

EXECUTIVE SUMMARY

OVERALL BUDGET FINANCIAL SUMMARY

The Fiscal Year 2023 (October 1, 2022 through September 30, 2023) all funds budget for the City of Long Beach totals \$3.2 billion, including \$176.6 million for the all funds Capital Improvement Plan from various sources excluding the Harbor Department. Table 1 below shows the total Proposed Budget for the City's General Fund Group, including one-time expenditures, enterprise fund groups (Gas, Refuse, Water, Airport, Development Services, Harbor etc.) and all other fund groups (Successor Agency Operations, Debt Service, etc.). Of the total budget, Harbor and Water which are not administered by the City Manager and not directly controlled by the City Council (although the City must review and approved the budget) constitute 26 percent, or \$819 million of all proposed spending.

Table 1. Total Budget (\$ in millions)					
	<u>FY 22 Adopted</u>	<u>FY 23 Proposed</u>	<u>% of Total</u>	<u>% Change</u>	
General Fund - Recurring	\$ 623.1	\$ 664.8	21%	7%	
General Fund - One-Time*	11.3	4.9	0%	-56%	
Enterprise Funds	1,143.8	1,195.3	38%	5%	
All Others	<u>1,236.8</u>	<u>1,314.3</u>	<u>41%</u>	<u>6%</u>	
Total	\$ 3,014.9	\$ 3,179.2	100%	5%	

* Does not include Measure A One-Times, which is captured as part of General Fund-Recurring line item above. Overall Measure A is accounted for separately when calculating bottom line General Fund structural status.

GENERAL FUND GROUP

The General Fund group accounts for approximately 21 percent of the total budget and provides many of the core City services. This includes police and fire services, parks, streets and sidewalks repair, and library services. Most other fund groups and resources are restricted by law for other purposes and cannot be used to support these core functions.

Balancing the FY 23 Budget

The March 2022 budget projection provided to City Council during the start of the FY 23 budget development process indicated an estimated structural shortfall of \$11.8 million. With updated projections, the planned use of reserves that have been previously set aside to mitigate the impact of the Measure M litigation, and proposed FY 23 budget items, the structural shortfall remains nearly the same at \$11.7 million plus \$4.9 million of proposed one-time uses. This shortfall and one-time funding needs of a total of \$16.6 million are proposed to be resolved for FY 23 through funds made available through the Long Beach Recovery Act, FY 22 Police Department budget savings earmarked for the Community Crisis Response program, and savings from an updated allocation of the citywide indirect cost plan.

Table 2 shows the breakdown of the budget balancing actions with additional information provided below the table. Normally the use of one-time funds is not recommended as a means to balance a budget, but in this case, it is a strategic decision by the City to utilize one-time funds set aside to allow the City to provide normal services while the City and the community continue to recover from the pandemic.

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Table 2. FY 23 General Fund Budget Updates since March Projection (\$ in millions)

	Surplus/(Shortfall)*		
	Structural	One-time	Total
Preliminary Shortfall as of March	(11.8)	-	(11.8)
Citywide Revenue and Expense Updates**	(7.6)	-	(7.6)
Proposed Budget Changes	(0.8)	(4.9)	(5.7)
Revised Surplus / (Shortfall)	(20.2)	(4.9)	(25.1)
<i><u>Budget Balancing Solutions</u></i>			
Funds made available through LB Recovery Act		14.5	14.5
Release of Reserve for Measure M shortfall		8.5	8.5
FY 22 Police Department savings for Community Crisis Response		1.0	1.0
Citywide indirect cost plan allocations update		1.1	1.1
Final Surplus / (Shortfall)	(20.2)	20.2	0.0
<i>Shortfall without the Measure M impact for reference</i>	<i>(11.7)</i>		

* A positive number helps bottomline fund status; a negative number is a hit/cost to bottomline fund status

** Includes impact of Measure M litigation loss at \$8.5 million

- Preliminary Shortfall as of March** – In March of 2022, the FY 23 Budget Outlook was presented to City Council and for the General Fund, a structural shortfall of \$11.8 million was projected. At that time, the Measure M litigation was still pending, and the shortfall figure assumed the continuation of the revenue transfers from the Water Fund to the General Fund. Reserves for Measure M had been set aside in previous years in the event of an unfavorable litigation outcome.
- Citywide Revenue and Expense Updates** – Additional revenue and expense projection updates have been made based on additional data and trend analysis available since the March 2022 forecast. Overall, the net impact of citywide revenue and expense projection updates was an increase to the structural shortfall of \$7.6 million. This negative impact is mainly due to the loss of \$8.5 million in revenue that was previously transferred from the Water Fund as a result of the City’s loss of the Measure M litigation. Separate from the Measure M litigation related revenue loss, other key revenue sources has improved by \$1.3 million. The improvements include property tax and general fund transfers, as well as on-going improvements to sources previously negatively impacted by the pandemic such as sales and transient occupancy taxes. On the expenditure side, net additional costs of \$399,047 were added to the shortfall, including an estimated \$436,000 for a potential debt service related to Measure M.
- Proposed Budget Changes** – Although the FY 23 Budget projected a General Fund shortfall in the March presentation to City Council, departments were not requested to propose service reductions to balance the budget as Long Beach Recovery Act funds were anticipated to cover the shortfall on a one-time basis. The FY 23 Budget continues to preserve and maintain services, and additionally, critical and high priority enhancements were made across departments. Many are outlined in the City Manager’s Budget Message, and full lists are available as Attachments to the Message. These

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enhancements were a structural net impact of approximately \$790,000 but did not add to the structural deficit as any adds were offset with citywide revenue projection improvement and other expenditure reductions. There are a number of one-time strategic and critical investments being made totaling \$4.9 million. Details on these strategic investments can be found in Attachment B and C of the City Manager's Budget Message.

