July 3, 2017

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

SUBJECT: Fiscal Year 2018 Proposed Budget

Long Beach is on a roll. We are in the middle of building a new $525 million Civic Center. We are building our second world-class library, in the span of two years. We are constructing a new $1.5 billion Gerald Desmond bridge through our Harbor Department. We are experiencing $2.5 billion in private investment stemming from development of our old redevelopment agency parcels. On top of that, we have been named the most walkable city on the West Coast, one of the most bicycle friendly cities in the nation, a top 10 digital city, a leader in climate change study, have an award-winning Long Beach College Promise, and the lowest unemployment rate in more than 25 years. Long Beach truly is a great city to live, work, play and obtain an education.

The FY 18 General Fund Budget contains strategic investments in several key focus areas for the City and is structurally balanced to fund critical services to our community. Thanks to residents of Long Beach for making the historic choice to invest in our community through the passage of Measure A (sales tax, 2016), this budget is the second year of continued investment towards public safety and infrastructure. Measure A has been essential in allowing the City to maintain and enhance public safety services including reestablishing Engine 8, Rescue 12, Police South Division, and full Police Academy operations. In FY 17, Measure A supported an additional $25 million of infrastructure improvements in streets, public facilities and parks.

In addition to the City's priorities in public safety and infrastructure, there are a number of exciting investments happening in other strategic focus areas. This budget invests in mobility improvements, such as the formation of a Transportation Mobility Bureau, additional staffing for mobility initiatives including transit and biking, an addition of a pothole crew, and focuses on addressing the City's ADA requirements. Our focus on homelessness continues by using expected funding from Measure MA (marijuana tax, 2016) to sustain homelessness items previously funded with one-time resources, such as the HEART team and Quality of Life teams, as well as maintaining current spending on homelessness. This budget focuses on improving cleanliness through the addition of two more Clean Teams and a focus on recycling and waste diversion. We will continue to invest in economic development to further increase our efforts to attract new businesses and retain our current businesses, and increased staffing in our Development Services Department to support the boom of development we are currently experiencing. This budget also invests in livability, culture and arts, and tourism through the support of our City partners.

Furthermore, our investment in innovation and efficiency will continue through the efforts of a locally funded Innovation Team, as they complete their work on public safety and move on to other important city initiatives as the three-year $3 million Bloomberg grant wraps up its final year. Departments have several new initiatives in this budget, including developing a single phone number system for the City, as well as new digital platforms to help improve the hiring process, respond to Public Records Act (PRA) requests, and manage the City's properties. We are continuing to invest in geographic information system (GIS) based open data enhancements, website improvements, new fiber installation, updating outdated cameras and many more technology investments, as we continue to be a local government leader in the area of technology and innovation.

Like other cities in California, despite new revenue streams, Long Beach is not immune from financial challenges, in particular funding prior pension obligations. Additionally, while we are funding many exciting initiatives through this budget, there still remains many high priority needs that are left unfunded. We must continue to prepare for the challenges that face us. Therefore, we are developing plans to address these challenges using strong financial management systems, which are highlighted below.

ENHANCE PUBLIC SAFETY

Public safety is Long Beach's highest priority. Consistent with City Council's policy direction on the use of Measure A funds, Measure A continues to fund the reestablishment of the South Police Division with eight sworn police positions and two civilian positions and to fund Fire Engine 8, which includes 12 sworn fire positions. Pursuant to City Council action during mid-year FY 17, Measure A also funds the full reinstatement of Police Academy operations with nine sworn police positions and Paramedic Rescue 12, which includes 6 sworn fire positions. Using Measure A, we were able to fund the Police and Fire Chief's top two priorities for restorations. In addition, Measure A is being used to maintain existing Police and Fire services, which saves the equivalent of 108 sworn positions through FY 20.

This budget also includes other public safety investments using Measure A. For Police, Measure A is being used to fund a $1.0 million Neighborhood Safe Streets Initiative, which uses community policing strategies to impact violent and property crime trends in the City's neighborhoods and corridors. Measure A is also being used at a level of $4.3 million to support the fourth back-to-back Police Academy with a maximized number of recruits, which is expected to result in significant additional officers over authorized strength levels in FY 18. Lastly, Measure A funds $750,000 for safety camera network modernization and expansion.

This budget also contains the addition of 28 full-time equivalent (FTE) for Metro Blue Line enforcement. For the first time, the City of Long Beach will be responsible for patrolling the Blue Line, which will offer better service to customers and enhanced crime prevention and coordination with other policing efforts. These positions are funded through a contract with Metro, which started in July 2017. The budget also includes improvements in the Police's public affairs function with a realignment of a sergeant position to two Public Affairs assistants who will assist with media outreach and response.

For the Fire Department, a fire recruit class is funded. Measure MA revenues are being used to structurally fund two additional sworn firefighter/paramedic positions to permanently staff the HEART Team, which was created as a one-time pilot in FY 17. Additionally, two firefighter/investigators are added to conduct marijuana inspections and assist with team-based marijuana enforcement. Lastly, strengthening the Fire Department's leadership team, a Battalion Chief is being added to handle Emergency Medical Services oversight, facility management and special events, and a Battalion Chief will be upgraded to an Assistant Fire Chief to handle the management of high profile community programs and oversight of the Port of Long Beach operations. These positions are offset by revenue from an ambulance fee increase, which is made to partially close the gap between Long Beach and that of the ambulance charges by LA County. Ambulance revenues only partially cover the costs of providing EMS services and the proposed revenue increase helps to cover more of these costs.

Overall, public safety remains at lower than 70 percent of the General Fund departmental budget.

INVESTMENT IN PUBLIC INFRASTRUCTURE

Historically, the City has not had a dedicated source to fund most of our general infrastructure before the passage of Measure A. In the past, the City relied on State and federal funds and one-time infusions such as the dissolution of the Redevelopment Agency (RDA) to provide funding for investing in the City's infrastructure. The passage of Measure A allows the City to make an investment of $26.3 million in FY 18 to address the City's aging and deteriorating infrastructure. These funds will supplement the City's Capital Improvement Program (CIP) of $69.3 million for FY 18 from all other sources, for a total of $95.5 million. In FY 18, the focus will include streets, alleys, sidewalks/curbs, parks, libraries, utilities and various facilities citywide. The Capital Improvement Program section of this document provides the full list of planned projects. The following section highlights infrastructure initiatives that will be undertaken in FY 18:

Mobility. The Mobility budget includes a total of $46.9 million in new funding, one of the highest levels of investment in the past several years. Measure A funds total $14.3 million in this category. In addition to Measure A, Mobility also receives local and state funding totaling $32.6 million for major and secondary streets, residential street repair, sidewalks, bridge rehabilitation, bicycle and pedestrian upgrades and related improvements provided in the FY 18 Capital Budget. This is a substantial increase in available transportation dollars, thanks to support from voters from the passage of Measure M, the countywide half-cent sales tax increase for transportation, and the passage of SB 1 Gas Tax increase by the State Legislature. This historic level of investment in our streets is already paying off, the City's Pavement Condition Index (PCI) has increased from 60 to 62, in just two years. We expect this investment in our streets to continue to raise the PCI as the City maintains our street network and invests in rehabilitation through a data-based approach using the Pavement Management Plan. Planned improvements include:

- $18 million for arterial street improvements in highly traveled corridors in the City.
- $14.5 million for residential street repair, including $2.7 million of Measure A funds to finish the remainder of the preventative maintenance that started in FY 17, and will result in a slurry seal for every eligible residential City street by the end of FY 18.
- $6.2 million to invest in our sidewalk mobility, for curb cuts and other sidewalk repairs to ensure ADA compliance.
- $300,000 for bridge maintenance and repairs.
- $3.3 million for sustainable transportation programs, including the design, construction, implementation of projects and programs to enhance the safety and viability of bicycle and pedestrian routes.
- $1.3 million for traffic management related improvements, including the installation of traffic calming devices, traffic management system implementation, traffic signal synchronization, traffic signage replacement and traffic signal modifications at various intersections throughout the City.
- $1.4 million for improvements to bus stops, citywide.
- $210,500 continued investment in smart street light technology.
- Lastly, $1.8 million has been allocated to begin the efforts to improve our alleys, the first dedicated funds for alley improvement, based on the results of the City's first Alley Management Plan.

Public Facilities. The Public Facilities budget totals $11.3 million in new funding. The City's public facilities, including fire stations, police facilities, health facilities, libraries, and the Convention Center will receive a combined $4.3 million in new Measure A funding, including improvements to:

- Fire Stations 7, 10, 17, and the fire training center.
- Police Academy building and Emergency Operations Center.
- Three library branches, including a roof repair.

- Main Health building
- Convention Center facility
- Stearns Park Community Center roof
- An additional, $200,000 has been allocated to fund a portion of a Facility Condition Assessment, which is the equivalent of a pavement management plan for buildings. This plan will start the process to provide a comprehensive list of the City's facility needs.

Non-Measure A funds totaling $7 million have been provided for improvements to the Civic Center, the Convention Center, energy efficient facility enhancements, general city building infrastructure improvements, and restorations to the Queen Mary.

Parks & Recreation. Parks & Recreation budget totals $6.8 million in new funding. This budget proposes $6.1 million in new Measure A funds, of which $4 million is for partial funding to improve the 90 year-old Houghton Park Community Center. Other Measure A funded improvements include:

- Improvements and repairs to 4th Street Senior Center and three athletic fields
- Both Rancho Los Alamitos and Rancho Los Cerritos will receive $500,000 each to continue their improvement plans for these historic sites
- Continued implementation of critical citywide irrigation upgrades, converting our current manual irrigation system to an electronically controlled system, saving significant amount of staff time and providing better control and data for making irrigation decisions in our parks

Non-Measure A funds have been provided for a sustainability capital project at Willow Springs park, continued development of the second phase of Davenport Park, and the continued upgrades of park bike paths.

Beaches & Waterways. The Beaches & Waterways budget includes a total of $1.1 million in reprogrammed funding from projects that were completed this year. This funding is for improvements to the Granada Parking Lot, funding the remaining amount to upgrade the Bayshore lifeguard station, and setting aside funding for critical infrastructure needs. In addition, $400,000 of reprogrammed funds is being allocated to Convention Center infrastructure improvements listed in the Public Facilities section.

Utilities. The Utilities budget includes a total of $27.4 million in funding for improvements to Long Beach's utility infrastructure. Of this amount, $1.6 million in Measure A funding is proposed to improve and repair the city's stormwater pump stations. The remaining $25.7 million is comprised of funding from the City's Gas, Water and Sewer funds, in addition to other State and local funding. These funds are proposed to support repairs and improvements to the City's water, sewer, gas, and stormwater systems.

A full listing of the proposed uses of Measure A, including the list of FY 18 Measure A projects, is included as Attachment A to the Executive Summary and is also detailed in the City Ballot Measures chapter of the document. Detailed information for all proposed CIP projects, including Airport and Harbor projects, is available in the FY 18 Proposed Capital Improvement Program (CIP) chapter.

