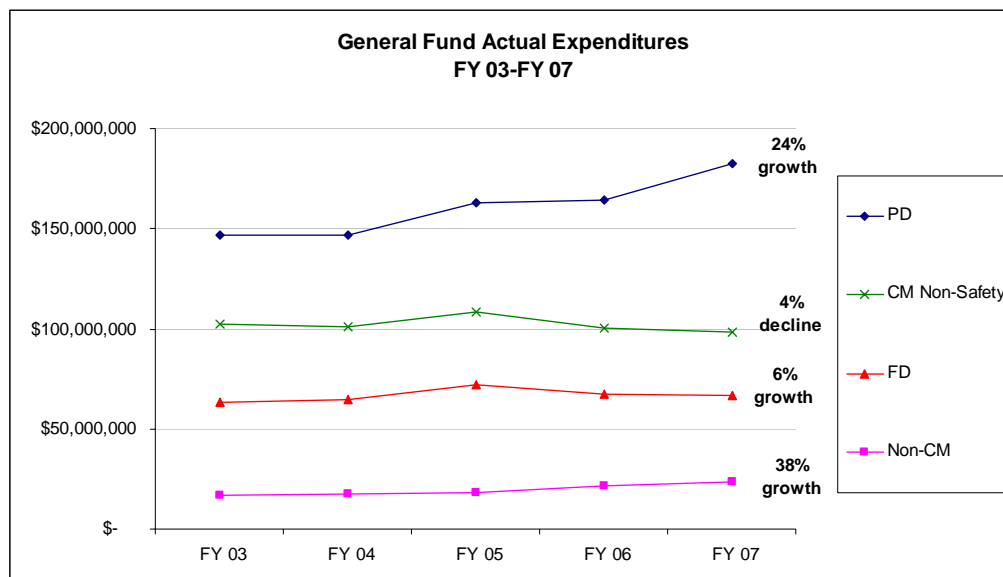
A New Approach: From Deficit Reduction to Fiscal Sustainability

Given the continued fiscal plight of local governments nationwide, we must fundamentally change our approach to get at the root of our budget challenges. Six years ago, when we first stood up to face our budget challenges head-on, the City Manager and his department directors employed an approach that gradually downsized the organization, with an emphasis on minimally impacting the workforce and the community.

This approach bore significant fruit, as the structural budget deficit of over \$102 million was eliminated in just five years by cutting \$79 million in expenses and 400 positions, as well as increasing revenue by \$23 million. This achievement was undoubtedly remarkable yet painful, requiring the community and the City's workforce to make difficult choices and sacrifice to make do with less.

Given the size of the organization and available resources at that time, however, opportunities existed to protect certain departments from making reductions. Elected and appointed departments along with sworn and emergency dispatcher staffing were largely exempted from service reductions.

Per the chart below, based on actual spending, the Non-City Manager, Police and Fire departments increased their expenditures by 38, 24 and 6 percent, respectively, while all other General Fund departments' spending was reduced by 4 percent from FY 03 to FY 07. Fire Department spending would be higher except for the direct allocation of Harbor costs to the Tidelands Fund starting in FY 06.



*Non-City Manager departments include the Legislative, City Auditor, City Attorney, City Prosecutor, City Clerk and Civil Service Departments

After five years of downsizing and trimming available excess from our current organization, this approach will no longer work to rid the City from its persistent deficit challenges. A new approach must be taken, one that goes beyond deficit reduction to finally change our organizational structures to make them more effective and bring fiscal sustainability to the General Fund.

