



OFFICE OF THE CITY AUDITOR
Long Beach, California

LAURA L. DOUD, CPA
City Auditor

May 7, 2009

Honorable Mayor and Members of the City Council,

Attached for your consideration is our Office's "Independent Analysis of Citywide General Fund Budget Process, Fiscal Year 2009." This report is also being posted on our website at www.cityauditorlauradoud.com for your constituents and other interested members of the public to review.

The objective of this report was to provide greater transparency to the City's budget process, to provide an objective analysis to assist the Mayor and Council in considering future budgets, and to assist the public in understanding how the City allocates its budget. This report is complex and technical due to its subject matter. However, we hope that the reader of this report will gain a greater understanding of terms critical to the budget process, such as "base budget" and "discretionary base budget," and how budget cuts are calculated in this era of declining revenues.

This report examines only general fund and related fund spending, and thus it does not examine monies that departments may receive from other funds. Additionally, this report is a look at the budget process for one year, Fiscal Year 2009. Every budget year is different, and processes detailed in this report may change for the FY10 budget process. We believe an understanding of the complexities of a particular year's budget process can help obtain a greater understanding of future budgets and thus contribute to the public deliberation of our City's priorities.

Financial Management has provided a response to our analysis, which we have attached in its entirety to our report.

Please feel free to call me with any questions you may have.

Sincerely,

Laura L. Doud, CPA
CITY AUDITOR

Cc: Patrick H. West, City Manager
Robert E. Shannon, City Attorney
Thomas M. Reeves, City Prosecutor
Lori Ann Farrell, Director of Financial Management

**Independent Analysis of
Citywide General Fund Budget Process
Fiscal Year 2009**

May 2009



Project Staff

City Auditor: Laura L. Doud
Assistant City Auditor: James Johnson
Deputy City Auditor: Janet I. Day

Table of Contents

Executive Summary.....	1
Background.....	2
Objectives.....	3
Budget Process.....	3
FY 2009 Budget Process Flow Chart.....	Attachment A
FY 2009 General Fund Spending Reductions.....	Attachment B
FY 2009 General and Related Fund Spending Reductions.....	Attachment C
FY 2009 Department Base Discretionary Budgets.....	Attachment D
FY 2009 Approved Exemptions by Department.....	Attachment E
Management Response.....	Attachment F

Executive Summary

The following report and report attachments provide information on the development of the Fiscal Year (FY) 2009 Proposed Budget. The building of the FY 09 proposed budget was a multi-step process, led by Financial Management under the direction of the City Manager. The procedures followed to develop the FY 2009 budget are included in this report. We hope that this document clarifies the budget process and many of the terms used, such as base budget, discretionary base budget, vacancy savings and exemptions.

This report has been written to provide objective analysis to the Mayor and City Council, Management and the public as to how the City's budget was constructed for FY 09. Transparency in budgeting is essential to ensure that the public receives a clear picture of how the elected representatives have allocated resources on their behalf, and thus, we aim to make the process as transparent as possible with this report.

In light of the impact of the fiscal challenges on the General Fund, the focus of our report is on the development of the FY 09 General Fund budget. The process described in this report applies to City Manager departments; however, in FY 2009, independent and elected offices' budgets were also reduced by the budget targets and vacancy reductions noted in this report.

As a result of our analysis, we note the following:

- The amount by which a department has “cut” depends on the base number being used (e.g., FY 08 Adopted Budget, FY 09 Base Budget or FY 09 Discretionary Budget) and what is included in such “cuts” (e.g., whether projected increased revenues are included). Thus, Management and the City Council should use a consistent methodology to appropriately compare cuts from year to year.
- General Fund spending reductions ranged from 1.5% to 18.8% of FY 09 GF Discretionary budgets (Attachment B, Column L).
- General plus Related Fund (RF)¹ spending reductions ranged from 1.8% to 18.8% of FY 09 General and Related Fund budgets (Attachment C, Column H).
- Spending reductions included cuts in General Fund spending and reallocation of General Fund costs to other funds, where appropriate.
- Revenues submitted as “structural deficit solutions” need to be closely monitored to ensure that they are realized.

¹ Related Funds are generally Internal Service funds that account for the financing of goods and services provided by one department or agency to other departments or agencies of the governmental unit, on a cost reimbursement basis. Related Funds include the following: Civic Center, Employee Benefits, General Services, Insurance, Fleet, and Towing Funds.

The information provided in this report is intended to provide an independent and general overview of the 2009 budget process. The focus of this report is on the procedures followed to address the FY 09 GF structural deficit.

Background

Process Overview

Pursuant to section 302 and 1702 of the Charter of the City of Long Beach, California, the City Manager is charged with preparing and submitting the annual budget for the forthcoming year to the Mayor not later than 90 days prior to the beginning of each fiscal year. The Mayor then presents the budget to the City Council as submitted by the City Manager together with any comments and recommendations. Departments for which the City Manager is not administratively responsible (elected offices, Harbor and Water Departments) submit their budgets directly to the Mayor and City Council for consideration.

The City Council may then amend the preliminary budget and adopt such preliminary or amended preliminary budget no later than 15 days prior to the end of the current fiscal year. The Mayor then has the option of exercising a line item veto for particular expenditures, which the Council can override by a vote of six council members.

Deficit

Between fiscal years 2003 and 2007, the City addressed a \$102 million General Fund structural deficit through expenditure reductions and revenue increases. Long Beach ended FY 2008 with a \$4.1 million General Fund budget surplus. While a structural balance appears to have been achieved for 2008, declining revenues, the stagnant economy and the rising costs of city services resulted in an estimated \$16 million General Fund budget deficit for FY 2009. The City's FY Adopted 2009 budget reflects General Fund spending reductions, revenue enhancements and reallocation of General Fund costs to other funds where appropriate, to meet the \$16 million deficit. For FY 2010, further reductions in General Fund spending or other solutions will be required to meet rising costs and falling revenue streams.

