



Budget Update and Restart of the Budget Process

Projections, Goals, and Proposed Actions

Study Session - May 19, 2020

Discussion Topics

- Financial strength of the City
- Impact of COVID-19 pandemic on economy and services
- Projection update and budget process
- Goals and strategies for budget balancing

A blue-tinted photograph of a beach and ocean. The foreground shows the gentle waves of the ocean meeting the sandy shore. In the distance, a city skyline is visible, including several tall buildings and a prominent tower. The sky is filled with soft, wispy clouds. The overall mood is serene and coastal.

Financial Strength of the City

Strong Financially

- **Balanced budget**
 - A key to good financial management and maintain bond rating
- **Reserves**
 - General Fund: Operating reserve - \$13.5 million (2.5%); Emergency reserve - \$45.5 million (8.5%)
 - Other reserves - primarily for unfunded liabilities, capital, and one-time projects
- **Other**
 - AA credit rating
 - Large and diverse tax base, strong liquidity position
 - Prior to pandemic - great economy and development activity
 - Full service city

A blue-tinted photograph of a beach and city skyline. The foreground shows the ocean waves washing onto a sandy beach. In the background, a city skyline is visible under a cloudy sky. The text "Impact of the COVID-19 Pandemic on Economy and City Services" is overlaid on the image.

Impact of the COVID-19 Pandemic on Economy and City Services

The COVID-19 Pandemic Impact is Severe and Unprecedented

- The nation has not seen anything like this before
- Businesses shut-down, unemployment skyrocketing
- Revenue decline is sharp and quick
- Substantial pandemic expenditures - level of reimbursement not certain
- Uncertain economy restart pattern and unknown pandemic pattern
- A quick rebound is no longer considered likely
- Lack of one-time funding
- Bond (credit) rating and reserves at risk
- City services will be impacted

Many Cities Are Severely Impacted

- Cities in California and across the country are recognizing the major financial and economic problem requiring major budget actions
- Most California cities use a July 1 fiscal year

Agency	Shortfalls and Budget Actions
City of Los Angeles	<ul style="list-style-type: none">• \$231m revenue loss in current year; \$194 - \$594m in FY 21• Borrowing \$70m from special and reserve funds• 26 furlough days (excludes public safety and sanitation workers)• Significant cuts such as 20% reduction in street sweeping• 10% reduction in infrastructure spending
San Diego	<ul style="list-style-type: none">• \$300m revenue loss over FY 20 and FY 21• 10% reduction in services including elimination of 342 positions – including 23 police staff with 17 sworn positions, 97 library positions, 89 parks positions

Many Cities Are Severely Impacted

Agency	Shortfalls and Budget Actions
Santa Monica	<ul style="list-style-type: none">• \$48m revenue loss in current year; \$102m in FY 21; \$74m in FY 22• \$86m in proposed cuts (337 FTEs and 144 temp positions)• Up to 15% reduction in pay for management• Street sweeping from weekly to monthly• Voluntary early separate incentive program
San Francisco	<ul style="list-style-type: none">• \$167 - \$287m shortfall in current; \$528 - \$779m in FY 21; \$444-\$612m in FY 22• Budget timeline pushed back 2 months, adopting budget in October instead of July
Oakland	<ul style="list-style-type: none">• \$36m revenue loss in current year; \$54m in FY 21• Hiring freeze• Laid off part-time employees including parks and library staff
Sacramento	<ul style="list-style-type: none">• \$30m revenue loss in current year; \$60m in FY 21• Looking at redirecting Measure U (their version of Measure A) previously slated for economic inclusion projects
San Jose	<ul style="list-style-type: none">• \$45m revenue loss in current year; \$65m in FY 21• Furloughs for more than 1,000 of its temporary and part-time employees• Use of earmarked reserves and cutting capital expenses

