



Legislation Details (With Text)

File #: 22-0608 **Version:** 1 **Name:** FM - FY 22 First Budget Performance Report
Type: Agenda Item **Status:** Approved
File created: 5/5/2022 **In control:** City Council
On agenda: 5/24/2022 **Final action:** 5/24/2022
Title: Recommendation to receive and file the Fiscal Year 2022 (FY 22) First Budget Performance Report providing an update on the City of Long Beach's FY 22 financial status and projections and adjust appropriations in departments to reflect the funding where programs will be managed. (Citywide)
Sponsors: Financial Management
Indexes:
Code sections:
Attachments: 1. 052422-R-29sr&att

Date	Ver.	Action By	Action	Result
5/24/2022	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2022 (FY 22) First Budget Performance Report providing an update on the City of Long Beach's FY 22 financial status and projections and adjust appropriations in departments to reflect the funding where programs will be managed. (Citywide)

Overall Summary

This report includes information on the City of Long Beach's FY 22 budget performance through March 31, 2022 for all funds and provides FY 22 year-end estimates of expenditures based on department analysis of data for the first quarter of the fiscal year (the most recent available expenditure analysis completed). Year-end estimates of revenues incorporate the most recent actuals and analysis. The attachments show actual budget performance through March 31, 2022. Final year-end results (scheduled to be brought to the City Council in February 2023) may differ significantly due to the range of potential outcomes.

The Adopted FY 22 Budget had minimal changes to departments' General Fund budgets and avoided service cuts - despite a \$30 million shortfall projection - due to the use of one-time funding made available through the Long Beach Recovery Act (LB Recovery Act) that covered the shortfall on a one-time basis. Current General Fund projections are now showing a shortfall of approximately \$18 million, a significant but expected improvement from the budget based on recent trends and the strong FY 21 year-end financial performance, particularly in citywide revenues. LB Recovery Act funds are still anticipated to cover the shortfall as planned at the adoption of the budget. For Measure A, an operating and net program surplus of \$12.8 million is projected for year-end, and a portion of these funds are being evaluated for uses as part of the FY 23 budget development process and to support the out-year Measure A plan.

While this financial report focuses on the General Fund, pertinent information for other funds is highlighted where applicable. For example, the Tidelands Operating Fund section discusses the impact of the very high oil prices experienced in the first half of this fiscal year and considerations for use of the surplus. Overall, the City has 161 financial funds summarized and reported as 36 budgetary fund groups covering 23 departments, including the separately managed Water and Harbor Departments. In this report, any reference to “funds” means the budgetary fund group. Except for the General Fund, all of these funds are designated for specific and limited activities, such as the Harbor Fund, Gas Fund, and Tidelands Funds.

This report includes the following attachments:

- Attachment A - Citywide Expenditures by Fund
- Attachment B - Top 40 General Fund Revenue by Source
- Attachment C - General Fund Expenditures by Department
- Attachment D - Long Beach Recovery Act Expenditures and Revenues
- Attachment E - Long Beach Recovery Act Program Allocations

BUDGET PERFORMANCE REPORT

General Fund and Uplands Oil Fund Overview

The FY 22 Budget was developed during the Spring/Summer of 2021 and was focused on preserving services and resources that would support the recovery efforts for residents and businesses still grappling with the impacts of the global pandemic. At that time the Budget was projecting a \$27 million structural shortfall for the General Fund with commitments of \$3 million in one-time funding needs for a total funding gap of \$30 million. The LB Recovery Act, however, allocated funds to help maintain and provide for City services that would have otherwise been in jeopardy because of budget balancing challenges in the pandemic environment. The LB Recovery Act allowed the City to adopt a budget plan that would maintain services, avoid service level reductions, and provide for additional time to see how the economy would recover.

After the adoption of the FY 22 Budget, City staff reported on the FY 21 Budget performance to the City Council in February of 2022. This was a significant report as it showed that the overall fiscal impact of the pandemic on FY 21 financial performance was not as severe as originally anticipated, with key General Fund revenue sources such as sales tax rebounding very quickly and even surpassing FY 19 pre-pandemic performance. The General Fund had originally anticipated having a shortfall of \$8 million at the time of FY 21 Budget adoption in September of 2020 but ended the year with an operating surplus of \$2.2 million. Based on these results and recent actuals, City staff now anticipate improved year-end results for FY 22 and this report provides the details of these updated estimates.

Current estimates now show the General Fund ending FY 22 with a shortfall of approximately

\$18 million, a significant improvement from the originally adopted \$30 million shortfall made up of structural and one-time needs. It should be noted that this estimate includes a release of reserves that had been set aside to cover the General Fund revenue loss in case of an unfavorable outcome to the Measure M litigation. Had these reserves not been set aside, the shortfall would be approximately \$8.4 million more, at around \$26 million. Aside from the revenue loss related to the Measure M litigation, citywide revenue projections have improved over the budget. Additional details on revenues are provided below. On the expenditure side, while there are some departments that are estimating overages, total collective expenditure projections are less than budget. The Police and Fire Department budgets are realizing higher savings compared to typical years due to salary savings accruing from unfilled positions in the a tight labor market facing all organizations in the region, State and nation. Some of the savings in the Police Department allow for funding support for Community Crisis Response, violence prevention, and citywide equity efforts. Additional information on these investments and other departmental trends are described in the expenditure section below. Also included in the projection are some planned and required reservations, such as the Charter-required Measure B stabilization fund, additions to reserves to cover the funding gap for FY 23 revenue loss as a result of the Measure M litigation outcome, and funding needed for the anticipated capital acquisition cost of a Project Homekey motel.

The year-end expenditure estimates are largely based on data from one quarter of the fiscal year, with more recent data utilized for revenue, and there are still significant variables that may swing the figures positively or negatively before the end of the year. Some of these variables include but are not limited to: the accuracy of department projections with many factors complicating projection analysis; challenges in estimating pandemic related costs that might be incurred; potential FEMA-eligible reimbursements that are not yet known; and, the uncertain performance of the economy and its effect on General Fund revenue, especially sales and property tax. It is still expected that the General Fund shortfall will be covered by funds made available through LB Recovery Act (from the Securing our City's Future category) as planned. Any LB Recovery Act funds remaining after covering the projected shortfall for FY 22 will be evaluated as part of the proposed FY 23 Budget.

The projected FY 22 General Fund and Uplands Oil Fund sources and uses are summarized in Table 1 below (next page):

Table 1: FY 22 Projections - General Fund and Uplands Oil Fund		
	(in \$ millions)	
	General Fund	Uplands
Beginning Funds Available (10/1/21)	\$ 2.29	\$ -
Sources		
Revenues	616.50	17.30
Other Sources: (Release of Reserves)	54.89	-
Total Sources	671.39	17.30
Uses		
Expenditures	(647.56)	(14.32)
Other Uses: (e.g. Measure B set aside, Measure M transfer, etc.)	(19.02)	(2.03)
Other Uses: Measure A Reserve/ For Future Use	(25.30)	-
Total Uses	(691.89)	(16.35)
Projected Ending Funds Available (9/30/22)	\$ (18.21)	\$ 0.95

Amounts reported in this summary exclude designations for Long Beach Recovery Act uses along with related departmental activity which will be discussed separately in this report.

The projected FY 22 General Fund sources total \$671.4 million, comprised of \$616.5 million in revenue and \$54.9 million in “other sources,” largely made up of the release of reserves for one-time expenditure purposes that were budgeted in FY 22. Other sources also include the release of \$9 million in funds held in escrow related to the Measure M litigation to cover the required initial transfer of funds to the Water Fund. Other sources also include the planned release of reserves to cover the revenue loss of the Water and Sewer Fund transfers to the General Fund in FY 22.

