CITY OF LONG BEACH

Preliminary General Fund Outlook

DECEMBER 19, 2017

Outline

- Budget Background
- Status of FY 17, FY 18, and Factors Impacting FY 19
- FY 19 Preliminary Projection
- Potential Budget Balancing Actions
- Impact of Litigation
- Potential Solution to Litigation
- FY 20 and FY 21 Potential Status and Future Considerations
- Budget Management Approach, Recommendations, and Next Steps

A Brief Budget Background

2001
- Reduction in the Utility Tax rate
- Return of pension costs and higher benefits
- Economic slowdown

2008
- Housing bubble burst
- Major recession

2012
- RDA dissolution
- City employees voluntarily making additional pension contributions
- High price of oil

A Brief Budget Background

2015 / 2016

- Oil revenue price drops
- Revenue capacity used to maintain services

2017 / 2018

- Measure A provides new ongoing and one-time revenue for public safety and infrastructure

2019 / 2020

- *Pension costs driving expenses higher*
- *Litigation, resulting in reduced revenue*
- *Critical needs*

Status of FY 17 and FY 18

FY 17

- A relatively small surplus is anticipated
- Measure A is on track
- Funding likely available for FY 18 contingent appropriations

FY 18

- Being monitored closely
- Includes mandatory savings targets
- A budget shortfall seems possible

FY 19 Preliminary Revenues Changes ($0.8 m)

- Property Tax – property turnover and ongoing recession catch-up
- Vehicle License Fee – in lieu – higher based on property tax
- Ambulance Revenue – higher based on recent state law and trends
- Transient Occupancy Taxes – growth lower than originally projected
- Sales Tax – growth lower than originally projected
- UUT – electricity and phone tax revenue trending lower than originally projected
- ? Uplands Oil Revenue – increased price per barrel, but increased abandonment costs
- ? Medical Marijuana – slow pace of business openings

FY 19 Preliminary Expense Changes (-$4 m)

- Health care cost savings – less costly plan and usage savings
- Pension costs – slightly higher than previous projection
- Fleet costs – replacement vehicles are more costly
- Critical technology infrastructure – need to invest immediately to prevent service impacts and minimize costs
- Storm water permit costs – structurally fund these ongoing costs, currently budgeted as one-time
- ? Medical Marijuana – level of enforcement required

FY 19 Potential Balancing Actions ($6.3 m)

- Staff is developing various budget balancing actions; some will require explicit City Council action
- Examples of actions that involve explicit City Council actions
  - Modifying use of structural Measure A funds for public safety
  - Ambulance fee increases
  - Fine increases
  - Parking revenue increases
  - Marijuana tax rate increase
  - Revenue from Airbnb, et al
- Currently projected at $6.3 m, but amount may change significantly, and some actions involve difficult City Council decisions

Significant Uncertainties

?
- Uncertain revenue patterns - not enough months to establish patterns
- Expenses may change – unexpected events can impact expenses
- Medical Marijuana – pace of business openings, level of legal sales, and level of enforcement required
- Measure A – different tax base and pattern not yet clearly established
- Oil prices and costs – price of oil versus costs of production and exploration
- Economic Development – impact on near term revenues

FY 19 Preliminary Projection

$ in Millions	FY 19
Shortfall projection	
Original projection	(10.4)
Revenue changes	0.8
Expense changes	(4.0)
Potential Budget Balancing Actions	6.3
Revised shortfall	**(7.3)**

This projection is extremely preliminary, solely for initial planning, and will change, potentially significantly

FY 19 Preliminary Shortfall with Balancing Actions

- Budget Balancing actions, currently projected at $6.3 m, are not enough to balance the budget
- The remaining $7.3 m shortfall would likely need to be addressed through department reductions
- Unfortunately, recent litigation increased the shortfall

New Litigation Has A Major Impact (-$8.3 m)

Water and Sewer pipeline fee litigation

- Impacts long-term historical revenues that pay for City services
- $8.3 m annual impact due to loss of revenue and retroactive repayment
- Results in $3/month reduction in the average utility bill, but with significant service reductions

? Gas Fund transfer litigation

- The City has won, but the decision is being appealed. If City loses, could also have a significant adverse impact

Impact of Litigation on Shortfall

$ in Millions	FY 19
Revised Shortfall with Balancing Actions	**(7.3)**
Impact of Litigation	(8.3)
Revised Shortfall after Litigation Impacts	**(15.6)**

- With litigation impact, shortfall increases to $15.6 m, to be addressed through additional department reductions
- There is a potential solution to mitigate the litigation impact

Potential Solution to Address Litigation ($8.3 m)

- Voters could allow City to maintain the Water/Sewer revenue with NO additional historical costs through a Charter amendment. This action could:
  - Restore the previous status quo of utility rates and City services
  - Prevent service reductions caused by litigation
- A successful Charter amendment would eliminate the $8.3 m in additional department reductions
- Other ballot measure options to further minimize department reductions could be explored

FY 19 Shortfall With Successful Charter Amendment

$ in Millions	FY 19
Revised shortfall with Litigation Impact	**(15.6)**
Charter Amendment	8.3
New Revised Shortfall with Successful Charter Amendment	**(7.3)**

- FY 19 shortfall estimated at $7.3 m or $15.6 m depending on successful Charter amendment
- Shortfall amount also depends on the level of balancing actions that City Council adopts

This projection is extremely preliminary and will change

FY 20 - FY 21 Preliminary Projection

- FY 20 and FY 21 also facing shortfalls driven by pension costs and comparatively low revenue growth
- FY 20 shortfall appears to be in the $12 m to $16 m range
- FY 21 shortfall narrows to a $5 m to $7 m range
- Both FY 20 and FY 21 assume a 2% cost of living increase of $6 m each year
- Budget balancing solutions for FY 19 should take into account the likely continuing shortfall issues

Future Considerations

- Economic growth is part of the long-term solution, but is not going to resolve the short-term problem
- Economy assumed to continue to be good, but not certain
- Revenues can significantly change and are difficult to project such as Measure A and Marijuana taxes
- Although unlikely, outstanding Gas Fund transfer litigation could have a major negative impact
- Caution is warranted with any use of reserves. Rating agencies likely to take notice of the already significant decrease in spendable reserves
- Federal and State actions may have significant impacts

Budget Management Approach

- FY 18 – Evaluate potential additional actions as FY 18 and FY 19 budget statuses are updated
  - Have already implemented departmental savings targets and ongoing review of hiring actions
- FY 19 – Continue to update budget projections; develop balancing actions
  - Work has begun to identify potential reductions, if needed
- Staff will work on development of a long-term financial plan, including long-term financial projections, consistent with City Council's financial policies
- Staff recommends City Council consider Charter amendment solution to address litigation

Next Steps

- Consider City Council comments in further developing budget balancing actions and solutions
- Continue to explore revenue and expense solutions (budget actions)
- Update projections – will change, perhaps significantly
- Work with departments on potential budget reductions
- Provide FY 17 year-end status report in early February
- Provide updated projections and budget strategy on March 6, 2018 (formal start of the FY 19 budget process)

CITY OF LONG BEACH

Questions and Discussion

FM