Long Beach Services Will Also Be Impacted

- As with many other cities, the revenue losses are too large to absorb. Both staffing levels and services will be impacted
- Actions need to be taken quickly to minimize shortfall impacts
- The City did not receive Large City CARES Act funding, but the Governor has proposed a \$450m allocation of state CARES monies to cities and Long Beach is a recipient
 - Potentially fund payroll and other expenses re: COVID-19 response and future response and recovery efforts to help residents and businesses
- HEROES Act under consideration that could provide more than \$1 trillion to state and local governments
- Pursuing other grants and funding including County funding

Opportunity to Transform and Reimagine Service Delivery

- The pandemic has created a significant fiscal crisis and likely substantive impact on services
- Opportunity to look at new ways of delivering services and transform the way the City works to provide services to our residents and businesses
- We have already rapidly and effectively adapted our organization to respond to the crisis and stay at home orders
- Moving forward, we will continue to reimagine work and service delivery, and assess strategic investments to propel Long Beach into the future
 - Technology investments and innovations
 - Investments into businesses to lay foundation for resilient local economy
 - Organizational structures and service delivery models



Budget Projection Update and Process

FY 20 Direct Impacts of City's Actions re: the Pandemic

Area	Impact
EOC operations and departmental actions	<ul style="list-style-type: none"> • \$11m General Fund and \$5m other funds (total \$16 m) through 5/18, excl Health Dept • Potential General Fund unreimbursed/unbudgeted costs \$3-6 m for year • Response activities rapidly change depending on community needs and virus spread
Health staffing and testing	<ul style="list-style-type: none"> • \$2.5m through 5/18, might be \$15-20m by end of year, \$3-5m unreimbursed • Anticipate expenses through FY 22 until vaccine is available; will drain Health Fund reserves
Parking citation revenue	<ul style="list-style-type: none"> • About \$2m through 5/18; might be \$5-6m by end of year if no enforcement continued
Towing	<ul style="list-style-type: none"> • About \$300,000 now; if extended, might be \$1.5m by end of year
Utility related fees (no fees/shut-offs)	<ul style="list-style-type: none"> • About \$700,000 through 5/18; if extended, might be \$2.0m by end of year • Unknown costs from permanently unpaid normal service charges
Bus. License penalty waivers	<ul style="list-style-type: none"> • About \$170,000 through 5/15; might be \$650,000 by year end for penalties • Unknown cost from permanently unpaid business license tax
Permitting deferrals	<ul style="list-style-type: none"> • Less than \$200,000
Rent deferral	<ul style="list-style-type: none"> • City gets over \$2.4m/month in rent. Could have significant impact in FY 20; if deferral results in eventual non-payment, may result in permanent losses. No loss estimate possible at this time.

FY 20 General Fund Projection - Significantly Worse

Revenue / Expense	Adverse Impact in \$ millions - loss	Additional Notes
Sales Tax (Non Measure A)	\$12	<ul style="list-style-type: none"> • 17% decline from pre-pandemic projections
Transient Occupancy Tax	\$10	<ul style="list-style-type: none"> • 43% decline
Oil Revenue	\$3	<ul style="list-style-type: none"> • 30% decline • Budget is \$55/bbl vs. current is mid-\$20s/bbl • Loss is partially mitigated by not funding \$1.3m set-aside for future abandonment costs
Parking citation revenue	\$2	<ul style="list-style-type: none"> • 11% decline
Pandemic costs	\$6	<ul style="list-style-type: none"> • \$13.9m costs to date • \$3-\$6m estimated as not reimbursed
Other revenues	TBD	<ul style="list-style-type: none"> • Anticipated to impact other revenues but additional review needed

- *Based on preliminary analysis – actual data not available; may change significantly*

FY 21 General Fund Projection - Significantly Worse

Revenue / Expense	Adverse Impact in \$ millions - loss	Additional Notes
Sales Tax (Non Measure A)	\$6	<ul style="list-style-type: none"> 9% decline from pre-pandemic projections
Transient Occupancy Tax	\$8	<ul style="list-style-type: none"> 36% decline
Oil Revenue	\$5	<ul style="list-style-type: none"> 55% decline Project was \$55/bbl vs. revised \$30/bbl Loss is partially mitigated by not funding \$1.3m set-aside for future abandonment costs
Other revenues	TBD	<ul style="list-style-type: none"> Anticipated to impact other revenues but additional review needed