- **Budget Balancing Solutions** – The FY 23 Budget utilizes the following one-time solutions to balance the General Fund Budget. \$14.5 million is coming from funds made available through the Long Beach Recovery Act; \$12.0 million of this was anticipated to be utilized during the March 2022 Outlook update, and an additional \$2.5 million is anticipated to be available for use from improved FY 22 projections, which is also slated to utilize LB Recovery Act funds to balance the year. A one-time of \$8.5 million is included representing a release of reserves that were previously set aside to mitigate the impact of a Measure M litigation related revenue loss for FY 23 to help avoid disruption to the budget development process and timeline. This is a one-time solution for FY 23 and the structural revenue loss has been incorporated into out-year projections. \$980,000 of funds will be used to offset the one-time enhancement added to the budget for the Community Crisis Response program, funded from anticipated FY 22 Police Department savings set aside for this purpose. Lastly, \$1.1 million of funds are from an updated citywide indirect cost plan allocation that resulted in savings for the General Fund. The continuity of these savings is being evaluated and will potentially be incorporated into out-year forecast as additional information becomes available.

The reserves discussed in the Budget Balancing solutions bullet above do not include the City's General Fund Operating (inclusive of the Measure B Stabilization Reserve) or Emergency Reserve, which as of FY 21 year-end were at \$14.9 million (2.6 percent of normal operating expenditures) and \$47.8 million (8.5 percent of normal operating expenditures, respectively. Additionally, included in the Proposed FY 23 Budget is a reserve of \$2 million for unexpected labor and other critical costs that can be utilized for critical needs in FY 23 as they arise.

Proposed Structural FY 23 General Fund Group Changes By Department

Table 3 summarizes the departmental net fund impact of the FY 23 General Fund Group proposed changes excluding one-times, along with the budgeted position changes. The total structural net departmental changes as a result of City Manager proposed decisions were approximately \$790,000. The Table does not include any Measure A changes; those are discussed and documented separately as part of the Measure A plan. The full details of these General Fund changes by department, including Measure A items, are listed in Attachment C of the City Manager's Budget Message.

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**Table 3. Structural FY 23 General Fund
Net Impacts by Department***

Departments	FY 23 Proposed Changes	Position Changes
Mayor and Council	-	(0.50)
City Attorney	(133,480)	(0.54)
City Auditor	-	-
City Clerk	-	-
City Manager	329,632	6.30
City Prosecutor	-	-
Civil Service	371,926	3.00
Development Services	-	-
Disaster Preparedness and Emergency Communications	98,427	1.00
Economic Development	220,707	1.65
Financial Management	290,384	2.00
Fire	316,405	2.34
Health & Human Services	1,318,110	7.50
Library Services	581,216	1.50
Parks, Recreation and Marine	1,093,604	17.34
Police	(0)	11.34
Public Works	105,279	2.40
Citywide Activities**	(3,802,611)	-
TOTAL	789,599	55.33

* Excludes Measure A and other non-City Manager Decision system updates (i.e. MOUs)

** The negative amount in Citywide Activities is mainly the result of a combination of additional revenue related to the annual Gas Transfer to the General Fund and the removal of placeholders in the budget. The placeholders represented unassigned Measure US funds and a set aside for anticipated Citywide critical needs. As part of the City Manager Proposed Budget, the placeholders are now reflected as enhancements budgeted in the appropriate implementing departments.

General Fund Group Budget Outlook

As part of the City's normal financial planning, a multi-year forecast of the General Fund Group is always prepared that assumes a continuation of service levels in the Proposed Budget. A preliminary projection is provided at the beginning of the budget process and an updated projection is provided when the proposed budget is released and is then periodically updated thereafter.

Table 4 below shows the General Fund Group Budget Outlook through FY 26, which factors in a continuing recovery in revenues previously impacted by the pandemic and potential cost of living wage increases for employees, which will be revised based on actual negotiated employee

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contracts in the future. Based on the Outlook, the FY 24 budget shows a structural shortfall, impacted by the shortfalls that have been mitigated with one-time funds over the past couple of years.

Table 4: General Fund Surplus / (Shortfall) in \$ Millions					
	FY 23 Proposed*	FY 24 Projection	FY 25 Projection	FY 26 Projection	Total
Surplus/(Shortfall) - Annual	-	(5.4)	2.3	0.2	(2.9)
<i>Shortfall from Previous Year</i>	-	(20.2)	-	-	(20.2)
Surplus/(Shortfall)**	-	(25.6)	2.3	0.2	(23.1)

* The FY 23 shortfall of \$20.2 million is offset with funds set aside to mitigate the Measure M litigation related revenue loss and funds made available through the Long Beach Recovery Act.
** This chart assumes that any shortfalls are structurally solved each year, except FY 23

The Outlook includes the following assumptions:

- No recession
- Progress towards recovery from the pandemic will continue throughout FY 23 and into FY 24.
- No resurgence of the pandemic
- No additional costs incurred by the City in response to the pandemic, which will be funded on a one-time basis with offsets from grants or State/federal funding
- Negotiated contract costs are included and general cost of living wage increase are assumed for contracts that expire. This assumption will be revised based on actual negotiated contracts

There are many change “drivers” that impact the forecast on both the revenue and expenditure sides. Details of some of the key change drivers are shown in Table 5 on the next page.

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Table 5: Drivers for the General Fund Surplus / (Shortfall)*					
(\$ in Millions)					
Incremental Changes in Revenue and Expense	FY 23 Proposed	FY 24 Projected	FY 25 Projected	FY 26 Projected	4-Year Total
Uplands Oil Transfer	(.8)	.1	(.1)	.3	(.5)
Property Tax	9.8	4.7	9.1	6.8	30.3
Transient Occupancy Tax	2.5	.4	-	-	3.0
Sales Tax & Measure A	8.9	(.9)	4.5	4.6	17.1
Utility Users Tax	4.9	.9	1.0	1.2	7.9
Other Revenue Change (e.g. VLF, Electric/Pipeline Franchise, Transfers)	.1	3.6	3.7	3.9	11.3
Total Revenue Impact	25.3	8.8	18.2	16.8	69.2
Salary Changes	(18.8)	(13.1)	(12.5)	(12.8)	(57.1)
CalPERS Pension Changes Due to Rate Increase Only	(.5)	3.2	3.5	2.8	9.0
Insurance Fund Costs (e.g. General Liability and Worker's Compensation)	1.4	(.9)	(.9)	(.9)	(1.2)
Fleet Fund MOU Costs	(.8)	(1.3)	(.1)	.3	(1.8)
Health Benefit Related Changes	(2.6)	(2.6)	(.5)	(.5)	(6.2)
Other Expense Changes (e.g. Debt Service, Indirect Cost Plan, Corrections, New Holiday)	(.4)	(3.0)	(3.5)	(3.4)	(10.3)
Set aside for Measure US and Measure B (TOT) Funds	(.5)	.0	.1	.1	(.4)
Total Expense Impact	(22.2)	(17.6)	(13.8)	(14.4)	(68.1)
Additional Impacts To Projected Surplus/(Shortfall)					
City Manager Budget Proposals Net Impact (Structural)	(.8)				
Additional Measure A Support per March 2022 Presentation	2.9				
Shortfall from Previous Year - Not included in lines above	(26.9)	(20.0)	-	-	
Backing out Impact of Measure A related revenue**	1.6	3.3	(1.9)	(2.0)	
Measure B (Stabilization Fund) Set Asides***	(.2)	(.2)	(.2)	(.2)	
Structural Projected Surplus / (Shortfall)	(20.2)				
City Manager Budget Proposals (One-times)	(4.9)				
Structural & One-time Projected Surplus / (Shortfall)	(25.1)				
Various One-time Offsets	25.1				
Final Projected Surplus / (Shortfall)****	-	(25.6)	2.3	.2	(23.1)