The projected FY 22 uses total \$691.9 million, comprised of \$647.6 million in expenditures; \$19.0 million in other uses including the Measure M litigation related transfer of funds held in escrow to the Water Fund, \$0.5 million additions to the reserves to cover the funding gap for FY 23 revenue loss as a result of the final outcome to the Measure M litigation, \$9.4 million funding required for the anticipated capital acquisition cost of a Project Homekey motel; and \$25.3 million of Measure A funds reserved for future use and will be part of the FY 23 Budget for capital investment and public safety operating expenses. Measure A funds are reviewed and appropriated separately from other General Fund monies. As a result, they are not included in the General Fund funds available projection in the table above; instead, they are discussed in a separate Measure A section below.

The FY 22 Uplands Oil Fund is projected to end the year with a \$0.95 million operating surplus, with \$2.0 million in other uses representing the annual set aside for future oil well abandonment. Given the elevated price of oil, the City Manager proposes to increase the set aside for abandonment liability by 25 percent. This represents an up-to 25 percent higher (additional \$0.4 million) set aside for oil well abandonment over what was previously planned at \$1.6 million. The recommended abandonment funding set aside was also increased in the Tidelands Oil Revenue Fund Group, increasing the planned set aside of \$7.125 million by \$1.8 million (for a total of \$8.9 million). This additional set aside would help the City build reserves to safely retire oil wells in the future and make steps towards less oil dependency.

There are many variables that can impact this status of Uplands Fund both positively or negatively, particularly with the volatile nature of the price of oil, so actual set aside for oil abandonment will be revisited at the end of the year. At year-end, any surplus funds in Uplands Fund may be used to help cover the shortfall for the General Fund after the five percent set-aside for unfunded liabilities per City Council policy.

Measure M

In December 2021, an appellate court ruled against the City in a lawsuit challenging the legality of the City's Measure M charter amendment, which was approved by voters in 2018 to continue the long-standing practice of transferring surplus City utility revenues to the City's General Fund in order to support services for Long Beach residents. The City disagreed with this ruling and petitioned the California Supreme Court for review. Unfortunately, this past March the Supreme Court denied the City's request, thereby making the appellate court decision stand.

Although the City disagrees with the appellate court's ruling, the City is complying with the decision. The resulting impacts and actions include remitting \$9 million back to the Water Fund that was previously escrowed (\$3 million escrowed in FY 20 and \$6 million in FY 21) within 30 days of the Supreme Court's response. This transfer was completed by the court-required deadline. Additionally, within 180 days the City must repay the Supreme Court's denial all past transfers subject to litigation (FY 18 through FY 21) that were not part of the previously escrowed funds. This amount totals \$21.8 million, inclusive of attorney fees. To obtain funding for the payment, City staff is likely to recommend that the City Council approve internal financing, which from an accounting standpoint would be an interfund loan from the General Fund's accumulated share of the Fleet Acquisition Fund's available cash to the General Fund. Compared with a traditional external judgment bond sold to investors in the capital markets, the financial advantage of this approach is that the City pays interest to itself, rather than to outside investors.

In addition to the cash paybacks to the Water Fund, the annual transfer to the General Fund from the Water and Sewer Fund will no longer occur beginning in FY 22, except for allowable transfers from a calculated nexus study. The anticipated revenue loss is estimated at \$8.4 million FY 22. This revenue loss was not accounted for in the Adopted FY 22 Budget. However, as discussed in the FY 21 Year-End Performance Report, City staff were evaluating other reserves, separate from the Operating and Emergency Reserves, that were previously set aside for other obligations and liabilities to re-designate to address potential fiscal impacts in the event that the Measure M litigation outcome eventually proved unfavorable to the City. An example in the FY 21 Year-End Performance report included funds that were previously deposited into escrow for the *McWilliams v. Long Beach* settlement - a class action lawsuit on the City's telephone user tax. At the end of FY 21, all claims related to this case were received and refunds paid, with unused funds reverting back to the City. As a result, a total of \$16.8 million (including \$0.5 million in FY 22) has been set aside to address the revenue loss related to the Measure M litigation for FY 22 and FY 23. While the revenue loss will be reflected as a structural hit in the FY 24 budget that will need to be resolved, these reserves

mitigate the impact in the short-term.

The following sections provide additional information on these General Fund sources and uses.

General Fund - Sources of Funds

Overall General Fund revenues are estimated to be \$25.5 million higher than the Adjusted FY 22 Budget. Funds received through the American Rescue Plan Act are not reflected in these revenue figures as they are accounted for and described separately in the LB Recovery Act section below. FY 22 includes projected shortfalls across various department revenues, but these revenue shortfalls are expected to be mitigated by other key revenue streams that continue to improve and outperform the FY 22 budget. These sources include property, sales and use, utility users, transient occupancy, and cannabis business license taxes, as well as higher transfers from the Uplands Oil and Gas Fund Groups. The revenue figures also include the \$8.4 million revenue loss related to the Measure M litigation as discussed in the preceding Measure M section, but this loss will be offset by reserves previously set aside to mitigate the impact for FY 22 and FY 23.

Better than anticipated revenue projections

- Property tax revenue is projected to end the year \$3.4 million (or 2.4 percent) higher than budget. Better than anticipated revenues in FY 22 are largely driven by citywide (including former-RDA areas) valuation increases from new development and improvements, as well as prior year adjustments such as supplemental tax revenues which is based on the change in valuation following the completion of a property sale, transition of ownership, or new construction. In addition to property tax revenues, the FY 22 estimate also includes \$0.7 million (or 30 percent) in better revenues from property transfer taxes which is generated when ownership of property is transferred and is subject to increased property taxes at a higher assessed valuation.
- Sales and Use Tax (non-Measure A) is projected at \$80.8 million, which is \$9.3 million (or 13 percent) higher than budget. This estimate is based on the most current data available as of the calendar year fourth quarter. FY 22 estimates include continued growth in the City's share of the countywide pool following the 2019 implementation of AB 147 and as well as ongoing recovery in general consumer goods and restaurants and hotels. Furthermore, FY 22 also includes additional sales tax revenue generated from the unanticipated price increases to fuel and automobiles, as well as one-time use tax revenues from development projects occurring in the City. As further described later in the Measure A section of this report, similar trends are also impacting Measure A revenues which are also estimated higher than budget.

