City of Long Beach
Working Together to Serve

Memorandum

Date: April 4, 2019

To: Patrick H. West, City Manager

From: John Gross, Director of Financial Management

For: Mayor and Members of the City Council

Subject: **FY 20 Projection Update and Status of the Development of the Proposed FY 20 Budget**

As required by City Council financial policy, this memo provides a summary of the March budget projection and a status update on the development of the Proposed FY 20 Budget, with more in-depth information provided in the Attachment. The Budget Oversight Committee will be presented this information on April 9, 2019.

The General Fund projection for FY 20 is a shortfall of $2 million. This shortfall is small enough that significant service reductions are expected to be avoided. The multiyear projection indicates a surplus of $5 million in FY 21 and a shortfall of $3 million in FY 22. The projection is summarized in the table below:

March Three-Year Projection

($ in millions)		
FY 20	FY 21	FY 22
(2)**	5	(3)

** It is expected that the FY 20 shortfall will be resolved without significant service reductions

With the adoption of the FY 19 budget, the Mayor and City Council requested that the City Manager identify funding to restore Engine 17 and add six Police Officers. New revenues have been identified and are included in the projection, but they are not enough to include funding of Engine 17 and the six Police Officers in the FY 20 budget on an ongoing (structural) basis. Based on the City Council's desire to have an FY 20 budget with minimal adverse impact on services, the Mayor and City Council priority for Engine 17 and six Police Officers, and the uncertain impact of labor negotiations, the following key guidelines were used to develop the City Manager's Proposed FY 20 Budget and reduce the structural deficit from $9 million to $2 million.

- An increase in parking fines and ambulance fees will be used to balance the budget;
- Adds that are not mandatory or essential will be minimized;
- One-time items will be minimized, unless it is clear one-time funds are available;
- Engine 17 and the six Police Officers will not be structurally funded;
- No structural funding for costs related to the Community Hospital; and,
- No structural funding for labor agreements.

Recognizing that Measure A has had a major positive impact on the City's ability to provide services and improved investment in streets and public facilities, it has been budgeted to maximize support for structural operations and one-times. Measure A is expected to generate about $10 million in additional one-time revenue over the next several years. The City has applied for a federal SAFER grant for Engine 17. The grant, if awarded (award decision likely in July), would provide $2.8 million over three years to help offset the cost of Engine 17. With the use of Measure A surplus revenue and the SAFER grant, the cumulative funding shortfall for both Engine 17 and six Police Officers over the three-year grant period would be $3.7 million. Any residual shortfall after using Measure A and SAFER grant monies would need to be funded with general purpose one-time funds.

General purpose one-time funds usually come from anticipated General Fund operating surplus and surplus oil revenue at the end of each fiscal year. The first projection of any potential FY 19 surplus will be included the Proposed FY 20 Budget. There are expected to be many high-priority needs for general purpose one-time funds. The source and uses of one-times funds will be evaluated as part of the proposed budget development process. Potential uses include Engine 17 and the six Police Officers if adequate one-time funds can be identified. If there is clear indication of the availability of permanent funding after one-time funding ends, the Community Hospital start-up and operations, police academy costs, various capital needs, and potential labor costs would be considered for one-time funding.

The attachment provides more detail on the items in this memo. If you have questions regarding any of this information, please feel free to contact me at (562) 570-6427 or Budget Manager Grace Yoon at (562) 570-6408.

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ATTACHMENT

CC: CHARLES PARKIN, CITY ATTORNEY
LAURA L. DOUD, CITY AUDITOR
TOM MODICA, ASSISTANT CITY MANAGER
KEVIN J. JACKSON, DEPUTY CITY MANAGER
REBECCA G. GARNER, ADMINISTRATIVE DEPUTY TO THE CITY MANAGER
DEPARTMENT HEADS

Background Information on the March FY 20 Budget Projection and the Development of the Proposed FY 20 Budget

FY 20 Projection (General Fund)

The current FY 20 budget projection shows a shortfall of only $2 million, a significant improvement from the FY 20 outlook in June 2018 (in the FY 19 budget document) that showed a shortfall of $9 million. Table 1 summarizes the main reasons for the change between the June 2018 outlook and the March FY 20 budget projection.