- Projection will change significantly depending on situation; more likely to be worse than better*

General Fund Shortfall

Current Projection of Shortfall (\$ in millions)

FY 20	FY 21	FY 22	FY 23
(25) to (41)	(30)	(13)	(22)

Each years' shortfall starting in FY 21 must be structurally solved to avoid the unsolved amount adding to the next year's shortfall

- Key assumptions:
 - Range in FY 20 reflects the high level of uncertainty for revenue loss
 - Pandemic revenue losses mostly end in FY 21 with no second phase or other general recession
 - Includes current negotiated contract costs and general cost of living raises for others
 - Includes higher CalPERS costs in FY 22 and beyond due to FY 20 investment losses
- Long-term large projected shortfalls indicate a need for a long-term plan and substantive corrective actions

Tidelands Operating Fund Shortfall

- Without any corrective action, fund is projecting to end FY 20 with negative \$5m in funds available. If no changes are made, it grows to negative \$19m by end of FY 21
- Key assumptions:
 - Oil is budgeted at \$30, \$35, \$45 and \$55 per barrel in FY 21 through FY 24 respectively
 - Extra costs for bonds due to Aquarium and QM revenue shortfalls as assumed to occur only in FY 21
 - Funding, per contract, of Convention Center loss of \$5m in FY 20 and \$2.5m in FY 21
 - No funding of \$6m annual oil well abandonment costs in FY 20 - FY 22 (3 years)
- Fund has major uncertainties and risks; FY 20 and FY 21 shortfalls recommended to be addressed by combination of project defunding, reduction of operating costs, and use of reserves

Special Advertising and Promotion Fund Shortfall

- Without any corrective action, fund is projecting to end FY 20 with negative \$0.7m in funds available. If no changes are made, it grows to negative \$2.6m by end of FY 21
- Key assumptions:
 - Transient Occupancy Tax revenues are heavily impacted for one-half year in FY 20, and throughout all FY 21. Assumes a general recovery by FY 22
 - Extra 1% tax, effective July 1, is not included in these numbers and is assumed dedicated per resolution for specified purposes
- Fund has significant risk with volatile revenue source; FY 20 and FY 21 shortfalls recommended to be addressed by combination of project defunding, reduction of operating costs, and use of reserves

Measure A

- Projected revenue loss of \$5m in FY 20 compared to FY 20 budgeted Measure A plan and projections. For FY 21, below projected revenues by \$2 m
- Inclusive of the approved ballot measure, out-years beginning in FY 22 projected to be higher than revenue levels assumed in the FY 20 budget plan
- Assumes a general recovery by FY 22 - may be optimistic
- A revised spending plan will be developed and proposed that takes into account temporary revenue decline, the difficulty in funding public safety operations, and long-term revenue increase from the approved ballot measure
- May recommend use of some unallocated revenue and projects to be potentially postponed or defunded to help maintain public safety services

Airport Fund

- Unprecedented drop in traffic - loss potentially up to \$20m in FY 20
- Too early to have meaningful future projections
- Maintaining adequate cash is the key goal
- City's practice of maintaining a large funds available has made a huge difference
- The \$18m CARES grant funds help but anticipate expending over next 6 months
- The Terminal Area Improvement Project is being phased to allow it to be halted at various points, if necessary to protect cash
- Adaptation by airlines and passengers could affect the Airport's future
- The status of the Airport Fund and the airline and passenger situation will be continuously monitored