- Revenue generated from the five percent Utility Users Tax (UUT) on usage of telephone, electric, gas and water is expected to exceed budget by \$3.5 million (or 11 percent). Of this overage, \$1.1 million is from telephone UUT and \$2.6 million is from electric UUT. While an ongoing annual revenue decrease in telephone UUT is still projected due to the continued erosion of wired revenues, the decline is not as steep as assumed in the FY 22 budget, which assumed a 25 percent reduction from FY 21 budget. Electric UUT revenue is also estimated higher than budget and expected closer to FY 21 actuals. Budgeted revenues from electric UUT anticipated a five percent decrease from the FY 21 budget based on data available at the time of budget development and expected recovery from pandemic-related business closures.
- Transient Occupancy Tax (TOT), including revenues generated from the additional one percent from Measure B, is now estimated to end the year at \$20.2 million which is \$1.9 million (or 10 percent) over budget. When the budget was developed, it was projected that TOT activity would begin to recover throughout FY 21. Beginning mid-FY 21, however, TOT revenues began to trend much closer to average pre-pandemic levels. Recent data covering the first quarter of FY 22 indicate that recovery will continue if conventions and business travel activities trend closer to pre-pandemic levels for the remainder of the fiscal year.
- Cannabis business license tax revenues are estimated to closely align with FY 21 year-end actuals at \$12 million, which is \$2.8 million (or 30 percent) above the FY 22 budget that was developed prior to when the FY 21 year-end actuals were known. These higher revenues are based on increased average dispensary tax payments first experienced in FY 20 during the pandemic and further increasing in FY 21. Based on year-to-date information, FY 22 estimates assume that revenues have stabilized at around these higher levels.
- In FY 22, the annual transfer from the Gas Fund Group includes an additional \$4.8 million one-time transfer. Due to better than expected performance, the Gas Fund Group is anticipated to be able to increase its FY 22 transfer to the General Fund from the budgeted \$11.1 million to close to \$16 million, which is \$4.9 million (or 43 percent) higher than budget and also within the City Charter-authorized level of 12 percent of total gross revenues. The actual transfer will be reassessed at year-end based on actual year-end revenues in the Gas Fund Group.
- The General Fund Group receives an annual transfer from the Uplands Oil Fund Group of net oil revenue from land-based oil wells in which the City has an interest. In FY 22, the transfer is estimated at \$10.6 million, which is \$3.7 million (or 54 percent) higher than the budget. The FY 22 budget assumes the price of oil at \$55 per barrel. However, in FY 22, the actual average price of oil is much higher and currently estimated to be an average of around \$90 per barrel for the year, which allows for higher than budgeted net transfers to the General Fund Group. It is important to note that less than 50 percent of the revenue for Uplands is associated with the sale of oil. More than half of the revenue received by the City is from administrative overhead fees associated

with Tidelands oil production (not the sale of Tidelands oil).

Revenues Estimated to Underperform

- Revenue streams across various City departments are anticipated to come in under budget. This includes estimated revenue shortfalls of \$1.4 million (or 33 percent) in street and garage parking revenues, and \$1 million in park programming (or 50 percent). Despite these revenues expected to end the year under budget, both parking and park programming continue to improve as Covid-related restrictions are lifted and activity recovers closer to pre-pandemic levels. FY 22 estimates also include \$2.8 million revenue loss (98 percent) related to the continued suspension of utility late fees to provide financial relief to residents and businesses.
- Aside from pandemic-related losses, FY 22 estimates do not anticipate reimbursement from the Ground Emergency Medical Transportation Services (GEMT) supplemental reimbursement program revenue. GEMT revenue is budgeted at \$3.3 million and is pending federal approval for the State Plan Amendment (SPA) which will authorize reimbursement and the calculation methodology for reimbursement covering FY 19 through FY 21. Following federal SPA approval, the City will submit a request for reimbursement to offset prior year eligible expenses incurred since FY 19.

Attachment B provides a breakdown of the top 40 General Fund revenue performance by source.

Other Sources

The projection for Other Sources is about \$54.9 million in FY 22. The majority of these other sources are comprised of the release of reserves set aside in FY 21 to fund City Council-approved expenditures that were anticipated to occur in FY 22, such as \$2.3 million of FY 21 encumbrances to be paid in FY 22, \$8.9 million of carryover of one-time funds from previous allocations that were not completed, \$1.1 million of carryover for Council District priority funds, and \$1.3 million of funds reserved at the end of FY 21 for Council-approved FY 22 uses. Other sources also include: a release of \$7.2 million from reserves previously set aside for liabilities and required mandates to support the infrastructure funding necessary to comply with legal ADA obligations related to sidewalk and curb requirements, \$9 million release of funds related to Measure M to cover the transfer of funds held in escrow to the Water Fund and an additional \$8.4 million release of reserves set aside to cover the loss of revenue in FY 22 related to Measure M. Lastly, this includes the release of \$16.7 million in Measure A reserves planned for use in FY 22.

General Fund - Uses of Funds

Expenditures by Department

Based on departmental analysis using data as of December 31, 2022, the General Fund

expenditure estimates, collectively, are projecting to end the year under budget by approximately \$515,000. At the time of the projection update and analysis, a few departments were showing year-end estimates that were trending over budget, as described below. This will be evaluated again at year-end and any necessary budget adjustments will be requested at that time.

- The Economic Development Department is projecting an overage of approximately \$0.4 million (5.2 percent of budget). The overage is primarily attributed to unfunded costs associated with the likely claw back of former successor agency properties which have not been developed. In addition, the Department estimates expenses up to \$100,000 in FY 22 for the Business License, Taxes & Fees Grant Program authorized by the City Council on November 17, 2020. The department will seek an appropriation increase based on actual program expenses in the next periodic budget adjustment.
- The Health and Human Services Department is projecting to end FY 22 slightly overbudget at \$28,000 (0.4 percent of budget) due to unforeseen repairs needed at the main health facility that may not be fully absorbed by current appropriations in the General Fund. The Department will continue to monitor its expenditures to see if any additional savings can be identified through the remainder of the fiscal year to absorb these unforeseen costs within its current appropriations.
- The Parks, Recreation and Marine Department is currently projecting to end the year overbudget by \$0.7 million (1.7 percent of budget) due to citywide park watering needs. In prior years, these costs were funded by one-time appropriations or covered by operational savings. In FY 22, the department will continue to water parks to meet core irrigation needs and any irrigation costs exceeding budget at year-end will be brought to the City Council for a budget adjustment to cover the uncontrollable cost incurred.
- The Citywide Activities Department is projecting to end the year over budget by \$3.7 million (5.2 percent of budget) due to the new methodology for allocating the citywide full-cost allocation plan. The new methodology for indirect cost plan brings the City into compliance with federal grant requirements but can create a variance between budget and actuals. A budget adjustment will be brought to the City Council at year-end as necessary.

The following departments have note-worthy savings compared to their budgets.

- The City Clerk Department is projecting to end the year with a savings of \$0.3 million (6.3 percent of budget) compared to budget due to salary savings and not hosting in-person civic engagements and advertisement efforts. The Department is monitoring election costs as County estimates have not been reliable and may see additional cost for election matching funds due to the greater than expected number of candidates that have filed for office.

- The Fire Department is projected to end the year with a savings of \$1.3 million (1.3 percent of budget) compared to budget, due to attrition savings in Firefighter positions. The next Fire Academy class will graduate on May 21, 2022, which is anticipated to fill Firefighter positions back to budgeted levels.
- The Police Department is projecting to end the year with a savings of approximately \$2.9 million (1.1 percent of budget) compared to budget due to a combination of many factors that have impacted staffing levels including increased separations and retirements in both sworn and civilian classifications, staffing shortages in key areas that delayed hiring across all classifications and dramatic declines in the candidate pool for police recruits. To mitigate sworn hiring challenges, the Police Department is currently planning for back-to-back enhanced recruitment efforts to fill back-to-back academies over the next two fiscal years.

In addition to its core services of crime prevention and investigations, the Police Department is focused on implementing key initiatives to provide higher levels of transparency, accountability, and operational efficiencies. These initiatives include new software to enhance recruitment of diverse candidates, evaluation of the academy training process for improvement, and software to schedule shifts and overtime hours more efficiently. The Police Department will also support the addition and upgrade of networked security cameras, closing the funding gap to allow for the commencement of construction at the Police Academy, operational efficiency planning at the PD Headquarters building, and support crime and evidence lab planning.