* Negative numbers represent a negative impact to the fund position, and positive numbers represent a positive impact to the fund position.

** Measure A related revenue and expense increments need to be backed in order to calculate the surplus/(shortfall) unrelated to Measure A.

*** These figures reflects Measure B set asides for Measure MA, Measure US, Measure B-TOT. Measure A amounts are captured as part of backing out Measure A related revenues and expenses.

**** Assumes that any shortfalls are structurally solved each year, except for FY 23

As the world works to recover from the pandemic, there is uncertainty as to what will be the continued impacts of the pandemic on the economy and what the impacts will be on residents, businesses, industries, and City revenue. As is always the case with projections, the outlook will change over time as more information becomes known.

Major FY 23 General Fund Group Revenue Trends

Revenues in the General Fund Group are typically unrestricted in their use and predominantly derived from local taxes. In FY 23, taxes account for approximately 71 percent of General Fund

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Group revenues. Of this amount, Property Taxes, Sales Tax (including Measure A), Property Tax in Lieu of Vehicle License Fees (VLF) and Utility Users Taxes (UUT) account for 64 percent of General Fund Group revenue. Similar to other California cities, revenue in the Long Beach General Fund Group is constrained by the natural rate of year-over-year growth of these tax revenues. Historically, the base revenue increase (not including unusual one-time gains or losses) had difficulty even offsetting inflation in the City's costs. Following pandemic-related revenue losses FY 20, the City experienced better than anticipated results in FY 21 with growth estimated to continue in FY 22. In FY 23, the overall revenue outlook is generally positive across several key revenue sources. The section below outlines additional projection details on various major revenue streams, which will continue to be monitored and updated throughout FY 23 as more data becomes available.

Additionally, Attachment A to this Executive Summary Chapter provides background information on the basics of the City's Sales and Property Tax revenues.

- Property Taxes – The largest City revenue source in FY 23, total property tax is estimated to generate \$150.2 million. Due to Proposition 13, the City's underlying assessed valuation growth is constrained to two percent per year until a reassessment occurs due to a change of ownership or construction. The FY 23 property tax forecast for assumes close to a five percent increase from FY 22 estimates due to the continued strength of property sales and new development in the City. Similarly, these assumptions also extend to Property Tax in Lieu of VLF which is projected at \$62.2 million. Total property tax revenues also include revenues from prior year adjustments and delinquencies which are subject to fluctuations each year.
- Sales Tax – The City's second largest revenue, sales tax revenue (not including Measure A) is projected to generate \$82.1 million in FY 23, exceeding even pre-pandemic years' performance. These projections anticipate the steady sales performance from various location agreements approved by the City Council to establish purchasing companies in the City of Long Beach and promote sales tax revenues, as well as increases in other areas that experienced pandemic-related losses such as restaurants & hotels and general consumer goods. Finally, projections also include continued growth in revenues from the countywide pool which began to grow following implementation of AB 147 in 2019 (mandating increased collections) then further increased during 2020 driven by the transition to online shopping during the pandemic.
- Measure A – The City's Transactions and Use (sales) Tax, known as Measure A, is projected to generate approximately \$67.4 million in FY 23, which will be deposited in the General Fund Group. This amount includes a continuation of the tax at three-fourths of a percent instead of the current one percent. This reflects both the voter approval of the tax and the impact of County's Measure H (for homeless initiatives) which takes one-quarter of a percent due to the timing of when the respective ballot measures were approved. Revenue from a full one percent tax is projected at \$83 million in FY 23 and is impacted by similar trends in major categories as non-Measure A sales in such as restaurants & hotels and general consumer goods.
- Transient Occupancy Tax (TOT) – The FY 23 General Fund Group budget for TOT (excluding the additional one percent generated from Measure B-TOT), is \$18.7 million. Long Beach TOT is an extremely volatile revenue source, heavily dependent on

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conventions and business meetings, and has been significantly impacted by reductions in occupancy due to travel and social distancing restrictions in response to the pandemic. Based on available FY 22 data, it is projected that FY 23 revenues will align closer to average pre-pandemic levels, with full recovery anticipated for FY 24. The forecast assumes that conventions and business travel activities will remain close to pre-pandemic levels for the remainder of FY 22 and into FY 23. While current estimates project that TOT will recover by FY 24, revenue remains dependent on many factors.