Other Funds and Other Impacts

- COVID-19 is likely impacting most funds, including enterprise funds
- Mobility and other State and County funding from Gas Tax and Sales Tax will be adversely impacted
- Utility funds revenues including penalty fees likely down
- Towing fund revenues are down significantly due to reduced tows and cancellation of lien sales
- Impacts such as these have not yet been fully analyzed and will be monitored and evaluated
- All funds will be asked as part of budget process to evaluate health of fund and find efficiencies

Revised FY 21 Budget Process

- Restart the delayed process - goal of normal adoption date
- Intent is to provide City Council and the public with close to normal time for review, budget hearings, and discussion
- Shortened process times; less time or information for in-depth analysis
- Proposed budget will be a booklet summarizing proposed changes and will also include the Mayor's recommendations
- Adopted Budget book prepared and published after budget is adopted
- During the FY 21 year, strategies will be developed for future years

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Goals and Strategy for Budget Balancing

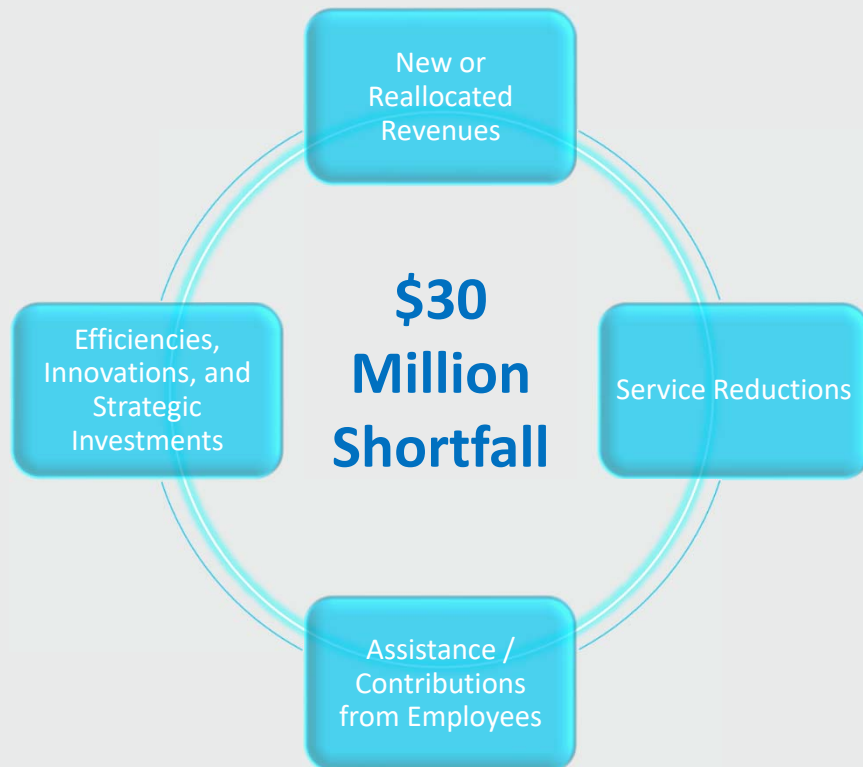
FY 20 and FY 21 Budget Actions Goals

- No adverse impact to COVID-19 pandemic public safety/health response
- Reduce non-critical expenditures as much as practical
- Strategic use of operating or emergency reserves that preserves for future
- No layoffs of full-time staff in FY 20, reduction in part-time staffing/hours
- Minimize layoffs by utilizing attrition / reduction of vacant positions in FY 21
- Balanced Proposed Budget
- Emphasize core services and maintaining a balance of services
- Look for transformation opportunities
- Find ways to make needed investments in the City's economic future

FY 20 Budget Actions Strategy

- Hard hiring freeze and cutback on non-essential expenses
- Provide recommendations on defunding non-critical capital projects
- Reconsider summer activities and programs impacted by pandemic
- Emphasize full-time staffing over part-time or non-career staffing
- Defer decisions on the fire and police academies until later in the FY 21 budget process to better understand funding and budget ramifications
- Encourage innovation and investment opportunities