Additionally, due to the savings experienced this year, the Police Department budget will provide funds to support the Community Crisis Response efforts, violence prevention, and racial reconciliation and equity related needs. Many of these funds will be for programs currently supported through the LB Recovery Act, allowing these programs that have been proven to be effective and impactful to continue through FY 23 and into FY 24. These allocations are included in the Police Department's year-end estimates noted above. Relevant budget adjustments are included at the end of the report to transfer budget from the Police Department to the appropriate departments. The allocations are as follows:

Support for FY 23 Budget Community Crisis Response Program

- o \$980,000 to support a Community Crisis Response Program that will directly dispatch 9-1-1 calls related to non-violent, non-emergency calls for service through a health-based approach. This expands on the program initially funded by the Recovery Act, which will allow for a longer and more robust program. This program is slated to be included in the Proposed FY 23 Budget with additional information provided in the budget proposal.

Current LB Recovery Act Programs

- o \$400,000 - Language access: To meet the increasing demands for language translation and interpretation services across City departments, more funding will be allocated to support the increasing needs of the City. City staff and contracted partners will provide interpretation services at community and commission meetings, and translate written materials including documents, applications, brochures, flyers, etc.
- o \$216,000 - Be SAFE (Summer Activities in a Friendly Environment): Program that offers extended programming and hours for youth and families at eight designated parks during summer evenings including: Silverado, Seaside, Houghton, Scherer, Ramona, Bixby, Pan Am, and Orizaba parks.
- o \$68,000 - My Hood My City: Program that provides youth-led storytelling through Neighborhood Tours that raise awareness, pride, and knowledge regarding the cultural and structural makeup of neighborhoods in North, West, and Central Long Beach.
- o \$10,000 - Books and Buckets Youth Academy: Provide additional funding for the Books and Buckets Youth Academy that empowers Washington Neighborhood youth through academic and athletic development for local neighborhood impact.
- o \$46,000 - Hoops After Dark: Provide additional funding for additional seasons of Hoops After Dark program, a basketball Boot Camp and support services program and for youth and emerging adults ages 18 to 25.
- o \$15,000 - Teen Volunteers: Increase volunteer opportunities for teens at six park sites including: Houghton, Silverado, McBride, Admiral Kidd, Chavez, and Freeman parks. Teen participants commit to volunteering 10 hours a month at park sites. Teens that reach 250 hours in a year are offered priority application and interview for Parks, Recreation and Marine jobs and participate in Rookie School training that provides advanced knowledge and skills for a future career.
- o \$10,000 - Outdoor Youth Connection (OYC): Supports Participation in a State Park-run OYC Leadership Camp that brings kids from disadvantaged neighborhoods across the State to Lake Castaic for leadership training through outdoor and wilderness experiences. This covers the cost of OYC participation fee and transportation for 80 teens from six park sites including: Houghton,

Silverado, McBride, Admiral Kidd, Chavez, and Freeman parks.

- o \$60,000 - Teen Academy: Provide 9-month Teen Academy program offered during the school year to 100 teen residents of the City at six park sites including Houghton, Silverado, McBride, Admiral Kidd, Chavez, and Freeman parks. This program is offered in partnership with other City Departments and teaches teen job readiness and life skills curriculum, family & teen enrichment wellness classes, and a teen mentoring program.

Other

- o \$120,000 - Youth Substance Use and Mental Health Support: Additional funding allocated for a mental health support and substance use prevention program for a 12-month period. This consists of a series of workshops to provide social-emotional development services to participants, in the form of groups, substance use prevention, and direct access to mental health support at existing City facilities, including libraries, health department buildings, and parks in two to three high need areas across Long Beach. Case management will also be provided to ensure that participants have access to resources and services they need beyond the program.
- o \$15,000 - Tech To-Go: Provides subscription fee for additional one year for mobile hot spots currently available for check out through Library's Tech To-Go Program. The first year's subscription was paid for through a State program that has since been discontinued. Free mobile hot spots are available to anyone and support schoolwork and job searching.

Attachment C provides a breakdown of General Fund expenditure performance by department. Notable departmental variances are identified in the footnotes to this attachment.

Other Uses

The FY 22 projection for Other Uses of funds, not-related to Measure A, totals \$19 million and is comprised of the \$9 million transfer of funds held in escrow to the Water Fund related to Measure M, \$0.5 million additions to reserves to cover the funding gap for FY 23 revenue loss as a result of the unfavorable outcome of the Measure M litigation, \$9.4 million funding required for the anticipated capital acquisition cost of a Project Homekey motel and \$0.2 million of Measure B stabilization set asides for Measure MA, Measure US and Measure B-TOT.

Measure A related items include a set aside of \$25.3 million to back out the impact of any Measure A surplus from the analysis of the General Fund, and \$0.8 million for the Measure B

stabilization fund for Measure A. Additional information on Measure A is provided in the next section.

Measure A Revenues and Expenditures

The Adopted FY 22 Budget initially projected Measure A revenues at \$69 million in FY 22. The FY 22 Budget for Measure A continues to support the programs previously approved by the City Council and reflects the intent of the initiating ballot measure with all the funds being allocated to maintain and enhance public safety services, and support infrastructure investment, public safety, Community Hospital one-time needs and set aside for the Measure B stabilization fund.

The FY 22 Budget was developed during the Spring/Summer of 2021. At that time, it was projected that this revenue stream would continue to recover and more closely align to pre-pandemic levels in FY 22. Current projections are showing Measure A revenues significantly exceeding pre-pandemic levels, ending the year at an estimated \$81.9 million, close to \$13 million higher than budgeted (or 19 percent). As mentioned in the General Fund - Source of Funds section earlier in this report, higher revenues are due to similar trends impacting sales and use tax revenue (non-Measure A) including continued improvement across various categories such as restaurants, hotels, and general consumer goods. FY 22 also includes higher revenues from unanticipated price increases for automobiles and fuel, as well as one-time use tax revenues from development projects occurring in the City.

In terms of uses, the City Council approved the FY 22 First Budget Adjustment on March 8, 2022, which included adjustments to the Measure A budget for approved projects that were not fully expended in FY 21 to be carried over to FY 22 in the amount of \$0.8 million, adjustments related to the use of FY 21 Measure A surplus in the amount of \$10 million, and an adjustment to keep the original debt service payment schedule at a favorable interest rate for the Motorola Public Safety Radios, instead of paying it off early. This resulted in an \$11.7 million decrease to the budget. In addition, the Measure B reservation projection is slated to increase to \$0.8 million to reflect the projected increase in Measure A revenues.

Table 2 below provides a summary of these revenue and expenditure projection updates, resulting in an estimated year-end operational surplus of \$12.8 million. Additionally, cash of \$11.7 million was added to the Measure A reserves from the cancellation of the Motorola debt prepayment, which will support the Measure A allocations in FY 23. The allocation of these potential surplus funds is slated for consideration as part of the FY 23 budget development process to support the new Measure A out-year plan. Any additional funds remaining at year-end can be assessed at that time and allocated as part of the FY 22 Year-End Performance report.