There are three primary elements to this approach:

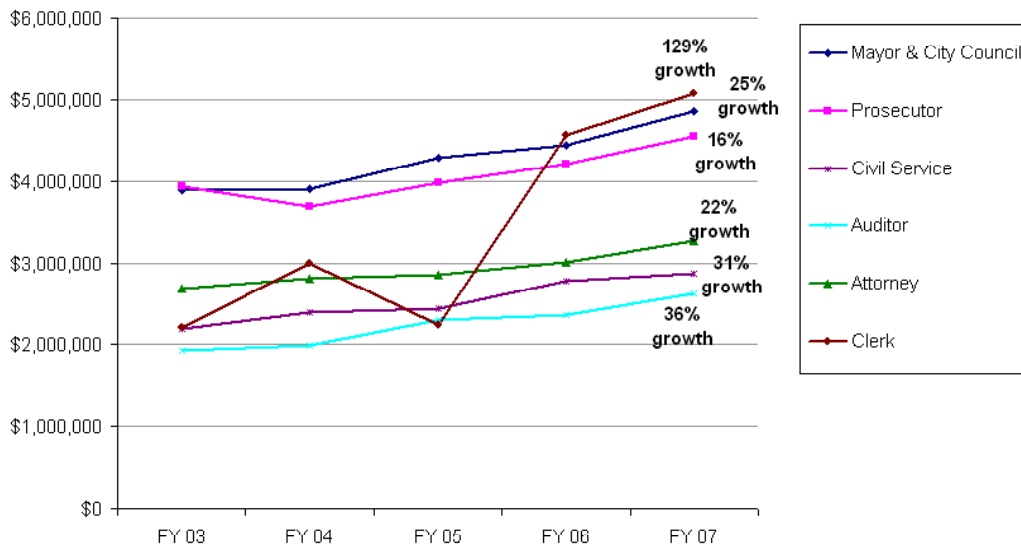
- ✓ All General Fund departments must participate in the solution
- ✓ Non-General Fund Departments must more fully contribute
- ✓ Organizational Changes are required to achieve lasting efficiencies

The required changes that this strategy demands will not be easy. They will certainly call upon a vast number of people to redefine their priorities or rethink the way this government can best serve the community. Services that have heretofore been cherished by, and been the domain of, the few must give way to the betterment of the many. Silos between organizations and barriers between neighborhoods must also crumble to make room for lasting change. As Robert Kennedy eloquently noted, "The future does not belong to those who are content with today, apathetic toward common problems and their fellow man alike, timid and fearful in the face of new ideas and bold projects." Bolstered by our ongoing resiliency and drive to achieve our potential as a city, I have never been more confident that our community and its leaders are up to the challenge.

All General Fund Departments Must Participate

As demonstrated in the chart above, actual spending amongst non-City Manager departments in the General Fund has increased by 38 percent since the City began to address its structural deficit. The chart below highlights growth in the adopted budgets of these departments from FY 03 – FY 07.

**General Fund Actual Budgets of Non-City Manager Departments
 FY 03-FY 07**



While these departments undoubtedly provide services that benefit the entire community, we must request that these departments also prioritize their services and focus on the most core services. While I do not have the ability to mandate reductions in these departments, I extend the invitation to each department to identify cost savings for FY 09 to alleviate the strain on the remaining departments that have absorbed almost all of the deficit reduction measures over the past five years. It is anticipated that these departments will generate at least \$2 million toward the elimination of the structural deficit; an estimated placeholder for each department is included in the proposed budget.

Non-General Fund Departments Must More Fully Contribute

Beyond the General Fund, we must engage other departments and operations throughout the City to help us address our short and long-term needs. These partners include the Harbor and Water Departments, the Southeast Resource Recovery Facility, Long Beach Transit and the Redevelopment Agency. These departments and operations provide excellent service to the community in their relentless fulfillment of their core missions. Over the years, the City has and continues to receive valuable direct and indirect benefits from these operations, whether in the form of economic activity, direct services or financial contributions. For these positive contributions we are, and must continue to be, grateful.

However, where there is opportunity, our partners must pitch in to pay their fair share for General Fund services. In addition, these operations must begin to assume the costs for related services or impacts for which the General Fund or Tidelands Fund is currently paying; costs they can legally assume under current provisions of the law, through Prop 218.

