CITY OF LONG BEACH

LONG BEACH FINANCIAL MANAGEMENT

Solving The Preliminary Budget Outlook Shortfall

February 6, 2018

Updated preliminary projection shows a balanced FY 19 budget when strong balancing actions are taken

Updated Preliminary Shortfall Projection for FY 19

	$ (in millions)
Original projection (in FY 18 budget)	(10.4)
Revenue changes	1.8
Expense changes	(2.7)
Potential balancing action changes	11.3
Revised shortfall	**(0.0)**

- Primary causes: pension costs and slow revenue growth
- Departments will need to absorb cost increases
- Surplus (for one-time uses) not expected
- Projection will be updated
- Does NOT include impact of litigation

Balancing actions and their dollar size are key factors in addressing preliminary shortfall

- $11.3 m in balancing actions changes that will balance budget, assuming an accurate preliminary projection
- Potential balancing actions:
  - $4.0 m – ambulance fees, parking fines & other
  - $0.9 m – revenue from short-term rentals
  - $3.1 m – improved Measure A revenues to help maintain public safety services
  - $3.9 m – allocate more Measure A funds for public safety
  - $2.9 m – other, e.g., vacancy savings, other funding sources, additional efficiencies, cost reductions
  - $14.8 m total
  - $(3.5) m – balancing actions in original projection
  - $11.3 m net additional balancing actions

Actual budget shortfall and needed balancing actions may be different from preliminary projection

- Potential for significant variance to preliminary projection
- A 1% variance in overall revenues would impact shortfall by $4 m to $5 m
- Updated projections may require less or more in budget balancing actions and/or department reductions
- Next update will be released in March; the final three-year projection update is included with the proposed budget

FY 19 budget is balanced, based on preliminary projection and balancing actions

- Balanced based on preliminary projection
- Balanced based on $11.3 m in balancing actions
- But the balancing actions do not take into account the impact of litigation

Litigation has major budget impact

Will result in service reductions due to a loss of long-time revenues

- Litigation concerning water utilities WILL create an $8 m shortfall
- Litigation concerning gas utilities MAY create an additional $10 m shortfall
- Results in substantial reductions to departmental budgets and services
- Charter amendment, currently being considered, could prevent service reductions due to litigation, with no historical cost increases

Two budget options prepared because of uncertainty of Charter amendment

- Cannot assume that Charter amendment will be on ballot or, if on the ballot, that it will pass
- FY 19 budget process includes development of two budget options
  - Option 1: no impacts from litigation
  - Option 2: $8.3 m shortfall from water litigation
- Potential additional $10 m shortfall from gas litigation is about two years away
- Litigation impact will be resolved prior to submission of the proposed budget; proposed budget will have only the appropriate option

Budget balancing will focus on maintaining services and other key goals

- **Focus on services**
  - > Emphasis on most important and core services
  - > Maintaining restored public safety services
  - > Ensure a strong public safety continuum
  - > A balanced and broad range of services
  - > Maintain financial, tech., and HR controls and capabilities
  - > Retained filled positions
- **Focus on strong economic development**
  - > Support continued growth of the City's economic base
  - > Support actions that continue to grow revenues
- **Focus on strong financial management**
  - > Structurally balanced budget
  - > Emergency and operating reserves remain funded
  - > 5% of one-time revenue in unfunded liability reserve
- **Focus on reducing costs and increasing revenues**
  - > Invest in improvements that reduce future costs
  - > Innovations, efficiencies, and current cost reductions
  - > Increase existing revenues or new revenues

Numerous opportunities for City Council and community input

- Feb 6 — Fiscal Outlook to BOC & City Council
- Feb — Budget instructions to departments
- March — Updated projection memo
- May — Mid-year update on FY 18 savings
- By July 3 — Proposed Budget to Mayor
- By Aug 2 — Proposed Budget to City Council
- August — Community Budget Meetings
- August — BOC Meetings
- August — City Council Budget Meetings
- Sept 4 — Budget Hearing; 1st adoption date
- Sept 11 — Budget Hearing; 2nd adoption date

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