- **Users Utility Tax (UUT)** – This is a five percent tax on usage of water, telephone, electric utilities. This tax is projected to generate \$38.2 million in FY 23 and is higher than the \$33.3 million budgeted in FY 22. The FY 23 forecast for UUT assumes continued growth from FY 22 estimates which are anticipated to exceed budgeted expectations. This includes Telephone UUT that, while still a declining revenue source, actual receipts indicate the annual decline is not as steep as previously anticipated.
- **Cannabis Related Revenues** –The FY 23 General Fund Group budget anticipates \$12 million in revenues and aligns with FY 22 estimates. The FY 23 projections anticipate that activity levels will remain at higher levels which started in FY 20 when the City experienced much higher revenues than prior years due to increased demand during the pandemic. This trend then continued into FY 21 and is estimated in FY 22. Any revenue impacts resulting from possible future changes directed by City Council following the completion of feasibility studies on cannabis taxes will impact these projections.
- **Oil Revenue** – The projection for the FY 23 budget assumes the price of oil at \$55 per barrel. While the actual average price of oil in FY 22 is much higher, over \$90 per barrel, the FY 23 budget applies the financial practice of structurally budgeting a lower than likely oil price to hedge against the risks of the very volatile nature of this revenue source. Due to this financial practice and based on higher FY 22 average oil prices, there may well be surplus available at the end of FY 23, too, which can then be used towards critical one-time needs or additional set-asides for oil well abandonment. Table 5 below shows actual and anticipated annual revenues available for transfer to the General and Tidelands Fund Groups based on the assumed oil price per barrel. Both price and production efforts impact the City’s oil revenues, which in turn impacts what net revenues are available for higher net transfers to operating funds.

	FY 20	FY 21	FY 22	FY 23	FY 24	FY 25
In millions of \$	Actual	Actual	Est.	Budget	Proj.	Proj.
Barrel Price Estimate	\$ 44.7	\$ 59.8	\$ 90.0	\$ 55.0	\$ 55.0	\$ 55.0
Uplands	\$ 7.2	\$ 7.3	\$ 10.6	\$ 6.1	\$ 6.1	\$ 6.1
Tidelands	\$ 14.3	\$ 13.5	\$ 33.1	\$ 12.7	\$ 12.3	\$ 10.7

Major FY 23 General Fund Group Expense Trends

On the expense side of the equation, wages, retirement pension costs, and Health-related other benefit costs are some of the main factors for increases. There were areas of savings as well, in expenditures areas such as debt service payments and Insurance Fund related costs.

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- Salary Changes – Projected labor costs increase in FY 23 by approximately \$19 million for several reasons including previously negotiated pay raises and benefit changes in employee labor contracts and step increases for current employees. Additionally, a general inflator representing potential cost of living increases totaling \$7.5 million is included for groups with expired contracts at the beginning of FY 23.
- Pension (CalPERS) Cost Increases – Pension costs in FY 23 show a notable trend that has impacts into the outyears. FY 23 pension costs are increasing by approximately \$518,000, which is a significant smaller increase than in previous years where CalPERS cost increases required to pay down the City's unfunded liability were some of the highest cost drivers. The FY 23 increase is a small amount and the outyear projections actually show decreases in pension costs for the first time in recent history, until FY 29, after which costs start minimally increasing again until FY 33. This improvement in cost projections is mainly the result of the high investment return of 21.3 percent earned by CalPERS in 2021. For perspective, CalPERS' investment return assumption is 6.8 percent. These above market returns help mitigate the City's pension costs for part of the year in FY 23. It is important to note that this trend of lower pension costs may fluctuate as equity and fixed income markets experience volatility. Pension costs may significantly increase or decrease in FY 25 and onwards, depending on variables such as investment returns and CalPERS changes in assumptions about membership experience and mortality. The total FY 23 General Fund Group budget for pensions is \$108.2 million (\$188.2 million All Fund Groups).
- Insurance Fund Costs – The Insurance Fund Group includes the Worker's Compensation Fund and the General Liability Fund. While General Liability related costs have been a cost driver in the past few years, this year, these costs have remained flat. Additionally, the overall premium rates for FY 23 Worker's Compensation have been reduced by 4.5 percent from prior year as a healthy funds available status allowed for a reduction in the overhead rates. FY 23 also includes a 9.4 percent decline in premium rates for sworn safety officers which correlates to the decline in losses paid. The FY 23 projected ending funds available for the Worker's Compensation Fund is expected to grow to \$19.5 million.
- Fleet Fund MOU Costs – Fleet related costs are projected to increase by \$0.8 million for expenses related to the City's purchase, maintenance, and replacement of vehicles. Expenses related to both parts and sublet services are anticipated to increase. In addition, fuel prices are anticipated to stay high in FY 23, with current projections generating an approximate 31 percent increase over the previous year's budget.
- Health Benefit Related Costs – Health benefit related costs are projected to increase by \$2.6 million (\$5.4 million all funds). Healthcare spending is expected to return to pre-pandemic levels with increased cost adjustments due in part to delayed care during lockdowns at the height of the pandemic. The potential long-term impacts of COVID-19 are difficult to estimate, but the industry currently anticipates an increase in medical services, late-stage cancer diagnoses and mental health issues. These potential impacts may drive future health care costs and will be considered in future projections.

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- Other Expense Changes – These figures include various other expense categories including debt service payments, various citywide MOU costs, and citywide indirect cost plan allocations. Potential debt service payments to finance the funds owed to the Water Fund as a result of the Measure M litigation is also included, starting with an interest-only payment in FY 23 and both principal and interest payments beginning in FY 24.
- Set aside for Measure US and Measure B (TOT) funds – These figures represent allocations that are set aside specifically for Measure US and Measure B uses as determined by City Council's intent on the uses of these funds.

OTHER FUNDS GROUPS

In addition to the General Fund Group, the City maintains 36 other major fund groups. Many are narrowly focused and restricted to specific business activities. This section discusses select fund groups with key Citywide issues.

Airport Fund Group

The Airport Fund Group tracks the financial status of Long Beach Airport. Airport operating revenues are generated from airline fees, parking operations, concession sales, long-term ground leases of Airport property, and other Airport business operations. The Federal Aviation Administration (FAA) also provides revenue to the Airport Fund Group through its Airport Improvement Program (AIP) and Airport Infrastructure Grants (AIG). The fund group also includes various grants from the Transportation Security Administration (TSA), Passenger Facility Charges (PFC) collected by airlines and Customer Facility Charges (CFC) from car rental agencies.

As the travel industry moves past the pandemic, the Long Beach Airport (Airport) is poised to be in a much stronger position with new, modern facilities paired with a more competitive air service profile beginning FY 23. The Airport estimates total passenger activity to be roughly 3.6 million for FY 23 – marking the full recovery of activity since the pandemic began. This recovery is expected to yield over 30 percent more activity than the budgeted level of the previous year which will result in a significant increase in operating revenues. The increased revenues are more crucial than ever as relief funds are not expected to be received in FY 23, requiring the Airport to be financially self-sustaining once again.

