

# 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

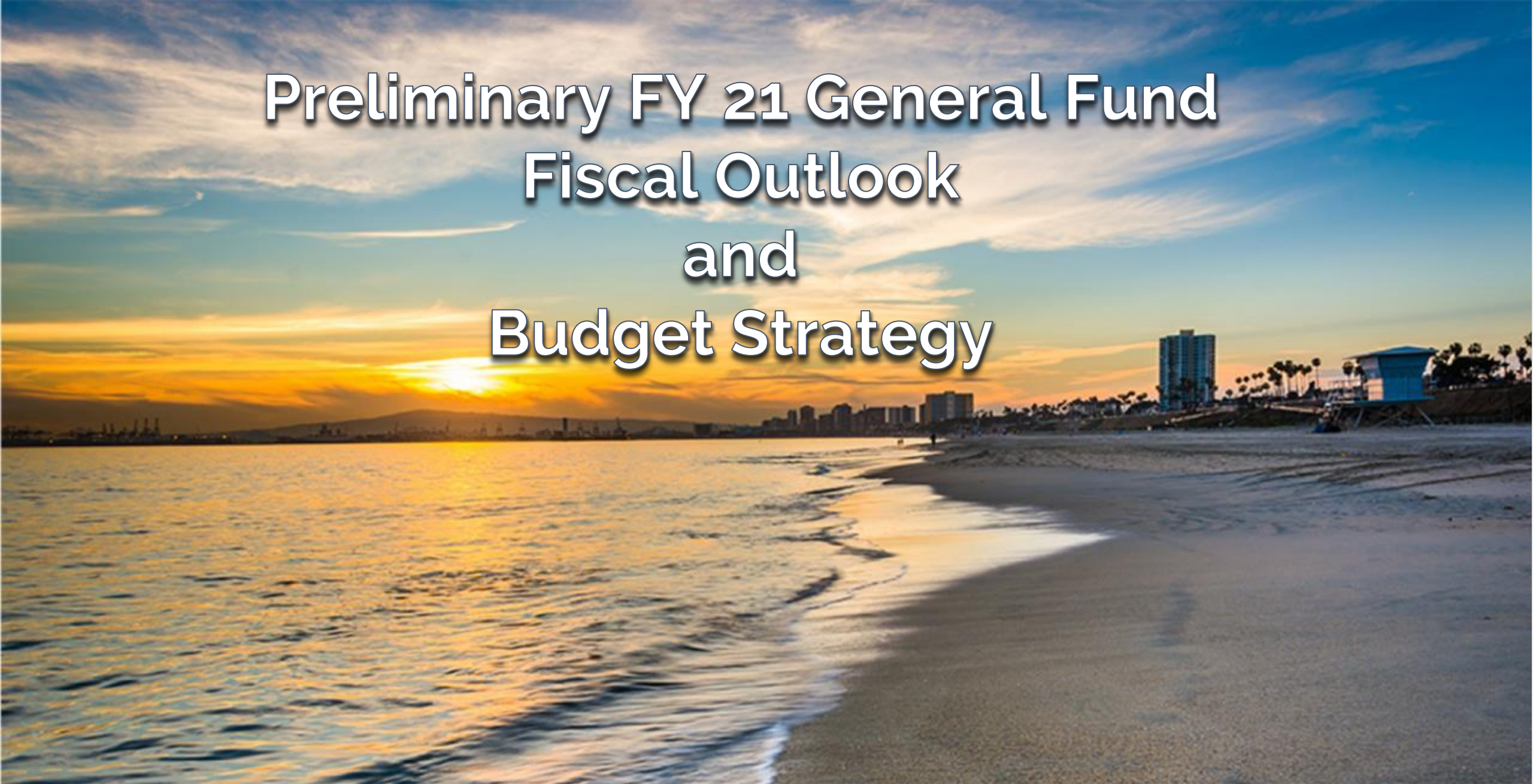
# Other Factors to Consider

- 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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