Table 2: FY 22 Summary of Measure A Budget and Year-End Projection			
	FY22 Adopted Budget		FY 22 Projection
Sources			
Measure A Revenue	\$	69.04	\$ 81.8
Other Sources (Release of Reserve) ¹	\$	5.98	\$ 5.9
Other Sources (Release for FY 21 one-times carryover) ²	\$	-	\$ 0.7
Measure A surplus FY2 ³	\$	-	\$ 9.9
Total Sources	\$	75.02	\$ 98.6
Uses			
Expenditures	\$	(74.33)	\$ (73.30)
Other Uses: Measure B Reservation	\$	(0.69)	\$ (0.82)
Other Uses: Reserve of Funds for FY 23 out-year plan			\$ (11.67)
Total Uses	\$	(75.02)	\$ (85.78)
FY 22 Year-End Surplus (Projected)	\$	-	\$ 12.81

¹ Previously, per the Measure A out-year funding plan, funds were being accumulated as reserves for future planned projects such as the rebuilding of the Police and Fire Academies and funding public safety communication technology upgrades that had cash needs in different years. These funds are now being released in a total amount of \$5.2 million to fund these planned projects as well as additional uses added in FY 22. Additionally, \$800,000 from anticipated FY 21 Measure A year-end surplus will be reserved and released into FY 22 for infrastructure needs to support the legal ADA obligations related to sidewalk and curb requirements.

² In FY 21, a total of \$0.78 million of approved projects were not fully expended but are planned to be set aside to be reappropriated for in FY 22. This included budget for the purpose of tree trimming and irrigation pumps.

³ Represents funding set aside at the end of FY 21 from year-end surplus of \$9.97 million for Council approved new projects in FY 22

⁴ Represents available funding as a result of adjusting the Motorola Public Safety Radios pre-payment to the original debt service schedule. Funding made available by this adjustment is set aside to support the Measure A out-year plan to be proposed in FY 23

Long Beach Recovery Act

On March 16, 2021, the City Council approved the Long Beach Recovery Act (LB Recovery Act), becoming one of the first major cities to approve a COVID-19 recovery program utilizing federal American Rescue Plan Act (ARPA) funds. The LB Recovery Act is funded by various sources, including the General Fund as a result of the City's approach to using federal ARPA funds. The U.S. Department of Treasury's (U.S. Treasury) Final Rule allows ARPA funding to be used to provide and maintain current government services (e.g., provision of police, parks, and recreation services) up to the amount of the City's calculated revenue loss due to the pandemic. In compliance with the Final Rule, the City will use the majority of ARPA funds to maintain existing, eligible City services (specifically, parks and recreation and police services) for both FY 21 and FY 22. The ARPA funding provided to the City thereby offsets General Fund monies, which are then used to deliver City Council-approved programs for the LB Recovery Act. This spending approach, consistent with the Final Rule, does not result in any increased budgetary allocations or levels of service for the Parks, Recreation and Marine (PRM) or Police (PD) Departments. The total budget for PRM and PD were unaffected by this approach.

Therefore, the City's reporting to the U.S. Treasury will show the majority of ARPA funds as

being used to provide government services, while the City's Recovery Act reports will continue to show the programs promised to residents and businesses. This funding allocation method reduces the substantial administrative costs associated with ARPA compliance and reporting requirements, and substantially reduces any City grant compliance risk that could result in the U.S. Treasury's recoupment of the City's ARPA funds.

In addition to using ARPA funds to maintain eligible City services, the remaining portion of ARPA funds will be used to provide direct relief grant payments to those impacted most by the pandemic. Utilizing ARPA funds instead of General Fund monies for these direct grant payments will allow the direct relief grant payments to be tax-exempt for the beneficiaries.

The LB Recovery Act totals \$268.7 million to support programs through December 2024 in three main categories:

- Economic Recovery: \$64.5 million
- Healthy and Safe Community: \$128.5 million
- Securing Our City's Future: \$75.7 million

The Economic Recovery programs focus resources on residents and businesses most impacted by the pandemic to promote an effective and inclusive economic recovery that strengthens revenue generation and leverages consumer spending to stimulate lasting economic growth. The Healthy and Safe Community programs focus resources on addressing the underlying social determinants of health and prioritizing basic needs and the mental and physical health of community members most adversely impacted by the pandemic. The Securing our City's Future category funds the restoration of City services by eliminating employee furloughs, helping the City weather the next financial crisis by replacing lost revenue, and providing critical time for the City to develop financial and service strategies to address future projected significant operating budget shortfalls.

LB Recovery Act Sources

Since adoption of the LB Recovery Act in March 2021, the City has secured \$268.7 million from a variety of recovery-related funding sources. The table below provides detail on all funding sources supporting LB Recovery Act.

Table 3: Long Beach Recovery Act Funding Sources (in millions)

Funding Source	Updated Sources as of March 31, 2022⁺⁺
General Fund [*]	\$124.0
General Fund ^{**}	0.8
ARPA ⁺	11.8
Airport Grants [^]	15.1

CDC Public Health Workforce Development Grant	2.8
Emergency Rental Housing Program - Round 1	30.2
Emergency Rental Housing Program - Round 2	34.3
Epidemiology and Laboratory Capacity Grant	26.8
Health Disparities Grant	7.7
HUD Home ARP (to address Homelessness)	10.2
Vaccination Grant	5.1
Total Long Beach Recovery Act Funding^{^^}	\$268.7

- * Funds made available due to funding from ARPA covering existing City services.
- ** Funds made available due to funding from CARES covering existing City services.
- + This represents the portion of LB RECOVERY ACT programs funded directly by ARPA. The remaining portion of ARPA funding will be used to support existing public safety and parks and recreation services.
- ++ Totals are rounded to the nearest \$100,000.
- ^ Airport Grants are funded by ARPA as a direct allocation to the Airport Department. This is separate from the City’s direct allocation of ARPA funds.
- ^^ Actual amounts received in FY 22 may vary depending on actual funding received.

The total LB Recovery Act funding has grown from \$252.0 million to \$268.7 million since the end of FY 21. The increase is due to revised funding amounts of existing grants and the addition of the CDC Public Health Workforce Development Grant. Some of the Coronavirus Aid, Relief, and Economic Security (CARES) Act program operations have continued as part of existing LB Recovery Act programs. Of the funds that were previously set aside in the General Fund to support the CARES Act programs, \$831,156 have been added to LB Recovery Act as an additional source to support these ongoing programs. Attachment D provides status summary of FY 22 expenditures and revenues as of March 31, 2022 by department further described in the sections below. Attachment E details the revised LB Recovery Act programs, sub-programs, and the associated allocation amounts, excluding budget adjustments proposed in this letter.

In terms of actual revenues and grant funds received, \$37.9 million was received in LB Recovery Act revenues in the first half of FY 22 - \$34.8 million in the General Fund made possible by ARPA providing funding for existing City services and \$3.1 million in other funds. A total of \$2.8 million was received by the Health and Human Services Department in grant funds to support vaccination and laboratory services to aid in the effort to slow the spread of the COVID-19 virus, and \$0.3 million in grant revenues were received to support other LB Recovery Act programs.

LB Recovery Act Uses

LB Recovery Act programs continue to evolve as additional grants and other sources are identified. The following table summarizes the updated budget and expenditures to date by

Program Category.

Table 4: Long Beach Recovery Act Program Categories (in millions)

	Updated Allocations as of 03/31/2022	Actuals as of FY 21 Year-End	Actuals as of 03/31/2022	Balance Remaining as of 03/31/2022
Economic Recovery*	\$64.5	\$2.8	\$2.7	\$59.0
Healthy and Safe Community*	128.5	20.9	31.4	76.2
Securing Our City’s Future	75.7	33.7	0.0**	42.0**
Total LB Recovery Act	\$268.7	\$57.4	\$34.1	\$177.2

* These categories include a preliminary allocation of LB Recovery related administrative overhead costs. Actual allocations may vary depending on future program expenditures.