Table 1: March FY 20 Projection (GF)

($ in millions)	FY 20
Initial outlook in FY 19 budget (June 2018)	(9)
Potential new revenues (parking fines, ambulance fees, Measure A)	11
Body worn cameras operating costs	(2)
Net revenue and expense updates	(2)
Preliminary projection (March 2019)	**(2)****

**** It is expected that the FY 20 shortfall will be resolved without significant service reductions**

The key reason for the improvement to the outlook is potential new revenues including revenues from a State change in the Ambulance Quality Assurance Fee (QAF) program, an expected increase in Measure A operating revenue, and an increase in parking fines and ambulance fees previously discussed with the City Council. The operating cost of body worn cameras is included in the projection as that program is already moving forward and will be needed to address anticipated Public Records Act (PRA) requests within the 120-day timeframe required by State law (AB748). The "net revenue and expense updates" reflect a summary of all changes to the revenue and expense projections (assuming the maintenance of current service levels, fee and tax rates), and is a very small change from the June 2018 outlook – less than one-half percent of the budget.

Major revenue changes from the FY 19 budget include projected growth in property tax, sales tax, Measure A, and Transient Occupancy Tax revenue, along with increased parking citation fine, ambulance fee revenue and anticipated new ambulance QAF revenue. Budgeted cannabis revenues have been lowered to be more in line with actuals as business have been slow to open.

Major expenditure changes from the FY 19 budget include a reduction in debt service due to retirement of old debt, a reduction in funding needs for health insurance, increased pension costs, increased general liability insurance costs, increased technology costs associated with critical needs, fleet costs associated with the switch away from Crown Victoria patrol vehicles, body worn camera operations, and the costs associated with the new Civic Center.

The March projection does not include any costs associated with opening the Community Hospital, nor the restoration of Engine 17 and the addition of six Police Officers because the projection indicates they cannot be added without significant service reductions in other areas. Mandatory or essential additions (such as to comply with new regulations) have not yet been included in the projection and may increase costs. The projection also does not include citywide or departmental efficiencies and other budget adjustments that effectively reduce costs and help to balance the budget. These efficiencies or reductions will all be identified later in the budget process and will be implemented as needed to help resolve the current shortfall.

Multi-Year Projection (General Fund)

Part of the budget process and a requirement of the City Council Financial Policies is to look beyond the immediate budget year. Similar to the FY 20 budget projection, the out-year projections do not include any costs that might be associated with new labor agreements. Table 2 summarizes the projections. The projections are the best available for looking two and three years into the future, but they should be regarded only as giving a sense of what the budget surplus or shortfall might be.

Table 2: March Three Year Projection

($ in millions)		
FY 20	FY 21	FY 22
(2)**	5	(3)

** It is expected that the FY 20 shortfall will be resolved without significant service reductions

FY 21 is projected to have a surplus. Factors contributing to this are increases to the State's ambulance cost reimbursement for Ground Emergency Medical Transport (GEMT) revenue, a significant reduction in debt service due to the ending of pension obligation bond debt service, and a slower rate of increase in pension costs. There is some doubt as to whether pension cost increases will slow as much as currently projected and this will continue to be evaluated. For FY 22, oil revenue to the General Fund (through the annual Uplands Oil transfer) is projected to decrease due to production declines (not an oil price decline) and pension costs are expected to increase more than in FY 21.

Overall, the long-term projection is consistent with a City that is constrained from both a land use and revenue generation perspective. Absent substantive new solutions, the City may have consistent future challenges maintaining services and even more challenges increasing services. The tremendous development and economic activity that are occurring in Long Beach are a help now and will be a significant help in the future. But economic growth is not expected to eliminate the budget balancing problems. Pension and employee health insurance costs are a major reason for this issue, as they are in all California governments and many other states. In the recent past, the major solutions

used to solve budget issues included termination of the Redevelopment Agency, pension reform, and Measure A to preserve and enhance police and fire services. No major solutions of this scale are currently evident to address these cost issues for the future.