I want to thank the Harbor Department for its continued annual transfer to the Tidelands Fund, representing 10 percent of its annual net income. In FY 09, this transfer will grow to \$16 million, allowing the City to provide essential safety and maintenance services as well as capital improvements to the Tidelands area. In the future, we will look to the Harbor Department to more fully partner with the City to assist in:

- ✓ Restoring water quality and improve shoreline infrastructure;
- ✓ Maintaining our beaches and Rainbow Harbor;
- ✓ Providing funding for the Aquarium of the Pacific;
- ✓ Assist with the reinvestment in the Convention Center and Arena;
- ✓ Providing level and/or increasing transfers in FY 10 and beyond; and
- ✓ Ensuring maximum sales tax and other economic benefits from the Clean Truck Program sales/leasing and services.

The Water Department has become the Statewide leader in the water conservation movement, tackling wasteful usage head-on and encouraging the City to change its culture to highlight the benefits of conservation. In an effort to help the Department reach its conservation goals and to keep water rates as low as possible for its users, we will ask the Water Department to:

- ✓ Utilize its network of resources to identify and provide funding to repair irrigation systems throughout the city to eliminate leakage; and

City Manager's Budget Message
Fiscal Year 2009
July 1, 2008

- ✓ Assist in finding funding for connecting reclaimed water lines to municipal irrigation systems to decrease unnecessary demand for, and increase the supply of, potable water.

Our Southeast Resource Recovery Facility (SERRF) is a model waste-to-energy plant for Southern California, and a critical asset for the City. Thanks to consistent and effective oversight, SERRF provides a critical revenue stream to the General Fund via a direct transfer of \$2 million annually, which represents 50 percent of its net operating profit. In FY 09 and going forward, I am asking SERRF to transfer an additional \$1.5 million to the General Fund, a task that I am confident the operation can achieve given its demand as an economically viable solid waste disposal option for its public and private clients.

The RDA has for years served as a catalyst for the City's renaissance, generating invaluable property tax increment revenue to invest in projects and programs to rid the City of blight and extend economic development to areas of the City requiring targeted support. The RDA has benefited from General Fund loans as its Project Areas struggled to generate tax increment; the RDA is now in a position to begin repaying more of that debt. Since FY 06, the RDA has made a \$1.3 million repayment annually to the General Fund. In FY 09, the RDA has agreed to increase its debt service payment by an additional \$1 million. In addition, the RDA will continue to pass through all \$710,000 of the Pike-generated tax increment to the General Fund. Furthermore, as a significant amount of graffiti removal occurs in Redevelopment areas, the RDA has agreed to support half of the \$1 million annual cost for the City's graffiti abatement services.

Lastly, the City's transit company, Long Beach Transit (LBT) has consistently provided safe and affordable public transportation services to the community as one of the leading transit providers in the State. However, where LBT requires the services of other City departments, it is important that the full costs of these services are paid using the State transportation funds we receive for LBT's operations. Specifically, for LBPD's Transit Enforcement Officers, LBT will begin to pay 100 percent of the City's costs, including administrative overhead, for its contract with LBPD. In addition, during FY 09 I will ask LBT to:

- ✓ Provide a "Beach Bus" service in the community to provide low-cost transportation for youth to visit the beach;
- ✓ Support the initial study of a municipal street car system;
- ✓ Work to relocate and/or remove the transit stop in the Pine Circle at the Pike to better facilitate the valet service of the Circle;
- ✓ Work with the City to explore opportunities to undertake increased funding for non-transit street improvements in return for Prop A dollars; and
- ✓ Conduct a citywide review of shelter designs and waste receptacles to confirm quality and explore unique designs to establish neighborhood identities.

These joint efforts with our partners will not only enhance services to the community, but will also contribute directly to the stability of funding for core City services provided through the General Fund and Tidelands Fund.