OTHER BUDGET FOCUS AREAS

Measure A has allowed the City to invest in infrastructure and support public safety as described above. In addition to using the General Fund, Measure MA, and other sources, this budget also includes funding to make strategic investments in a variety of focus area, including the following:

Street and Mobility Improvements. This budget provides for increased capacity to support a variety of mobility initiatives, including an organizational structure that better supports the work the City is doing to improve mobility for all residents. The budget includes the creation of a new Transportation Mobility Bureau within the Department of Public Works, led by the City's Traffic Engineer. Two new positions have been added to support the City's community bike share program and Los Angeles Metro initiatives including improvements to stops along the Blue Line. Additionally, the City is adding one new pothole crew, which will supplement the City's two existing pothole crews and enhance the City's response to pothole requests.

Focus on Addressing Homelessness. Homelessness is one of the key issues facing the nation today, and Long Beach invests considerable resources towards addressing homelessness. Long Beach has one of the most robust programs in the county, and recent data shows that homelessness decreased by 21 percent in 2017, while the County saw an increase of 23 percent. Currently, the City is spending approximately $10 million on addressing homelessness provided by a variety of Federal, State, and County grants, in addition to City funding. These funds are providing permanent supportive housing, transitional housing, rapid rehousing, homeless Veteran specific services, Multi-Service Center (MSC) support, along with grants and program administration. In addition, the City funded homelessness rapid response using one-time General Fund and Prop H sources. This budget continues the City's baseline services and also uses $1.4 million of Measure MA to structurally fund homeless rapid response activities, such as the City's HEART team and quality of life teams, outreach and engagement teams, homeless rapid response clean-up, and to support existing MSC operations. A full listing of the proposed uses of Measure MA is included in the City Ballot Measures chapter of this document.

Further, the City will receive direct funding from Los Angeles County Measure H funding, which is dedicated to homelessness strategies. More than $1 million in structural funding is available for homeless prevention services, a multidisciplinary outreach team, housing locators and navigators, and an enhanced emergency shelter system. An additional,

$322,000 is available for capital costs for the emergency shelter. In addition to the direct funding from Measure H, the City is anticipated to benefit from approximately $1.2 million in additional Measure H funds to support landlord incentives for Section 8 vouchers, specifically for housing homeless individuals and families, and to also support providers in building capacity for permanent supportive housing. The City will also have access to additional services provided through the County. The FY 18 budget uses Measure H to fund a position in the Health Department who will assist with Measure H and MSC administrative support. The City will also receive outside foundation funding for a second-year Fuse Corps Fellow to be devoted to developing innovative and cost effective solutions for best serving the City's Homeless population.

Clean Team Operations and Funding. As mentioned in previous budgets, after multiple years of identifying and implementing various efficiency measures, the Refuse Fund continues to operate with a structural imbalance. Costs have increased higher than the nominal Consumer Price Index (CPI). The last time a rate increase was received was in 2003. Staff have evaluated strategies to address the structural deficit and are recommending implementing a rate increase initially intended for the FY 17 budget. This rate increase will be the first of a multi-year strategy to reach structural balance for the fund where revenues cover the cost of expenses without drawing down reserves. The average monthly increase for a single-family home is still being determined based on the study, but it is our intent that the fee will be increased over multiple years and Long Beach's refuse rates will still remain lower than comparable full-service cities like Los Angeles, Burbank, Pasadena, Santa Monica, and San Jose. The rate increase will also fully-fund two additional Clean Teams to conduct more proactive beautification efforts and trash clean-up throughout the City. With these teams in place, we have added nearly $1.2 million in structural funding and provided over $450,000 in one-time funds to support our proactive trash efforts. This includes four teams dedicated to daily corridor checks and collection efforts, two positions dedicated to homeless cleanup activities, and seven dedicated vehicles. As well, a new position is also being added to support recycling and waste diversion programs in Public Works.

Focus on Economic Development. Economic development in Long Beach is part of our strategy to continue to grow the revenue base and help balance future budgets. To that end, this budget provides for increased ability to support economic development. The mission of the Economic Development Department (ED) is to provide economic opportunities for workers, investors, and entrepreneurs. To accomplish this mission in FY 18, the Department reorganized its programs and services into three distinct units: Workforce Development, Property Development, and Business Development. The title of the Department was also changed from the Economic and Property Development Department to the Economic Development Department (ED). This new structure reflects the programs ED provides in workforce training, property and real estate development, and small business support; and aligns with the recently adopted Blueprint for Economic Development.

The changes include the addition of two new staff positions funded in FY 18 to expand oversight of the recently approved 66-year lease between the City and Urban Commons for the operation, maintenance, and development of Queen Mary Island, and to proactively manage and maintain City-owned properties. These two new positions are offset by a percentage of revenue generated from the Queen Mary lease agreement and from the sale of City-owned properties. The budget also includes $50,000 in funding for the creation of a digital database for property management, and $50,000 in additional funding for property maintenance. These costs are also offset by additional revenue received in this department.

The Development Services Department is adding a Permit Center Officer in order to minimize the number of times a customer must visit the Permit Center by providing face-to-face feedback through a devoted, long-time construction professional at the Counter, with the aim of reducing customer wait times. Development Services is also adding positions in the Planning Bureau due to higher workload increases from increased development and other development related initiatives. These positions are funded by increased permit revenue from the increased workload, and are critical to our ability to respond to service in a timely manner and enhance our capabilities in zoning, planning, historic preservation, and urban agriculture. The budget also includes $550,000 in one-time Development Services funds for on-call consultants in order to assist with numerous studies, including: Noise Element Study, Open Space Element, Zoning Code Assessment, North Long Beach Uptown Plan, and the Short Term Rental Ordinance.

The City Council recently approved the City's Economic Development Blueprint which was developed by the City's Economic Development Commission, with the assistance of City staff. The purpose of this plan is to advance a 10-year vision of Long Beach as "the city of opportunity for workers, investors, and entrepreneurs" and for the City to coordinate economic activity across City departments and work with its partners to foster investment and development in the City. This plan identified seven focus areas – engines of growth, economic inclusion, jobs and workforce development, business assistance, development environment, quality of life, and economic leadership and cooperation. Work has begun to develop a specific work plan with activities and investments, estimated costs and available financial resources, and a timeline to advance key objectives of the Blueprint.

Investments in Arts and Culture. Last year was again a record year for hotel occupancy taxes. This additional revenue has boosted the Special Advertising and Promotions Fund, and will allow the City to make some strategic investments in this area. First, the budget includes $1 million in one-time funds to implement the first phase of the City's wayfinding signage program. The budget again includes $500,000 in one-time funds to conduct two Beach Streets events in FY 18. These enormously popular events not only improve our livability and bikeability efforts in the City, but also serve as an economic development tool by exposing both Long Beach residents and visitors from the region to our local businesses. The budget also includes $50,000 in one-time funds to support the third Pow! Wow! art mural event. The Long Beach Convention and Visitors Bureau (CVB) will receive an additional $100,000 in ongoing support to enhance its successful efforts to bring needed business to the City's convention center and hotels, as well as promotion of the center and CVB-hosted special events. The Arts Council will receive an additional $50,000 in ongoing support, as well as $50,000 in one-time funds subject to a one-for-one match to assist them with their fundraising efforts. The Long Beach Museum of Art will receive an estimated $75,000 in support to insure the City's reappraised art collection. The actual amount of support will be based on the insurance requirement results of the appraisal that was funded by $200,000 in one-time City support this year. The Museum also received $150,000 is ongoing support in FY 17, which will continue in FY 18. There are also investments in media relations and marketing, which will result in increased capacity for promotion of City activities and assets including two new initiatives designed to highlight local stories and community members living and working in Long Beach. Funds are also included to explore expanding the recently approved One Percent for the Arts program to private development through conducting a nexus study.

Funding City Council Priorities. Over the past few years, the City Council has made programmatic changes and additions, such as the Language Access Plan, the Violence Prevention Plan, the Office of Equity and the Office of Aging. The FY 18 budget recognizes those priorities and provides the following structural or one-time solutions to continue funding them, including:

- *Language Access Plan (LAP) Implementation:* $80,000 in one-time support to continue LAP
- *Be SAFE:* $192,385 in one-time funding and $80,000 in structural funds to continue the current locations of this program. These locations include: King Park, Silverado Park, Admiral Kidd Park, Scherer Park, Houghton Park, Drake Park, Seaside Park, Bixby Park, Ramona Park, Orizaba Park, and Pan American Park
- *Sunday Library Hours:* $268,000 in one-time funds to continue the Sunday library hours pilot at the existing four libraries: Michelle Obama Library, Bay Shore Library, Burnett Library, and El Dorado Library
- *Municipal Band:* $66,000 for the Municipal Band, which is anticipated to fund a full six-week season, when paired with other funding sources, including $85,000 from fundraising efforts
- *Animal Care Services:* Includes two new positions to conduct animal intake and perform more effective and thorough outreach for rehoming and adoption services
- *Office of Aging:* $110,000 in one-time funding for a position in order to leverage grant funding to establish this office. Structural funding from grant or city resources will be needed in future years
- *Office of Equity:* Includes one grant funded position. Structural funding from grant or city resources will be needed in future years.

Funding Our Current and Future Commitments. The budget continues to fund a labor compliance function to include oversight of the City's labor contract compliance, including compliance for City contracts for Section 3, prevailing wage, and Project Labor Agreements (PLA). One-time resources from FY 17 are being used for a three-year proactive education and information program for minimum wage. The budget also includes an added position for the Labor Relations Bureau in the Human Resource Department to increase capacity to respond to labor-related requests and issues as they occur. The budget also includes one-time General Fund and Tidelands funds necessary to comply with federal permit requirements for water quality. For medical marijuana enforcement, the budget includes a total of $3.7 million to implement and enforce the voter driven medical marijuana ballot initiative. These costs were originally identified and discussed in the medical marijuana initiative analysis released last year, with costs ranging up to $18 million. However, the $3.7 million represents a lean enforcement approach in order to keep costs down. This enforcement approach will be evaluated as businesses open in order to determine its effectiveness. The budgeted expenses are fully supported by anticipated revenues from Measure MA. A full listing of the proposed uses of Measure MA is included in the City Ballot Measures chapter of this document.

Lastly, the budget adheres to the City Council policy of setting aside 5 percent of one-time revenue to fund unfunded liabilities. This 5 percent will be calculated and reserved when FY 17 is closed out, if there is a year-end surplus. It will then be incorporated as a budget adjustment for FY 18.

Investments in Technology. The budget includes some large investments in technology, including updating end-of-life systems and increased resources to support Mayor and Council initiatives, using General Service funds. This includes $400,000 for fiber expansion in combination with existing trenching, and $800,000 for an upgrade to the City's phone system, including 911 Automatic Location Identifier, physical phones, and a single phone number system for the City. The budget also includes $100,000 for enhanced maintenance of the Geo HUB open data sharing platform and $150,000 in one-time funds for website upgrades.