Upcoming Labor Agreement and Potential Impact on the Budget

All eleven employee labor agreements either end on September 30, 2019 or have already ended. All labor agreements will be in negotiations. At this time, it is not known what the resolution of the negotiations will be and whether an agreement will include both one-time payments and/or structural ongoing pay raises, or benefit enhancements or various forms of concessions.

The impact of a labor agreement could be significant. A 1% increase for all bargaining units would cost the General Fund about $3.6 million for each year. For example, a 1% increase for each of three years would cost $3.6 million the first year, another $3.6 million (total of $7.2 million) the second year, and another $3.6 million the third year (total ongoing costs of $10.8 million after three years). A 2% increase would double those numbers.

Measure A

Measure A has had a major positive impact on maintaining, restoring and adding services. It is one of the three major factors allowing the City to maintain and improve services. It has had a far greater impact than the other two key factors - the State termination of the Redevelopment Agency and pension reform. Measure A has allowed the City to maintain 108 police and fire personnel and add new or restore various public safety services that resulted in the addition of 41 new police officers and firefighters. Table 3 below shows the operational improvements in terms of full-time equivalent employees.

Table 3: Measure A Public Safety Personnel Added or Maintained

Staffing Added and Maintained	FTE
Add Police South Division	10
Add Police Quality of Life Officers	2
Add Fire Rescue 12	6
Add Fire HEART Team	2
Add Fire Engine 8	12
Add Police Academy Staffing	9
Maintain Police Officers	77
Maintain Firefighters	31
Total - Measure A Added and Maintained FTE	**149**

Measure A has also helped fund significant infrastructure and capital improvements. Measure A is fully allocated in FY 19. Table 4 below shows the FY 19 allocation.

Table 4: Measure A – FY 19 Adopted Budget

	FY 19
Resources	
Current Year Revenue	54.5
Carry-Over Surplus	2.4
Total Resources	**56.9**
On-Going (Structural) Uses	
Maintain Existing Services	19.3
New or Restored Services	7.3
Total - On-Going Uses	**26.6**
Infrastructure and P.S. One-Times	29.6
Rainy Day Fund (Measure B)	0.5
Administration	0.2
Total Uses	**56.9**
Net Surplus/(Shortfall)	**0.0**

About half of Measure A funds support operations and the other half is used for one-time purposes, usually roads, buildings, playgrounds and other facilities. The 50-50 split in uses between operations and one-time expenditures is because half of the measure A one-percent tax ends at the end of 2022 and are considered one-time funds. The other half of the Measure A tax sunsets at the end of 2027, but that is a long enough time period that those tax funds are considered ongoing and available to use for operations. Measure A is fully planned out for the entire life of the tax. The full plan has been reviewed by the City Council and the Citizens Advisory Commission on Measure A and has been incorporated into the FY 19 budget. Table 5 below shows a summary of the plan.

Table 5: Measure A – Long-Term Plan Per FY 19 Adopted Budget

	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25	FY 26	FY 27
Revenues	38.9	53.1	54.5	54.8	55.0	55.3	33.7	27.9	28.1	28.2	5.9
Exp Current Year Revenue	35.6	52.1	56.9	52.0	47.4	55.6	45.8	27.9	28.2	28.2	0.1
Annual Surplus/(Shortfall)	3.3	1.0	(2.4)	2.8	7.6	(0.2)	(12.1)	0.0	(0.1)	0.0	5.9
Cumulative Surplus/(Shortfall)	3.3	4.3	2.0	4.8	12.4	12.1	0.1	0.1	(0.0)	(0.0)	5.9
Detail of Expenses											
On-Going (Structural) Uses											
Maintain Existing Services	3.2	8.3	19.3	19.5	19.6	19.7	20.1	20.3	20.4	20.6	
New or Restored Services	5.3	6.4	7.2	7.2	7.2	7.2	7.2	7.2	7.2	7.2	
Total - On-Going Uses	**8.5**	**14.6**	**26.5**	**26.6**	**26.8**	**26.9**	**27.3**	**27.5**	**27.6**	**27.7**	**0.0**
Infrastructure and P.S. One-Times	26.6	36.7	29.6	24.6	19.9	27.9	18.0				
Rainy Day Fund (Measure B)	0.4	0.5	0.5	0.5	0.6	0.6	0.3	0.3	0.3	0.3	0.1
Administration	0.1	0.2	0.2	0.2	0.2	0.2	0.2	0.2	0.3	0.2	
Total Uses	**35.6**	**52.1**	**56.9**	**52.0**	**47.4**	**55.6**	**45.8**	**27.9**	**28.2**	**28.2**	**0.1**

