

# **Financial Strategic Plan**



## **Preface**

Responsible financial management and effective stewardship of the city's assets are among the most important responsibilities of any local government. The Mayor and City Council have demonstrated their commitment to planning a financially sustainable future for our City in a responsible, open and accountable manner through the Financial Strategic Plan (Plan). The Plan demonstrates visionary community leadership by bringing together input from the many stakeholders in the community. The Plan also serves as the blueprint for the financial sustainability of our City and it ensures that our goals and aspirations are, realistically and responsibly matched with the City's ability to deliver those outcomes.

## **I. Background**

The Plan is the City's multi-year budget planning tool used to project and track fluctuations in structural revenues and expenses within the General Fund. Its main goal is to ensure that the City maintains a structural balance in the General Fund. Initially created to successfully eliminate a projected structural deficit between the fiscal years 2004 – 2007, the Plan became the City's ongoing fiscal planning tool after reaching a balanced budget in FY 2007. Thanks to the Plan, the Mayor and City Council have successfully adopted structurally balanced General Fund budgets for five consecutive years with the adoption of the FY 11 Budget. With a continual three-year revenue and expense projection, the Plan allows for increased accuracy in updated projections based on concrete operational and financial assumptions, and provides a roadmap for the development of future years' budgets.

The Plan, as has been the case since its inception, will be updated each year to reassess the condition of the General Fund, address changes in the financial and service delivery environment, and to make appropriate adjustments to ensure it reflects the City Council's priorities as well as input from the community. However, in an effort to provide a longer outlook on the City's fiscal condition, the City is collaborating with Public Financial Management, Inc. to develop a Long-term Financial Plan (LTFP) that will project the City's expected revenue flows and expenditure commitments for at least five years into the future. This section of the budget book is designed to provide a brief synopsis of the Plan's history, detailed information on the Plan's direction for FY 11 and the current outlook for the subsequent three fiscal years.

## **II. Development of the Financial Strategic Plan**

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

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

### III. Plan Accomplishments FY 04 – FY 10

Since the Plan's inception seven years ago, the City has implemented sweeping and innovative policies in its effort to eliminate the structural deficit within General Fund. Under the Mayor and City Council's leadership, Plan solutions were adopted as a part of the annual budget each fiscal year, which lead to the implementation of \$167.2 million in structural deficit solutions from FY 04 – FY 10. Hundreds of difficult decisions were made in an effort to eliminate the structural deficit, including \$122.9 million in cost reductions, (e.g., the removal of over 250 vehicles from the City's fleet, eliminating over 650 positions of the General Fund workforce (or 12 percent), consolidating bureaus and divisions to streamline the organization, instituting employee contributions for the cost of health and retirement benefits, deferred salary increases and achieved freezes through MOU agreements, reducing service levels throughout the organization, and optimizing various City operations to save money including Fleet and Towing, Custodial Services, Code Enforcement and the Workers' Compensation.)

With these and other cost reductions and exacerbated by an increased level of retirements and attrition of senior staff to other organizations, remaining employees were asked to "do more with less," resulting in increased turnaround and response times for traditional customer service activities such as gas turn-ons/off, tree trimming, street repair and facility maintenance. To avoid further service reductions, a total of \$44.3 million in annual revenue adjustments were made with increased return on assets and improved cost recovery through new and updated fees.

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

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

### IV. Restoring a Structural Balance: FY 11

The FY 10 Adopted Budget represented a turning point for Long Beach's annual budget development process after seven years of gradual budget balancing measures through the Plan. Recognizing the need to evolve the Plan toward even more structural, lasting solutions, several new concepts were introduced to put Long Beach on an accelerated path to fiscal sustainability:

- All departments participated in solutions; wholesale exemptions for Police and Fire sworn staffing could no longer be recommended as that excluded up to 68 percent of the Budget from budgetary reform;
- Core missions and services were used to direct funding decisions to support the City Council's Stated Priorities;
- Employee participation linked the impacts of negotiated compensation increases to employee solutions to avoid unnecessary layoffs or service disrupting furloughs;
- A multi-year focus was restored promoting even greater sustainability; and

- Enhanced transparency was achieved by introducing monthly City Council Budget Meetings in addition to the regularly scheduled Budget Oversight Committee meetings, Budget Hearings and Study Sessions.

Based on the strong foundation of fiscal sustainability implemented in FY 10, the City's FY 11 Plan utilized the following principles to once again guide the City's resource allocation planning and the strategy to deliver a balanced budget for FY 11.

