



Financial Outlook and FY 22 Budget Approach

Budget Kick-Off Study Session - March 16, 2021

The City has Been Battling an Unrelenting Storm

- Unprecedented time - financially and operationally
- Global pandemic has strained City resources, diverted staff capacity
- First amendment right demonstrations, civil unrest, and systemic structures of racial inequity
- Budget shortfalls exacerbated by pandemic and drain on reserves



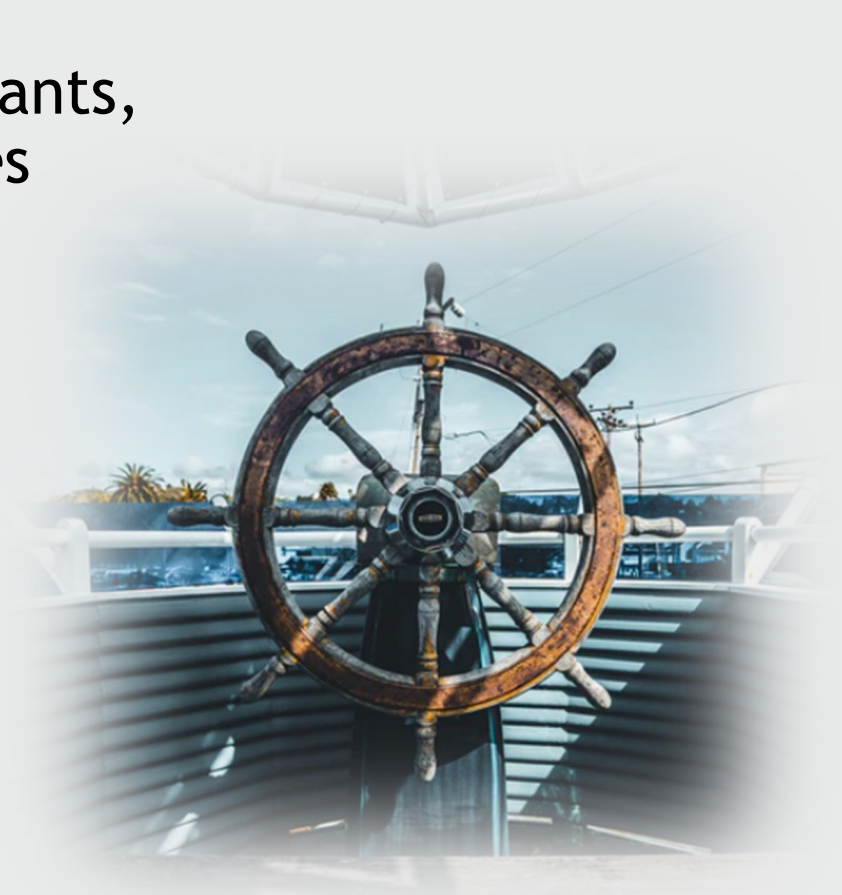
The City has Responded with Great Effort and Strength



- Mayor, City Council, and employees have made the City a national leader
- City is addressing community needs in emergency situation
- City has used its fiscal strength and resiliency to get through this time
- Staff has been at the sails day in and day out - at all hours
- Substantial federal aid expected to help provide relief and bolster efforts

Navigating Through Key Decision Areas

- Proposed use of American Rescue Plan (ARP), other grants, and unobligated funds such as new Measure A revenues
- Addressing the needs of residents and the businesses
- Funding of infrastructure and other one-time needs
- Restoring reserves and the City's ability to handle emergencies, opportunities, and threats
- Balancing the FY 22 and future budgets
- Adjusting to and preparing for uncertainty and risk
- Having an achievable number of priorities that maintain appropriate workloads, management and financial controls



A blue-tinted photograph of a beach and ocean. The foreground shows gentle waves washing onto a sandy beach. In the middle ground, a city skyline is visible across the water, featuring several buildings of varying heights. The sky is filled with soft, wispy clouds. The overall mood is calm and serene.