The new Ticketing Lobby Facility and Common Use Passenger Processing System (CUPPS) enhance the customer experience and provide added flexibility to the unique operations at the Airport, but also bring new costs for maintaining and operating the facility and system. The Airport has a different mix of airline business partners and travel destinations, which will provide a strong footing for the Airport but requires adapting to customer preferences and evolving technology use. The FY 23 operating budget includes increases that support these changes and help the Airport adapt to a post-pandemic world.

The Airport continues to manage a large capital improvement program on both the airfield and terminal area. The program is expected to grow in complexity and be supplemented with funding from the Bipartisan Infrastructure Law and other sources. Sustainability remains a key focus in the Airport's capital improvement program as well as improving safety, security and efficiency.

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The structural enhancement to the Airport's capital budget will provide more flexibility to act on opportunities as well as continue managing a robust program.

Revenue opportunities also remain a key focus of the Airport and it is more crucial than ever as the Airport balances the increasing needs of operating an airport with the limited resources available. The Airport continues to look for new revenue opportunities as well as strengthening the existing sources to ensure that revenue growth outpaces expenditure growth, which is a challenge as pressure from inflation and other factors drive up the cost of operations. The FY 23 outlook for the Airport remains very positive as the industry moves past the pandemic.

Civic Center Fund Group

The Civic Center Fund Group is used to maintain, improve, and operate the Civic Center complex, which includes City Hall, Billie Jean King Main Library, Fire Station 1, Police Headquarters, Broadway Garage, Public Safety Garage, and Lincoln Park. The ongoing revenue resources to this fund include charges from departments occupying the Civic Center facilities.

Current FY 23 projected costs include expenses from increased security and the amended Memorandum of Understanding (MOU) with the Harbor Department. These costs include payment to the Port for licenses and easements costs located in the Port Building. The current projected revenues for FY 23 are expected to cover all costs for the year. The fund is projected to begin FY 23 in a substantial negative budgetary funds available status of -\$5.6 million but two factors are expected to bring the fund back into balance: 1) increased departmental charges included in the FY 23 budget (mostly borne by cost increases to the General Fund) to recoup increased security plus FY 22 catch-up costs such as capital modifications to City Hall; and 2) the receipt of a \$6 million accounts receivable from Plenary expected no later than December 2022.

Gas Fund Group

The Gas Fund Group provides full natural gas utility services to residential and business customers in Long Beach, Signal Hill, and small portions of several adjoining cities. In FY 23, the Gas Fund is projected to spend \$4.5 million on gas pipeline capital improvements. Budgeted revenues of \$105 million from gas operations are projected to be up 11 percent compared to FY 22. This increase is attributed to higher market prices for natural gas and anticipated strong demand. The Gas Fund Group is projected to be able to transfer \$13.8 million to the General Fund. Actual year-end revenues will determine the final transfer amount which will be at the maximum of 12 percent of gross revenues established by the City Charter through Measure M. A December 2021 appellate court ruling against the City regarding the lawsuit that challenged the legality of the City's Measure M charter amendment centered on the City's water utility revenue transfers and does not impact the Gas Fund transfer to the General Fund, which was not the subject of litigation.

Health Fund Group

The Health Fund Group was established to account for funds restricted for public health purposes. The fund group accounts for revenues and expenditures associated with federal, State, local and private grants, health permits, and other fees. In FY 22, the Fund received grants from various federal and State agencies for direct COVID-19 response and recovery and

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resiliency efforts, supplementing existing budget used to support programs focused on retention of existing services which promote health and wellness and provide protection from disease and injury.

Also, in FY 22, the California Department of Public Health (CDPH) Immunization Program granted the City's Department of Health and Human Services (Department) an additional \$5.3 million to assist local health departments in preventing and controlling vaccine-preventable diseases and vaccination services for COVID-19 response. Additionally, the Department received an allocation of \$2.8 million from the Centers for Disease Control and Prevention (CDC) pass through to the County to: (1) expand the public health workforce to support COVID-19 response; (2) train the public health workforce for emergency response via the Public Health Preparedness Summit; and (3) expand medical and testing services for students of the Long Beach Unified School District. An additional \$750,000 was also granted to focus on supporting the LBUSD school reopening by setting up test sites, contracting with test kit suppliers, and procuring personal protective equipment (PPE).

Furthermore, the CDPH, Sexually Transmitted Disease (STD) Control Branch granted the Department \$169,000 annually for the period of July 1, 2021 through December 31, 2025, for expansion of the Disease Intervention Specialist (DIS) workforce. Funding will be used to increase capacity to conduct disease investigation, linkage to prevention and treatment, case management and oversight, and outbreak response for STD, HIV, COVID-19, and other infectious diseases.

On July 19, 2021, AB 140, was signed into law by Governor Newsom, authorizing funding for the Homeless Housing, Assistance and Prevention Round 3 (HHAP-3) program. HHAP-3 is a \$1 billion block grant program that provides local jurisdictions with flexible funding to continue efforts to end and prevent homelessness in their communities. Total HHAP-3 funding for the City is \$8.5 million and could be used for existing and ongoing operations or expansion of services such as: rapid rehousing, navigation center operations, sheltering for transitional age youth, sobering centers, intensive case management services (ICMS), mobile Multi Service Center (MSC) stations, modular shelter operations, and potential expansion of the MSC.

Additionally, the Los Angeles County Board of Supervisors approved the Chief Executive Office to allocate a portion of the 2021-2022 California Department of Social Services (CDSS) one-time funding in the amount of \$1.5 million to the City to address the need to house people experiencing homelessness (PEH) and to prevent the spread of COVID-19. This CDSS funding allowed the City to continue to provide Project RoomKey for PEH, permitting people in need to remain in non-congregate housing while working towards permanent housing. This grant is also being utilized for additional motel vouchers, intensive case management services, and rapid re-housing resources.

