Updated General Fund Fiscal Outlook for FY 16 – FY 18

NOVEMBER 17, 2015
Review of Current Year (FY 16)

• Based on an improving economy
• Balanced as a result of discipline and prudent decisions
• Contained no service reductions
• Funded police and fire academies; working to conduct two police academies
• Continued to work on outstanding financial issues and cost savings
• Projected structural surplus of $675,000 for FY 16; appears to be on target
• Being carefully monitored due to key revenue and expense items that are impacting the outlook for FY 16 – FY 18
Revenue Items Impacting FY 16 – FY 18

• Positive Revenue Impacts
  > Sales Tax – economic growth; CRC Services, Office Depot, Hooman, Worthington
  > Transient Occupancy Tax – economic growth
  > Property Tax – higher residual property tax from RDA dissolution
  > First Responder fee – new fee implemented
  > Misc. Revenue – Electric UUT, lease revenue from The Pike

• Negative Revenue Impacts
  > Property Tax – low oil prices from reduced value of oil related property
  > Uplands Oil revenue – reduced price per barrel
Expense Items Impacting FY 16 – FY 18

- **Positive Expense Impacts**
  - Open Space Bonds Debt Service – to be covered by RDA City loan repayment per State
  - CalPERS Stabilization Fund – proposed to be paid by FY 15 year-end surplus

- **Negative Expense Impacts**
  - RMD Termination – to be covered by First Responder Fee or FY 15 year-end surplus
  - County Park Bond Funded Maintenance – now a General Fund expense
Assumptions and Uncertainties

• Assumes CalPERS costs are locked through FY 18; although low investment returns will draw down CalPERS stabilization fund

• Assumes the economy will continue to be good, but it is uncertain and difficult to predict

• Assumes oil at $45 a barrel for FY 16 and $50 a barrel for FY 17 and FY 18, but this is highly uncertain and difficult to predict

• Does not assume any raises or take-aways in current or upcoming labor negotiations

• Projection will change based on FY 16 status as the year continues and with any new information
Revised Fiscal Outlook for FY 16 – FY 18

- Since the FY 16 temporary surplus was not structurally spent, it reduces FY 17 deficit from $5.8 to $5.1 million, which is not at the level of cuts needed during Great Recession

- While Fiscal Outlook for FY 16 – FY 18 is better than the original projection, we have already cut $134 million and almost 700 positions since FY 07

- Shortfalls likely to continue through FY 20 due to oil prices and pension cost increases

- This outlook will be updated later in FY 16 and could change materially

<table>
<thead>
<tr>
<th>(In Millions of $)</th>
<th>FY 16</th>
<th>FY 17</th>
<th>FY 18</th>
<th>Cumulative</th>
</tr>
</thead>
<tbody>
<tr>
<td>Prior Projection - Surplus/(Shortfall)</td>
<td>0.7</td>
<td>(7.5)</td>
<td>(7.8)</td>
<td>(15.3)</td>
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<tr>
<td>Current Projection - Surplus/(Shortfall)</td>
<td>0.7</td>
<td>(5.1)</td>
<td>(5.2)</td>
<td>(10.3)</td>
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</tbody>
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Budget Approach

• FY 16 – Be Cautious
  > Exploring General Fund department budget savings targets to begin in January in order to:
    ◦ Ensure FY 16 remains in balance
    ◦ Generate funds for one-time purposes including Police Academy costs
    ◦ Prepare for FY 17 by initiating savings now to help to balance fiscal years 17 and beyond

• FY 17 Approach
  > Allow no service enhancements without offsetting reductions
  > Continue to develop efficiencies and cost reductions
  > Focus one-time expenditures on reducing costs and meeting critical needs
  > Focus on economic development to grow revenue base and identify potential new revenues
  > Develop approaches to meeting any reduction targets needed
  > Work with employees to secure fair agreements that recognize the value of employees while also addressing our fiscal realities
Summary and Next Steps

- Long Beach is projected to do better than earlier anticipated, but must continue to take steps to address a new economic reality and reduce expenditure growth to match the limited revenue growth.

- The preliminary budget projected shortfall of $5.1 million in FY 17 equates to 1.3% of the departmental budgets and this is manageable due to the Mayor’s and City Council’s discipline and fiscal restraint.

- We need to stay focused on our core services given our limited resource capacity.

- City Staff will continue to evaluate financial projections and will update City Council in February with the FY 15 year-end status and will return in March with updated estimates for the FY 17 – FY 19 Outlook.