Innovation and Efficiencies. In February 2015, the City accepted a $3 million, three-year, Bloomberg Philanthropies Innovation Team grant designed to improve the capacity of City Halls to effectively design and implement new approaches that improve the lives of residents. The grant provides cities with dedicated in-house Innovation Team (i-team) members to identify and design solutions to pressing issues. For the first two years, the i-team focused on economic development and accomplished several initiatives including implementation of technology tools to facilitate development, such as: Bizport, Inspector Gadget, the Citymart partnership, continued work on initiatives including the establishment of innovation hubs, spaces for networking, education and business support resources. In FY 17, the i-team shifted to a public safety focus, in order to develop solutions to reduce crime and better connect high frequency offenders to all services available in the Public Safety Continuum. As the grant expires at the end of December

2017, the FY 18 budget provides for continued funding of a reorganized i-team made up of an Innovation Team Director, Mayor's Innovation Deputy, a Deputy Director, and a data scientist. The restructured i-team will be available to assist departments to develop new approaches to high priority issues. Identifying sustainable funding for the i-team in FY 19 and beyond will be a focus in FY 18.

The City continues to look to improve its service delivery to residents. This budget makes several investments throughout the organization to improve service delivery and become more efficient and innovative. Several of these changes are described below:

- In FY 18, the City will again engage FUSE Corps, which is a nonpartisan, nonprofit organization that enables local government to more effectively address the biggest challenges facing urban communities. FUSE partners with civic leaders to identify pressing strategic challenges and then recruit's entrepreneurial, mid-career professionals to serve in executive-level fellowships across local government. In FY 18, three FUSE Fellows will assist with the following three projects:
    - One will work with the Health Department on the City's homelessness initiative, as described earlier.
    - One will work with Human Resources and Civil Service to review the City's hiring policies and practices to make recommendations to improve efficiency and effectiveness.
    - And one FUSE Fellow will develop a strategic plan for senior services in the City.
- In addition to the FUSE Fellow for Human Resources, the budget includes other investments in Civil Service to improve the speed of filling critical city positions. This includes $50,000 for an on-line employment assessment system to streamline hiring processes, and an additional position to support recruitment and hiring, particularly related to Police and Fire recruitment and academies, which will help with overall efforts to more quickly establish eligible and qualified employees for Departments to hire from.
- Parks, Recreation and Marine (PRM) is conducting a $44,000 youth and a $44,000 adult sports tournament pilot programs in order to provide an added service and generate revenues to support the full cost of the program. Further, using Tidelands Funds, PRM is also conducting a $350,000 pilot beach re-nourishment program, which involves using a hydraulic pumping program rather than heavy vehicles to renourish the beach and protect public and private property.
- PRM is also implementing various staffing efficiency changes. There is an increasing need to have increased staff ratios at our after school sites. More and more, our limited site staff, who are trying to supervise and run the programs, are often having to deal with other outside influences on the park

sites, taking them away from the supervision of the participants. We are proposing to re-allocate staff resources from some of our sites that have traditionally struggled with participation to our Regional Parks and other facilities that are open for longer hours, have larger participation and offer a full array of programs to the community. Average attendance at these sites ranges from 35-50 participants. The new model is to eliminate current programs at parks where daily attendance has been very low, less than 10 participants per day, year-round, and reallocate those staff to current programs that require additional staffing to safely manage current programming.

- There will be an effort to examine the City's project management functions in both Public Works and PRM and undertake a review on how best to streamline and consolidate project management functions with a goal of improving project delivery and coordination between the two departments.
- The City Manager's Office is investing $50,000 in a new online public records management system, which will improvement efficiency and reduce staff time in compiling public records requests.
- Additional examples of the City's innovations and efficiencies are detailed in the Innovation and Efficiencies chapter of this document.

Unfunded High Priority Needs. It is important to note that while this is a strong budget funding many exciting initiatives, there still remains high priority needs that have been left unfunded. Some of the most immediate unfunded needs include:

- The City's budget for watering our parks and medians are underfunded by a minimum of $1.2 million. This will likely result in less than desirable maintenance conditions, and Parks will continue to use best management practices to water and maintain the most high-demand and priority areas.
- There remains unrepaired damage to buildings from the recent storm and deferred maintenance totaling almost $5 million, which may result in future water damage.
- There are many stormwater protection projects requiring upgrades, totaling nearly $10 million.
- We need critical technology system upgrades for basic systems like modernizing network devices, routers, switches and hubs, which are obsolete and no longer supported by the manufacturer totaling $4 million--just to replace what we currently have.
- We have continued needs for Park tree and grass median removal and replacement, starting at $500,000 annually.

- Additionally, there is a significant backlog of maintenance, capital improvement and technology projects as identified in the Infrastructure Investment Plan that require funding over the long term.

If any additional revenues are identified through the FY 18 Budget development process, or during the fiscal year, we strongly recommend that this lists of high priority, but currently unfunded needs, be reviewed and prioritized for additional funding.

BUDGET CHALLENGES AND STRONG FINANCIAL MANAGEMENT

Despite the funding sources and opportunities to advance the City in FY 18, it was challenging to structurally balance the budget even with a good economy and additional revenue. The difficulty was the result of a combination of sharply higher pension costs, employee negotiations, and general cost increases, all happening at the same time as a softening of revenue growth.

Measure A was invaluable in FY 17 to maintain and enhance public safety services. It will remain invaluable in the future. However, for FY 18 and beyond, the ongoing component of Measure A (the half that does not end in six years) is not enough to pay for the cost of the increases in public safety costs, even when excluding any salary increases. Additionally, Measure A does not support non-public safety operations. Because the increases in the cost of public safety will be paid in part by using non-Measure A funds, there is less money than might be expected to support non-public safety services.

The FY 18 budget is structurally balanced and future budgets are also expected to be balanced. However, achieving balance for the FY 19 and FY 20 budgets is likely to be very challenging. Serious intrinsic budgetary challenges continue to exist and some new issues have come to light. Without other solutions, balancing these future budgets could result in significant impacts to services. Furthermore, there appear to be urgent one-time costs in the next year or so that could also have a significant financial impact. Identifying potential solutions to these budgetary challenges will be a major focus during the year ahead and that work has already begun. The balance of this section provides more detail on the challenges the City faces and its plan to continue using strong financial management.

As part of its financial planning and City Council financial policies, the City annually projects the General Fund financial status three years into the future, assuming no change in service levels. A preliminary projection is provided at the beginning of the budget process and an updated projection is provided when the proposed budget is released. The FY 18 budget is based on the current projection, which indicates that, while the proposed FY 18 budget is balanced, there are significant shortfalls that will need to be addressed over at least the following two years. As shown in the table below, the projected shortfall for FY 19 is $10.4 million and there is an expected shortfall in FY 20 of

$8.7 million. The outlook has changed from prior forecasts due to a variety of factors. Indications are that there may be continued challenges in the future, but they may be moderated by the impact of the economic development that is currently occurring. A recession could have a major negative impact on the projection.

General Fund Surplus / (Shortfall) ($ in Millions)

	FY 18 Projection	FY 19 Projection	FY 20 Projection	Cumulative
As Initially Projected in March 2017*	0.0	(7.7)	(7.0)	(14.7)
Current Projection*	0.1	(10.4)	(8.7)	(19.1)

* This assumes that the shortfalls are structurally solved each year, and any structural surplus is assumed to carry over to help address any structural issues in the following year. The small FY 18 surplus is used for a MMJ related one-time cost.

Balancing Actions to Reach Structural Balance and Other Key Assumptions

The FY 18 General Fund budget initially was projected to have a gap between revenue and expense. In order to structurally balance the budget, a number of budget balancing actions were incorporated into the budget. These actions are consistent with those outlined in the March fiscal outlook.

First, we are using more optimistic revenue budgeting in the projection. This will require an update to our Financial Policies, which currently state that the City uses reasonably conservative revenue projections. The change to reasonably optimistic revenues projections does result in higher ongoing budgeted resources, which will be used to balance the budget, but also results in additional budget risk and less one-times available at year-end. An example of this is with oil revenues where for FY 17 and FY 18, we are assuming $45 for the price of oil, which is at the expected level and will likely result in no or limited one-time resources. For FY 19, additional revenue expected to be generated from a review of General Fund revenue sources is also included in the projection.

On the expenditure side, we are assuming more optimistic insurance budgeting. By budgeting at a lower confidence level, the result is higher ongoing budgeted resources, however, this also increases the risk that costs will come in higher than estimated.

Also, as previously described, the medical marijuana enforcement budget is lean in order to use estimated Measure MA revenues to structurally fund the City's homelessness related expenses.

Eligible expenses have been shifted into eligible funding sources such as the recently passed County Parks Measure A, the SAP fund, and the gas tax. Lastly, savings from natural turnover in filling of positions was included in the budget citywide.

With all of these implemented solutions, and as the City is being less conservative in its assumptions and approaches, the anticipated result is that moving forward, there will be less flexibility and one-time resources at year-end than the City has previously experienced in previous years.

Other key assumptions for the projection are listed below:

- No change in city service levels.
- No change in the limited capital spending from the General Fund.
- Measure A (1 percent sales tax for public safety and infrastructure) and Measure MA (tax on marijuana) come in at expected levels, which is uncertain as they are new revenue sources and a full year of funding will not be known until mid to late FY 18.
- Includes current revenue growth rates and assumes no recession and no factoring of future accelerated economic growth.
- Pay increases follow the existing bargaining agreements, and subsequent to the end of the bargaining agreement time periods, equal the expected general inflation rate.

The last assumption that future pay increases for projection purposes will generally follow inflation is <u>not</u> an indication of what the City may agree to with its bargaining units. Rather, as with many other aspects of a financial projection, it looks at both history and trends. Any actual financial impacts that differ from this assumption will be treated as one-time in nature for costs or savings in FY 18, and on-going costs or savings will be built into the budget structurally for FY 19 and beyond, as appropriate.

There are a number of important issues impacting the projections. The most important ones are outlined in the following paragraphs.

Expenditure Growing at Inflation Rate or Higher. A number of key City costs tend to increase at higher than the inflation rate. These costs make up a significant percentage of the City budget and include pension costs and health costs (separately discussed, below), contractual costs, and construction related costs. Funding needs to be available for these cost areas, savings found, or other changes made to absorb these costs. The projections do not assume additional efficiencies or other changes. However, because many changes and efficiencies have been previously implemented, additional efficiencies and changes (other than service reductions) may not have a major impact.

Limited Revenue Growth. In general, General Fund revenue growth has been lagging significantly behind expenditure growth and may not even cover normal cost increases. California places many restrictions on government revenue growth, particularly taxes. In addition, the City's various tax bases are not growing quickly or, in some cases are shrinking, not due to bad economy, but other factors such as erosion of the sales tax base due to internet sales, and State Legislature or City Council directed exemptions or reductions to taxes and fees. In addition, a significant part of the non-tax based revenue is relatively stagnant from year to year. Measure A provided a one-time substantial increase in revenue, but it is projected to be quickly absorbed by the cost of new public safety services and the sharp increases in costs to maintain public safety services, primarily driven by pension costs. In fact, Measure A is not enough to even cover all the non-salary related increases in public safety, and Measure A is not being used to pay for any salary increases.