Organizational Changes to Achieve Lasting Efficiencies

Lastly, we can no longer support the redundant structures that have developed throughout the organization; structures that began as work-arounds to provide new or required services, but now serve as barriers to efficiency and quality. Redundancies through the City of Long Beach can still be found, despite the years of budget cuts and downsizing, many of which exist as counter measures to the restrictive impacts of past deficit reduction efforts. One need not look far for examples amongst various City departments:

- 13 Departments** • Performing Payroll Time Entry (requiring 29 FTEs)
- 6 Departments** • Patrolling Beaches/Tidelands (PD, HE, PD, PR, Lifeguards, including Harbor)
- 5 Departments** • Delivering Public Information services
- 4 Departments** • Delivering and Administering Capital Projects
• Delivering Recreation and Leisure services
• Delivering Technical Support services
• Delivering Inspection services
• Producing Video/Marketing services
• Patrolling our waters (FD, Lifeguards, PD, including Harbor)
• With Dive Teams (FD, Lifeguards, PD, including Harbor)
- 3 Departments** • Supervising Fleet services
• Negotiating Property Leases
- 2 Departments** • Handling Parking Enforcement

Meaningful and lasting organizational change is not only essential for true fiscal sustainability; it is simply the right thing to do. Therefore, the FY 09 Proposed Budget reflects several strategies for achieving organizational efficiencies that will allow us to take a greater step toward fiscal sustainability than our past deficit reduction efforts produced. These include:

- ✓ *Consolidate or Streamline Operations*
- ✓ *Focus Departments on Core Services*
- ✓ *Contract-out Portions or All of Non-core Services*
- ✓ *Streamline Support Functions*
- ✓ *Modernize Workforce Management*
- ✓ *Consolidate Bureaus, Reduce Management and Support Staffing*
- ✓ *Create the Development Services and Airport Departments*
- ✓ *Relocate and/or Rebuild the Main Library*
- ✓ *Maximize Tidelands Resources*
- ✓ *Provide Sustainable Funding Through Cost Recovery*

While these strategies comprise dozens of individual organizational changes in various departments, I wanted to highlight several key efforts and outcomes that will occur in the next fiscal year.

Smaller Yet More Stable Workforce – There is a significant reduction in force proposed for FY 09, which is the result of our efforts to consolidate functions, eliminate duplication and streamline our operations. As we stabilized the workforce through multi-year contracts with our labor unions, we inherently understand that a smaller, yet more fairly compensated workforce would be the outcome. While the City eliminated 400 positions over the past five years, the proposed budget will eliminate an additional 118 positions, 39 resulting in layoffs, including 12 management positions, three of which are in the City Manager's Office.

Employee Healthcare Savings – A major benefit of the interest-based bargaining approach that the City has taken with our labor unions is that both sides of the negotiation openly contribute to meeting shared interests. It is in the interest of all parties to not only achieve fair, competitive compensation, but to ensure the City has the fiscal means to support the salaries and benefits provided. As such, the Department of Human Resources will consult with all of our labor unions to devise strategies to redesign current healthcare plans to save the City approximately \$1 million in FY 09. Should the cost of healthcare rise beyond current projections, this savings target may increase to achieve the savings needed to support increased labor costs citywide.

Contracting-out Services – The City must continually strive to provide services in the most efficient manner without compromising the services the community receives. Given the rising costs of employee benefits and the inherent efficiencies of the private sector, one possible means of achieving this is through contracting for all or a portion of certain City services. In FY 09, the City will begin exploring the possibility of contracting several functions, including: carpentry, painting, locksmiths, welding, fleet maintenance and Civic Center security through the Proposition L process. The results of the Prop L process will determine whether there is value to contract-out for these services as opposed to maintaining our internal operations in these areas.

Relocate and/or Rebuild the Main Library – The City's Main Library requires extensive facility repairs and upgrades to provide a safe, pleasurable experience for both employees and the community. These repairs are estimated to be approximately \$10 million to mitigate various structural facility problems. In the meantime, damage is being done to the Main Library's resources, programming areas are significantly curtailed and the basic functions of the building are being compromised. Therefore, as the first step toward a truly regionalized library system in Long Beach, the Main Library will be closed to the public beginning in November 2008. The building will still function to support the branches, providing administrative and materials support to the other 11 branches. To provide greater access to the library system's resources, all neighborhood branches will be opened 7 days per week while the Main Library is closed. Further, a satellite facility will be established in an effort to provide the downtown community with continued access to library resources. This operational adjustment should generate a General Fund savings of \$1.8 million in FY 09 while mitigating the loss of the Main Library as a downtown resource. The specific staffing and operational impacts of this proposal are being developed and will be completed by October 1, 2008.