** Based on projections in this report, \$18 million is anticipated to be needed at the end of FY 22 to cover the FY 22 shortfall. Additionally, funds of \$12 million or more will be needed to cover the currently anticipated FY 23 shortfall. Actual amount needed will be revisited at the end of FY 22 and other potential uses will be evaluated as part of the Proposed FY 23 Budget process. Actual FY 22 year-end use will reduce the Balancing Remaining shown in the next column.

Two programs accounted for more than 85 percent of the total spending - the Emergency Rental Assistance Program (\$25.3 million) and the Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infectious Diseases (ELC) Program (\$4.3 million). For the General Fund \$1.8 million, most of the costs, were associated with administration costs necessary to create, develop and begin implementing the LB Recovery Act programs and manage \$268.7 million in LB Recovery Act funds, an amount larger than the budget of many California cities. To ensure the successful roll out of LB Recovery Act, the City has initiated a temporary, three-year staffing plan focused on retaining the necessary human resources, setting up financial processes and controls, and developing collective impact programs to support Long Beach’s recovery efforts. To manage this effort, a central management team has been assembled, and additional administrative and operational staff will be hired in phases as programs are rolled out. An allocation of approximately 16 percent will be applied to each program for administrative expenses to ensure the proper program development and implementation, and report coordination for compliance with funding requirements.

Other Funds

This section highlights key information on select funds. Attachment A provides a breakdown of citywide expenditures by fund for all of the 36 expenditure budgetary fund groups.

Civic Center Fund Group

The Civic Center Fund Group is used to maintain, improve, and operate the Civic Center complex which includes City Hall, Billie Jean King Main Library, Fire Station 1, Police Headquarters, Broadway Parking Structure, Public Safety Parking Structure, and Lincoln

Park. The ongoing revenue resources to this fund include charges from departments occupying the Civic Center facilities.

Current FY 22 projected costs include expenses from increased security and the amended Memorandum of Understanding (MOU) with the Port. These costs include payment to the Port for licenses and easements costs located in the Port Building, including the Facilities Management Contractor Office, Reprographics, Archive Room and the Vault. The current projected revenues for FY 22 are expected to cover all costs for the year. The fund began FY 22 in a substantial negative budgetary funds available status of \$7.4 million but two factors are expected to bring the fund back into balance: 1) increased interdepartmental charges included in the FY 22 budget and planned for in FY 23 (mostly borne by cost increases to the General Fund) that also include recouping for citywide expenses for overhead costs that drew down on funds available in FY 21; and 2) the payment of a \$6 million accounts receivable by Plenary expected no later than December 2022.

ti Group

The Gas Fund Group provides full natural gas utility services to residential and business customers in Long Beach and Signal Hill. In 2022, the Gas Fund is projected to spend \$8.7 million on gas pipeline capital improvements. Revenues from gas operations are projected to be up 17 percent compared to FY 21. This increase is attributed to continued strong demand due to cooler weather. Due to above expected revenue performance, the Gas Fund Group is projected to be able to transfer an additional \$4.8 million above the budgeted \$11.1 million, for a revised total transfer to the General Fund close to \$16 million. Year-end revenues will determine the final transfer amount which will be at the maximum of 12 percent of gross revenues established by the City Charter through Measure M. The December 2021 appellate court ruling against the City regarding the lawsuit that challenged the legality of the City's Measure M charter amendment centered on the City's water and sewer utility revenue transfers and does not impact the Gas Fund transfer to the General Fund, which was not the subject of litigation.

Health Fund Group

The Health Fund Group was established to account for funds restricted for public health purposes. The fund group accounts for revenues and expenditures associated with federal, State, local and private grants, health permits, and other fees. In FY 22, the Fund continues to receive an influx of COVID-19 response grant dollars from various federal and State agencies for direct COVID-19 response, recovery and resiliency efforts, supplementing existing budget used to support programs focused on retention of existing services which promote health and wellness and provide protection from disease and injury.

In FY 22, the California Department of Public Health Immunization Program granted the City's Department of Health and Human Services (Department) an additional \$5.3 million to assist local health departments in preventing and controlling vaccine-preventable diseases and vaccination services for COVID-19 response. Additionally, the Department received an additional allocation of \$2.8 million from the Centers for Disease Control (CDC) pass through

to the County to: (1) expand the public health workforce to support COVID-19 response; (2) train the public health workforce for emergency response via the Public Health Preparedness Summit; and, (3) expand medical and testing services for students of the Long Beach Unified School District. An additional \$750,000 was also granted to focus on supporting the LBUSD school reopening by setting up test sites, contracting with test kit suppliers, and procuring personal protective equipment (PPE).

In July 19, 2021, AB 140, was signed into law by Governor Newsom, authorizing funding for the Homeless Housing, Assistance and Prevention Round 3 (HHAP-3) program. HHAP-3 is a \$1 billion block grant program that provides local jurisdictions with flexible funding to continue efforts to end and prevent homelessness in their communities. Total HHAP-3 funding for the City is \$8.5 million and could be used for existing and ongoing operations or expansion of services such as: rapid rehousing, navigation center operations, sheltering for transitional age youth, sobering centers, intensive case management services (ICMS), mobile Multi Service Center (MSC) stations, modular shelter operations, and potential expansion of the MSC.

Additionally, the Los Angeles County Board approved the Chief Executive Office to allocate a portion of the 2021-2022 California Department of Social Services (CDSS) one-time funding in the amount of \$1.5 million to the City to address the need to house people experiencing homelessness (PEH) and to prevent the spread of COVID-19. This CDSS funding allowed the City to continue to provide Project RoomKey for PEH, permitting people in need to remain in non-congregate housing while working towards permanent housing. This grant is also being utilized for additional motel vouchers, ICMS, and rapid re-housing resources.

The Health Fund Group's permits and fees revenue base continues to recover from the negative impact of the pandemic over the past two years. The Department is currently undergoing a fee study to review fees and services provided by the Environmental Health Bureau. Based on the study's outcome, the Department will propose updates to the current fee structure.

Insurance Fund Group

The Insurance Fund Group is an internal service fund and accounts for and finances all risk management-related and insurance activities citywide. The City uses self-insurance and purchases excess insurance coverage in the open market to protect against large losses. The fund is primarily supported through charges (premiums) to City departments and funds based on overhead rates and allocation of risk management costs in addition to recovery fees and reimbursements received on claims expense and other expenditures.

The Worker's Compensation program offers health and lost wage benefits to employees at no cost if an employee is injured or becomes ill due to job related issues. The charges have increased from prior years due to projected increased costs based on the most recent actuarial study. This amount is being recouped by charges of premiums to departments. FY

22 began with \$18.3 million in budgetary funds available for the Worker’s Compensation Fund and is projected to end the year with \$17.5 million.

The General Liability program accounts for the City’s miscellaneous insurance, settlements, judgments, and defense for all liability related activities. These charges have increased from prior years due to projected increased costs based on the most recent actuarial study. General Liability costs for settlements and judgments were increasing sharply prior to the pandemic, resulting in the depletion of cash in the General Liability Insurance Fund. The large settlements and losses were in multiple departments and appeared to be typical of high jury verdicts across the country, not an issue unique to Long Beach. In FY 20 and FY 21, settlements and judgments decreased due to the slowdown of cases making their way through the courts. However, it is unknown at this time how much backlog exists or how this will affect costs when courts resume operations at normal capacity. In addition, costs for miscellaneous insurance such as property insurance are rising significantly, in part due to some losses the City incurred in recent years.