Extraordinary Pension Cost Increases. Pension costs are major issues almost everywhere in the country. The recent decisions by CalPERS to make changes to its funding structure have had major impacts on City pension costs increases. Pension costs are expected to increase by over $10 million to the General Fund each year for the next several years. Pension costs are expected to eventually peak in 2031 at 67 percent of payroll for public safety personnel and 41 percent for non-public safety personnel. For FY 18, the pension contribution rate for public safety employees is 34.3% and the rate for non-public safety employee is 22.5%. However, the increased pension costs will ultimately save money in the long-term as the City pays down its unfunded liability.

In addition, other cities with CalPERs are likely facing a worse situation then Long Beach. A review of Long Beach and its nine benchmark cities with CalPERs found that the City had the second lowest employer contribution rate and second lowest unfunded liability as a percent of payroll. Long Beach was second only to Sacramento. Also, our situation would have been much worse if not for the pension reform that was agreed to by all bargaining units. This is saving the City $13.8 million per year in the General Fund ($24.7 million in All Funds). In addition, the City made the decision to make an early payment of the unfunded liability portion for FY 18. This action will save approximately $1 million to the General Fund, which has been incorporated into the budget.

In 2014, the City prudently led the way in creating and funding a CalPERS Stabilization Fund to address the concern that actual amounts owed to CalPERS will vary from projections, depending on a variety of factors, primarily investment returns. However, the change to the CalPERS investment strategies means that the CalPERS Stabilization fund can no longer work as originally envisioned and therefore it is recommended that the fund be discontinued after FY 18. In FY 18, the City is using the CalPERS stabilization fund in order to smooth a CalPERS enforced change to the City’s fiscal year for pension funding to align with the CalPERS fiscal year (July 1 to June 30). The remaining CalPERS stabilization fund is being used to fund critical one-time needs for FY 18 given the lack of any expected FY 17 year-end surplus or other one-time dollars the City has been able to count on in previous years.

Historical Increases in Health Costs. Health costs around the Country have been increasing for years at rates much higher than inflation. Long Beach, in conjunction with its employees, has excelled at controlling those costs and keeping them as low as possible. Successful efforts included a Request for Proposals (RFP) process for health care, which resulted in Health Care savings for calendar year 2017. A dependent eligibility verification review was also conducted that also led to savings for the City. Lastly, the City has worked with our employee groups to review health care plan design in order to continue to reduce costs for 2018 and 2019, and included a goal in recently approved labor contracts to realize additional health care savings in the future. These cost mitigation strategies, along with the City's emphasis on preventative measures, such as convenient access to health care, flu shots, and a workplace wellness program, should lead to cost savings for both the City and our employees. However, with the underlying growth rate of costs and the large amount that is spent each year on services, this cost area remains a major long-term concern.

Continued Revenue Dependence to some Business Categories. The City has broad based revenue and it also has oil revenues that most other governments do not have. That is good, but there is a downside. The City has a dependence on oil revenue which is notoriously variable. When oil revenues drop as they have, it is problematic in terms of both services and one-time spending. Although the City does well on sales tax, a significant amount of sales tax comes from a limited number of companies and loss of those companies' presence in the City would be noticeably damaging to the City's revenue and its ability to provide services. Another example, is the recent property tax appeals for companies in the Port of Long Beach, which had a dramatic impact on FY 17 residual property tax revenues in the former RDA area, resulting in a 26 percent decrease in total residual property tax revenues equaling $5 million. As a result, FY 17 General Fund revenues overall are below projections. While the City has already instituted mid-year savings targets for all General Fund Departments, this is not likely to be enough to offset the revenue loss. This could mean that the City will end the year imbalanced and will have to rely on the City's operating reserve to offset this sudden and unexpected loss of significant revenue.

Other Challenges and Unfunded Needs

The projections do not include the impact of the City's additional operational, infrastructure and other one-time needs that were not able to be addressed in the FY 18 budget. While, the projections above do not include any financial solutions for resolving these other challenges, some of these needs, and others that may arise, will be outlined, along with potential solutions, in other presentations to City Council during the year ahead. Some of these needs are described in the following paragraphs.

Litigation. The City has recently been sued by a few of its residents with regard to alleged inappropriate allocation of City funds from the City's utilities. The allegations are that funds from gas, water and sewer operations have been inappropriately used to provide services, such as police, fire, parks, libraries and streets operations. Should this litigation be successful, there could be a significant adverse impact on City services. The cost of addressing this litigation, if it is successful, has not been included in the projections as the result of the litigation is uncertain. Additionally, the timing of the conclusion of the litigation is uncertain. A related revenue issue is the anticipated loss of pipeline lease revenue starting in FY 18, which has been a source of the Gas Fund transfer to the General Fund. This has been included in the projection.

Unfunded Needs in Technology. Recent studies have identified both short-term critical needs and longer-term technology issues facing the City. Key technology throughout the City is so outdated that it is at risk in terms of the most basic (and the more sophisticated) City data processing and communications. In the case of the Civic Center, it is not financially practical to move into the new building without at least some of these issues being resolved in the near future. These needs would exist regardless of the move into the new Civic Center, and the needs are both one-time and ongoing. The issues include, but are not limited to basic data center processing equipment, communications equipment and infrastructure for public safety and other communications, security cameras around the City, handheld radios (public safety and others), and fiber communications capabilities. While some of these needs have been addressed in this budget, there are large unmet needs remaining. Staff are exploring options to fund these needs, both in the immediate term and future need, as well as prioritizing what are essential and what may be funded in future years.

Other Needs Infrastructure/Asset Needs. As has been described in presentations to City Council over the last few years, the City has many additional needs associated with maintaining infrastructure and other City assets. Many of these needs are for one-time outlays, but others reflect the need to fund the ongoing cost of maintaining infrastructure, whether it is streets, facilities, trees and parks, or parking needs. With the recent ongoing revitalization of the downtown core, including the new Civic Center complex and the ensuing development in the Downtown, parking is again coming into the forefront and may need to be reviewed in the near-term. Full funding of these needs is not possible, but recognizing them and their implications, and prioritizing what can be done is important to the future well-being of the City, its residents and its businesses.

Unfunded Liabilities. The City currently has $1.2 billion in employee-related unfunded liabilities for pensions, retiree sick leave (to pay retiree health insurance premiums), retiree health insurance subsidies, and workers' compensation. At $897 million, the City's pension liability is the City's largest unfunded liability. While that is a very large liability, it is being funded and resolved according to the pension actuaries by the City through very high annual contributions described earlier. We have not been as successful at addressing the other unfunded liabilities, such as retiree health subsidy and sick leave costs, although they pose no immediate budgetary issue.

The City will need to explore a variety of alternatives in addition to increased funding and reducing costs. This budget takes an additional step towards the reduction in unfunded liabilities by continuing the City Council policy to deposit 5 percent of one-time revenues into the reserve for unfunded liabilities, which will be calculated and reserved at the end of FY 17, if there is any surplus. Also, 5 percent of any additional one-time revenues realized during FY 18 will similarly be allocated to this reserve. Previous City Council actions have deposited $3.6 million in this reserve.

In addition, we have worked diligently to ensure that the emergency and operating reserves are funded within the City Council-approved policy levels. The emergency reserve stands at $43.9 million which, at 10.6 percent, is in compliance with the City Council policy target level of 10 percent, and the operating reserve stands at $10.5 million which, at 2.5 percent, is within the 2 to 7 percent policy level.

The voters also passed Measure B, which dedicates 1 percent of the new Measure A and Measure MA revenues to be deposited in a Budget Stabilization Fund (Rainy Day Fund). This fund will provide greater flexibility to the City to help maintain services during economic recessions that cause temporary budget shortfalls.

Economic Development and Strong Financial Management

The City is strong financially, but will have challenges to overcome to remain so. Each year, City Council makes difficult decisions to maintain adequate reserves and to structurally balance the budget by ensuring that service costs do not exceed revenues. The Mayor and City Council have also shown strong financial management through a strong Economic Development program. The City has made incredible progress in this area, as we currently have $2.5 billion worth of development currently under construction or in the pipeline. This is a critical step for the City and is extremely beneficial in terms of city-wide services. The extensive ongoing developments will not only provide jobs and increase the economic activity in the City, but they will also increase City revenues that will help the City to provide services. The impact is expected to be primarily felt in both an increase in total revenues and an increase in the growth rate of revenues. Because the City is big and economically diverse, the development’s economic impact will be spread over a number of years, and it is not expected to have a major impact in any one year. The impact, while very important to the City’s future well-being, is expected to help the City to achieve its more optimistic revenue estimates and to ease future budget problems, rather than to be an instant solution. Easing future budget issues and changing the growth rate of revenues will have a major impact in the long-term.

Overall, Long Beach has managed its financial situation well during challenging times in the recent past and has made difficult decisions to keep the City financial strong and protect the City as much as possible for the future. But, due to the recession and other financial challenges, some areas, such as technology and maintenance to name a few, did not receive the funding that is needed. This has been repeated in most every government across the country. Some decisions must be made in the near-term as to what action, if any, the City will take, and other decisions on these matters can wait further into the future. It will not be possible to address all the needs within the resources currently anticipated to be available. Prioritization is essential and decisions where funding is not available will need to be made. It is anticipated that City Council will review the issues and make whatever decisions it needs to make over the next few years to both protect the City's financial strength and to minimize any service impact. In the meantime, we will continue our focus on innovations and efficiencies, explore cost reductions on the expense side, find ways to maximize existing revenues, and grow new revenues through a continued focus on economic development.

CONCLUSION

Due to the support of Long Beach residents, this is a budget that allows us to make needed investments in Long Beach and to maintain and enhance public safety services. This budget uses Measures A and MA in a manner consistent with the City Council resolutions supporting Measure A and Measure MA, including review of Measure A spending by the Citizens' Advisory Committee, which has met four times over the past year.

This budget has much to celebrate with continued investment to address a variety of City Council initiatives; however, much of these investments are funded with one-time sources since sustainable funding is an issue due to the challenges ahead in future budgets. In addition, as mentioned earlier, one-time funding sources are also very limited. It is not clear that these initiatives will be able to be maintained in future years absent a new funding source or other solutions. In addition, as described, we have substantial operational, infrastructure, and other one-time needs that will require difficult choices in the years ahead. We will be using the year ahead to develop plans both for the short-term and for the long-term. In the meantime, we need to continue the discipline that has allowed Long Beach to maintain long-term services and its financial health. A key foundation of the City's financial health is the adherence to sound financial policies, most notably the requirement for a structurally balanced budget, where recurring revenue must meet or exceed recurring expenditures. This budget continues to uphold this key City Council policy. It is one of the best ways to preserve long-term services and the City's long-term health.

The Executive Summary, immediately following this transmittal letter, provides a summary of the budget, its use of Measure A (Attachment A), a list of strategic one-time investments (Attachment B) and any FY 18 significant changes (Attachments C and D). The balance of the proposed budget document provides details and additional explanations for the General Fund, as well as all other funds.

My appreciation to the Mayor and City Council for your fiscally prudent leadership and to staff and the Departments for all of the difficult work required to develop and submit this budget. I would also like to thank the City Attorney, City Prosecutor, City Auditor, City Clerk, Civil Service Executive Director, Harbor Department Executive Director and Water Department General Manager for their continued cooperation.