Also, the Business Consumer Services and Housing Agency's California Interagency Council on Homelessness (Cal ICH) granted the City \$1.3 million of Encampment Resolution Funding (ERF) to serve PEH along a major commercial corridor located at 1301 N. Warren Ave, which is one of Long Beach's largest encampment sites and has a significant portion of individuals who have been experiencing chronic homelessness for over five years. The ERF program is a \$47.5 million grant that assists local jurisdictions in ensuring wellness and safety of PEH in encampments,

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supporting innovative and replicable efforts to resolve critical encampment concerns, supporting individuals to access safe and stable housing using Housing First Approaches, and encouraging a data-informed, coordinated approach to address unsheltered homelessness at encampments. The proposed intervention being offered to PEH through the ERF grant will be immediate access to a motel voucher and other interim housing options available in the City to exit the encampment, as well as case management services.

Lastly, in FY 22, the Conrad N. Hilton Foundation granted the Department \$1.5 million for Futures First, Office of Youth Development, to serve 300 opportunity youth over three years. Through a partnership with Pacific Gateway Workforce Investment Network (PGWIN), the purpose of the program is to increase opportunity youth's social-emotional intelligence and skills-based learning so they are better equipped to complete one of five career pathways that will increase their social-economic mobility. Youth will participate in the program ranging from six to fifteen months depending on their focus area and needs and upon completion, will be invited to participate in a three-month follow up session to ensure youth are well-resourced and to prevent additional disconnection. The two primary program goals are to: (1) establish a robust systemic approach to support opportunity youth in Long Beach, and (2) increase access to culturally affirming supportive services and employment pathways for opportunity youth.

The Health Fund Group's permits and fees revenue base continues to recover from the negative impact of the pandemic over the past two years. The Department is currently undergoing a fee study to review fees and services provided by the Environmental Health Bureau. Based on the study's outcome, the Department will be proposing updates to the current fee structure.

While internal stressors such as growing capital and infrastructure needs, rising technology and benefit costs, and increased restrictions placed on grants put pressure on the fund's resilience, staff continues to work to identify strategies to address these ongoing challenges to ensure services levels are maintained.

Insurance Fund Group

The Insurance Fund Group accounts for and finances all risk management-related and insurance activities citywide. The City uses self-insurance and purchases excess insurance coverage in the open market to protect against large losses. The fund is primarily supported through charges to City departments and funds based on overhead rates and allocation of risk management costs in addition to recovery fees and reimbursements received on claims expense and other expenditures.

The Worker's Compensation program offers health and lost wage benefits to employees at no cost if an employee is injured or becomes ill due to job related issues. The charges have increased from prior years due to projected increased costs based on the most recent actuarial study. This amount is being recouped by charges to departments. FY 22 began with \$18.3 million in budgetary funds available for the Worker's Compensation Fund and is projected to end the year with \$17.5 million. FY 23 is projected to end the year with \$19.5 million.

The General Liability fund accounts for the City's miscellaneous insurance, settlements, judgments, and defense for all liability related activities. These charges have increased from prior years due to projected increased costs based on the most recent actuarial study. General Liability

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costs for settlements and judgments had been increasing sharply prior to the pandemic, resulting in the depletion of budgetary funds available in the General Liability Insurance Fund. The large settlements and losses were in multiple departments and appeared to be typical of high jury verdicts across the country, not an issue unique to Long Beach. In FY 20 and FY 21, settlements and judgments decreased due to the slowdown of cases making their way through the courts. However, it is unknown at this time how much backlog exists or how this will affect costs when courts resume operations at normal capacity. In addition, costs for miscellaneous insurance such as property insurance are rising significantly, in part due to some losses the City incurred in recent years.

The table below provides a five-year history of miscellaneous insurance costs and settlements and judgments costs, plus projected FY 22 and FY 23 costs.

FY 17 – FY 23 Insurance, Settlement and Judgement costs

(in millions)	Actuals					Projected	Proposed
	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Misc Ins	\$ 3.3	\$ 3.7	\$ 3.5	\$ 7.4	\$ 10.5	\$ 14.2	\$ 11.0
Settlements & Judgements	\$ 12.7	\$ 15.2	\$ 27.2	\$ 8.4	\$ 3.2	\$ 12.3	\$ 14.3
Combined Total	\$ 16.0	\$ 18.9	\$ 30.7	\$ 15.7	\$ 13.7	\$ 26.5	\$ 25.3

Due to the increased settlement and judgment costs incurred in FY 18 and FY 19, the General Liability fund began FY 22 with a negative \$12.8 million in budgetary funds available. Since then, the interdepartmental MOU for General Liability has been increased to recoup for these losses and bring the fund back into a healthy status, and the fund is currently on a path towards fiscal recovery. In FY 22 there is a projected operating surplus of \$5.7 million, improving and bringing the projected FY 22 ending budgetary funds available status up to approximately a negative \$7.1 million. In FY 23 there is a budgeted operating surplus of \$7.2 million, bringing the projected FY 23 ending budgetary funds back to positive status.

Refuse and Recycling Fund Group

The Refuse/Recycling Fund provides for refuse and recycling collection for residents and businesses of Long Beach in a timely and cost-effective manner, ensuring compliance with the State's solid waste diversion laws. The Refuse/Recycling Fund receives approximately 95 percent of its total revenues from refuse and recycling charges assessed to residents and businesses receiving City collection services. The remaining funds come from State grants for various programs and 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. Over \$4 million is provided annually to the General Fund to reimburse for programs such as street maintenance, tree trimming, stormwater and environmental compliance.

Over the past two years, the amount of refuse tonnage collected has increased, as well as the costs associated with collection and disposal. These factors have contributed to expenditures continuing to outpace revenues. In order to comply with State-mandated organics collection, SB 1383, the Environmental Services Bureau (ESB) of the Public Works Department has implemented a commercial organics pilot program. The pilot program was implemented in June 2021 and services over 130 commercial accounts on a weekly basis. ESB plans to expand the

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commercial organics collection program with full implementation set to begin in the first quarter of calendar year 2023.

Refuse rates have not been adjusted since October 1, 2019 while costs for service have increased significantly. Current rates do not support the current cost of services that include increased insurance, fleet, staffing, the pilot organics program, and other costs related to internal services. In FY 22, the Refuse Fund is projecting to run approximately a \$3.5 million operating deficit, further drawing down on the budgetary funds available. This projected draw-down would result in the Refuse Fund having reserves equal to only approximately one month of operating revenues beginning FY 23.