Financial Context and Impact of the Pandemic

Strong Fiscal Management and a Great City

- Commitment to prudent financial management practices has built a strong fiscal foundation that has helped the City face the pandemic
- Some of Long Beach's financial strengths
 - Great economy and development activity
 - Large and diverse tax base
 - Structurally balanced budgets
 - City Council adopted financial policies
 - Maintaining significant operating and emergency reserves
 - AA credit rating



Some City Council Financial Policies

- #1: Budget should be structurally balanced
- #3: Budget process is an annual cycle - minimize mid-year
- #5: One-time resources to be used only for one-time uses
- #8: Adequate General Fund reserves are to be maintained
- #9: Adequate reserves are to be maintained for all funds
- #10: Revenue projections will be done conservatively
- #13: The budget should fund current year costs
- #20: There should be a long-term financial plan

Positive Impact of Voter Approved Measures

- Confidence of voters as shown by passage of ballot measures has had a tremendous positive impact
 - Measure A and Measure B in 2016 - maintain and enhance public safety services and provide for significant infrastructure improvements, help increase reserves
 - Measure MA in 2016 - support cannabis enforcement and other public safety, homelessness, and general City services
 - Measure M in 2018 - maintain services by offsetting the impact of adverse litigation
 - Measure B (TOT) in 2020 - support for arts and convention center
 - Measure US in 2020 - support for Climate Change and Environment initiatives, community health programming, and Children and Youth Services and Programs.

Pandemic Hit Hard in FY 20 - Used Reserves to Address

- FY 20 General Fund shortfall of \$21 million
 - Shortfall minimized by effort to maximize grants and scale back costs
 - Continued most services to public but many important administrative functions are impacted
- Use of Reserves was needed:
 - \$12.6 m of \$13.5 m Operating Reserve and \$7.9 m of \$46.0 m Emergency Reserve
- Reserve use appropriate; but City in much weaker position until reserves restored



The City's strong fiscal foundation is helping to weather the storm, but experiencing strain and drain on financial and staffing capacity

- The FY 21 budget balancing included some one-time solutions - the intent was to structurally resolve in FY 22
 - Employee furloughs - \$11 million
 - Anticipated reserve use - \$5 million (plus \$3 million for critical one-times)
- Early indication that some key revenues will be better than budgeted
- Opportunity to restore furlough impacted services through federal funding



Budget Outlook Update

General Fund Outlook - Without Federal Funds

- Since 2018, structural shortfalls have been projected for FY 20 and beyond
- \$30 million shortfall in FY 22 assumes the City will prevail in the Measure M litigation as similar Sacramento case had a favorable appellate court rulings indicating a likelihood of a favorable outcome; projections are \$9 million worse if City does not prevail
- If shortfalls resolved through department reductions, service impacts would be severe

Projected Shortfalls* (\$ in millions)

FY 22**	FY 23	FY 24
(30) (9) for Measure M escrow +	(7)	(10)

* Assumes each years' shortfall is structurally solved (otherwise shortfalls accumulate)

** The FY 22 \$30 m shortfall includes \$1.9 m that Fire Department solved in FY 21 with one-time solutions

+ Measure M escrow cost is \$9 m in FY 22; if City loses court hearing, \$9 m structural costs needs to be added to shortfall

Measure A

The Measure A tax supports public safety services, infrastructure, and Community Hospital

- FY 20 Measure A program had surplus of \$5.3 million
 - Revenue above budget
 - Savings from delayed Police Recruit Academy in pandemic year
 - No contribution to Measure B Stabilization Reserve
- Revenue projections beginning in FY 21 and beyond are likely to be higher than assumed in FY 21 budget plan
- Staff will develop an updated plan/options for unallocated funds as part of the FY 22 budget development process, including the Council approved allocation in FY 20

Special Advertising and Promotion (SAP) Fund

The Special Advertising and Promotion Fund supports events, arts, public communications staff, and the Long Beach Convention and Visitors Bureau

- Transient Occupancy Tax (hotel tax), the fund's main revenue source has been heavily impacted by the pandemic
- TOT revenue recovery is anticipated to take several years
- Some reserves were used in FY 20 and if pattern continues, reserves may not be available to cover short-term revenue losses during the Olympics

Tidelands Operating Fund

The Tidelands Operating Fund supports beach area services and capital investments including lifeguards, beach operations and maintenance, the Aquarium, the Queen Mary and the Long Beach Convention Center and make many capital investments

- Fund has major uncertainties and risks
 - Aquarium, Queen Mary and Convention Center potential revenue shortfalls/future costs
 - The price of oil and oil field abandonment costs
 - Debt service costs ending over the next ten years, but may be offset by the expected drop in oil production or critical infrastructure costs
- Major capital needs
 - Convention Center, Aquarium, Queen Mary, Belmont Pool, Belmont Pier, Alamitos Bay Pumps
- Not clear whether reserves will need to be used in the near term
- Needs more analysis - will take some time - City's most complex fund