We look forward to working with you as you consider this proposed budget, which has much to celebrate, and as we move forward to address the challenges facing us in the future.

Respectively submitted,

Patrick H. West
City Manager

EXECUTIVE SUMMARY

The Fiscal Year 2018 (October 1, 2017 through September 30, 2018) All Funds budget for the City of Long Beach totals $2.6 billion, including $553.7 million for the Capital Improvement Plan. The table below shows the total Proposed Budget for the City's General Fund, including one-time expenditures, enterprise funds (Gas, Refuse, Water, Airport, Development Services, Harbor etc.) and all other (Successor Agency (Redevelopment fund), Debt Service, Internal Service, etc.) funds. Of the total budget, Harbor constitutes 28 percent, or approximately $731 million, of all proposed spending. The overall 1 percent increase in the total budget from the FY 17 Adopted Budget to the FY 18 Proposed Budget is due primarily to increases in pension costs and negotiated wages, throughout All Funds, which is partially offset by a decline in Harbor capital expenses.

Total Budget ($ in millions)

	FY 17 Adopted	FY 18 Proposed	% of Total	% Change
General Fund - Recurring	$ 431.0	$ 461.1	17%	7%
General Fund - One-Time	$ 40.4	$ 39.2	1%	-3%
Enterprise Funds*	1,206.4	$ 1,175.0	44%	-3%
All Others*	934.0	$ 971.8	37%	4%
Total	$ 2,611.7	$ 2,647.0	100%	1%

* The categorization of Enterprise and All Other funds has been adjusted since the FY 17 Adopted Budget Book

GENERAL FUND

The General Fund, which accounts for approximately 17 percent of the total budget, provides much of the resources for critical core City services. This includes police patrol, fire response, parks, streets and sidewalks repair, and library services. Most other funds and resources are restricted by law for other purposes and cannot be used to support these basic functions. As part of its financial planning, the City annually projects the General Fund financial status three years into the future, assuming no change in service levels. A preliminary projection is provided at the beginning of the budget process and an updated projection is provided when the proposed budget is released. The FY 18 budget is based on the current projection, which indicates that, while the proposed FY 18 budget is balanced, there are shortfalls that will need to be addressed over at least the following two years. As shown in the table below, the projected shortfall for FY 19 is $10.4 million and there is an expected shortfall in FY 20 of $8.7 million.

General Fund Surplus / (Shortfall) ($ in Millions)

	FY 18 Projection	FY 19 Projection	FY 20 Projection	Cumulative
As Initially Projected in March 2017*	0.0	(7.7)	(7.0)	(14.7)
Current Projection*	0.1	(10.4)	(8.7)	(19.1)

* This assumes that the shortfalls are structurally solved each year, and any structural surplus is assumed to carry over to help address any structural issues in the following year. The small FY 18 surplus is used for a MMJ related one-time cost.

There are a multitude of drivers that impact the three-year forecast as shown in the following chart. The amounts below represent incremental changes from year to year, with the 3-year total column reflecting the total revenue or expense change from the FY 17 Adopted Budget.

General Fund Surplus / (Shortfall) Drivers*
($ in Millions)

Incremental Changes in Revenue and Expense	FY 18 Proposed	FY 19 Projected	FY 20 Projected	3-Year Total
Uplands Oil Transfer	3.1	.6	(.1)	3.6
Property Tax	3.4	2.3	4.2	10.0
Transient Occupancy Tax	.9	.8	1.3	3.1
Sales Tax	2.4	1.5	1.4	5.3
Utility Users Tax	(1.8)	.7	.4	(.7)
Other Revenue Change (e.g. VLF, Electric/Pipeline Franchise)	7.9	6.0	1.4	15.3
Total Revenue Impact	**15.9**	**11.9**	**8.7**	**36.5**
Natural Salary Growth & Negotiated Raises	(13.0)	(8.2)	(7.0)	(28.2)
CalPERS Pension Changes	(8.9)	(10.6)	(9.4)	(28.9)
Health Benefit Related Increases	3.5	(1.1)	(1.1)	1.3
Council Approved Initiatives (e.g. Maintenance, Paperless Project, Civic Center)	(1.1)	(1.3)	(3.9)	(6.3)
Measure A Public Safety Enhancements	(2.5)	-	-	(2.5)
Other Miscellaneous Changes (e.g. RMD, Debt Service, MOUs, Liabilities)	(.1)	(5.9)	.2	(5.8)
Total Expense Impact	**(22.2)**	**(27.1)**	**(21.3)**	**(70.5)**
Additional Impacts To Projected Surplus/(Shortfall)				
City Manager Budget Proposals	(1.2)	-	-	(1.2)
Measure A Infrastructure Funding (structural portion)	(8.5)	(3.9)	-	(12.4)
Saved Surplus from Previous Year - Measure A**	16.6	9.0	4.4	29.9
Saved Surplus from Previous Year - Non-Measure A	.1	.1	-	.1
Measure B (Rainy Day Fund) for Measure A and MA	(.5)	(.5)	(.5)	(1.5)
Projected Surplus / (Shortfall)*	*.1*	*(10.4)*	*(8.7)*	*(19.1)*

* For items in this section, negative numbers represent costs/hits to the fund and positive numbers represent savings/benefits to the fund.
** These are structural Measure A funds used for Measure A one-times/infrastructure projects in the previous year.
*** This assumes that the shortfalls are structurally solved each year, and any structural surplus is assumed to carry over to help address any structural issues in the following year. The small FY 18 structural surplus is needed to fund a MMJ related one-time cost.

As the chart above indicates, the CalPERS changes are driving the growth in expenses throughout the outlook, which, while costly, puts the City on the path towards fully funding the pension unfunded liability and ultimately reducing costs in the future. The increase in salary growth in FY 18 represents two years' worth of raises (for FY 17 and FY 18) since the FY 17 Adopted Budget assumed no raises, and are offset through more optimistic revenue projections, more optimistic insurance budgeting, shifting of eligible expenses to eligible non-General Fund sources, and recognizing savings from natural turnover in filling positions citywide. The City has experienced revenue increases; however, expenses are projected to grow almost twice as fast as revenues. Measure A provided a substantial increase in revenue, but it is projected to be quickly absorbed by the cost of new public safety services and the sharp increases in costs to maintain public safety services, primarily driven by pension costs. In fact, Measure A is not enough to even cover all the non-salary related increases in public safety, and Measure A is not being used to pay for any salary increases. Other key assumptions for the projection are listed below:

- No change in City service levels.
- No change in the limited capital spending from the General Fund.
- Measure A (1 percent sales tax for public safety and infrastructure) and Measure MA (tax on marijuana) revenues come in at expected levels, which is uncertain as they are new revenue sources and a full year of funding will not be known until mid to late FY 18.
- Includes current revenue growth rates and assumes no recession and no factoring of future accelerated economic growth.
- Pay increases follow the existing bargaining agreements, and, subsequent to the end of the bargaining agreement time periods, equal the expected general inflation rate.

The last assumption that future pay increases for projection purposes will generally follow inflation is not an indication of what the City may agree to with its bargaining units. Rather, as with many other aspects of a financial projection, the assumption that pay raises generally line up with the inflations rate, takes into account what has actually happened over time, although not necessarily in any year or group of years. The actual financial impacts that differ from this assumption will be treated as one-time in nature for costs or savings in FY 18, and on-going costs or savings will be built into the budget structurally for FY 19 and beyond, as appropriate.

Proposed FY 18 Changes By Department

The next table summarizes the FY 18 proposed changes, excluding one-times, to departmental budgets along with the net impact of those changes on budgeted positions. As shown in the table, the FY 18 Proposed Budget maintains the relative priorities established by the Mayor and Council during previous budget cycles. Public safety remains at lower than 70 percent of the overall General Fund budget, with other departments receiving the remaining share.

Significant changes in FY 18 include adding Firefighter/Inspectors to support implementation of the Medical Marijuana Program, adding two Firefighter/Paramedics to fund the HEART Team, adding 26 sworn Police Officers and two civilian staff for policing services along the Metro Blue Line, adding an Animal Health Technician to assist with animal intake services, and adding a Maintenance Assistant to provide dedicated cleanups and other services to areas of homeless encampments. Significant changes by department are detailed in Attachment C to this Executive Summary and in the Department Budget Chapters.

FY 18 General Fund Impacts by Department

Departments	FY 18 Proposed Changes	Position Changes	FY 17 Proportion of General Fund	FY 18 Proportion of General Fund
Police(1)	352,824	31.52	46.7%	47.9%
Fire(1)	105,939	5.00	18.9%	19.2%
Disaster Preparedness and Emergency Communications	-	(4.00)	2.9%	2.8%
Public Works	52,321	7.00	9.2%	8.1%
Parks, Recreation and Marine	247,792	8.89	7.8%	7.4%
Library Services	-	0.22	3.1%	3.0%
Elected & Appointeds	366,633	1.00	5.0%	4.9%
All Others (2)	101,178	1.04	6.4%	6.7%
TOTAL	**1,226,686**	**50.67**	**100.0%**	**100.0%**

(1) Police Academy Staffing and Fire Department Rescue 12 was restored as part of the FY 18 Base Budget.

(2) Includes City Manager, Citywide Activities, Development Services, Financial Management, Health & Human Services and the Economic Development Departments.

Major General Fund Revenue Trends

Typical day-to-day local government functions such as police, fire, library and parks and recreation services are largely funded by the General Fund. Revenues in the General Fund are unrestricted in their use and predominantly derived from local taxes. In FY 17 and FY 18, taxes accounted for 71 percent and 69 percent of General Fund revenues, respectively. In FY 18, Property Taxes, Sales Tax (including Measure A), Property Tax in Lieu of Vehicle License Fees (VLF) and Utility Users Taxes (UUT), alone account for 62 percent of General Fund revenue.

Due to the nature of the retail base in Long Beach, sales tax revenue (not including Measure A) is projected to only experience very moderate growth in FY 18, and will continue to do so in coming years. Overall UUT is expected to decrease between FY 17 and FY 18, largely due to an 18 percent decrease in Telephone Users Tax related to the continued erosion in wired revenues due to limited numbers of new subscribers and a highly competitive price environment. However, it is anticipated that some of this decrease may be offset by an increase in Gas Utility Users Tax as a result of increasing natural gas prices.

In the regional economy, Property Taxes continue to rebound from the recession. In FY 18, positive growth in assessed valuations is anticipated and is seen in Property Tax in Lieu of VLF, which is tied to changes in citywide assessed valuation. Additionally, growth in property tax is being driven by the growth in assessed valuation of properties in the former Redevelopment Agency (RDA) project areas. Starting in FY 18, revenue projections from the

Redevelopment Property Tax Trust Fund will be reduced by an estimated $1 million each year until FY 22. This is due to a Los Angeles County settlement with local school districts which found that the Education Revenue Augmentation Fund (ERAF) should have been included when calculating tax increment pass-through payments to taxing agencies. The settlement amount is for the school districts' share if the ERAF were included. Current outstanding property tax assessment appeals may also further limit future revenue. In FY 17, the City experienced a 26 percent decline in anticipated revenues due to successful appeals by companies in the Harbor area. Due to the uncertainty related to the timing of successful appeals, this will continue to be monitored closely. The pace of growth in Long Beach is also tied to oil-related property taxes. Unless there is significant change in the price of oil, it is anticipated that oil prices will experience a moderate year-over-year increase.