The table below provides a five-year history of miscellaneous insurance costs and settlements and judgments costs, plus projected FY 22 costs.

Table 5: FY 17 - FY 22 Insurance, Settlement and Judgement costs

(in millions)	Actuals					Project
	FY 17	FY 18	FY 19	FY 20	FY 21	FY 22
Misc Ins	\$ 3.3	\$ 3.7	\$ 3.5	\$ 7.4	\$ 10.5	\$ 14.1
Settlements & Judgements	\$ 15.2	\$ 27.2	\$ 8.4	\$ 3.2	\$ 12.3	\$ 12.3
Combined Total	\$ 18.5	\$ 30.9	\$ 11.9	\$ 10.6	\$ 22.8	\$ 26.4

Due to the increased settlement and judgment costs incurred in FY 18 and FY 19, the General Liability fund began FY 22 with a negative \$12.8 million in budgetary funds available. Since then, the interdepartmental MOU for General Liability has been increased to recoup for these losses and bring the fund back into a healthy status, and the fund is currently on a path towards fiscal recovery. In FY 22 there is a projected operating surplus of \$5.7 million, improving and bringing the projected FY 22 ending budgetary funds available status up to approximately a negative \$7.1 million.

Refuse and Recycling Fund Group

The Refuse and Recycling Fund provides for refuse and recycling collection for residents and businesses of Long Beach in a timely and cost-effective manner, ensuring compliance with the State's solid waste diversion laws. The Refuse and Recycling Fund receives approximately 95 percent of its total revenues from refuse and recycling charges assessed to residents and businesses receiving City collection services. The remaining funds come from State grants for various programs and public outreach efforts (recycling, litter reduction, used motor oil collection, etc.), revenues from the sale of recyclables collected through the City's residential recycling program, fees paid by the City's licensed private refuse haulers for AB 939 compliance, and interest income. Over \$4 million is provided annually to the General

Fund to reimburse for programs such as street maintenance, tree trimming, stormwater and environmental compliance.

Over the past two years, the amount of refuse tonnage collected has increased, as well as the costs associated with collection and disposal. These factors have contributed to expenditures continuing to outpace revenues. To comply with State-mandated organics collection, SB 1383, the Environmental Services Bureau (ESB) of the Public Works Department has implemented a commercial organics pilot program. The pilot program was implemented in June 2021 and services over 130 commercial accounts on a weekly basis. ESB plans to expand the commercial organics collection program with full implementation set to begin in the first quarter of calendar year 2023.

Refuse rates have not been adjusted since October 1, 2019 while costs for service have increased significantly. Without any rate adjustments, ESB projects that the Refuse Fund budgetary funds available may be depleted in FY 23 or FY 24, as the current rates do not support the current cost of services that include increased insurance, fleet, staffing, the pilot organics program, and other costs related to internal services. In FY 22, the Refuse Fund is projecting to run approximately a \$3 million operating deficit, further drawing down on the budgetary funds available. This projected draw-down would result in the Refuse Fund having reserves equal to only approximately one month of operating revenues beginning FY 23.

In addition to other escalating costs, State-mandated organics collection programs are expected to substantially impact costs to provide service. As a result of increased operational costs and unfunded State mandates, ESB is conducting a cost-of-service study. The study will set rates for refuse, recycling, and commercial organics collection. City staff estimates the recommendations will be brought to the City Council before the end of FY 22 with two recommended rate adjustments set for the Fall of 2022 and again in early 2023.

Special Advertising and Promotions Fund Group

The Special Advertising and Promotions Fund Group (SAP) is a Special Revenue Fund dedicated to the specific purposes of “advertising, promotional, and public relations projects calling attention to the City, its natural advantages, resources, enterprises, attractions, climate and facilities,” according to the City’s municipal code. Transient Occupancy Tax (TOT), also known as the hotel bed tax, collected by Long Beach hotels and short-term rentals is the largest source of revenue for the fund. The current tax rate is 13 percent of the nightly room rent, six percent of which is allocated to the General Fund Group, and six percent to the SAP Fund Group. The remaining one percent was added per the 2020 voter approved Measure B (TOT) and is intended for the City’s arts organizations and the Long Beach Convention and Entertainment Center per City Council Resolution. Other sources of SAP revenue include studio filming permits, special events licenses, and other permits and fees.

TOT revenue has been dramatically impacted by the pandemic but began recovering in FY 21 and is continuing to do so in FY 22. However, due to revenue lost as a result of the recession, the budgetary funds available has declined. To mitigate this, \$5.2 million was

used to replace revenue lost during the recession using funds made available through the Long Beach Recovery Act (LB Recovery Act - Securing our City's Future category), which brought the budgetary funds available back to pre-pandemic levels at the end of FY 21.

For FY 22 and beyond, TOT remains a volatile revenue source and has historically recovered more slowly after a downturn in comparison to other revenue streams. Current projections still show future years with an operating shortfall in the SAP Fund Group and continuing to draw down on budgetary funds available. It is anticipated that funds made available through the LB Recovery Act will still be needed to mitigate the impact to the SAP Fund and avoid service reductions in FY 22 and FY 23. City staff will continue to closely monitor improvement to pre-pandemic levels and evaluate if full recovery may be projected sooner than FY 24 as currently anticipated.

Tidelands Area Fund Group

The Tidelands Area Fund Group is comprised of the Marina and Queen Mary funds. Revenue for these funds is generated from various activities, specific to each fund. The Marina Fund supports the City's three recreational marinas (Alamitos Bay, Long Beach Shoreline and Rainbow Marinas) including all maintenance, operations, security, fire and Emergency Medical Technician (EMT) services. Revenue is generated through recreational and commercial use of marina property. Fees include dock/slip fees (paid by boat owners), restaurant, retail, and grounds rental leases, concession fees, park use fees, and special events and filming fees.

The Queen Mary Fund tracks the revenues and expenditures associated with the Queen Mary ship. The Queen Mary was closed during FY 21 as a result of the pandemic. Until the recent bankruptcy of the Queen Mary operator, Urban Commons, revenue was generated through rent from the Queen Mary master lease, which included Queen Mary base rent, sublease rent from Catalina Express, and passenger fees originating from the Carnival Cruise passengers' lines that passed through the Queen Mary operator (in accordance with the lease). These revenues were anticipated to be sufficient to offset debt service on bonds issued to help fund urgent improvements to the Queen Mary. Since the second half of FY 20, Carnival Cruise revenues have been greatly impacted by the COVID-19 pandemic (cruises were temporarily discontinued until August 2021). In addition, Urban Commons did not make all the required transfers of the revenues from Carnival Cruise and did not make all rent payments. As a result, revenues from the Queen Mary in FY 21 were not enough to pay the full debt service on the outstanding Queen Mary bonds. The lease for the Queen Mary has effectively been terminated as a result of the Urban Commons bankruptcy. The amount needed from the Tidelands Operating Fund Group to cover the shortfall in Queen Mary revenue was approximately \$1.7 million in FY 21. In FY 22, the Tidelands Operating Fund Group is projected to contribute potentially up to \$4 million for various expenses such as maintenance, property insurance, bond expenses, and legal costs. In addition, the Tidelands Operating Fund Group budget for FY 22 has an allocation of \$5.5 million for emergency repairs to the Queen Mary in preparation for reopening in FY 23. Additional funding for Queen Mary repairs from potential funds available in the Tidelands Operating Fund Group is

being evaluated and will be presented to the City Council as applicable through the FY 23 budget development process or FY 22 year-end process. The financial situation will continue to be closely monitored.