These principles included:

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

Utilizing these principles, the FY 11 Adopted Budget included \$18.5 million in Department Reductions, once again structurally-balancing the General Fund for the fifth year in a row. The Mayor exercised the line item veto authority bestowed upon him by the City Charter and mandated Departments to take an additional 1 percent reduction, equating to \$2.7 million. With these adopted recommendations, Long Beach has implemented a total of \$188.4 million in deficit reductions in just eight years. This effort, in light of the worst recession in generations, has kept Long Beach's fiscal challenges to a manageable level. However, in the next three fiscal years the City's budgetary outlook will take a marked turn toward deepening deficits in fiscal years 2012, 2013 and 2014. **Table 1** below reflects the success of the Plan in addressing the structural deficit from FY 04 – FY 11.

**Table 1: Impact on the Structural Deficit, FY 04 - FY 11**

Plan Year One: FY 04 Achieved Solutions	\$41 million
Plan Year Two: FY 05 Achieved Solutions	\$29 million
Plan Year Three: FY 06 Achieved Solutions	\$22 million
Plan Year Four: FY 07 Achieved Solutions	\$10 million
Plan Year Five: FY 08 Adopted Solutions	\$10 million
Plan Year Six: FY 09 Adopted Solutions	\$16.9 million
Plan Year Seven: FY 10 Adopted Solutions	\$38.3 million
Plan Year Eight: FY 11 Adopted Solutions	\$21.2 million
<b>Total Structural Solutions: FY 04 - FY 11</b>	<b>188.4 million</b>

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

**Table 2: Summary of Financial Strategic Plan Solutions, FY 04 – FY 11**

<i>(in millions)</i>	FY 04	FY 05	FY 06	FY 07	FY 08	FY 09	FY 10	FY 11	Total
Structural Budget Gap	\$60	\$39	\$3	\$ -	\$10	\$16.9	\$38.3	\$21.2	<b>\$188.4</b>
Prior Year Deficit	-	19	29	10	-	-	-	-	-
Cost Reductions	28	22	16	7.4	7	11.4	31.1	18.5	<b>141.4</b>
Revenue Adjustments	13	7	6	2.6	3	5.5	7.2	2.7	<b>47</b>
<b>Remaining Structural Deficit</b>	<b>\$19</b>	<b>\$29</b>	<b>\$10</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	<b>\$0</b>	

**V. Positioning for the Future: FY 12 – FY 14**

As part of the FY 11 budget development process, staff provided several briefings to the BOC and the City Council on the City’s fiscal outlook. The Plan highlights four pivotal issues that will have a long-standing impact on the City’s ability to maintain a structural balance in its General Fund.

- Negotiated employee compensation increases;
- Steep increases for employee retirement benefits due to CalPERS investment losses;
- Increased cost for workers’ compensation, general liabilities and employee healthcare; and
- Continued revenue impacts from the recession.

While the Plan reflects a structural balance for FY 11, we cannot ignore the fact that the General Fund continues to be dramatically impacted by the loss of \$42 million per year in Utility User Tax revenue and over \$25 million per year from the State Property Tax takeaways. In addition, due to the continued year-on-year reduction in discretionary revenue and the cost of future commitments, the pressure will continue to mount on the City without any significant change in how the General Fund is supported.

Given the best information available, staff has projected the General Fund’s three-year outlook. The City’s General Fund is facing estimated structural deficits of \$22.6 million, \$16.7 million and \$20.4 million in fiscal years 2012, 2013 and 2014, respectively, if nothing is done to address the cost growth and revenue performance as projected. This \$59.7 million shortfall, \$30.1 million created by increased retirement costs alone, will have a profound impact on the services the City will be able to provide if reasoned, deliberate deficit reductions are not identified and implemented. The City’s ability to maintain its current proportionate allocation of General Fund resources for quality of life and crime prevention programs will be compromised, as well as the ability to retain current staffing levels in its sworn and civilian ranks. The most viable and appropriate solutions will be developed to address this multi-year challenge over the next several months in partnership with all stakeholders, both inside the City and the throughout the community.

**VI. Continued Community Outreach and Participation**

Over the past several years, the budget development and adoption process has been increasingly transparent, allowing for as much public input and City Council deliberation as possible before adoption. To this end, the City Manager and Financial Management Department’s staff supported a total of 30 public discussions about the FY 11 budget: ten (10) monthly Budget Oversight Committee (BOC) meetings and twelve (12) City Council Special Meetings and/or Budget Hearings. The City Manager and Financial Management staff attended 8 community meetings to discuss the specific proposals contained in the FY 11 budget. With input through these open and public discussions about the budget, the Mayor and City Council adopted the FY 11 Budget on September 14, 2010.