FY 21 Multi-Prong Strategic Approach for General Fund



- Look to new or reallocated revenue
Measure A and Ambulance fees to support public safety
- Explore additional efficiencies, innovations, and strategic investments
Identify options for operational efficiencies, consolidations, new ways of business, leveraging technology, strategic investments, economic resiliency
- Assistance and contributions from employee groups
Savings to help reduce layoffs and service cuts
- Service reductions that prioritize the City's core services/values, and outcome based decision making process

A Balanced Outcomes-Based Approach

- Balance of the following critical services
 - Meet required local, State, federal mandates and legal requirements
 - Ensure adequate support staffing for front-line services and systems for effective delivery of services
 - Core services to the community
- Prioritize and balance the following core services with reasonable response/service levels
 - Police patrol, emergency medical, and fire services
 - Infrastructure response (sidewalks, potholes, facilities maintenance)
 - Maintenance of public spaces/assets (landscapes, graffiti abatement, tree trimming, etc.)
 - Response to homelessness
 - Maintaining or enhancing revenues
 - Quality of life services (library, recreation, community programming)
 - Youth and senior support

Achieving the Balance

- Outcomes:
 - Structurally balance the budget
 - Preserve organizational capacity to effectively operate
 - Retain acceptable service levels
- Steps to take
 - Review additions over the past five years
 - Reevaluate acceptable service levels
 - Explore technology and other ways of serving the public
 - Whole organization approach - look at outcomes, rather than percent of funding reduction
 - Review service delivery changes from a whole City and equity lens.
 - Pursue fee and cost recovery where appropriate
 - Look at services differently - need to consider different ways to operate
 - Recognize that service reductions will occur and adapt approach

Why a Balanced Approach?

- Overconcentrating service reductions in any one area would be detrimental
- Exempting areas leads to fractured service approach
- All areas should be evaluated in a crisis of this level
- Our services are linked, e.g. public safety continuum
 - Public Safety relies on libraries and parks
 - Poor infrastructure and maintenance can drive fire calls and crime
 - Homelessness drives increases in fire and police
 - Support for front line workers is critical to their effective operation

Continuum of Public Safety



Finding \$30 Million in Solutions is Very Difficult

- Service reductions will be substantial, although will work to minimize with other offsets as available
- Size of shortfall (\$30m) makes it necessary to look at entire organization and menu of options

Department	FY 21 Base Budget (\$ in Millions)	% of General Fund
Police	249.1	48.3%
Fire	103.8	20.1%
Disaster Preparedness and Emergency Communications	12.9	2.5%
Public Works	41.3	8.0%
Parks, Recreation, and Marine	35.1	6.8%
Library Services	14.3	2.8%
Elected & Appointed	29.2	5.7%
All Other Departments	29.8	5.8%
Total	515.5	100%

Budget Process Will Identify Options

- Generating of many options to consider, and what the alternative is, leads to better decision-making
- Reduction targets will total above the expected need - provides options and flexibility
- All departments, including non-City Manager Departments, will be requested to submit reductions
- Non-Public Safety will be a range from range of 0-12% of budgets; Public Safety will be a range of 0-3.5% of budgets
- Final recommendations will be based on the Balanced Outcomes-Based Approach
- Projections will be updated during the budget development process - may get worse
- Contingency plans will be reviewed/developed

A wide-angle, blue-tinted photograph of a beach and ocean. The ocean is on the left, with gentle waves washing onto a sandy beach on the right. In the distance, a city skyline is visible under a cloudy sky. The text 'Wrap-Up' is overlaid on the left side of the image.

Wrap-Up

Conclusion

- Pandemic has substantially changed the City's financial landscape
- Significant service reductions across the board will be needed
- Service reductions will emphasize maintaining core services and values
- Making the necessary difficult decisions will position the City for the future
- Long Beach's strong economic position and attraction for development and businesses should help it recover as quickly as possible
- This budget year and the next few years will be very difficult, but the City is resilient and innovative!