In addition to other escalating costs, State-mandated organics collection programs are expected to substantially impact costs to provide service. As a result of increased operational costs and unfunded state mandates, ESB has conducted a cost-of-service study. The study will set rates for refuse, recycling, and commercial organics collection. Staff will bring a recommendation to the City Council in FY 22 with two recommended rate adjustments - one set for the September 1, 2022 and the second on January 1, 2023. FY 23 is projected to begin with budgetary funds available of \$5.4 million and expected to grow depending on the rate increases. Revenue projections will need to be updated after actual rate implementation.

Special Advertising and Promotions Fund Group

The Special Advertising and Promotions Fund Group (SAP) is dedicated to the specific purposes of “advertising, promotional and public relations projects calling attention to the City, its natural advantages, resources, enterprises, attractions, climate and facilities” according to the City’s municipal code. Transient Occupancy Tax (TOT), also known as the hotel bed tax, collected by Long Beach hotels and short-term rentals, is the largest source of revenue for the fund. The current tax rate is 13 percent of the nightly room rent, six percent of which is allocated to the General Fund Group, and six percent to the SAP Fund Group. The remaining one percent was added per the 2020 voter approved Measure B (TOT) and is intended for the City’s arts organizations and the Long Beach Convention and Entertainment Center per City Council resolution. Other sources of SAP revenue include studio filming permits, special events licenses, and other permits and fees.

TOT revenue has been dramatically impacted by the pandemic but began recovering in FY 21. For FY 22 and beyond, TOT remains a volatile revenue source and has historically recovered more slowly after a downturn in comparison to other revenue streams. However, due to revenue lost as a result of the recession, the budgetary funds available declined in FY 20. To mitigate this, in FY 21 \$5.2 million was used to replace revenue lost during the recession using funds made available through the Long Beach Recovery Act (LBRA), which brought the budgetary funds available back to pre-pandemic levels of \$5.4 million.

Current projections show an operating shortfall of \$3 million in FY 22, as well as another \$3 million shortfall in FY 23. Therefore, it is anticipated that LBRA funds will still be needed to avoid

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service reductions in FY 22 and FY 23. Staff will continue to closely monitor improvement to pre-pandemic levels and evaluate when a full recovery may be anticipated.

Tidelands Operating Fund Group

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 Budget separated out the Tidelands Operating Fund from the other Tidelands Area Funds (Marina, Queen Mary and the Rainbow Harbor Area funds). In FY 20, the funds were further refined with parking-related operations, previously in the Rainbow Harbor Fund, being grouped under the Tidelands Operating Fund Group. The Tidelands Operating Fund Group, which primarily funds operations along the beaches and waterways, is heavily dependent on base oil revenue and an annual transfer from the Harbor Department to support Tidelands Operations, including lifeguards, waterfront maintenance, the Convention and Entertainment Center, and Aquarium debt payments.

FY 22 projections include a \$20.6 million transfer from the Harbor Revenue Fund (a transfer of 5 percent of the Harbor Department's gross revenues is required by the Charter) and a projected \$33 million transfer from the Tidelands Oil Revenue Fund Group which is \$18 million higher than the \$15 million budget due to high oil prices experienced so far this year. This projected revenue is based on an estimated average price of \$90 per barrel for the fiscal year instead of the budgeted amount of \$55 per barrel. These projections also include the needed set-aside for oil field abandonment funding as planned for in the FY 22 Adopted Budget of \$7.125 million plus an additional amount of approximately \$1.8 million representing up to 25 percent more set-aside due to funds made available from higher oil prices.

Along with projected revenues, in FY 22, the Tidelands Operating Fund also has greater costs, including Queen Mary support that could be up to \$4 million for operational expenses such as maintenance, property insurance, bond expenses, and legal costs. In FY 22, the Tidelands Operating Fund is also contributing \$5.5 million in capital projects to the Queen Mary to fund projects such as:

- Bulkhead repairs
- Installation of bilge pumps
- Replacement and installation of emergency generator and electrical system
- Installation of fire alarm and repairs of various fire prevention equipment
- Removal of lifeboats
- Various restoration and critical repairs to the ship ongoing on several decks

The fund also contributes to the debt payments for the Aquarium, Rainbow Harbor (Queensway Bay), and Pike Parking Garage, as well as utility costs for the Convention Center. Operations of the Convention Center are managed by an outside group, ASM Global, and any net profits at the end of the fiscal year add to revenues in the fund group, but any net loss will add to expenses in the fund group.

The FY 23 Proposed Budget includes a \$22.8 million transfer from the Harbor Revenue Fund and a \$12.7 million transfer from the Tidelands Oil Revenue Fund Group based on an average

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price of \$55 per barrel of oil. The budget also includes oil field abandonment funding of \$7.125 million.

In FY 23, largely due to the positive impact of FY 22 improved oil revenues, \$12 million has been set aside for Tidelands capital improvements including the following:

FY 23 CIP - Tidelands Funding Request			
Proposed Projects or Additional Funding Requests	FY 23 Amount	Proposed Projects or Additional Funding Requests	FY 23 Amount
Resurfacing of Pine Avenue (south of Ocean Blvd)	\$ 600,000	Peninsula Beach Boardwalk Replacement Planning & Design	\$ 200,000
Queen Mary Tank Investigations, Re-opening Costs, and Public Art	\$2,075,000	Marina Vista Park Improvements, extension of the Colorado Lagoon Open Channel Project	\$ 800,000
Convention Center Promenade Plaza Critical Repair of Expansion Joints and Waterproofing	\$3,000,000	62nd Place Paver and Seawall Patch and Repair	\$ 100,000
Rainbow Lagoon Pumps Replacement and Curb Repairs	\$1,325,000	Tidelands Playgrounds Planning and Design for Added Inclusive Play Elements	\$ 250,000
Aquarium Parking Garage LED Lighting Upgrade	\$ 600,000	Beach Restroom Door Replacement	\$ 150,000
Pride Tower Node Construction	\$ 150,000	Shade Structures at Alamitos, Junipero & Granada Beach Playgrounds Planning & Design	\$ 200,000
Junipero Courts and Roller Skate Area Construction Set-Aside	\$ 500,000	Crack and Slurry Seal Beach Parking Lots	\$ 400,000
Bluff Sculptural Art Garden, Planning & Design	\$ 200,000	Beach Restroom Upgrades (Sensors, Auto Lock/Unlock, Paint, Flooring, Repair and	\$ 300,000
Naples Seawalls Evaluation Update, Grout Repairs, and Phase 3 Planning	\$ 500,000	Local Coastal Program Amendment or Update	\$ 150,000
Davies Boat Launch Ramp, Restroom, Parking Lot Resurface, Lighting and EV Charger Project	\$ 400,000	Oil Island LED Lighting Conversion Analysis and Design	\$ 100,000
TOTAL			\$ 12,000,000