In order to structurally balance the FY 09 budget, General Fund departments were provided with savings targets based on their Discretionary Base Budgets and asked to submit deficit reduction options (either cost reductions or new revenues) for the City Manager's and City Council's consideration. Discretionary Base Budgets were determined by reducing departments' FY 09 base budgets by "exempt" amounts. Exempt amounts included costs for sworn personnel and related overtime, revenue generating operations, worker's compensation, general liability insurance and debt service. Exempt amounts significantly reduced some department's Discretionary Base Budgets and their respective savings target amounts. Exemptions for all departments totaled \$255.7 million or 63% of the FY 09 General Fund.

Departments submitted their FY 09 proposed budgets to the City Manager for approval. The City Manager approved budget was then presented as the FY 09 Proposed Budget to the Mayor and to City Council for consideration.

Objectives

The objectives of our analysis of the fiscal year 2009 General Fund budget are as follows:

- Provide transparency in the budget process.
- Provide an objective analysis to the Mayor, City Council and Management in considering future budgets.
- Allow the public to better understand how the City compiles its budget.

Budget Process

Budget Policies and Budget Instructions

The Budget Policies and Instructions prepared by Financial Management and approved by the City Manager are the guidelines that City Manager departments use to prepare their respective proposed budgets for the next fiscal year. These budget instructions may change annually, depending on the budgetary needs and constraints impacting the City and are presented to departments at the beginning of the budget process, usually in January or February each year. This document provides guidance on how departments should approach fee increases, personnel and technology requests, budget reductions, and prescribes the format departments must use to submit their budgets. The fiscal year 2009 budget instructions were issued on January 9, 2008 at the annual budget kick-off meeting.

Budget Kick-off

The Budget Kick-Off meeting is held primarily for City Manager department managers, analysts and staff charged with preparing their departments' budgets. This meeting is a forum to explain the current fiscal year's budget policies and instructions for the upcoming fiscal year, and provides departments with an opportunity to ask questions regarding the budget instructions.

Base Budget

Building the Base Budget

An integral and initial step in the FY 2009 budget process was the development of the FY 2009 Base Budget. Building the Base Budget was a multi-step process that involved input into the BPREP system (citywide Budget system) by both the Budget Office and Departments. Departments were asked to make technical corrections and program changes as noted below without changing the bottom line at the full-time equivalent (FTE), fund, department or character level. The steps involved in building the base budget are summarized below:

- The Budget Office in Financial Management removed all FY 2008 one-time revenues and expenses from BPREP.
- The Budget Office uploaded salary and benefit data from the City's payroll system into BPREP as of December 2008. This process captured salary and benefit adjustments that were made during FY 2008 including step, merit and promotional increases and negotiated MOUs, and this amount accounts for the differences between FY 08 Adopted and FY 09 Base Budget personnel costs.
- Departments were provided with BPREP access to make technical changes:
 - Adjust BPS (budgeted personnel system) records; for example, correcting position titles or position vacancies.
 - Reallocate budgets between programs to properly reflect where funds were to be spent. The reallocation could not result in changes at the FTE, fund, department or character level.
 - Update grant budgets to their expected award levels.

Uncontrollable Costs and Revenue Adjustments to Base Budget

In addition to the adjustments made above, Departments were asked to submit uncontrollable cost requests and new revenue requests (e.g., new cell tower revenues) on a form prescribed by the Budget Office. Uncontrollable costs are unavoidable costs resulting from contractual or other obligations, for example maintenance contracts with annual Consumer Price Index (CPI) adjustments. Since these costs are City obligations, the Base Budget must be adjusted to account for the cost increases. Once the City Manager approved the uncontrollable cost and revenue requests, the Budget Office adjusted the FY 2009 Base Budget by the requested amounts.

Discretionary Base Budget

The FY 09 Discretionary Base Budget (Attachment D) was calculated by subtracting various "exempt amounts" from the FY 09 Base Budget. Each department's savings target was calculated on the basis of their FY 09 Discretionary Base Budget. These "exempt amounts" are described as follows:

Approved Exemptions:

Departments submitted General and Related Fund exemption Request Forms to the Budget Office for the City Manager's consideration. The City Manager approved certain exemptions that were subtracted from the department's base budget. Approved exemptions included costs that the City could not reduce due to contractual requirements, such as leases and debt service, and revenue-offset services e.g. Parking Citation operations that were determined to have no impact to the General Fund (Attachment E).

Grant Funds Revenue Offset:

Special Revenue (SR) 120 general grant funds often require a General Fund match. The General Fund match was exempted.

Pension Obligation Bond:

The FY 08 Adopted General Fund budget for Pension Obligation Bonds (POBs) totaling \$7.6 million was exempted. This amount funds the debt service payments of the POBs that were issued to pay for the unfunded accrued liability of the City's pension plan.

Workers' Compensation & General Liability:

The FY 08 Adopted General Fund budget amounts for Workers' Compensation for \$15 million and for General Liability for \$6.9 million were exempted.

Debt Service:

The FY 08 Adopted General Fund budgets that were set aside to make debt service payments totaling \$11.7 million were exempted.

Sworn Personnel, Dispatchers & Overtime:

The General Fund salary, benefit and overtime costs associated with the sworn fire and police personnel and dispatchers totaling \$189.5 million were exempted.

FY 2009 General Fund Budget Reduction Strategies

Reduction Strategies Based on FY 09 Discretionary Budgets:

Departments, including non-City Manager departments, were requested to reduce the impact to the General Fund and Related Funds by about 10% of their respective FY 09 General Fund and Related Fund Discretionary Budgets (FY 09 Base Budget less exemptions). Elected officials were asked to reduce their General Fund and Related Fund budgets by 10% or approximately \$2 million. Reductions could be submitted as budget *expenditure reductions*, *expenditure transfers* to other funds and in some cases, *new revenues*.