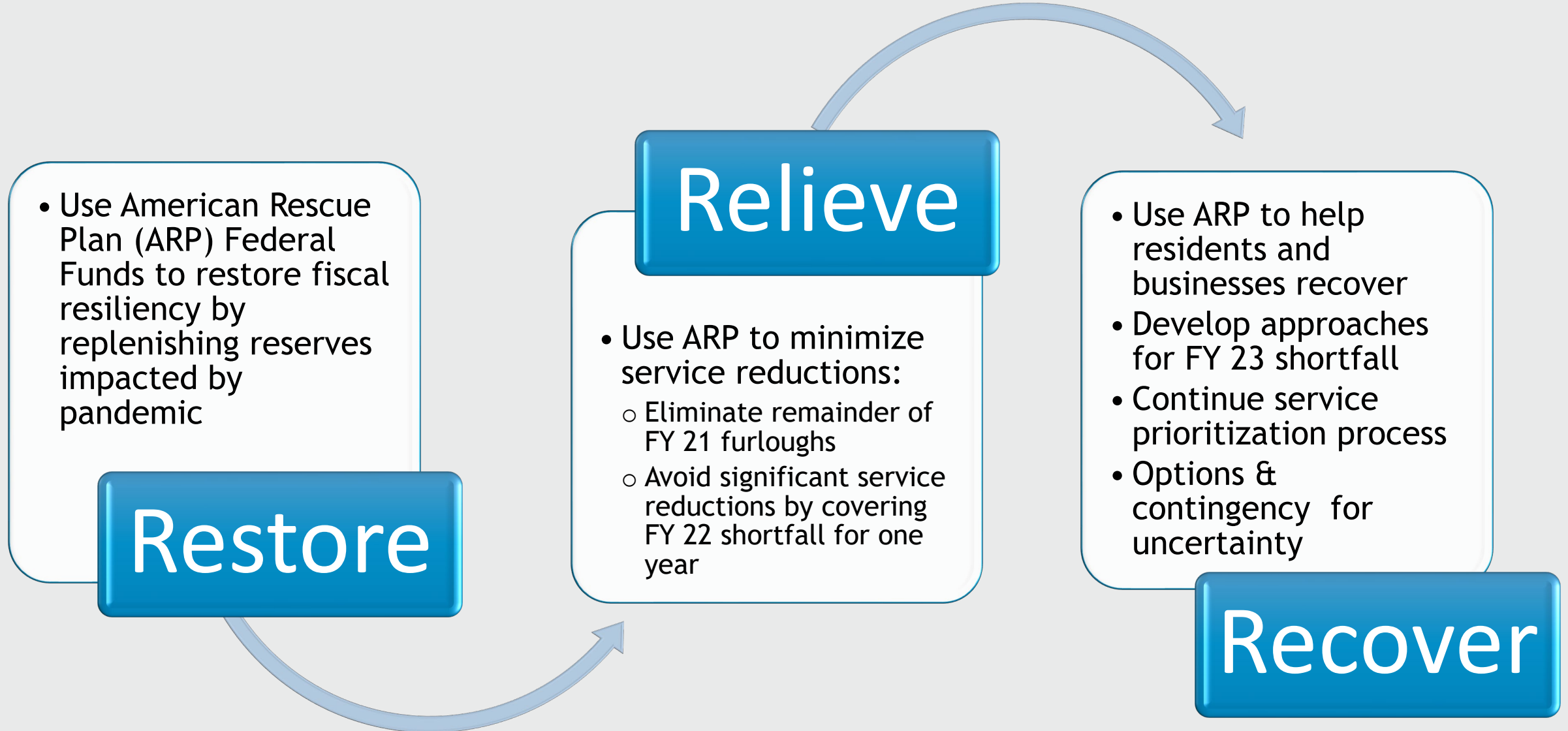
Other Funds

- **Civic Center Fund** (*funds Civic Center area facilities through charges to departments*)
 - Higher costs due to new parking garage, MOU with Port, Project Amendments; higher charges to other funds
 - Lincoln Park loan repayment on sale of Mid-block will help fund; will be problematic if not repaid
- **General Liability Insurance Fund** (*funds liability and property losses*)
 - \$45 million cash decrease over last few years - costs are a nationwide problem: higher charges to other funds
- **Road and Street Funds** (*funds road and street work through federal, state, county funding*)
 - Most (except SB-1) are impacted by a decline in gas tax and sales tax sources (State and County)
- **Utility Funds** (*Water, Sewer, Gas, Refuse*)
 - Revenues significantly impacted by bills not being paid due to pandemic
- **Towing Fund** (*funds towing operations, mostly for accidents, safety, and parking issues*)
 - Revenues down from pandemic; not able to make General Fund transfers
- **Airport** (*funds the Long Beach Airport through fees to airlines and federal funding*)
 - Passenger traffic and revenues down sharply due to pandemic. Recovery timing uncertain

