

Preliminary FY 21 General Fund Fiscal Outlook and Budget Strategy

Study Session December 17, 2019

CITY OF
LONG BEACH

Agenda

- Update City Council per Financial Policy
- Provide the latest budget projection update
- Identify the strategy and approach to balance the proposed FY 21 budget
- Receive City Council feedback on the preliminary strategy

The Big Picture

- Long Beach - an extraordinary and vital city providing diverse services
- Excellent economy, development, and opportunities
- Excellent AA credit rating from rating agencies
- Revenue growth is constrained; expenses growing faster than inflation
- Some significant risk areas
- Growing concerns with infrastructure condition and deferred costs
- Strong financial management has been and is a key to keeping Long Beach moving forward and avoid adverse long-term impact

FY 19 and FY 20 Update

- **FY 19 General Fund Expected to End Well**
 - General Fund surplus expected
 - Not likely enough surplus to cover FY 20 labor agreement costs and other critical needs
 - Measure A seems likely to do better than projected
- **FY 20 General Fund appears on track**
 - Revenues potentially being better than projected
 - Measure A may also do better than projected

FY 21 Projection Has Uncertainty

- December update has more than normal uncertainty because of its early timeframe and new accounting system
- Limited information and lack of opportunity for in-depth analysis
- Using large ranges for the shortfall to reflect the uncertainty
- December projection will change; next update anticipated March/April

December Projection of the General Fund

Shortfall in \$ millions	FY 21	FY 22	FY 23
December Projection	(5) to (12)	(15) to (22)	(9) to (16)

Future projections are more likely in the lower half than the upper half of the ranges, but no assurances

Assumptions and Factors:

- No change in service levels
- Includes Police and Fire labor agreement MOUs
- Assumes no economic downturn
- Does not include budget balancing adjustments that may become available

Budget Balancing Adjustments More Limited

- Past major adjustments that have been factored in
 - RDA dissolution increased property tax
 - City pension reform reduced pension costs
 - Measure A, Measure MA increased revenue
 - Measure M prevented revenue reduction
 - Large health insurance savings
 - Reduced funding for general liability and worker's compensation insurance
- Adjustments available for FY 21 appear more limited than in past
- Want to minimize budget balancing adjustments that create risk and unfunded liabilities

Possible FY 21 Budget Balancing Adjustments

- Increase fees, fines and other revenues
 - Emphasize looking at under cost fees as well as various parking revenues such as lots, garages, meters, and increasing fines
- Increase transfer from Gas Fund Group
 - If sufficient surplus in gas fund
- Increased efficiency
 - Look for options that does not weaken operational oversight and financial controls
- Increase in budgeted vacancy factor for hiring
 - Reduce departmental and City flexibility to address vacancies and unexpected issues

Service Reductions May Be Necessary

- The current FY 21 shortfall of \$5 million to \$12 million is significant
- Budget balancing adjustments may not be large enough to eliminate the shortfall, although every effort will be made to do so
- City services are already fine-tuned and even modest reductions may be noticeable
- Goals are to minimize service impacts, avoid creation of unfunded liabilities, and avoid reducing financial/operational controls and oversight