Expenditure Reductions were input into BPREP as a reduction of the department's FY 2009 General Fund budget. Departments could achieve the spending reductions by eliminating programs, reducing service hours or leaving vacant positions unfilled.

Expenditure Transfers were transfers from one fund to another fund within the same department. Some department's total budgets consist of more than one fund because of the service areas that the department supports. For example, expenditures to support beach maintenance operations are charged to the Tidelands Fund within the Parks, Recreation and Marine Department whereas park community center operations are charged to the General Fund. Approved expenditure transfers were input into BPREP as a reduction of the department's FY 2009 General Fund budget and an increase in the department's budget in another fund other than the General Fund or a Related Fund.

New Revenues were input into BPREP as an increase in FY 09 Adopted General Fund revenues. Only new revenue generation that is ongoing was permitted as a "Reduction Strategy." Natural growth or increases of existing fees were not accepted towards the department's reduction targets. These new revenues should be closely monitored in FY 2009 to ensure that the targets are met.

2.25% Vacancy Savings:

In addition to the reduction of Discretionary Base Budget noted above, a 2.25% Vacancy Savings factor was applied to each department's General Fund budget. This factor was calculated by subtracting workers' compensation, pension obligation bond, sworn personnel & dispatchers from the departments' General Fund personal services budgets and applying a 2.25% factor. The resulting amount was entered in the vacancy savings account as a reduction to departments' General Fund budgets.

The results of the reductions in General Fund spending are presented here in Chart 1. Details are presented in the Attachments to this report.

Chart 1: Reductions in General Fund Spending*

Department	Reductions in GF Spending as a % of Adopted Budget FY 08	Reductions in GF Spending as a % of Discretionary FY 09	Reductions in GF & Related Fund Spending as a % of Discretionary FY 09
City Attorney	-16.5%	-18.1%	-17.1%
City Auditor	-11.5%	-12.4%	-11.9%
City Clerk	-9.1%	-14.3%	-14.3%
City Manager	-17.9%	-18.8%	-18.8%
City Prosecutor	-9.8%	-10.4%	-10.4%
Mayor/Council	-10.2%	-10.7%	-10.7%
Citywide	-4.0%	-8.5%	-8.5%
Civil Service	-1.4%	-1.5%	-1.8%
Comm Dev	-15.4%	-16.5%	-16.5%
Development Svcs	-9.1%	-10.7%	-12.2%
Fin Mgmt	-2.2%	-4.5%	-8.4%
Fire	-1.3%	-13.5%	-13.5%
Health	-14.7%	-17.0%	-16.9%
Human Resources	-	-	-16.5%
Library	-12.6%	-13.5%	-13.5%
Parks, Rec.,Mrn	-8.3%	-9.8%	-9.9%
Police	-1.4%	-6.6%	-6.6%
Public Works	-10.4%	-18.6%	-17.2%
Technology Svcs	-	-	-16.5%
Total	-4.3%	-11.3%	-13.0%

*The Chart above shows reductions in General Fund spending. Savings options that impacted only one fiscal year (FY 09) and revenue solutions were excluded from this Chart.

FY 09 Budget Transmittal

Departments were instructed to submit their FY 09 budget in a program format, which included itemized lists of requested enhancements, cost reductions and revenue increases by program with dollar amounts and narrative impacts. For example, submitting the budget in a program form provided information on the impact of budget cuts to the El Dorado Regional Park program distinctly from the Recreation Classes program.

Per the FY 09 budget instructions, departments were provided with General Fund and Related Fund budget ceiling amounts that they could not exceed. Budget submittals that exceeded the prescribed General and Related Fund budget ceilings (FY 09 General

Fund and Related Fund budgets less reduction amounts) were not accepted. Therefore, enhancements were only considered if a department's budget submittal (net enhancements, revenue solutions and reductions) was within the provided budget ceiling.

Proposed Fee Increases

Departments were directed to propose fee increases for existing revenues to eliminate inappropriate subsidies (for services like building inspections that should be supported 100% by revenues) or to increase fees by a CPI factor. The anticipated revenue increase was added to the FY 09 Base Budget and used to reduce the General Fund deficit. Departments could not use the fee increases of existing revenues to support new spending or to meet their provided reduction targets.