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Strategies for Budget Balancing and Budget Process

The 3 Rs - Strategy



Revised General Fund Outlook with Federal Funds Strategy

- American Rescue Plan (ARP) funding gives Long Beach the opportunity to provide relief in FY 22 with recovery support to residents and businesses and ability to maintain city services
- Balanced budget in FY 22 using ARP one-time funds; structural shortfall of \$30 million in FY 22 is shifted to FY 23 for a total shortfall in FY 23 of \$37 million

Projected Shortfalls* if FY 22 Balanced with One-Time Funds (\$ in millions)

FY 22**	FY 23**	FY 24
(0) (9) for Measure M escrow+	(37)	(10)

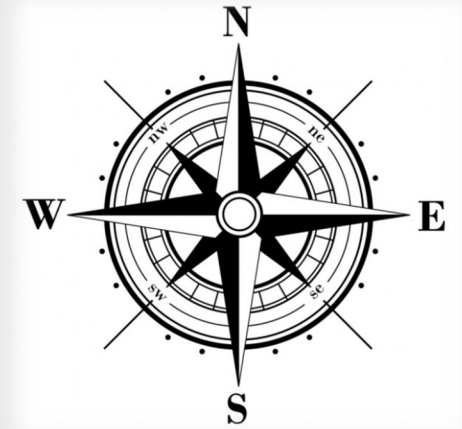
* Assumes each years' shortfall is structurally solved (otherwise shortfalls accumulate)

** FY 22 shortfall is temporarily funded with Federal one-time funds and thus FY 22 shortfall carries over to FY 23

+ Measure M escrow cost is \$9 m in FY 22; if City loses court hearing, \$9 m structural costs needs to be added to shortfall

Setting the Course - Targets and Plan for Future

- Significant uncertainties and unfunded critical needs
 - Restrictions for the allowed use of federal ARP funding
 - Measure M litigation court hearing outcome
 - Unfunded critical needs, services or enhancements (including FY 22)
 - Speed and depth of recovery
 - Any major changes to projections
- Contingencies and options need to be available to deal with uncertainties and critical one-time funding
- Reduction targets to generate 1.7% in potential savings for options/flexibility
- Use Service Priority Budgeting to help focus decisions in future
- Top priority during FY 22 - develop a plan for a structurally balanced budget



Service Priority Budgeting to Aid Budget Discussions

- Mayor and City Council directed staff to do a Zero-Based Budget process
- Service Priority Budgeting (SPB) process developed that includes Zero-Based Budgeting principles
- Provides information to support discussion on difficult service reduction or enhancement decisions that lie ahead - potentially beginning in FY 23
- More transparent, easier for community to provide input into the budget process



SPB to Aid Focus and Community Engagement

- Addresses the Mayor and City Council goals of earlier community input (as well as retaining the traditional community meetings and hearings)
- Supports the goals of the Racial Reconciliation Framework
- SPB packets released to City Council and the community by early April
- Statistically valid survey of the community conducted
- An updated general Community Survey will be released in April
- Two virtual community meetings in April to describe financial situation and gather community input - before proposed budget is prepared
- Survey information and community input provided to City Council in May



A wide-angle, blue-tinted photograph of a beach and ocean. The foreground shows gentle waves washing onto a sandy shore. In the middle ground, a city skyline is visible across the water, featuring several buildings of varying heights. To the right, a lifeguard stand is situated on the beach. The sky is filled with soft, wispy clouds. The overall mood is serene and coastal.

Wrap Up

Summary

- Mayor, City Council, and City employees have responded to pandemic and community needs in an effective and dedicated way - a national leader
- Our strong fiscal foundation has helped address significant fiscal challenges
- Pandemic has weakened fiscal resiliency and exacerbated budget situation
- Use federal aid to provide support to residents and businesses, help maintain services, and restore reserves and transition to a structurally balanced budget
- Expected to be difficult to solve structural shortfalls after FY 22
- Also uncertainty as to the future economy, revenues, litigation, and additional federal aid - may be good news - may be bad news
- Developing plans will be critical for the City to prepare for future challenges

Guiding the Ship

- Residents, businesses, and City have experienced an unprecedented storm of events
- Federal funding provides opportunity to support recovery of community and businesses, and provide a respite for fiscal strain
- The crew has performed extraordinarily well and has put in many stressful hours for months - need to return to a more normal workload
- Recommend focusing on only most critical aspects of the next few years
- Many challenges, but confident we can reach our goals