FY 21 Budget Process Similar to Previous Years

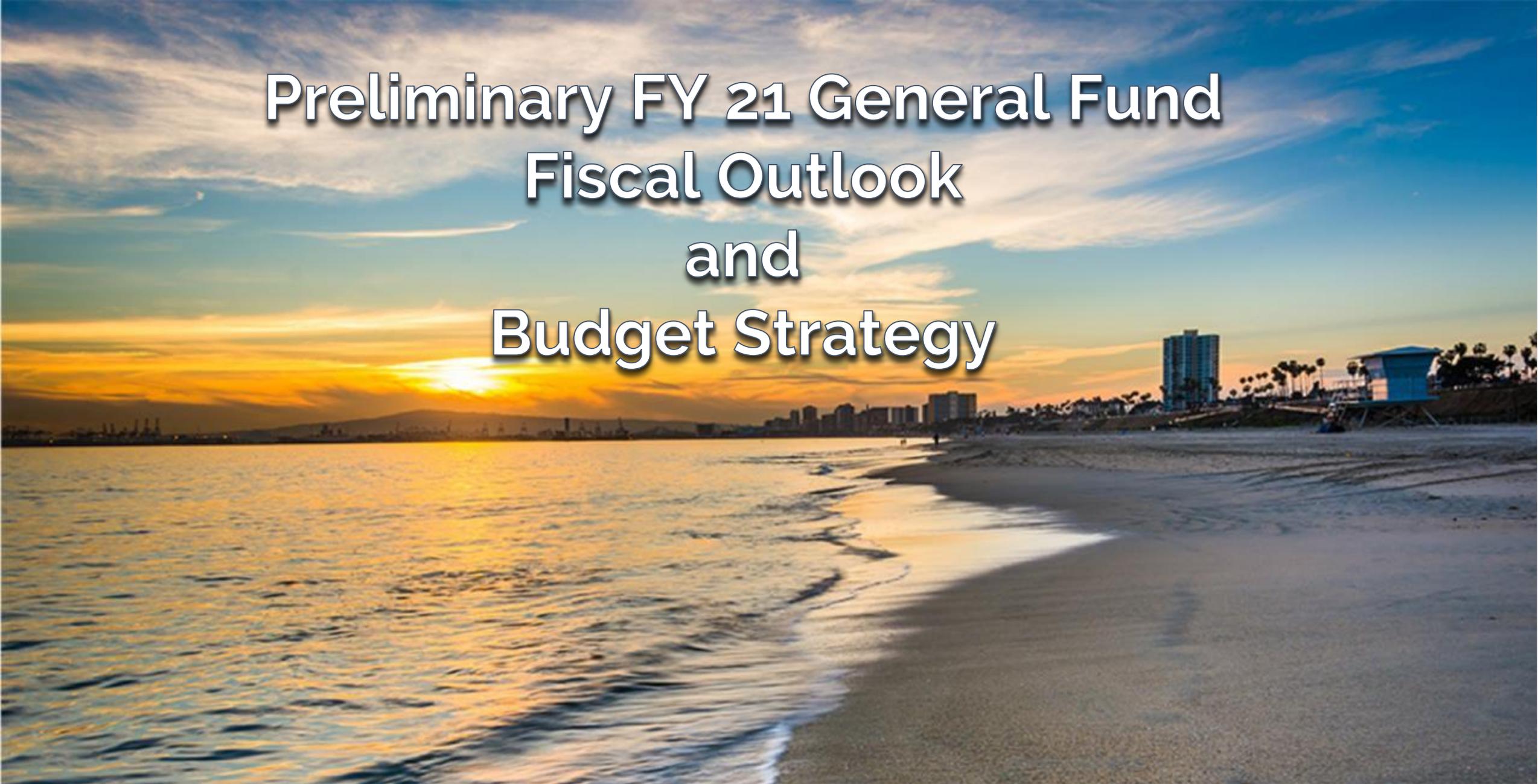
- Update budget shortfall incorporating any budget balancing adjustments
- Update to City Council in March/April on projection status and other relevant financial/budget information
- Issue reduction targets with adjustments to public safety depending on size of shortfall
- Departments submit reduction options and only essential/required adds
- Assemble a proposed budget with adds and reductions and other budget adjustments that is felt to best meet City needs and City Council direction

Other Factors to Consider

- Sales tax and Measure A performing well above expectations – one times
- Property tax above expectations – better than expected valuations
- Water litigation - if lost would be a major future impact
- Reserves levels - may become a bond rating and financial resiliency issue
- Large general liability claim losses – likely need to increase insurance rates
- Oil revenues - declining oil production and regulatory risk
- Substantial unfunded one-time needs – finding sources or alternatives
- Strong financial and managerial controls – need to maintain
- City's strong economy - a very positive factor

Next Steps

- Acting City Manager will take into account comments made by City Council
- Budget Office will continue to update projections and identify budget balancing adjustments
- Budget process will be conducted in a manner similar to previous years
- City Council will be updated on the budget/financial status by way of a TFF in March/April
- As required by City Council policy, City Council will be advised of any major financial status change or issue



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