Consolidate Parking Enforcement - Currently, two departments provide parking enforcement services for the City: Public Works and the Police Department. As a result, inefficiencies have arisen given the lack of coordination, difficulties in staffing enforcement positions and duplication of efforts as both departments serve the same parts of the City. As a result, there are underserved areas of the City where enforcement of illegal and unsafe parking, abandoned vehicles and other obstructions are lacking. This inhibits residents' access to residential and commercial parking in their neighborhoods. In FY 09, all parking enforcement services will be consolidated within the Department of Public Works. The efficiency strategy is not expected to generate cost savings, as there is not a net reduction in the overall level of service provided; however, with fewer enforcement officer vacancies and a more coordinated approach, the community can expect to see improved results in their neighborhoods.

In total, these strategies are expected to generate \$19.8 million to move the City closer to fiscal sustainability, and comprise \$14.3 million in costs savings and \$5.5 million in new revenues, all of which are included in the FY 09 Proposed Budget. The additional \$2.9 million beyond what is needed to create a structurally balanced budget will be used in FY 09 to support one-time projects and expenses, as proposed below.

While these are some of the more significant organizational changes that will provide much needed short- and long-term savings for the City in FY 09, it is important to note that the FY 09 Proposed Budget also maintains or enhances literally hundreds of core City Programs and services through its 38 separate funds and 21 departments. While there is an appropriate focus on the deficit reduction strategies I am proposing for next year, we must not lose sight of the incredible value and services the City will be providing to the community in the coming 12 months, which include:

- ✓ Fully funding a 3rd and 4th pothole truck, and adding a 5th pothole truck to further increase the number of potholes filled within 15 days
- ✓ Enhanced and fully funded graffiti abatement efforts citywide
- ✓ Maintaining a 1,020 strong sworn police force, while freeing up 6 additional officers for crime suppression
- ✓ Providing a full year with 14 police officers and 12 firefighters utilizing Prop H funding
- ✓ Fully funding the Police Department budget, for the first time ending the reliance on one-time salary savings to support ongoing operating costs
- ✓ Continued support for aquatic recreation programs at the Jordan Pool
- ✓ Continued \$1.9 million 21st Century after-school program at 12 school sites serving 177,661 kids
- ✓ Expanding neighborhood library operations to 7 days per week at 11 branches citywide
- ✓ Increased emphasis and funding for recreational water quality improvements and beach maintenance and clean-up
- ✓ Enhanced collaboration between the Library Services Department and Community Development's Workforce Development staff to provide targeted job search services

City Manager's Budget Message
Fiscal Year 2009
July 1, 2008

- ✓ Reopened Youth Opportunity Center to provide job skills and resources to the city's future workforce
- ✓ Increased investment to refurbish the Convention Center and Arena to enhance Long Beach as a convention and cultural events venue
- ✓ Continue working with Civil Service and Human Resources to enhance the recruitment and hiring process to reduce the time it takes to bring new employees into the workforce

For an illustrative list of key proposed budget enhancements and changes by department for all funds, please see the list of reductions and enhancements provided at the end of each department's budget chapter. For a list of requested budget changes for non-City Manager departments in the General Fund, please see Attachment A.

One-time Investments

A total of \$9.7 million in anticipated one-time revenues are included in the FY 09 Proposed General Fund budget. There are several sources included in this amount, such as a \$5 million reimbursement for prior-year street sweeping costs from the Refuse Fund, a \$1.5 million remittance of prior-year owed sales taxes from World Fuel Services and \$2.9 million of the structural surplus mentioned above, which will be used to support additional much needed one-time investments.