Review of Personnel Changes and Technology Requests

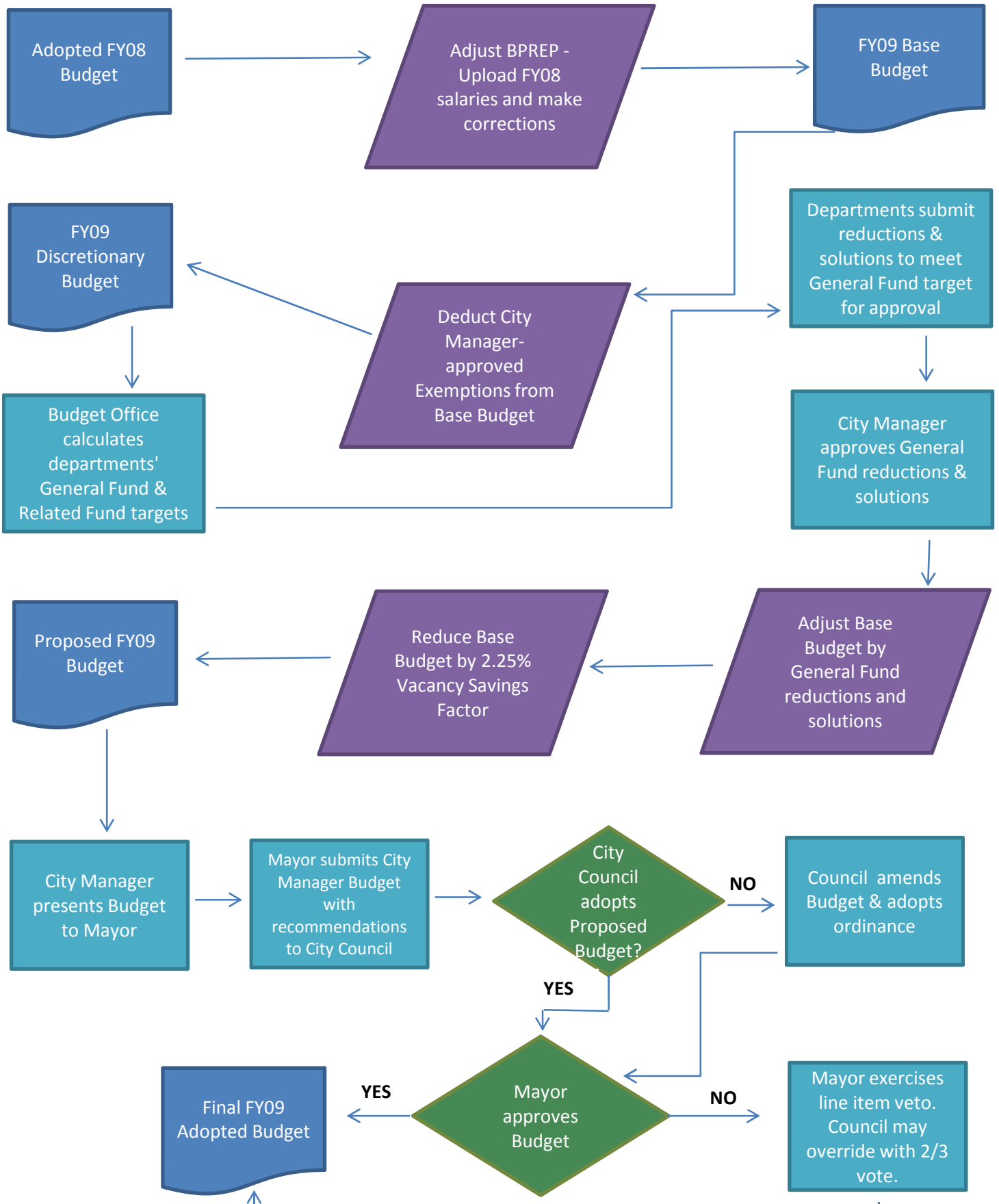
City Manager departments were directed to submit all personnel changes including additions to the Human Resources Department for review and approval prior to submitting their Proposed Budget requests to the Budget Office.

All new technology requests for hardware, software and consulting services were submitted to the Information Technology Governance Committee (ITGC) chaired by the Director of Technology Services for evaluation. The ITGC provided recommendations to the City Manager regarding department Technology Requests.

Budget Approval Process

In accordance with the City Charter, the City Manager presented the Fiscal Year 2009 Proposed Budget on July 1, 2008 to the Mayor. The Office of the Mayor presented the Budget with his recommendations to City Council on August 1, 2008. The City Council adopted the FY 09 Proposed Budget with their changes on September 9, 2008. The City Council's changes to the General Fund are presented on Attachment B.

FY 2009 Budget Process Flow Chart



FY 2009 General Fund Spending Reductions^{1,5}

A	B	C	D	E	F	G	H	I	J	K	L	M	N
						D + E + F		G + H	I/B	G/C	I/C		I + M/C
Department	Adopted GF Budget FY 08	Discretionary GF Budget FY 09	Reductions of GF Spending ²	GF Budget Increases ³	GF City Council Changes	Subtotal Net GF Budget Cuts w/o Vacancy Cuts	Vacancy Cuts	Net Reduction in GF Spending	GF Change as % of FY 08 Adopted Budget	GF Change w/o vacancy as % of Discretry Budget	GF Change as % of Discretry Budget	GF Revenue Budget (Increase)/Decrease ⁴	GF Change w. Cuts & Revenue as % of Discretry Budget
City Attorney	3,643,679	3,309,128	(521,900)	-	0	(521,900)	(77,666)	(599,566)	-16.5%	-15.8%	-18.1%	-	-18.1%
City Auditor ⁸	2,556,774	2,365,213	(245,028)	-	0	(245,028)	(48,358)	(293,386)	-11.5%	-10.4%	-12.4%	-	-12.4%
City Clerk	4,546,202	2,880,098	(227,330)	-	(140,000)	(367,330)	(45,090)	(412,420)	-9.1%	-12.8%	-14.3%	-	-14.3%
City Manager	3,578,916	3,414,386	(576,934)	-	0	(576,934)	(63,971)	(640,905)	-17.9%	-16.9%	-18.8%	-	-18.8%
City Prosecutor	5,341,120	5,058,132	(501,068)	-	87,000	(414,068)	(111,786)	(525,854)	-9.8%	-8.2%	-10.4%	-	-10.4%
Mayor/Council	5,313,570	5,083,571	(440,000)	-	0	(440,000)	(101,520)	(541,520)	-10.2%	-8.7%	-10.7%	-	-10.7%
Citywide	17,428,481	8,340,818	(624,818)	-	(80,000)	(704,818)	-	(704,818)	-4.0%	-8.5%	-8.5%	-	-8.5%
Civil Service	2,191,901	1,945,543	-	-	0	-	(30,075)	(30,075)	-1.4%	0.0%	-1.5%	-	-1.5%
Comm Dev	7,509,225	7,373,592	(1,093,026)	-	0	(1,093,026)	(122,469)	(1,215,495)	-16.2%	-14.8%	-16.5%	-	-16.5%
Develop Svcs ⁶	1,530,785	1,305,975	(131,395)	-	0	(131,395)	(8,529)	(139,924)	-9.1%	-10.1%	-10.7%	-	-10.7%
Fin Mgmt	9,725,076	4,834,398	(148,046)	181,658	0	33,612	(249,781)	(216,169)	-2.2%	0.7%	-4.5%	-	-4.5%
Fire	67,700,843	6,418,062	(760,290)	-	0	(760,290)	(106,829)	(867,119)	-1.3%	-11.8%	-13.5%	329,000	-8.4%
Health	5,399,836	4,661,166	(805,953)	93,351	0	(712,602)	(80,101)	(792,703)	-14.7%	-15.3%	-17.0%	-	-17.0%
Library	14,629,600	13,736,947	(1,863,814)	-	258,000	(1,605,814)	(243,798)	(1,849,612)	-12.6%	-11.7%	-13.5%	-	-13.5%
Parks, Rec., Mrn	27,404,694	23,109,847	(1,920,197)	-	(25,000)	(1,945,197)	(318,189)	(2,263,386)	-8.3%	-8.4%	-9.8%	(88,200)	-10.2%
Police ⁷	182,079,311	39,067,761	(1,736,300)	-	(100,000)	(1,836,300)	(737,889)	(2,574,189)	-1.4%	-4.7%	-6.6%	(1,181,698)	-9.6%
Public Works ⁷	31,369,931	17,607,515	(3,403,083)	522,000	0	(2,881,083)	(393,523)	(3,274,606)	-10.4%	-16.4%	-18.6%	-	-18.6%
Total	391,949,944	150,512,152	(14,999,182)	797,009	0	(14,202,173)	(2,739,574)	(16,941,747)	-4.3%	-9.4%	-11.3%	(940,898)	-11.9%

1 This Chart represents the GF only and not related Funds. The Police & Fire Pension Plan budget and Non-Operating GF budget are excluded from this Chart.

2 Reductions in General Fund spending may include money transferred to other funds as appropriate. For example, the City Auditor transferred \$116,569 to Tidelands for audits of the Queen Mary and other Tidelands Funds operations; Public Works reallocated \$1,437,500 of storm drain, street sweeping and water quality management costs to other funds.

3 One-Time Costs of \$762,372 (Dev. Svcs.) and savings of (\$825,000) (Fire) are excluded from this Chart

4 Management currently allows certain revenue increases to count towards requested cuts.

5 The FY 09 Proposed Budget is the source of data in Columns B, D, E & M; Fin. Mgmt. provided data in columns C & H

6 Development Services Budget is primarily in Funds other than the General Fund.

7 This Chart excludes the \$5.56 million transfer of parking enforcement from Police to Public Works

8 The City Auditor's General Fund reductions include related fund cuts of \$10,728.

FY 2009 General and Related Fund Spending Reductions

A	B	C	D	E	F	G	H
			B+C			E+F	G/D
Department	Discretionary GF Budget FY 09 ¹	Discretionary Related Fund Budget FY 09 ¹	Total GF & Related Discretionary Budget	Net Reduction in GF Spending	Net Reduction in Related Fund Spending ²	Total Reduction in GF & Related Fund Spending	% of Discretionary Reduction in GF & Related Fund Spending
City Attorney	3,309,128	6,422,839	9,731,967	(599,566)	(1,060,430)	(1,659,996)	-17.1%
City Auditor ³	2,365,213	108,301	2,473,514	(293,386)	-	(293,386)	-11.9%
City Clerk	2,880,098	-	2,880,098	(412,420)	-	(412,420)	-14.3%
City Manager	3,414,386	-	3,414,386	(640,905)	-	(640,905)	-18.8%
City Prosecutor	5,058,132	-	5,058,132	(525,854)	-	(525,854)	-10.4%
Mayor/Council	5,083,571	-	5,083,571	(541,520)	-	(541,520)	-10.7%
Citywide	8,340,818	-	8,340,818	(704,818)	-	(704,818)	-8.5%
Civil Service	1,945,543	34,909	1,980,452	(30,075)	(5,764)	(35,839)	-1.8%
Comm Dev	7,373,592	120,147	7,493,739	(1,215,495)	(19,837)	(1,235,332)	-16.5%
Development Svcs	1,305,975	452,661	1,758,636	(139,924)	(74,736)	(214,660)	-12.2%
Fin Mgmt	4,834,398	2,344,546	7,178,944	(216,169)	(387,092)	(603,261)	-8.4%
Fire	6,418,062	-	6,418,062	(867,119)	-	(867,119)	-13.5%
Health	4,661,166	1,628,407	6,289,573	(792,703)	(268,855)	(1,061,558)	-16.9%
Human Resources	-	7,847,998	7,847,998	-	(1,295,729)	(1,295,729)	-16.5%
Library	13,736,947	194,235	13,931,182	(1,849,612)	(32,069)	(1,881,681)	-13.5%
Parks, Rec & Marine	23,109,847	257,973	23,367,820	(2,263,386)	(42,592)	(2,305,978)	-9.9%
Police	39,067,761	-	39,067,761	(2,574,189)	-	(2,574,189)	-6.6%
Public Works	17,607,515	35,051,735	52,659,250	(3,274,606)	(5,787,149)	(9,061,755)	-17.2%
Technology Svcs	-	22,527,467	22,527,467	-	(3,719,354)	(3,719,354)	-16.5%
Total	150,512,152	76,991,218	227,503,370	(16,941,747)	(12,693,607)	(29,635,354)	-13.0%

1 Information was provided by Financial Management.

2 A 100% cut in a related fund is equivalent to a 60% General Fund reduction. The amount of cut presented is the portion that benefits the General Fund.

3 Net Reduction in Related Fund Spending¹ for City Auditor was included in General Fund reductions.

**FY 2009 Department Base Discretionary Budgets
GENERAL FUND**

Department	FY09 Base Budget	Approved Exemptions	SR 120 Revenue Offset	Pension Obligation Bond	Workers' Compensation	General Liability	Debt Service	Sworn, Dispatchers, and Overtime	FY09 Base Discretionary Budget
Community Development	\$ 7,655,138	\$ -	\$ -	\$ 146,883	\$ 134,663	\$ -	\$ -	\$ -	\$ 7,373,592
City Manager	3,566,356	-	-	83,237	52,952	15,781	-	-	3,414,386
Fire	68,211,667	1,534,902	-	188,944	3,759,784	403,545	933,095	54,973,335	6,418,062
Financial Management	9,659,226	4,011,670	-	319,998	193,247	198,876	101,037	-	4,834,398
Health & Human Svcs	5,348,075	442,584	-	93,470	130,708	20,147	-	-	4,661,166
Library	14,178,893	-	-	299,247	83,132	59,567	-	-	13,736,947
Development Svcs	1,339,103	-	-	15,505	8,443	9,179	-	-	1,305,975
Police	193,025,134	4,296,685	-	965,699	8,962,411	3,203,974	1,968,947	134,559,657	39,067,761
Parks, Rec & Marine	26,912,510	2,305,112	49,000	302,574	625,511	520,466	-	-	23,109,847
Public Works	32,142,986	12,210,177	-	504,007	908,500	912,787	-	-	17,607,515
Citywide Financing	22,362,049	-	-	4,100,000	-	1,431,415	8,489,816	-	8,340,818
City Attorney	3,472,367	-	-	111,347	29,509	22,383	-	-	3,309,128
City Auditor	2,510,350	-	-	68,119	4,234	72,784	-	-	2,365,213
City Clerk	3,182,173	-	-	60,148	28,010	15,359	198,558	-	2,880,098
City Prosecutor	5,306,598	-	49,347	148,849	25,971	24,299	-	-	5,058,132
Civil Service	2,043,454	-	-	70,218	14,687	13,006	-	-	1,945,543
Mayor/Council	5,298,754	-	-	129,113	63,405	22,665	-	-	5,083,571
Total	\$ 406,214,833	\$ 24,801,130	\$ 98,347	\$ 7,607,358	\$ 15,025,167	\$ 6,946,233	\$ 11,691,453	\$ 189,532,992	\$ 150,512,152

ATTACHMENT E

FY 2009 Approved Exemptions by Department

Description	CM Approved Amount	Exemption Notes ¹
-------------	--------------------	------------------------------

Fire Department

New headquarters lease payment and utilities	696,829	Lease
1 FTE Plan Check CT	57,777	Revenue offset
Plan Check Index 020/030 char and exclusions	77,712	Revenue offset
5 FTEs Plan Check plan checkers	606,189	Revenue offset
Code Enforcement Index 020/030 char and exclusions	96,396	Revenue offset
Total \$ 1,534,903		

Financial Management

Utility Collections collects from customers who receive service but failed to pay outstanding debt. Revenue received from collection of bad debt is posted to the appropriate utility and costs for services are reimbursed through an MOU.	174,140	Revenue offset
Collections Section performs collection activities to recover hard-to-collect debts. Revenues posted to the originating departments. Revenue generated by collecting outstanding debt supports the cost of this specific activity.	320,350	Revenue offset
The Parking Citation Section processes citations and serves as a service bureau for the other departments to generate revenues.	1,051,425	Revenue offset
Treasury Bureau generates up to \$50 million annually for other Departments and Funds.	1,180,354	Revenue offset
Business License Section generates business license revenues of approximately \$12 million annually.	1,285,401	Revenue offset
Total \$ 4,011,670		

Health & Human Services

Signal Hill Contract Services	44,300	Revenue offset
Los Alamitos Contract Services	80,764	Revenue offset
Seal Beach Contract Services	121,128	Revenue offset
Cerritos Contract Services	196,392	Revenue offset
Total \$ 442,584		

Police Department

Lease - Youth Svcs Parking Lot	5,400	Lease
Property Tax - Cota Warehouse	14,823	Lease

1 - Revenue offset exemptions represent operational expenses that are 100% offset by revenue.

ATTACHMENT E

Description	CM Approved Amount	Exemption Notes¹
Lease - I/A & Video Production Office Space	26,476	Lease
Lease - I/A & Video Production Office Space	28,500	Lease
Lease - Cota Warehouse	63,134	Lease
Long Beach City College CTIII	63,874	Revenue offset
Lease - Crime Lab	65,859	Lease
Lease - Comm. Rel Office Space	69,529	Lease
Lease - I/A Office Space	71,553	Lease
Lease - Into Tech Golden Shore	73,552	Lease
Lease - Youth Services	76,600	Lease
Lease - Property	101,545	Lease
Lease - POA Parking Lot	110,000	Lease
Lease - Academy Office Trailers	115,000	Lease
Lease - East Division	147,385	Lease
Lease - North Long beach PAL	397,923	Lease
Lease - FSD AASI Bldg	578,477	Lease
Long Beach City College SSOIII	1,063,553	Revenue offset
Parking enforcement SSOII	1,223,502	Revenue generating positions
Total \$		4,296,685

Parks, Recreation & Marine

El Dorado Regional Park Operations	163,237	Cost Recovery
Out of School (Youth Services Grant)	190,000	Revenue offset
Golf Operations	262,770	Revenue offset
Contract Classes	620,985	Revenue offset
Park Ranger Program	1,068,120	Public Safety
Total \$		2,305,112

Public Works

CLP Contract	4,336,302	Contractual
Street Lights	1,875,000	Contractual
Public Safety & Comm Ctr Incidence Response	390,750	Public Safety
Stormwater Program MOU	120,000	Public Safety
Vector Control & Trauma Scene Clean-Up MOU	185,000	Public Safety
Storm Drain Maintenance MOU	1,000,000	Contractual
Parking Meter Services (revenue offset)	373,110	Revenue offset
Street Sweeping & Parking Enforcement	3,930,015	Revenue offset
Total \$		12,210,177

1 - Revenue offset exemptions represent operational expenses that are 100% offset by revenue.

ATTACHMENT F

Management Response to the City Auditor's Independent Analysis of Citywide General Fund Budget Process March 2009

The City Auditor's report provides a high level overview of certain components of how the City's budget was constructed for Fiscal Year 2009 (FY 09). As such, it understandably does not represent a comprehensive detailed account of the deliberations, support and analysis required of this multi-departmental task each year. The following management response is presented to provide additional context and information about the specific concepts explored in the City Auditor's report.

General Fund Budget – The entire FY 09 Adopted Budget for the City of Long Beach is \$3.1 billion, while the General Fund budget (the focus of the City Auditor's report) is \$404 million (or approximately 13 percent of the total budget) spread amongst 17 City departments.

The five largest department budgets in the General Fund are:

- Police - \$192.8 million (or 47.7 percent)
- Fire – 73.2 million (or 18.1 percent)
- Public Works - \$31.2 million (or 7.7 percent)
- Parks, Recreation and Marine - \$25.7 million (or 6.4 percent)
- Library Services - \$13 million (or 3.2 percent)

The General Fund, while benefiting from a diverse variety of revenue sources, relies heavily on economically sensitive revenues from Property Taxes, Sales and Use Tax, Utility Users Taxes, and Motor Vehicle In-lieu Tax, among others, as well as, commodity related revenues such as oil revenues.

General Fund Structural Deficits – The Financial Strategic Plan (Plan) was developed in 2003 to begin addressing a \$102 million projected structural deficit in the City's General Fund. Over the first six years (FY 04 – FY 09) of the Plan, which has evolved to reflect the changing fiscal and service delivery environments for the General Fund, approximately \$124.5 million in structural deficit solutions (\$87 million in cost reductions and \$37.5 million in new revenue) have been adopted by the City Council.

Budget Development Process – The City Manager is responsible for promulgating a Citywide process to develop the annual budget; one that is transparent, respects the parameters of the City's Charter deadlines and authority and one that can be utilized by all departments to efficiently submit annual resource requests for the City Council's ultimate approval. Management strongly concurs that an annual budget development and adoption process must be as transparent as possible to ensure that the community and our elected decision makers have access to the information they need to make informed decisions.

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

ATTACHMENT F

as possible before adoption. Approximately 31 distinct public budget workshops and meetings were held with the City Council, Budget Oversight Committee and the community to provide an update on the budget development process as well as preview the upcoming year's fiscal outlook. These meetings were in addition to individual briefings provided to City Council members related to specific budget related questions they may have had during the annual budget development process.

Approximately ten (10) Budget Oversight Committee meetings were held from January to September 2008 to discuss FY 08 and FY 09 budget issues. In addition, twelve (12) community meetings were held to discuss the specific recommendations contained in the FY 09 Proposed Budget, and nine (9) formal City Council Budget Study Sessions, Workshops and Hearings were held in the months of July, August and September to review and discuss the City Manager, Mayor and Budget Oversight Committee's budget recommendations.

These open and public discussions allowed the Mayor and City Council to adopt the FY 09 Budget on September 11, 2008.

Budget Policies and Budget Instructions – Each year the Department of Financial Management prepares a document for City departments that articulates particular budget implementation issues and policies for the current fiscal year (e.g., mid-year savings targets, estimates-to-close and cost recovery via mid-year fee adjustments). These policies may be refined or amended as needed from year-to-year to reflect the changing fiscal environment and to ensure a balanced budget at year-end.

The document also provides detailed, consistent Budget Instructions to City Manager-led departments for the upcoming budget. The Budget Instructions have been fairly consistent over the past several years; however, continuous streamlining improvements based on department feedback, as well as new requirements based on the City Council's or City Charter direction (e.g. performance-based program budgeting and new Charter deadlines) are reflected each year to ensure the Budget Instructions are relevant for department users.

Budget Kick-off – Each year departments are invited to participate in a single kick-off meeting at which the Budget Policies and Budget Instructions are presented. The kick-off allows for staff citywide that are directly associated with budget implementation and development to ask specific questions of the City Manager and the Budget Office regarding the upcoming fiscal year's budget development guidelines and to obtain clarification regarding budget development instructions. The Budget Office also makes itself available to all departments for targeted follow-up meetings to ensure that all Budget Policies and Budget Instructions are understood.

Base Budget – The Base Budget for all funds is the true starting point for the upcoming fiscal year's budget. It provides a clear foundation upon which the next year's budget can be based. By undertaking the processes described in this report (e.g., removing one-time revenues and expenses, updating revenue estimates, updating labor rates and capturing uncontrollable costs that will be experienced), the Budget Office calculates the projected structural surplus or deficit in each fund and develops recommendations for

ATTACHMENT F

the creation of a balanced budget for the next fiscal year. Historically, including for FY 09, non-City Manager departments did not participate in the Uncontrollable Cost process, as all costs and revenue adjustments were captured in the Proposed Budget.

Attrition Factor – A new element of the Base Budget in FY 09 was the inclusion of an annual Attrition Factor in each department's personnel budgets. The Attrition Factor reflects the projected cost savings derived from the time it takes for a position to be filled after it has become vacant. On a citywide basis, the City has vacant positions throughout the year; hence it does not achieve full 100 percent employment for 100 percent of the entire year. The process of recruitment, interviews and pre-employment screening is generally time consuming and can last up to several months depending on the department and the position requested (classified, Civil Service or unclassified). As such, the City of Long Beach has experienced vacancy rates as high as 10 percent on an All Funds basis, and up to 7 percent in the General Fund, varying by Department, depending on seasonal changes in employment rates.

For every day that a position is vacant, a department is accruing budgetary savings. The Attrition Factor of 2.25 percent of payroll is a conservative estimate of the savings a department will generally accrue during the year due to natural turnover and retirements. Therefore, the Attrition Factor built into each General Fund department's budget does not require a department to hold vacancies any longer than would naturally occur as vacancy rates are generally much higher than 2.25 percent.

The inclusion of an Attrition Factor in each General Fund department's Base Budget helped to contain the growth of the projected structural deficit for FY 09. Without the Attrition Factor, the level of requested deficit solutions (see **Savings Targets** section below) would have been 2.25 percent higher than what was requested.

Discretionary Base Budget – While the total dollar value of the structural deficit is known, the identification of discretionary (vs. non-discretionary) expenditures allows for the development of a more realistic General Fund percentage Savings Target, which is applied to each department. Non-discretionary costs and revenue generating programs do not generally represent the most viable resources from which to generate future savings. Therefore, the Discretionary Base Budget is simply a tool used to determine Savings Targets (a percentage) required to address projected structural deficits for the upcoming fiscal year. Please note that this does not preclude a department from recommending reductions in its non-discretionary base programs to generate savings.

Historically, including for FY 09, non-City Manager led departments did not participate in the Discretionary Base Budget development process, as they were not required by the City Council to develop solutions to address the General Fund structural deficit. The City Council's requirement for non-City Manager led departments to participate in General Fund deficit reductions came after the FY 09 Base Budget and the related Discretionary Base Budgets were identified.

Discretionary Base Budget Exemptions – As described in the report, there are certain elements of the Base Budget that have been historically excluded from the Discretionary Base Budget. These elements have generally fallen into three categories:

ATTACHMENT F

fixed costs outside of an individual department's control (debt service, Pension Obligation Bonds, central Workers' Compensation and General Liability charges from the Insurance Fund, contractual CPI increases and annual lease escalators); personnel costs related to Public Safety (Sworn Personnel, Dispatchers and related overtime – see below for more discussion of the Sworn exclusion) per the City Council's direction; and, operational expenses that are 100 percent offset by revenue from which deficit reductions may not be not possible or may actually serve to worsen the budget deficit as these operations are revenue generating. This last category of non-discretionary costs (i.e. the 100 percent revenue offset costs) are referred to as Discretionary Base Budget Exemptions, and are individually reviewed on a case by case basis for appropriateness.

Sworn Personnel, Dispatchers & Overtime – Since the advent of the Financial Strategic Plan and the use of a Discretionary Base Budget to develop Savings Targets in FY 04, the City Council directed staff to explicitly exempt Sworn and Dispatcher salary costs as well as Fire Department overtime costs when creating a Discretionary Base Budget; hence, the FY 09 Base Budget reflected that policy.

Savings Targets – The City Manager does not utilize, nor support the use of an across-the-board budget cutting approach. This approach is not an appropriate tool for making deliberative budget decisions where City Council priorities, core missions and performance objectives are all taken into consideration.

As communicated to all City departments via memo on October 23, 2008, the City Manager uses a savings target mechanism only to generate options (15 percent for the FY 09 Proposed Budget) with which to assemble a recommended Proposed Budget. As such, the percentage value of requested solutions is merely a means of generating sufficient options (either cost reductions or new revenues) for the City Manager and City Council to choose from, and is not meant to set the final value of cuts required from each department.

In addition, since the Savings Target can be met with additional viable revenue enhancements or reduced expenses, any multi-year, Adopted, Base, Discretionary Base or Proposed budget comparisons of year-over-year appropriations (as was provided in Attachment D to the report) will not provide an accurate indication of the amount by which a department has met its savings target or contributed to the reduction of the General Fund structural deficit.

For the first time since the Financial Strategic Plan was initiated in FY 04, the Mayor, City Council, City Attorney, City Auditor, City Prosecutor, Civil Service and City Clerk departments were required by the City Council to participate in developing deficit reduction options and given a Savings Target along with City Manager-led departments.

Reallocation of General Fund Costs to Other Funds – For FY 09, departments that provide services to other City departments sought to generate savings to their General Fund budgets by directly allocating costs to their non-General Fund clients. In some cases where costs for the service-providing departments are already allocated through the Federally approved OMB A-87 Citywide Indirect Cost Allocation Plan methodology,

ATTACHMENT F

this creates a duplicate charge until the FY 09 actual costs are allocated in the Plan (FY 11). Therefore, the recommended strategy to create short-term General Fund savings through the direct allocation of certain budgeted costs needs to be carefully scrutinized to ensure it is not violating Federal guidelines or creating duplicative charges in the City's various Funds, including Federal, State and County grants.

Budget Process Flow Chart – As stated on Page 2 of the report, Departments for which the City Manager is not administratively responsible submit their budgets directly to the Mayor and City Council for their consideration. While the submissions of non-City Manager directed department budgets are not included in the Budget Process Flow Chart (Attachment A), they should be to fully reflect the Budget Development Process and its multi-track approach for the non-City Manager departments.

While the non-City Manager directed departments have autonomy over their proposed budget requests, there are occasions when City Council direction or centrally allocated City costs are implemented directly by the City Manager's staff. Examples of such influences on these budgets include the Attrition Factor (described above), and standard base adjustments for labor rates, payroll overhead, Pension Obligation Bond payments, General Liability insurance costs and Workers' Compensation costs.

In addition, the City Manager working within his City Charter authority does exert control over entry into the Budget Preparation financial system (BPREP), as evidenced by the fact that elected proposed budgets were not entered into BPREP until the City Council took final action on the departments' budget requests.

Proposed Fee Increases – Each year the Budget Office collaborates with departments to refine and capture all expected Base Budget revenues. A key source of department revenue is fees for services provided to individuals or specific user-groups. Based upon the prior year's actual revenue performance, current year occurrences and cost-indexed increases to existing fees, new levels of expected revenue are captured in the Base Budget to offset expected cost growth and mitigate any projected structural deficit.

As part of a department's Proposed Budget request, either new fees or increases to existing fees to further improve cost recovery may be included as part of a department's strategy to meet their Savings target or support enhanced levels of service for the next fiscal year. Proposed revenue enhancements are analyzed by the Department of Financial Management on a case-by-case basis for appropriateness and feasibility. Only those revenue enhancements that appear to be reasonable and achievable are recommended for inclusion in the Adopted Budget.

We would like to thank the City Auditor's Office for preparing this report. It is our hope that the report, along with Management's response, will serve to further clarify the City's historical budget process and many of the terms utilized throughout in order to further enhance the transparency and general understanding of the City's annual budget development process.