Tidelands Area Fund Group

The Tidelands Area Fund Group is comprised of the Marina and Queen Mary funds. Revenue for these funds is generated from various activities, specific to each fund. The Marina funds support the City's three recreational marinas (Alamitos Bay Marina, Long Beach Shoreline Marina and Rainbow Marina) including all maintenance, operations, security, fire and Emergency Medical Technician (EMT) services. Revenue is generated through recreational and commercial use of marina property. Fees include the following: dock/slip fees (paid by boat owners); restaurant, retail, and grounds rental leases; and various other fees such as concession, park use, and special events and filming. The Marina funds are projected to end FY 23 with \$19.3 million in budgetary funds available to be able to fund future Marina related projects.

The Queen Mary funds track the revenues and expenditures associated with the Queen Mary ship. The Queen Mary was closed during FY 21 as a result of the pandemic. Until the recent bankruptcy of the Queen Mary operator, Urban Commons, revenue was generated through rent from the Queen Mary master lease, which included Queen Mary base rent, sublease rent from Catalina Express and passenger fees originating from the Carnival Cruise line. These revenues were anticipated to be sufficient to offset debt service on bonds issued to help fund urgent improvements to the Queen Mary. Since the second half of FY 20, Carnival Cruise passenger fees have been greatly impacted by the COVID-19 pandemic (cruises were halted for 16 months until August 2021). In addition, Urban Commons did not make all the required transfers of the

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revenues from Carnival Cruise and did not make all rent payments. As a result, revenues from the Queen Mary in FY 21 were not enough to pay the full debt service on the outstanding Queen Mary bonds and had to be paid with Tidelands Operating funds. The lease for the Queen Mary has been terminated as a result of the Urban Commons bankruptcy.

In FY 22, the Tidelands Operating Fund Group is contributing to the Queen Mary's operational and capital needs as listed in the Tidelands Operating Fund Group section above. The Queen Mary is anticipated to be reopened in the beginning of FY 23, and as a result, additional revenue sources are anticipated to help bring the fund back into balance.

Towing Fund Group

The Towing Fund provides the City's towing and vehicle lien sale operations. It usually supports the City's General Fund Group through an annual transfer of some portion of net income. It is funded through towing fees, charges for vehicle storage, and proceeds collected from the lien sale of unclaimed vehicles.

In FY 20, the COVID-19 pandemic and associated response resulted in revenue being \$1.8 million less than budgeted. Factors contributing to the decreased revenue included a citywide moratorium on non-essential tows, a suspension of lien sales due to social distancing concerns, and a COVID-19-related storage fee waiver program. To reduce the impact of this shortfall, extensive efforts were taken to minimize expense and defer projects in FY 20 as well as cancel the planned \$1 million transfer to the General Fund. Even with these cost reduction measures, the Towing Fund Group ended FY 20 with a net annual loss, ending the year with a budgetary funds available of less than \$0.3 million.

Fees were raised as part of the Adopted FY 21 Budget to help cover costs. However, the continued COVID-19 pandemic and response in the first half of FY 21 extended revenue shortfalls. In the second half of FY 21, total revenue exceeded total expenditure by \$1.1 million. This was largely due to the stronger-than-expected revenue recovery coupled with extreme cost reduction measures and continued deferral of special projects. Even so, the \$1 million transfer to General Fund was once again not completed in FY 21, with the budgetary funds available to be used to replenish the low fund balance and fund upcoming expenses that had been previously deferred.

In FY 22, Towing operations are trending closer to pre-pandemic levels with year-end revenue estimates expected to be within 5 percent of budget, provided normal tow operations continue. Fee waivers and deferrals for victims of crimes, the indigent, and for individuals experiencing homelessness also impact Towing revenues. Overall expenditures are trending at or below budget and anticipated savings are expected to offset FY 22 one-time expenditures for technical infrastructure upgrades and a necessary towing software replacement. If there are no residual pandemic impacts, restored revenues plus continued expense minimization will keep the fund balance in the positive. Staff will continue monitoring this fund as well as its ability to make the budgeted General Fund transfer in FY 22, which was adjusted down to \$700,000 to help address the Towing budgetary funds available challenges.

For FY 23, Fleet expects trends to return to pre-pandemic tow levels. In FY 23, the \$1 million General Fund transfer is being proposed to be reduced by \$250,000 to account for the growing impact of fee waivers, particularly for persons experiencing homelessness. Even with the

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reduction of the General Fund transfer, fees will be raised by 3 to 6 percent to align with budgeted expense. These proposed changes will be necessary to keep the fund balance positive.

Uplands Oil Fund Group

The Uplands Oil Fund Group 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 oil well abandonment and site clearance liabilities. Revenues are derived from participation in oil operations and oil production overhead fees received by the City as Unit Operator for the Tidelands Oil operations. Presently, over half of the revenue in this fund is from overhead fees and less than half is from oil sales. The FY 23 Budget assumes a price of \$55 per barrel. Based on this projection, it is estimated that the Uplands Oil fund will be able to transfer \$6.1 million to the General Fund Group. These projections include the needed set-aside for oil field abandonment funding of \$1.6 million. During FY 23, and if actual oil prices continue higher than budgeted, staff will continue to evaluate the potential option of setting aside additional funds for oil field abandonment.

FINANCIAL POLICIES

The City of Long Beach has 22 Budgetary and Financial Policies that help guide and inform strong financial management in the City. These policies can be found in the Appendices section of the Budget Book. The Financial Policies include one proposed update presented to City Council on December 7, 2021 to change the revenue projection methodology from reasonably conservative to reasonably expected.