Subsequent to the adoption of the FY 19 budget and the publishing of the full Measure A plan as part of the FY 19 budget document, it is now projected that Measure A will generate an additional $5.2 million a year if the economy stays as strong as it currently is. One-half of that additional annual revenue, $2.6 million, is already included in the budget projection that is currently showing a $2 million shortfall. The other half of the expected additional annual revenue is considered one-time revenue and totals $10.4 million over the period of FY 19 thru FY 22. FY 22 is the last year of the full one percent of Measure A and the last year one-time Measure A revenue will be available. The $10.4 million is currently unallocated and will be allocated in the Measure A plan included in the Proposed FY 20 Budget.

Engine 17 and Six Police Officers

With the FY 19 adopted budget, the Mayor and City Council requested that staff identify revenue sources to allow the restoration of Engine 17 and the addition of Six Police Officers sometime during FY 19. The annual structural cost of Engine 17 is $2.9 million and the annual cost for the Six Police Officers is $1.3 million for a total of $4.2 million a year (in 2019 dollars). The March projection indicates with the addition of these services, the budget shortfall would increase from $2 million to $6 million, a shortfall that would be significantly more difficult to manage. Table 6 below summarizes the impact of that addition.

Table 6: Projected FY 20 Budget Shortfall with Engine 17 and Six Police Officers

($ in millions)	FY 20
FY 20 March projection – shortfall	(2)
Engine 17	(3)
Six Police Officers	(1)
Shortfall with Engine 17 & Six Police Officers	**(6)**

Because the addition of Engine 17 and Six Police Officers would likely require significant service reductions to balance the budget, these additions will not be included in the structural, ongoing part of the Proposed FY 20 budget. Instead, the use of one-time sources is being explored, although there are some significant issues with the use of one-time resources that will need to be recognized and addressed.

The City is applying for a federal SAFER grant that would provide a total of $2.8 million over three years. The City would not be able to reduce firefighter staff over the three years of the grant; this is a potential risk given the projected future budget difficulties. A logical additional source of one-time funding for Engine 17 and Six Police Officers would be the use of unallocated projected Measure A one-time revenue. Approximately $2.7 million of the extra Measure A one-time revenue is needed to complete the funding for public safety radios purchased in 2018, but the remaining extra funds could be used for funding of Engine 17 and Six Police Officers. There are alternative uses for that Measure

A revenue including the likely need to fund cost increases for already planned Measure A projects. Without extra funding, these projects may need to be cut back or funded from alternative sources.

If the City does not receive the SAFER grant, Measure A will be $6.5 million short of providing the needed one-time funds. If the SAFER grant is received, there will still be a funding shortfall of $3.7 million. The balance of any funding shortfall will likely need to come from General Fund end of year surplus, discussed in the following section. Table 7 below shows the annual shortfalls. These annual shortfalls are partially offset by the expected unallocated surplus of Measure A one-time funds of $2.3 million in FY 19.