In addition to the major tax revenues, the FY 18 General Fund budget includes slight growth in Transient Occupancy Tax (TOT), which is charged on hotel room stays. At present, the City continues to experience year-over-year increases in average daily rates, occupancy and average revenue per available room.

On June 7, 2016, the electorate added a Transactions and Use (sales) Tax, known as Measure A, on the sale and/or use of all tangible personal property sold at retail in the City for a ten-year period. The first six years of the tax will be at a rate of one cent for every dollar spent (or 1 percent), and then decline to one-half cent for every dollar spent (or one-half percent) for the remaining four years. The tax will automatically terminate after the tenth year. The new sales tax went into effect on January 1, 2017 and is projected to generate close to $48 million in FY 18, which will be deposited in the General Fund. This new revenue will be used to maintain and enhance public safety and provide significant critical investments in the City infrastructure. Since this is a new tax, the revenue estimate is based on preliminary estimates. A full year of funding will not be known until mid- FY 18, so this revenue source will continue to be watched carefully.

On November 8, 2016, the electorate added a business license tax on marijuana businesses through the passage of Measure MA. Measure MA set a gross receipts tax for sales of both medical and recreational marijuana and established a tax on marijuana cultivation, processing, testing and distribution in the City. FY 18 projected revenues are estimated at $5.16 million, which is lower than long term estimates provided in the ballot measure due to the length of time it will take for most marijuana businesses to identify an appropriate location, submit an application, construct a facility, obtain a State and local license, and begin operating. Since this is a new tax, the revenue estimate is based on preliminary estimates. A full year of funding will not be known until late FY 18, so this revenue source will continue to be watched carefully.

Oil Revenue

As discussed during the March 14, 2017 Budget presentation, the City's oil revenues are impacted by both price and production efforts. For FY 15 and beyond, the current price drop of oil has led to a dramatic reduction in both Uplands revenue, which partially funds General Fund operations and one-time investments, and in Tidelands revenue, which is a major funding source for both operations and capital investment in the Tidelands area. In addition, the oil property-based property taxes in the General Fund are impacted, and oil production-based taxes for both the City's General Fund and Police and Fire Public Safety Oil Production Act Fund (Prop H) are also impacted. FY 17 is on track to exceed the projection of $35 per barrel used in March 2017, which was $5.8 million structurally to the General Fund; therefore, for FY 17 we are now assuming a price of $45 per barrel, which may help mitigate the impacts of other General Fund revenues that may potentially come in under budget in FY 17. For FY 18, we are continuing to forecast revenues using the assumption that oil production will be at least at the $45 per barrel level. This represents a reasonably optimistic level in order to maximize ongoing revenue, but there is some increased risk that projected revenues will not be achieved and there is less likelihood of surplus revenues that can be used for one-time purposes. For budget purposes, we are projecting that oil prices will rise slowly after FY 18. It is anticipated that one-time capital investments using both Uplands Funds and Tidelands Funds will continue to be very limited as there are no indications that oil prices will return to the $100 level of a few years ago in the near future.

In millions of $	FY 15 Actual	FY 16 Actual	FY 17 Proj.	FY 18 Proj.	FY 19 Proj.	FY 20 Proj.
Barrel Price Estimate	*$55.0*	*$ 36.9*	*$ 45.0*	*$ 45.0*	*$ 50.0*	*$ 50.0*
Uplands	$ 15.7	$ 8.3	$ 9.2	$ 8.9	$ 9.5	$ 9.4
Tidelands	$ 18.0	$ 9.7	$ 15.5	$ 10.7	$ 11.1	$ 11.0

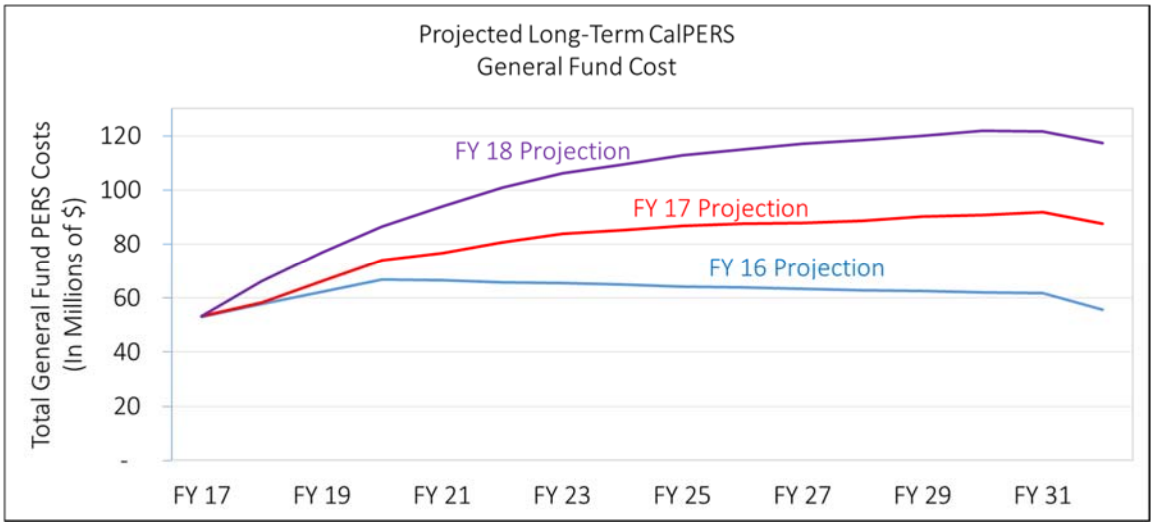
Major General Fund Expense Trends

The City's FY 18 incremental expense increase was mostly due to higher pension costs and negotiated salary increases for City employees. This difference between annual increases in revenues and rising costs to provide services is what drives the City's structural deficit. In FY 18, various structural cost escalators have once again, outpaced revenues collected and budget balancing actions described in the City Manager's Message were necessary to balance the budget.

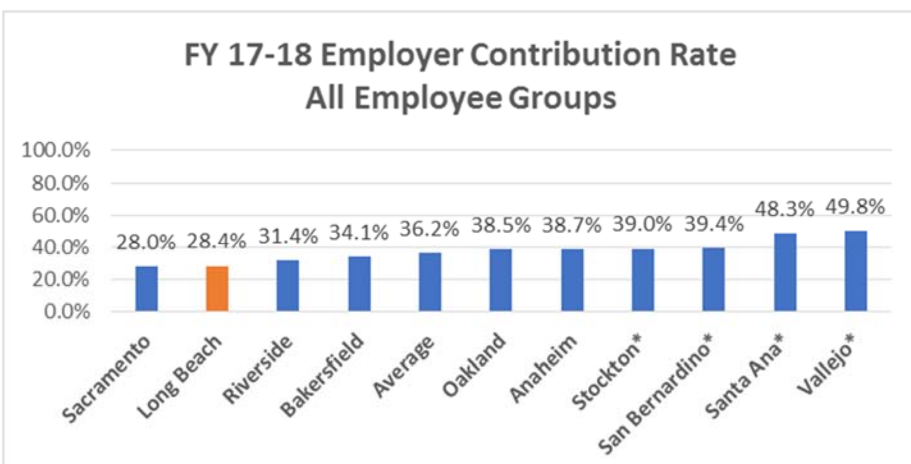
Labor agreements have been reached between the City and seven of the eleven employee groups. The City is currently in negotiation with the four remaining groups to reach labor agreements. The City is committed to developing a sustainable workforce for the long-term by working with our labor partners to secure fair agreements that recognize the incredible value of our employees, as well as address the City's largest cost drivers. Even though negotiations are still underway, the impacts of all employee agreements are reflected in this proposed budget based on following existing bargaining agreements. Any financial impacts that differ from this assumption will be treated as one-time in nature for costs or savings in FY 18, and on-going costs or savings will be built into the budget structurally for FY 19 and beyond, as appropriate.

Pension Costs Increases

The single largest expense driver is in the area of pension costs and is due to the City paying off our unfunded liabilities. As discussed during the March presentation to the City Council, the CalPERS board approved changes to its investment strategy and expected returns, in order to minimize the risk of potentially huge employer costs in the future if there are large investment losses. The result of this change is that the City will need to pay more to fund the plan in the future. This will mean that our pension cost increases to the General Fund are growing at a rate of $10 million a year in early years. This rate of growth is expected to slow and to peak in FY 31 and then decrease slowly thereafter. However, it will ultimately save money in the long-term as the City pays down its unfunded liability. The following chart shows the previous FY 16 and FY 17 projections compared to the current FY 18 projection using the new investment strategy and expected returns.



This situation would have been much worse if not for the pension reform that was agreed to by all employee groups. This is saving the City $13.8 million per year in the General Fund ($24.7 million in All Funds). In addition, the City made the decision to make an early payment of the unfunded liability portion for FY 18. This action will save approximately $1 million to the General Fund, which has been incorporated into the budget. In addition, other cities with CalPERs are likely facing a worse situation then Long Beach. A review of Long Beach and its nine benchmark cities with CalPERs found that the City had the second lowest employer contribution rate and second lowest unfunded liability as a percent of payroll. Long Beach was second only to Sacramento as shown in the chart below.



In 2014, the City prudently led the way in creating and funding a CalPERS Stabilization Fund to address the concern that actual amounts owed to CalPERS will vary from projections, depending on a variety of factors, primarily investment returns. However, the change to the CalPERS investment strategies means that the CalPERS Stabilization Fund can no longer work as originally envisioned. In FY 18, the City is using the CalPERS Stabilization Fund in order to smooth a CalPERS enforced change to the City's fiscal year for pension funding to align with the CalPERS fiscal year (July 1 to June 30). The remaining CalPERS Stabilization Fund is being used to fund critical one-time needs for FY 18 given the lack of any expected FY 17 year-end surplus. Moving forward, it is expected that the City will discontinue use of the CalPERS Stabilization Fund due to the CalPERS changes described above.

Unfunded Liabilities

There are four major employee-related unfunded liabilities: pensions, retiree sick leave (to pay retiree health insurance premiums), retiree health insurance subsidies, and workers' compensation. The City currently has $1.2 billion in these unfunded liabilities, summarized by the following table:

Current Unfunded Liabilities
$ in Millions

Pension	$ 897
Sick Leave	130
Retiree Health Subsidy	43
Worker's Compensation	114
Total	$ 1,185

Unfunded liabilities are costs for services already delivered, but not paid for in full. When applied to employee benefits, which are the major components of service costs, the unfunded liability represents the unfunded portion of the cost of benefits that employees will accrue over their working careers with an employer. The principal causes of unfunded liabilities for employee benefits generally are lower than expected investment earnings on system assets, benefit enhancements that are made retroactive, and under-funding. The amounts of the unfunded liabilities will vary from year to year based on these factors.

