



CITY OF LONG BEACH

DEPARTMENT OF FINANCIAL MANAGEMENT

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April 3, 2018

HONORABLE MAYOR AND CITY COUNCIL
City of Long Beach
California

RECOMMENDATION:

Receive and file the Fiscal Year 2018 First Budget Performance Report. (Citywide)

DISCUSSION

This report includes information on the City's Fiscal Year 2018 (FY 18) budget performance through January 31, 2018, for all funds.

Summary

As of January 31, 2018, no significant issues have been identified with any City funds that have not been previously reported. For the General Fund, there are some underperforming revenues, which may be offset by well performing revenues and by planned budget savings. However, revenues will also be adversely impacted by approximately \$4.8 million due to water and sewer utility litigation. It is early in the year and staff will continue to monitor and evaluate revenues and expenses as more information becomes available, particularly as it relates to uncertainties related to oil revenue, cannabis-related revenue and costs, and other unanticipated revenue shortfalls and expenditure costs.

General Fund

On September 5, 2017, the City Council adopted a structurally balanced FY 18 budget. Currently, the General Fund revenues are showing that several key revenues streams are projecting to be less than anticipated, including the negative impact on utility revenue transfers of approximately \$4.8 million due to water and sewer utility litigation. Other General Fund revenue streams, such as Utility Users Tax and Franchise Fees, are trending to come in less than anticipated. Cannabis-related revenues are anticipated to come in lower than projected due to licensed businesses taking longer to start operations than originally planned. On the positive side, there are other revenue streams trending to be better than budgeted and are helping to mitigate some of the negative revenue projections, including Sales Tax (non-Measure A) and Property Tax. The price of oil is

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another positive projection with revenues trending higher (at around \$60 per barrel), than the budgeted \$45 per barrel. However, the need to fund oil well abandonment may mean no net oil revenues available at year-end over the amount budgeted. Additionally, it is important to note there continues to be volatility in the market and other factors impacting oil revenues such as production levels, exploration, and production costs that will need to be monitored. Lastly, Measure A revenues are expected to come in higher than the \$48 million originally anticipated when the FY 18 budget was adopted. It is important to note, because Measure A is a new type of tax it is difficult to accurately project due to a relatively short historical collection pattern. Staff will continue to monitor all these issues.

With regards to General Fund expenditures, initial review is showing that General Fund departments are expected to end the year within the overall adjusted appropriations and that the overall FY 18 mid-year savings target will be met. Departments have been issued FY 18 mid-year savings targets approved by the City Council and calculated at 1.3 percent of non-sworn personnel costs or 0.5 percent of a department's total structural budget, whichever is greater. The total effect of these targets is anticipated to save \$2.9 million in the General Fund, of which \$1.8 million was already included in the FY 18 Adopted Budget to account for savings resulting from natural turnover in filling positions citywide. There are some expenditure areas of concerns that staff is monitoring, such as cannabis-related implementation costs, since cannabis-related revenues are not anticipated to come in as high as expected. Measure A infrastructure project costs are also being monitored as budgets were based on preliminary engineering estimates but economic conditions have been driving construction costs up nationwide. These, along with other expense trends, will continue to be monitored and reported throughout the year.

Other Funds

All other funds appear to be generally on target based on the first period review for both revenues and expenditures.

This financial review is based on information from the first four months of the fiscal year. Therefore, this initial report may be subject to material change as the year progresses. As usual, staff will continue to monitor revenues and expenses, and will report any significant changes.

This matter was reviewed by Deputy City Attorney Amy R. Webber on March 19, 2018.

TIMING CONSIDERATIONS

City Council action is requested on April 3, 2018.

FISCAL IMPACT

There is no fiscal impact associated with this recommendation.

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SUGGESTED ACTION:

Approve recommendation.

Respectfully submitted,



**JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT**

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APPROVED:



**PATRICK H. WEST
CITY MANAGER**