In accordance with the City Council's Financial Policy on the use of one-time resources, a total of \$9.8 million in one-time expenditures, offset in part by approximately \$635,000 in one-time savings from delaying the Fire Department drill class for FY 09, are included in the FY 09 proposed General Fund budget. These investments include:

- ✓ \$3.0 million - Museum of Art bond payment
- ✓ \$2.7 million - Underground storage tank compliance activities
- ✓ \$800,000 - November and January elections
- ✓ \$800,000 - Permitting system implementation
- ✓ \$800,000 - Set-aside into Infrastructure/Maintenance Reserve
- ✓ \$762,000 - Automation of CityPlace Garage
- ✓ \$500,000 - Operating transfer to Development Services Fund
- ✓ \$350,000 - Human Resources classification and compensation study
- ✓ \$130,000 - Fire headquarters lease payments and tenant improvements

The availability and use of one-time resources for critical one-time investments is one of the benefits of having a structurally balanced budget. As additional one-time opportunities occur, we will notify the City Council so these resources can fund Long Beach's extensive list of one-time technology, infrastructure and maintenance needs.

Responsibly Budgeting A Volatile Commodity - Oil

Current economic trends have placed Long Beach in a unique paradoxical position. Most major ongoing General Fund resources are negatively impacted by recent real estate and financial market crises, with property taxes, sales taxes, vehicle license fee and transient occupancy taxes either falling or remaining virtually flat from FY 08 to FY 09. However, as Long Beach is the only city in California overseeing on-shore and offshore oil operations, we are experiencing unprecedented revenues from the recently inflated price of oil.

Oil revenue has been a mixed blessing for the City. Once a major source of revenue, providing balances as large as \$100 million in its prime, the State has consistently raided this local revenue source over the past decades, forcing the City to redefine how it supported its ongoing expenses. As recently as 1988, the City's share of oil proceeds was reduced to only \$1 million annually by the State.

Over the years, the City successfully weaned itself from oil profits as a major source of revenue. However, the meteoric rise in the price of oil and the related revenue this generates will challenge the City's fiscal discipline to avoid going down the same detrimental path of oil dependence. The following chart demonstrates the growth in oil revenues for the General Fund and the average price per barrel reached each fiscal year from FY 04 through FY 08.

Fiscal Year	Uplands Oil Transfer	Average bbl Price
FY 04 Actual	\$ 7,567,988	\$31
FY 05 Actual	\$ 8,623,073	\$42
FY 06 Actual	\$13,318,704	\$56
FY 07 Actual	\$14,303,554	\$55
FY 08 Estimate	\$24,068,958	\$97*

It appears the price of oil may stay at elevated rates for a relatively sustained period of time, however; when either the supply increases or demand decreases, the price of oil will most certainly return to more sustainable levels. Given the inevitable, if not imminent, decline in price and related revenue, it is critical that we do not excessively rely on this highly volatile commodity to support our ongoing obligations.

Therefore, I recommend that beginning in FY 09, we establish \$85/bbl as the ceiling for ongoing oil revenue. Any revenue of \$86/bbl or higher will be placed into a Budget Stabilization Fund, which will only be used to avoid mid-year service reductions resulting from unanticipated economic events, State budget takeaways, unanticipated declines in revenue or uncontrollable cost increases. While \$85/bbl is still a historically high benchmark, it is a price at which revenue can likely be expected in the short-term, and is low enough to protect the City from overextending itself as the price of oil returns to normalized levels.

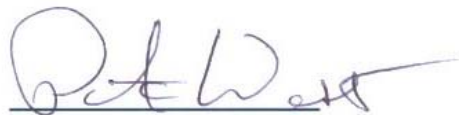
Fiscal Sustainability Requires a Multi-year Approach

These measures as recommended in the FY 09 Proposed Budget will ensure a structurally balanced General Fund budget for the second straight year. However, as we look to the future, addressing the structural deficit for FY 09 will only meet part of our longer-term needs. Over the next two fiscal years, FY 10 and FY 11, we are currently projecting an additional cumulative structural deficit of \$21 million if revenues do not improve or if further steps are not taken to address the disparity between projected revenues and expenses. In this projection is the adjustment to median for our Police Officers in FY 10, the cost of negotiated contracts with the FFA and IAM, potential increases in the cost of employee benefits and annual contributions to better fund our general liability and other obligations.