With the recent changes to the CalPERS investment policies, the City will be on track to pay off the unfunded pension liability in approximately 30 years through increased contributions that will result in an additional ongoing cost of $68 million to the General Fund by FY 31. For the other unfunded liabilities, however, the current annual funding for the associated employee benefits is not large enough to reduce the unfunded liabilities. In fact, there remains underfunding of the current costs to provide for the retiree health subsidy.

The City will need to explore a variety of alternatives in addition to increased funding and reducing costs. This budget takes an additional step towards the reduction in unfunded liabilities by setting aside 5 percent of one-time revenue that will be calculated and reserved as part of FY 17 Year-End close, if there is a surplus, and then incorporated as a budget adjustment in FY 18.

Other Challenges and Unfunded Needs

The projections do not include the impact of the City's additional operational, infrastructure and other one-time needs that were not able to be addressed in the FY 18 budget. While, the projections do not include any financial solutions for resolving these other challenges, some of these needs, and others that may arise, will be outlined, along with potential solutions, in other presentations to City Council during the year ahead. These needs are described in the following paragraphs.

Litigation. The City has recently been sued by a few of its residents with regard to alleged inappropriate allocation of City funds from the City's utilities. The allegations are that funds from gas, water and sewer operations have been inappropriately used to provide services, such as police, fire, parks, libraries and streets operations. Should this litigation be successful, there could be a significant adverse impact on City services. The cost of addressing this litigation, if it is successful, has not been included in the projections as the result of the litigation is uncertain. Additionally, the timing of the conclusion of the litigation is uncertain. A related revenue issue is the anticipated loss of pipeline lease revenue starting in FY 18, which has been a source of the Gas Fund transfer to the General Fund. This has been included in the projection.

Unfunded Needs in Technology. Recent studies have identified both short-term critical needs and longer-term technology issues facing the City. Key technology throughout the City is so outdated that it is at risk in terms of the most basic (and the more sophisticated) City data processing and communications. In the case of the Civic Center, it is not financially practical to move into the new building without at least some of these issues being resolved in the near future. These needs would exist regardless of the move into the new Civic Center, and the needs are both one-time and ongoing. The issues include, but are not limited to basic data center processing equipment, communications equipment and infrastructure for public safety and other communications, security cameras around the City, handheld radios (public safety and others), and fiber communications capabilities. While some of these needs have been addressed in this budget, there are large unmet needs remaining. Staff are exploring options to fund these needs, both in the immediate term and future need, as well as prioritizing what are essential and what may be funded in future years.

Other Needs Infrastructure/Asset Needs. As has been described in presentations to City Council over the last few years, the City has many additional needs associated with maintaining infrastructure and other City assets. Many of these needs are for one-time outlays, but others reflect the need to fund the ongoing cost of maintaining infrastructure, whether it is streets, facilities, trees and parks, or parking needs. With the recent ongoing revitalization of the downtown core, including the new Civic Center complex and the ensuing development in the Downtown, parking is again coming into the forefront and may need to be reviewed in the near-term. Full funding of these needs is not possible, but recognizing them and their implications, and prioritizing what can be done is important to the future well-being of the City, its residents and its businesses.

STATUS OF OTHER FUNDS

In addition to the General Fund, the City maintains 37 other funds. Many are narrowly focused and restricted to specific business activities. This section discusses issues impacting other key City funds and highlights funds that have Citywide impact.

Fleet Services Fund

The Fleet Services Fund is used to account for the City's purchase, maintenance, fueling and replacement of vehicles and equipment, except those owned by the Water and Harbor Departments. The major sources of revenue for this fund are charges to user departments, including capital replacement, preventive maintenance, repair, and fueling charges. Fleet's replacement budget is $20 million for FY 18, which represents a $12.9 million decrease from FY 17 Adopted Budget and reflects Fleet's estimates on replacements that will be purchased and placed into service during FY 18 only, which include vehicles from prior year Replacement Plans. The FY 18 replacement plan includes $4.3 million for the outfitting of up to 100 public safety vehicles, which are replacing an aging patrol and public safety fleet. Fleet continues to evaluate and review its acquisition charges to user departments and there may be updates in future years. Alternative fuel vehicles are estimated at 52 percent of the total replacements purchased in FY 18, continuing our goals to reduce greenhouse gas emissions and provide cleaner burning, more fuel efficient vehicles to City departments.

General Services Fund

The primary revenue source for the General Services Fund are internal charges to City Departments, which account for over 87 percent of total revenues. This cost recovery model is intended to allocate 100 percent of eligible costs to provide services to City departments. The fund is used to account for the operation, maintenance and replacement of the City's information and communications systems. This includes the cost for systems' hardware and software, as well as support services provided by the Technology and Innovation Department. FY 18 includes some large investments including updating the most critical end-of-life systems and increased resources to support Mayor and Council initiatives, including a single phone number system for the City, fiber installation, and open data and website upgrades, using General Services funds. However, recent studies have identified both short-term critical needs and longer-term technology issues facing the City. The needs are both one-time and ongoing. The issues include, but are not limited to basic data center processing equipment, communications equipment and infrastructure for public safety and other communications, security cameras around the City, handheld radios (public safety and others), and fiber communications capabilities. Staff are exploring options to fund these needs, as well as prioritizing what are essential and what may be funded in future years.

SERRF Fund

The SERRF Fund is used to maintain the Waste to Energy Program and provide regional disposal services for residential and commercial refuse delivered by the City and various private haulers. Since FY 14, SERRF has been incurring costs for ash disposal and hauling to the El Sobrante Landfill due to the closure of the Puente Hills Landfill in November 2013. As a result, SERRF began to draw from its funds available to cover the ash disposal costs, as well as to partially cover other operating expenses. As provided for in its Joint Powers Authority

(JPA) agreement, the SERRF Fund had built up a fund balance over the years to cover its anticipated negative cash flows as it nears December 2018 when its bonds are completely paid off, and the electrical generation contract between the City and Southern California Edison expires.

Starting in FY 17, staff began the 2-year process of negotiating agreements with California Independent System Operator (CALISO) and Southern California Edison to sell power after the expiration of the current electrical generation contract. SERRF is anticipating to operate on a balanced budget during FY 17 and is estimated to do so into FY 18 due to its continued year-to-year exemption from the costs associated with AB32, the State's greenhouse gas initiative, and aggressively increasing its private hauler tip fee to align with market rates. In addition to these efforts, staff will continue to explore solutions to address the SERRF facility's potential long-term viability and extend operations beyond 2024.

Gas Fund

The Gas Fund finances the provision of reliable and cost-competitive natural gas service to customers in Long Beach and Signal Hill, while ensuring continued pipeline infrastructure integrity. Ninety percent of the Gas Fund's revenues are received directly from gas ratepayers through metered gas sales. These sales are primarily affected by national gas commodity market prices and winter weather conditions. Improved extraction technologies have recently resulted in an abundance of additional gas supplies nationwide, causing continued downward pressure on natural gas commodity prices. These price benefits are passed directly through to gas customers. To ensure the safe operation of the nation's natural gas pipeline system, federal regulators in the Office of Pipeline Safety have significantly increased on-site audits and regulatory reporting requirements of natural gas utilities. The City is now required to prepare a Distribution Integrity Management Plan (DIMP) that delineates potential threats to the safe operation of the Long Beach pipeline gas system and describes the City's high priority focus on replacing gas pipelines installed between the years 1920 and 1950.

In FY 14, the City Council authorized the Long Beach Gas and Oil Department (LBGO) to enter into contracts with various entities to implement the Advanced Metering Infrastructure (AMI) system for customers of Long Beach and Signal Hill. In early FY 18, LBGO will complete deployment of an Advanced Metering Infrastructure (AMI) system over more than 150,000 gas meters that will enable the City's gas utility customers to utilize an array of interactive tools to monitor and optimize gas consumption. This "smart meter" system greatly enhances privacy and security for utility customers as monthly visits from contract meter readers are no longer necessary. Upon completion of this project, LBGO is expected to reduce annual vehicle trips by 160,000 with a corresponding reduction in $C0_2$ emissions of 400,000 pounds every year. The total project cost is $22.1 million, of which the majority is being financed under an equipment lease-purchase agreement and paid for with Gas Fund reserves designated for this project.

LBGO has been accumulating Cap and Trade revenue as a result of the sale of energy credits, which can be spent consistent with the goals of AB 32. Further funding guidelines stipulate that 35 percent of the funds must be used to benefit disadvantaged and low-income communities. The City is proposing to use $2.5 million of AB32 revenue in FY 18 to do energy efficient enhancements to city facilities.

On June 3, 2018, a 25 year pipeline lease agreement between the City and Southern California Gas (SCG) will expire. SCG has given no indication that they intend to renew the lease. FY 18 revenue is anticipated to be $3.4 million which is a $1.35 million reduction. It is anticipated that the remaining revenue will be eliminated in FY 19 for a total reduction of $4.7 million. Given this reduction, continued monitoring of the Gas Fund's financial health is needed to ensure that customers are appropriately served and pipeline integrity is being maintained with an adequate level of repair and replacement.

Successor Agency Fund

In FY 12, the Successor Agency Fund was created in response to California statute AB1X26, which mandated the dissolution of the City's Redevelopment Agency (RDA). Effective February 1, 2012, the City Council adopted a resolution designating the City of Long Beach as the Successor Agency to the RDA and transferred all former RDA functions and assets to the City. The purpose of the Successor Agency is to dispose of the assets and discharge the obligations of the former Redevelopment Agency. Pursuant to AB1X26, the revenue source for the Successor Agency funds consists of bi-annual distributions from the Redevelopment Property Tax Trust Fund (RPTTF). These revenues are then used to make payments against the Successor Agency's Recognized Obligation Payment Schedules (ROPS). The ROPS are the obligations and commitments created by the City's former Redevelopment Agency for a given one-year period. Additionally, the Successor Agency Fund receives an annual administrative allocation equal to 3 percent of its RPTTF distributions. Over time, as the obligations of the former RDA are met and activity slows, funds remitted to the Successor Agency Fund will decrease. Funds available at the end of FY 17 will be approximately $19.1 million, including remaining bond proceeds and RPTTF distributions, which are needed to cover future costs for existing committed projects.

Property tax that was formerly remitted to the RDA is now paid to all the taxing entities, including the City of Long Beach General Fund, where the City receives approximately 21 percent as residual property tax. In FY 17, there was substantially less residual property tax revenue that flowed to the City due to the approval of assessment appeals in the Port area on possessory interest for values spanning from 2012 to 2015; all which were approved with a one-time reduction in FY 17. There was also a significant decrease in combined unsecured values within the West Long Beach Project area starting in FY 17. The revenue projections in FY 18 reflect a rebound due to increase values on other properties, absent any unexpected large refund amounts.

Effective in FY 18 and after an analysis of the City's fund categories, the Successor Agency funds is split into two fund categories: Capital Funds and Debt Service.