Table 7: One-Time Funding Shortfall for Engine 17 and Six Police Officers

$ in millions	FY 19	FY 20	FY 21	FY 22	Total
Extra Measure A one-times	2.3	2.5	2.7	2.9	10.4
Fully fund the 2018 public safety radio purchase			(2.7)		(2.7)
Engine 17 and Six Police Officers - operations		(4.2)	(4.3)	(4.4)	(12.9)
Engine 17 and Six Police Officers - start-up costs		(1.3)			(1.3)
Measure A shortfall	**2.3**	**3.0**	**4.3**	**1.5**	**6.5**
Potential SAFER grant	0	1.	1.2	0.4	2.8
Measure A and SAFER grant shortfall	**2.3**	**(1.8)**	**(3.1)**	**(1.1)**	**(3.7)**

Generally, using one-time funds for on-going operational purposes is not considered a good financial practice and is a violation of City Council policy. However, there is an exception in City Council policy that allows one-time funds to be used to transition operations to a permanent funding source. If there is a known and certain structural funding source available in the near future, there would not be a violation of City Council policy. As a result, the City Manager is comfortable including Engine 17 and the Six Police Officers in the one-time budget, if one-time funding is available and if there is a clear source of structural funding when the one-time funding ends. The use of one-times to add new services may not be favorably viewed by the bond rating agencies.

One-Time Funding Needs and Funds

The City is anticipated to have a number of high-priority general purpose one-time funding needs that cannot be funded with dedicated funds such as transportation, Tidelands or enterprise funding. Normally, general purpose one-time funding comes from General Fund end of year surplus and oil revenue surplus. The first projection of any potential FY 19 surplus will be included the Proposed FY 20 Budget. Last year's (FY 18) surplus was $2.3 million. Potential one-time needs include:

- One-time funding for structural costs related to the start-up of the Community Hospital
- One-time funding for structural costs of Engine 17 and Six Police Officers

- Labor agreements costs (potential one-time or structural costs)
- FY 20 Police Academy costs
- Capital needs (many)
- Potential LB COAST costs
- Potential election costs
- Council District Priorities (Divide by Nine)
- Existing one-time operations, e.g., Sunday library hours, Be SAFE, Language Access program, etc.

One-time needs are likely to exceed any FY 19 year-end surplus. In addition, final surplus amount will not be officially determined until February 2020. Appropriation of one-time funding may need to be done using an appropriation contingent on determination that the surplus exists. If end-of-year surplus is not available, one-time funding could be done using emergency or operating reserves, but such use would potentially be a violation of City Council policy and a significant issue to the rating agencies.

FY 20 Budget Development

Budget guidelines have been developed based on the March projection and Staff's understanding that Engine 17 and Six Police Officers are key Mayor and City Council priorities and that the City Council wishes to maintain services as much as possible in FY 20. These guidelines focus on key immediate goals of City Council and may not be completely consistent with City Council policies or be well accepted by the rating agencies. Nonetheless, the Proposed FY 20 Budget will provide the best options to both maintain services and to add Engine 17 and Six Police Officers. The potential City Council policy and rating agency concerns may be alleviated and resolved with the FY 21 budget, although it is possible that service reductions may be necessary either in FY 21 and/or FY 22 to resolve the issues, if other solutions are not available. A continued strong economy and strong development activity will help, along with the continued restraint of the City Council in adding new services and initiatives. The following are the key Proposed FY 20 Budget development guidelines.

- An increase in parking fines and ambulance fees will be used to balance the budget
  - *These increases have been reviewed with the City Council previously and continue to be an important component of having a balanced budget.*
- Adds that are not mandatory or essential will be minimized
  - *Adds will be minimized to allow the budget to be balanced with minimal or no service reductions.*
- One-time items will be minimized, unless it is clear one-time funds are available
  - *May need to be contingent upon one-time funding being available*

- Engine 17 and the Six Police Officers will be included in one-time funding if one-time funds are available and if a long-term structural solution is identified.
  - *If a certain long-term structural solution exists, one-time funding is then a transition to permanent funding, and is specifically contemplated in City Council's financial policies*
  - *Structural funding is not expected to be available in FY 20*

- No structural funding for labor agreements
  - *Labor Agreement costs are unknown and incorporating any provision for these potential costs would result in service reductions.*
  - *This approach is consistent with past City practice, although it is not a fiscally conservative approach and could lead to future service reductions.*