City of Long Beach
Working Together to Serve

Memorandum

Date: March 7, 2018

To: Patrick H. West, City Manager

From: John Gross, Director of Financial Management

For: Mayor and Members of the City Council

Subject: **FY 19 Budget Projection Update**

At the February 6, 2018 City Council Study Session, the Budget Office provided an updated, but still preliminary, budget projection for FY 19. The projection showed an initial budget shortfall that was solved by incorporating $11.3 million of potential balancing actions with minimal impact on services. This memo provides an updated projection that requires $11.6 million of potential balancing actions, a small increase from the February 6, 2018 projection. The Budget Office remains optimistic that the City can solve the FY 19 shortfall with minimal impact on services, assuming no further changes in the projections and that departments absorb any new cost increases identified and requested. The projection also assumes there is no additional budget impact due to the water and sewer utility litigation.

General Fund Projection

Table 1 below summarizes the revenue and expense changes since the FY 19 budget projection that was provided with the FY 18 proposed budget. It also shows a zero deficit after balancing actions of $11.6 million are taken. This $11.6 million of proposed balancing actions include a number of revenue enhancements, so only about $3.2 million is expected to be required as reductions by departments. The hope is that departments can make most of these reductions with minimal service impacts. It is important to note that if the City needs to include the impacts of the recent water and sewer utility litigation settlement, $8.3 million of additional balancing actions will be required.

Table 1: Updated Shortfall Projection for FY 19

	$ in Millions
Original Projection (in FY 18 Budget)	(10.4)
Revenue Changes	4.1
Expense Changes	(5.3)
Potential Balancing Actions	11.6
Revised Shortfall	**(0.0)**

The primary causes of the overall shortfall are slow revenue growth and pension cost increases. These are the same budget issues faced by many California cities and are likely to continue. Revenues continue to increase but at a pace that is slower than growing expenses, largely due to rising pension costs.

Compared to the original projections, revenues have increased due to improved sales tax revenues, property tax revenues, and revenues for services provided to external agencies. Expenses are higher than originally projected due to natural growth in personnel costs and funding for critical needs and liabilities, including the ongoing operating and maintenance cost of projects previously approved by the City Council.

These projections assume no change in service levels, no major changes in the cost of providing services, and that the economy will continue to be good. Oil is assumed to be at $50 per barrel.

FY 19 Budget Process Update

In December, departments started preliminary work on the budget. Departments are focusing on identifying budget adjustments that will reduce spending but will have minimal impact on services. They are also working on reductions that may be necessary if the budget needs to incorporate the impact of the recent water litigation settlement, or, if for other reasons, balancing actions are not adequate.

Official budget reduction target amounts for departments will be released on March 7, 2018, which is the beginning of the formal budget process. The targets requested will be large enough to provide a balanced budget, even if the City needs to include the impacts of the water utility litigation settlement in the budget. It is staff's goal that if the proposed Charter amendment ballot question is included on the ballot in June and it passes, the proposed budget will not need to include the bulk of the budget reductions, and have minimal or no significant service impacts.

The process of developing the proposed budget will include two budget options. Budget A will assume no water litigation impact and aim to have minimal or no adverse service impacts. Budget B will balance the budget taking into account the water litigation impact and will likely have significant service reductions. The applicable budget option will be determined based on whether the Charter Amendment is put on the ballot and whether it passes.

Measure A

Measure A revenues were higher than originally anticipated in FY 17 (last year), and are expected to be higher than originally anticipated in both FY 18 and FY 19. The higher revenues are a component of the FY 19 budget balancing actions that will help avoid service reductions in FY 19. Consistent with the stated intent for use of Measure A funds, the projection assumes Measure A funds will continue to be used for maintaining and restoring public safety services and infrastructure, and not for wage increases. Measure A is a new type of tax with a relatively small historical collection pattern, which makes it difficult to project. Staff continues to closely monitor the revenue collections and will update the revenue projection with the release of the proposed budget in August.

Other Funds

Based on the current projection for oil revenue at $50 a barrel, the net transfer (after oil-related costs) to the General Fund from the Uplands Oil Fund is anticipated to decrease by $0.6 million from the FY 18 Adopted Budget. In the Tidelands Funds, the net transfer is anticipated to decrease by $0.5 million. Reductions in both funds are due to increased oil-related costs, including the increased reserves necessary to meet oil well abandonment reserve obligations. Other funds are generally within expectations.

An updated final projection for FY 19 will be included with the FY 19 proposed budget and the budget will be balanced to that projection.

If you have questions regarding any of this information, please feel free to contact John Gross at 570-6427.

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