Towing Fund

Due to the increase in tow volumes, the Towing and Lien Sales Division will increase staffing levels by two FTEs in FY 18 to support the additional work in customer service, towing, and lot management. Optimization efforts continue in FY 18 through the planning and implementation of a new Towing Operations software system to better manage operations and recapitalization of unserviceable tow trucks. After several years of lower revenues from declining tow volumes, volumes have now stabilized and are projected to support a $1.0 million ongoing transfer to the General Fund. While tow volumes have improved, significantly reduced scrap pricing has impacted lien sale revenue. Therefore, fees are recommended to be increased 4.8 percent to defray the cost of increasing staffing levels needed to support operations.

Refuse Fund

The primary source of revenue for the Refuse Fund is from refuse and recycling charges, which account for approximately 94 percent of total revenues. This fund is also supported by grant money from the State for various public outreach efforts (recycling, litter reduction, used motor oil collection, etc.), revenues from the sale of recyclables collected through the City's residential recycling program, fees paid by the City's licensed private refuse haulers for AB 939 compliance, and interest income. The fund previously had a substantial funds available balance, which has been declining over the last few years due to annual operating shortfalls. After multiple years of identifying and implementing various efficiency measures, the fund continues to operate with a structural imbalance. To address the structural imbalance, the City retained an outside consultant to complete a comprehensive cost of service review and develop a rate model. The study will recommend a rate increase beginning in FY 18 to better reflect the full cost of service to the ratepayer. The proposed rate will be the first of a multi-year effort to achieve structural balance to cover all costs related to providing solid waste services to the City. With the rate increase, it is intended that Long Beach’s average refuse and recycling rate for single family homes will still remain lower in comparison to the average rates in Los Angeles County, as well as other similar full-service cities such as Los Angeles, Pasadena, Burbank and Santa Monica. While the City has adjusted the rates in the past for general CPI increases, there has not been a general refuse rate increase since 2003.

Airport Fund

The Airport Fund wholly finances Long Beach Airport’s operations, including the safety and security of the Airport, the highest level of customer service to passengers, the improvement of quality of life in the surrounding community, and providing a fair and reasonable operating cost to our business partners. Airline fees, parking concessions, and long-term ground leases of
Airport property support the Airport Fund. The Federal Aviation Administration also provides revenue to the Airport Fund through its Airport Improvement Program (AIP). The Fund also receives Passenger Facility Charges (PFC) and Customer Facility Charges (CFC) from air carriers and car rental agencies, respectively. The Fund does not receive any General Fund dollars.

In FY 18, the Airport Fund expects to receive additional revenue of $2.3 million. The increase is due to various sources including landing fees, ramp charges, parking operations and concession sales. Additional revenue is anticipated from increased enplanements driven in part by the addition of Southwest Airlines, as well as new fee revenue from Transportation Network Company (TNC) operations providing ride-share services at the Long Beach Airport.

Additionally in FY 18, the Fund will support additional personnel added to sustain Airport projects and operations.

Uplands Oil Fund

The Uplands Oil Fund accounts for oil revenue outside the Tidelands area and accounts for all costs and revenues for the City's proprietary oil interests, including accumulating reserves for the City's portion of well abandonment and site clearance liabilities. Revenues are derived from participation in oil operations and overhead fees received by the City as Unit Operator for the Tidelands Oil operations. The price of oil has shown frequent oscillations and occasional sharp drops. The price of oil was relatively stable for the last few years, and then began a sharp decline, from $100 per barrel in July 2014, to the low $20s per barrel in January 2016. Key drivers for the lower price are low demand and high production by the Organization of the Petroleum Exporting Countries (OPEC), by non-OPEC producers, and by the United States. There is no current indication that the price of oil will increase in the foreseeable future to previously budgeted levels. As stated in an earlier section on Oil Revenue, the FY 18 Proposed Budget includes a projected price of oil of $45 per barrel (a continuation of the FY 17 projection), or $8.9 million structurally, to the General Fund. No revenue over that projected base amount is currently projected. Staff continually monitors and reports on oil markets and production for any changes that might impact the City's finances.

Tidelands Operations Fund

Tidelands funds are customarily combined under the umbrella of Tidelands Operating Funds. To facilitate understanding and transparency of the status of the funds, the FY 18 Proposed Budget separates out the Tidelands Operations Fund from the other Tidelands Area Funds (Marina, Queen Mary and the Rainbow Harbor Area funds). The Tidelands Operations Fund, which primarily funds operations along the beaches and waterways is heavily dependent on base oil revenue and an annual transfer from the Harbor Revenue Fund to support Aquarium debt payments, lifeguards, waterfront maintenance, and the Convention Center. The FY 18 Proposed Budget includes a projected price of oil of $45 per barrel, which equates to $10.7 million, to the Tidelands Operations Fund. Any surplus oil revenue is historically made available to support capital improvement projects in the tidelands area. No surplus revenue is currently projected to be available for capital expenditures in FY 18. However, additional funds in an amount of $1.5 million for capital projects have been identified through project savings in existing capital projects in the Tidelands Operations Fund. A list of projects being proposed that utilize these project savings is included in the FY 18 Proposed Capital Improvement Program budget.

Tidelands Area Funds

Tidelands Area funds is comprised of the Marina, Queen Mary and Rainbow Harbor Area funds. Sources of revenue for these funds are generated from various activities, specific to each fund. The Marina Fund revenue include slip fee rentals for recreational boats, commercial enterprises and ground leases for certain marina adjacent properties. Surplus revenue generated by marina boat slip rental is pledged to repay the 2015 Marina Revenue Bonds issued for waterside improvements to the Alamitos Bay Marina. Queen Mary Fund revenue is generated by base rents from the lease of the site and Catalina Express operations and passenger fee revenue from Carnival.

Health Fund

The Health Fund accounts for revenues and expenditures associated with Federal, State and local grants, health permits, and other fees. Challenges facing the fund include: growing capital and infrastructure needs; increased restrictions placed on grants; and anticipated return of funds to the state due to these policy changes, all of which are funded with either the same or a declining level of resources. Staff is closely monitoring the fund, reviewing cash flow and identifying strategies to address these ongoing needs to ensure levels of services are maintained.

Police and Fire Public Safety Oil Production Act Fund

On May 1, 2007, the voters approved the Police and Fire Public Safety Oil Production Tax (Proposition H), a special tax of 25 cents, with an annual CPI increase on every barrel of oil produced, and restricted to fund police and fire services. The tax assessed through June 30, 2016 was $0.29/barrel oil produced, but effective July 1, 2017 the tax will increase to $0.30/barrel oil produced. This fund will continue to be closely monitored in FY 18, since oil production is impacted by the price of oil and will, therefore, impact Proposition H revenue as production declines. FY 18 projected revenues and funds available is sufficient to cover the budgeted expenditures, therefore the Proposed Budget does not include any budget reductions for the Police and Fire Departments. The Homeless Rapid Response was funded in FY 17 from a draw down of Beginning Funds Available in the Police and Fire Departments in the amount of $250,000 each. This year there are no additional sources available to fund homeless efforts from Prop H. If oil production declines continue to negatively impact Proposition H, future year budgets are anticipated to require reductions.

Gas Tax Street Improvement Fund

The Gasoline Tax Street Improvement Fund is used to account for the receipt and expenditure of gasoline tax funds apportioned under the State Streets and Highways code, as well as other sources dedicated to street improvements such as grant revenue. Expenditures may be made for any street-related purpose on the City's system of streets, including reimbursement to the General Fund for eligible street maintenance costs. For FY 18, the Proposed Budget includes $14.7 million in expenditures; $7 million in capital street improvements and $7.7 million for street maintenance.

With the recent passage of Road Repair & Accountability Act (SB-1) by the State legislature, FY 18 gasoline tax revenues are anticipated to increase by $4.1 million as compared to FY 17. The additional funds begin to restore a portion of the gas tax revenues lost in recent years. Of this additional funding, $2.5 million is being used to restore and enhance support for eligible street maintenance, including the addition of a new pothole crew and Motor Sweeper Operator. The remaining $1.6 million is proposed for additional capital street improvements. In the out-years, it is anticipated that Gas Tax will increase significantly, which will provide additional funding for street rehabilitation.

Insurance Fund

The Insurance Fund was created to finance and account for the City’s general liability and workers’ compensation activities. The Fund is primarily supported through charges to City departments and funds, with approximately 60 percent of its revenue derived from the General Fund. Although the number of workers' compensation claims has been reduced, the cost of claims has risen and is expected to increase in future years. This is due to the erosion in the SB 899 reforms that will result in further cost increases and future medical care for life for accepted body parts (which is awarded on most claims). The City's long-term workers' compensation liability is currently valued at $114.2 million. The City will be challenged to keep workers' compensation costs from increasing without reforms from the State. For the FY 18 Budget, as part of the solutions implemented to balance the budget, the City will be taking a less conservative (less cost to departments but greater risk of future funding shortfalls) approach in its overhead charges for general liability and workers' compensation activities.

Employee Benefits Fund

The Employee Benefits Fund (EBF) is used to support employee benefits such as paid time off, CalPERS benefits, employee healthcare and pension obligation bond payments, among other costs. The EBF is primarily supported through charges to departments for their employees' estimated benefit costs. The City's outstanding unfunded liability for benefits, not including pensions, is currently valued at $173 million. For the FY 18 Budget for healthcare, the City is recognizing some savings generated from going out to the market for healthcare contracts in FY 17, as well as realigning budget to be closer to estimated actuals.

Community Development Grants Fund

The Community Development Grants Fund is used to account for funds received from the U. S. Departments of Housing and Urban Development (HUD), Labor, Education, and others for economic and community development programs. The Fund also includes county, state and other support for programs. Programs include neighborhood improvement efforts that target low and moderate-income areas of the city, homeless services, affordable housing, workforce development strategies, business assistance efforts, and support for youth development.

Each year, the City actively pursues new funding opportunities to support various programs and services. State and federal grants comprise the majority of revenue in this fund. The balance of revenue is primarily from residential rehabilitation loan repayments, programmable funds carried over from previous years, and from leveraged co-investment between the Workforce Investment Board (WIB) and other partners. The two major resources in the Fund are Community Development Block Grant (HUD) for $8.2 million in FY 18, and Workforce Innovation and Opportunity Act (Labor) formulaic allocations, estimated to be $5.1 million in FY 18, both of which are seeing year-over-year declines in federal appropriations. This has resulted in a need to reduce expenses to match the reduced grants, which includes reducing vacant positions.

SUMMARY OF SIGNIFICANT CHANGES

The attachments that follow include: a summary of the revenue and uses for Measure A and a list of infrastructure projects (Attachment A), a list of Strategic Investments (Attachment B), and the significant budget changes in General Fund departments (Attachment C) and other funds (Attachment D). Presented in these significant budget changes are the fiscal impacts, as well as the position changes, for related activities within departments. For ease of review, all reallocations of resources within departments, offset adjustments, and minor changes have not been included. As figures reflect the net impact to a fund, an increase in expense is shown as a positive number (cost/hit to fund) and a decrease in expense is shown as a negative number (savings/benefit to fund). Accordingly, a decrease in revenue is shown as a positive number (cost/hit to fund), and an increase in revenue is shown as a negative number (savings/benefit to fund).