Additional obligations may likely include the funding of retired employee healthcare future liabilities (GASB 45), environmental remediation (GASB 49), continued compliance and mitigation costs for the city's underground storage tanks, potential costs from general liability claims and the need for major technology investments in our financial systems, desktop computing and telecommunications systems.

In sum, while my optimism for the future remains undeterred, there is a clear need to not only maintain the fiscal restraint that has become the overarching ethos for the City, but to expand this philosophy to all General Fund departments as well as our partners within the organization. This increased participation as well as the innovative organizational efficiencies proposed for FY 09 will not only generate short- and long-term cost savings, but will also institutionalize the culture of fiscal sustainability required to maintain the positive trends that are making Long Beach a truly first-class beach city for the 21st century.

CITY OF LONG BEACH



PATRICK H. WEST
CITY MANAGER

Non-City Manager Proposed Budgets

Description	Fund	FTE Change	Reduction Amount
City Auditor*		Total	(\$181,518)
<ul style="list-style-type: none"> Reallocate TOT audit services, Technology Services charges, 0.4 FTE Audit Analyst position costs and 0.5 FTE Audit Manager costs to Redevelopment, Special Advertising and Promotions, Employee Benefits and Tidelands Funds 	General	-	(\$128,995)
<ul style="list-style-type: none"> Reduce Technology services charges, general liability costs for closed issue 	General	-	(\$52,523)
City Attorney**		Total	(\$964,067)
<ul style="list-style-type: none"> Maintain 7 FTEs vacant: 5 Deputy City Attorneys, 1 Legal Records Specialist, 1 Legal Office Assistant 	General	-	(\$521,900)
City Clerk*		Total	(\$227,330)
<ul style="list-style-type: none"> Reduce printing costs, equipment/ furniture purchases, advertising, training and rental costs 	General	-	(\$65,300)
<ul style="list-style-type: none"> Reduce consulting services for translators, software and organizational development 	General	-	(\$162,030)
City Prosecutor		Total	TBD
<ul style="list-style-type: none"> TBD 	General	-	TBD
Mayor and City Council		Total	(\$446,583)
<ul style="list-style-type: none"> Mayor - Defund 1 Administrative Analyst I 	General	-	(\$93,788)
<ul style="list-style-type: none"> Department Administration - Defund 1 Clerk Typist II 	General	-	(\$56,137)
<ul style="list-style-type: none"> District 1 - Maintain salary savings 	General	-	(\$34,936)
<ul style="list-style-type: none"> District 2 - Reduce 1 Legislative Assistant, increase 0.5 Administrative Aide II, reduce fleet costs 	General	(0.50)	(\$47,861)
<ul style="list-style-type: none"> District 3 - Maintain salary savings 	General	-	(\$30,883)
<ul style="list-style-type: none"> Placeholder for additional department savings 	General	-	(\$182,978)

* Proposed savings have been budgeted; however, actual changes are not included in department budgets.

** The City Attorney's FY 09 Base Budget already includes \$442,167 in carry-over salary savings, for a total of \$964,067.

Notes:

Additional General Fund savings of \$622,669 has been budgeted in the Citywide Financing Department in anticipation of additional specific reductions. Total budgeted savings from these departments equals \$2 million in the FY 09 Proposed Budget.

The Civil Service Department is not included in the requested 10 percent budget reduction for FY 09. However, in an effort to achieve the FY 08 budget reduction of \$650,000, the department is proposing the following structural changes for a total reduction of \$731,906: reduce 7 FTEs (1 Recruitment Officer, 3 Personnel Analyst I - Confidential, 2 Clerk Typist III, 1 Clerk Typist IV); reduce advertising, office supplies, travel and rental costs; and reduce parking, postage and reprographics expenses.