Tidelands Operating Fund Group

Tidelands funds are customarily combined under the umbrella of Tidelands Operating Funds. To facilitate understanding and transparency of the status of the funds, the FY 18 Budget separated out the Tidelands Operating Fund from the other Tidelands Area Funds (Marina, Queen Mary and the Rainbow Harbor Area funds). In FY 20, the funds were further refined with parking-related operations, previously in the Rainbow Harbor Fund, being grouped under the Tidelands Operating Fund Group. The Tidelands Operating Fund Group, which primarily funds operations along the beaches and waterways, is heavily dependent on base oil revenue and an annual transfer from the Harbor Revenue Fund to support Tidelands Operations, including lifeguards, waterfront maintenance, the Convention Center, and Aquarium debt payments.

FY 22 projections includes a projected \$20.6 million transfer from the Harbor Revenue Fund (a transfer of 5 percent of the Harbor's gross revenues is required by the Charter) and a projected \$33 million transfer from the Tidelands Oil Revenue Fund Group which is \$18 million higher than the \$15 million budget due to high oil prices experienced so far this year. This projected revenue is based on a projected average price of \$90 per barrel for the year instead of the budgeted amount of \$55 per barrel. These projections also include the needed set-aside for oil field abandonment funding as planned for in the adopted budget of \$7.125 million plus an additional amount of approximately \$1.8 million representing up to 25 percent more set-aside due to funds made available from higher oil prices.

Along with higher projected revenues, the Tidelands Operating Fund also has greater costs, including potential impacts specifically to support the Queen Mary that could be up to \$4 million for various expenses such as maintenance, property insurance, bond expenses, and legal costs. The fund also contributes to the Aquarium, Rainbow Harbor (Queensway Bay), and Pike Parking Garage debt and also receives revenues from profits of, or makes up revenue losses of, the Convention Center (profit and loss excludes utilities, which are paid separately by the Tidelands Operating Fund Group).

Largely due to the positive impact of the improved oil revenues, \$12 million has been set aside for Tidelands capital improvements to be included in the Proposed FY 23 Budget. Information on projects will be included as part of the Proposed FY 23 Budget. Additional surplus funds are anticipated to be available by FY 22 year-end, but given the volatile nature of oil revenue, the specific amount may fluctuate and will be evaluated at year-end with any additional potential uses to be brought to the City Council in the FY 22 year-end performance report, including potential funding needed for Queen Mary ballast tank inspections

Towing Fund Group

The Towing Fund provides the City's towing and vehicle lien sale operations. It usually

supports the City's General Fund Group through an annual transfer of some portion of net income. It is funded through towing fees, charges for vehicle storage, and proceeds collected from the lien sale of unclaimed vehicles.

In FY 20, the COVID-19 pandemic and associated response resulted in revenue being \$1.8 million less than budgeted. Factors contributing to the decreased revenue included a citywide moratorium on non-essential tows, a suspension of lien sales due to social distancing concerns, and a COVID-19-related storage fee waiver program. To reduce the impact of this shortfall, extensive efforts were taken to minimize expense and defer projects in FY 20 as well as cancel the planned \$1 million transfer to the General Fund. Even with these cost reduction measures, the Towing Fund Group ended FY 20 with a net annual loss, ending the year with a budgetary funds available of less than \$0.3 million.

Fees were raised as part of the Adopted FY 21 Budget to help cover costs. However, the continued COVID-19 pandemic and response in the first half of FY 21 extended revenue shortfalls. In the second half of FY 21, total revenue exceeded total expenditure by \$1.1 million. This was largely due to the stronger-than-expected revenue recovery coupled with extreme cost reduction measures and continued deferral of special projects. Even so, the \$1 million transfer to General Fund was once again not completed in FY 21, with the budgetary funds available to be used to replenish the low fund balance and fund upcoming expenses that had been previously deferred.

In FY 22, Towing operations are trending closer to pre-pandemic levels with year-end revenue estimates expected to be within 5 percent of budget, provided normal tow operations continue. Fee waivers and deferrals for victims of crimes, the indigent, and for individuals experiencing homelessness also impact Towing revenues. Overall expenditures are trending at or below budget and anticipated savings are expected to offset FY 22 one-time expenditures for technical infrastructure upgrades and a necessary towing software replacement. If there are no residual pandemic impacts, restored revenues plus continued expense minimization will keep the fund balance in the positive. City staff will continue monitoring this fund as well as its ability to make the budgeted General Fund transfer in FY 22, which was adjusted down to \$700,000 to help address the Towing budgetary funds available challenges.

Uplands Oil Fund Group

The Uplands Oil Fund Group accounts for oil revenue outside the Tidelands area and accounts for all costs and revenues for the City's proprietary oil interests, including accumulating reserves for the City's portion of oil well abandonment and site clearance liabilities. Revenues are derived from participation in oil operations and oil production overhead fees received by the City as Unit Operator for the Tidelands Oil operations. Presently, over half of the revenue in this fund is from overhead fees and less than half is from oil sales. The FY 22 Budget assumed a price of \$55 per barrel; however, it is now anticipated that the average price per barrel in FY 22 will be around \$90. Based on this projection, it is estimated that the Uplands Oil fund will transfer \$10.6 million to the General

Fund Group, which is \$3.7 million higher than budgeted. These projections include the needed set-aside for oil field abandonment funding as planned for in the adopted budget of \$1.6 million plus an amount of approximately \$406,000 representing up to 25 percent more set-aside due to funds made available from higher oil prices. City staff are currently evaluating the potential option of setting aside additional funds for oil field abandonment. Should this occur, there would be less transfer to the General Fund Group. The final recommendation will be reported in the final FY 22 Year-End Performance report.

This matter was reviewed by Assistant City Attorney, Gary J. Anderson on May 10, 2022.

To accurately reflect the funding where programs will be managed, the following appropriations adjustments are requested to fund the programs outlined in the table below and discussed above:

Increase appropriations in the General Fund Group in the City Manager’s Department by \$400,000.

Increase appropriations in the General Fund Group in the Parks, Recreation and Marina Department by \$415,000.

Increase appropriations in the General Fund Group in the Health and Human Services Department by \$130,000.

Increase appropriations in the General Fund Group in the Library Services Department by \$15,000.

Decrease appropriations in the General Fund Group in the Police Department by \$960,000.

Department	Adjustment	Program
City Manager	400,000	Language access
Parks and Recreation	216,000	Be SAFE - continuation in FY 24 (currently funded by LB Recovery Act)
Parks and Recreation	68,000	My Hood My City program - continuation in FY 24 (currently funded by LB Recovery Act)
Parks and Recreation	46,000	Hoops After Dark - continuation in FY 24 (currently funded by LB Recovery Act)
Parks and Recreation	15,000	Teen volunteers - continuation in FY 24 (currently funded by LB Recovery Act)
Parks and Recreation	10,000	Outdoor Youth Connection - continuation in FY 24 (currently funded by LB Recovery Act)

Parks and Recreation	60,000	Teen Academy - continuation in FY 24 (currently funded by LB Recovery Act)
Health and Human Services	10,000	Books and Buckets Program - continuation in FY 24 (currently funded by LB Recovery Act)
Health and Human Services	120,000	Youth Substance Use and Mental Health Support
Library Services	15,000	Tech To-Go
Total Adjustment	960,000	

City Council action is requested on May 24, 2022, but there are no pressing timing considerations.

Approve recommendation.

KEVIN RIPER
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER