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Date	Ver.	Action By	Action	Result
2/18/2020	1	City Council	approve recommendation	Pass

Recommendation to receive and file Fiscal Year 2019 Year-End Budget Performance Report and increase appropriations in several funds across several departments for various purposes to reflect final expenditures and carryover clean-up. (Citywide)

This report reflects the City's Fiscal Year 2019 (FY 19) budget performance. The information provided is unusually preliminary as the books for FY 19 are not as close to final as they normally would be at this time of year. This is the result of the implementation of LBCOAST, Phase I. The implementation has resulted in delays in closing the books and analyzing the City's financial status. This delay and difficulty in closing the books is not atypical for transitions to a major new financial system. If there are any significant changes to figures, staff will provide an update to the City Council.

YEAR-END BUDGET PERFORMANCE REPORT

This financial report primarily discusses the General Fund and highlights significant information for other funds where applicable. All numbers are unaudited and subject to change, particularly for FY 19 as the City is still in the stabilization stage for Phase I of the new financial system.

Overall Financial Summary

The City has 139 financial funds summarized and reported as 37 budgetary fund groups (35 fund groups with expenditures) covering 23 departments, including the separately managed Water and Harbor Departments. The FY 19 Adjusted Budget for these funds and departments was \$4.2 billion. In this report, any reference and discussion of "funds" will be referring to the budgetary fund groups. Most of these funds are restricted funds, such as the Harbor Fund,

Gas Fund, and Tidelands Funds, designated for specific and limited activities. The majority of core community services provided by the City, such as police and fire services, libraries and parks, are largely supported by the General Fund that comprises only 15 percent of the City's Adjusted Budget.

The General Fund ended the year with a budgetary surplus of \$7.98 million. While some additional surplus was expected as a result of the City's revenue projection policies, which often help fund critical one-time needs, the size of the additional surplus, while less than 1.5 percent of the General Fund budget, was unexpected. A significant contributor to this additional surplus was unexpected one-time revenues that came in toward the end of the year, particularly in sales tax, along with general economic growth. Proactive management to generate additional savings, such as an additional transfer of funds to the General Fund from the Gas Fund and underspending by departments, also helped contribute to the surplus. This has generated funds available that can be allocated to high priority one-time needs. Staff has provided recommended uses for these funds. While this is positive news, with funds being allocated to support critical needs, there are significant one-time needs that remain unfunded, including the FY 20 costs of negotiated labor agreements, many of which are still being negotiated.

Year-end spending came in under budgeted appropriation for all other funds after factoring in technical adjustments requested in this recommendation, which are further described later in this report. Please see Attachment A for a breakdown of citywide expenditures by fund.

General Fund and Uplands Oil Fund Overview

The General Fund and Uplands Oil Fund ended the fiscal year with funds available of approximately \$7.98 million and \$222,391, respectively. The major factors for this surplus are unexpected "one-time" revenues, largely in sales tax, general positive economic growth, and proactive management of the budget to generate departmental savings. Further discussion of the contributing factors behind the increase on budgetary funds available are provided later in this report.

A complete review of variances from budgeted revenues and expenditures is being conducted to determine the degree to which variances are truly one-time or may be ongoing in nature. As of the end of FY 19, staff received information from the City's sales tax consultant that included an improved reporting format that allowed for better analysis and projection of one-time revenue resulting from the strong economy and development. It is expected that FY 20 and FY 21 revenue projections will increase, and that adjustments in budgeting may be recommended to incorporate one-time revenues into the structural projection. While one-time revenues are not normally considered an ongoing part of the base revenue, some level of one-time revenue estimates may be recommended to be included in structural projections, particularly if, due to a strong economy and development status, the one-time revenue trends exhibit an overall ongoing pattern. While this will generally help the FY 21 revenue projections, the FY 21 budget will still have to address significant needs and costs, including the costs of outstanding unfunded liabilities, the costs of negotiated labor agreements, and any funding needs for the City's high general liability losses.

The details of the FY 19 General Fund and Uplands Oil Fund sources and uses are

summarized in Table 1 below:

Table 1: FY 19 Performance - General Fund and Uplands Oil Fund		
	(in \$ millions)	
	General Fund	Uplands
Beginning Funds Available	\$ 2.19	\$ 0.69
Sources		
Revenues	589.94	14.93
Other Sources: (Release of reserves)	50.95	-
Total Sources	640.88	14.93
Uses		
Expenditures	(599.73)	(14.05)
Other Uses: (e.g. encumbrances, carryover, etc.)	(23.50)	(1.35)
Other Uses: Measure A funds reserved for future use	(11.87)	-
Total Uses	(635.09)	(15.39)
Ending Funds Available	\$ 7.98	\$ 0.22

FY 19 General Fund sources totaled \$640.88 million, comprised of \$589.94 million in revenue and \$50.95 million in "other sources," largely made up of the release of reserves for one-time expenditure purposes that were authorized (budgeted) in FY 19. FY 19 uses totaled \$635.09 million, comprised of \$599.73 million in expenditures; \$23.50 million in other uses, primarily carryover from unspent one-time funds and other liabilities, the majority of which the City Council has designated in previous actions, previously approved reservations of funds and encumbrances for commitments made in FY 19; and, \$11.87 million of Measure A funds reserved for future use. Measure A funds are reviewed and appropriated separately from other General Fund monies. As a result, it is not included in the General Fund funds available calculation in the table above; instead, it is discussed in a separate Measure A section later in this report.

The funds available in the General Fund are in addition to the \$13.5 million in the Operating Reserve (inclusive of the Measure B reserve) and \$45.5 million in the Emergency Reserve for the Fund. The operating reserve, at \$13.5 million, is 2.5 percent of normal operating expenditures, which is within the policy required range of 2 to 7 percent. The emergency reserve, at \$45.5 million, is 8.5 percent of normal operating expenditures and is below the target level of 10 percent but above the minimum of 8 percent. The Uplands Oil Fund has an operating reserve of \$500,000.

Recommendations for the uses of funds available and additional information regarding General Fund and Uplands Oil Fund sources and uses are described in the following sections.

Recommendations for the Use of Funds Available in the General and Uplands Oil Funds

As previously noted, the FY 19 ending funds available is projected to be \$7.98 million for the General Fund and \$222,391 for the Uplands Oil Fund. The proposed uses for the funds available are shown in Table 2 below, with an explanation for each of the proposed year-end uses following the table.

Despite this relatively large amount of funds available that can be allocated toward onetime needs, additional critical needs remain unfunded, including full funding for the FY 20 costs related to negotiated labor agreements. Any critical one-time costs that need to be funded for FY 20, and are not funded with the FY 19 surplus, will need to utilize any surplus funds generated during FY 20, or if that surplus is not adequate, draw-down from reserves. The high FY 19 revenues are encouraging signs that at least some key City revenues will be higher than budget in FY 20.

Table 2: Recommended Uses of Funds Available for General Fund and, Uplands		
	(in \$ millions)	
	General Fund	Uplands
Ending Funds Available (9/30/19)	\$ 7.98	\$ 0.22
5% Unfunded Liability Policy	(0.40)	(0.01)
City Council Offices Budget Savings for District	(0.48)	-
Priority Funds (Divide by Nine)		
City Auditor Budget Savings Carryover	(0.29)	
City Prosecutor Budget Savings Carryover	(0.30)	
Atlantic Farms Year-Round Homeless	(1.75)	
Continuing Homeless Weekend Services	(0.30)	
Extending the Homeless Winter Shelter of March to June)	(0.12)	
Winter Shelter - Payment to County for Costs	(0.08)	
Innovation Research/ Delivery on Homeless	(0.20)	
Homeward Bound Homeless Reunification	(0.03)	
Fire Diversity Officer	(0.25)	
Diseased Magnolia Trees Removal and Treatment	(0.90)	
LB COAST Financial/ HR System Implementation	(1.50)	
Council Directed Initiatives (Strategic Funding)	(0.10)	
Redistricting Efforts (partial costs)	(0.34)	
Tree Trimming Needs	(0.23)	
Additional Sidewalk Investment	(0.50)	
Additional Council District Priority Funding (Divide by Nine)	(0.23)	
Negotiated Labor Agreement costs	(0.21)	

Ending Funds Available (9/30/19) After 0.00 0.00 Recommended Uses
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The recommendations for uses of Funds Available include the following one-time uses:

- Set aside 5 percent of funds available for unfunded liabilities, to comply with the City Council's adopted financial policy. This includes \$399,142 from the General Fund and \$11,120 from the Uplands Oil Fund.
- Carryover of \$475,463 in General Fund savings from the Legislative Department, which, by practice, will be allocated to supplement each respective Council District's one-time District Priority Funds, in accordance with the Procedures for Implementation document of November 9, 2015.
- Carryover for the City Auditor's Office savings to provide one-time support for various contracted audits in FY 20. Savings of \$288,000 from the General Fund was requested by the City Auditor and approved by the City Council in a separate letter on January 14, 2020.
- Carryover for the City Prosecutor's Office savings to provide one-time support for the City Prosecutor's Priority Access Diversion Program in FY 20. Savings of \$295,525 from the General Fund was requested by the City Prosecutor for this purpose and approved by the City Council in a separate letter on January 21, 2020.
- Carryover of General Fund surplus of \$1,750,000 to provide additional funding necessary for the first phase of the Atlantic Avenue Bridge Community (ABC) Project, establishing a year-round homeless shelter, as approved by the City Council on December 17, 2019.
- Enhancement in various departments of \$300,000 to support the continuation of the Citywide outreach and response model that allows for outreach teams to proactively connect with people experiencing homelessness through the weekends. These funds will support two Outreach workers and a Supervisor, one Quality of Life Officer and a Clean Team on Saturdays and Sundays from 6:00 a.m. to 2:00 p.m. for the remainder of the fiscal year.
- Enhancement in the Health Department of \$120,000 to support the extension of the City's winter shelter from March 31, 2020 until the opening of the ABC Project. These funds will support 40 beds, staffing costs, food, and shelter operations during this period.
- Enhancement in the Health Department of \$80,000 to support the payment to the County of Los Angeles for capital improvements at the newly acquired Navigation Center.
- Enhancement in the City Manager Department of \$200,000 to support the work of the Office of Civic Innovation as it addresses homelessness by developing quick response techniques, utilizing data analytics, and program innovation.
- Enhancement for the City Manager Department of \$30,000 to support the Homeward Bound program, designed to help reunite individuals who are experiencing homelessness with family and friends who are willing and able to offer ongoing support to end the cycle of homelessness.

- Enhancement for the Fire Department of \$250,000 for a one-year Fire Diversity Recruitment Pilot Program. Funds will include the support of a Fire Captain, to implement a comprehensive recruitment focused on hiring highly-qualified candidates that represent the City's diverse population.
- Enhancement for the Public Works Department (PW) of \$900,000 to address diseased Magnolia trees throughout the City. PW plans to contain and treat the diseased trees with a combination of environmentally friendly products and predatory (beneficial) insects. Each tree will be inspected and evaluated. Any trees deemed untreatable will be removed.
- Enhancement for the Technology and Innovation Department of \$1.5 million to support the General Fund share of funding for LBCOAST additional project costs. The additional funding will support the stabilization of the new accounting system to help ensure accurate financial reporting and support needed funding to ensure the payroll system can be successfully implemented. These extra costs are a result of the complexity and sophistication of the City's systems and the associated difficulty of configuring a new system and developing procedures and training to successfully implement it. Other funds are expected to contribute an additional \$3.0 million based on the General Fund contribution.
- Enhancement for the City Manager Department of \$100,000 for costs related to Council Directed Initiatives, specifically costs related to the preparation of a Strategic Vision for 2030 plan as directed by the City Council on February 5, 2019.
- Enhancement for the City Clerk's Department of \$337,850 to support estimated FY 20 costs related to redistricting - the redrawing of district boundaries in accordance with the community vote in favor of Measure DDD.
- Enhancement for the Public Works Department of \$230,000 to support the Tree Trimming program. This will allow the City to trim trees that have not been trimmed in recent years, reducing staff clean-up after adverse weather occurrences and any associated liability.
- Enhancement for the Public Works Department of \$500,000 to support the Sidewalk Program to address sidewalks and curb ramps that do not comply with the Americans with Disabilities Act (ADA) requirements.
- Enhancement of \$225,000 to supplement each respective Council District's onetime District Priority Funds. Each Council District will receive \$25,000.
- Set aside of \$211,272 Uplands Oil Fund surplus for labor agreement costs in FY 20.

These recommendations will be included in the FY 20 First Budget Adjustment Report for City Council's formal consideration

General Fund - Sources of Funds

Revenues

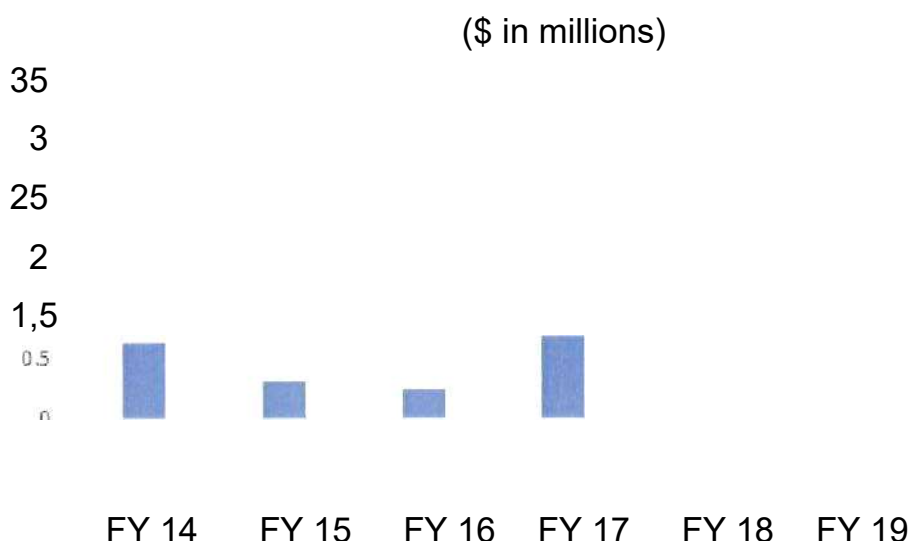
As of fiscal year-end, \$589.94 million in General Fund revenue was received. Overall, key

revenue streams came in higher than anticipated during the year, and helped mitigate the revenue sources that came in under budget, allowing the General Fund to end the year with a surplus.

Sales and Use Tax and Measure A Revenues

The key revenue that outperformed expectations was sales and use tax (non-Measure A) revenue, which came in at \$69.8 million, \$7.2 million above budget. Of this amount, \$1.1 million was anticipated as part of FY 20 budget development estimates. The unanticipated surplus amount can be attributed to unexpected one-time transactions and overall economic growth. There were some significant unanticipated one-time use tax revenue that was received toward the end of the fiscal year. These one-time revenues are generally associated with transactions that are one-time in nature from a specific project in the City or the result of a single transaction or large purchase which is usually associated with business investment. In FY 19, most of the one-time revenues were attributed to construction and industrial projects. Chart 1 shows the one-times identified between FY 14 to FY 19, with significant increases that occurred in FY 18 and FY 19.

Chart 1. Sales and Use Tax (Non Measure A) One-Times



Because one-time revenues can fluctuate significantly year-by-year, they have typically not been included in past projections of structural revenue. Instead, one-time revenues make up a significant part of the typical budgetary surplus available at the end of each year, which the City Council can then allocate toward priority one-time needs. To better project and utilize these one-time revenues, Budget staff is working with the City's sales tax consultants to develop new techniques to identify and isolate one-time sales and use tax revenues. Budget staff is also working on an approach to explicitly include one-time projections into the budget and into the structural revenue projections. This approach may be particularly applicable in a strong economy where one-time investments are made by various businesses time and time again. Any strategy to incorporate some one-times into the structural budget will need to consider minimizing the impact when one-time revenues decline sharply, which they will in a weaker economy.

In addition to unexpected one-times, the higher sales tax revenues are also due to the City's increased share of a growing countywide pool driven by overall economic growth throughout the County, stronger than expected performance in general consumer categories, sales from Long Beach buying companies established by the City Council to promote sales tax revenues, and the initial impacts of the 2018 Supreme Court Wayfair decision where the Court ruled that states can collect and remit sales taxes on businesses without a physical presence in a state. The Wayfair decision was implemented in California via AB 147 in 2019, which applied to retailers with state sales exceeding \$500,000. In addition to local sales tax, AB 147 also included a provision requiring all retailers to collect and remit district taxes, which includes Measure A.

FY 19 Measure A revenues are showing very similar revenue growth and one-time patterns compared to sales tax. This is expected as the taxes are very similar in nature. Measure A ended the year \$11.9 million over the adopted budget. Of this amount, \$4.6 million was anticipated as part of mid-year estimates, and were reflected in estimates-to-close and the FY 20 Adopted Budget. In addition to the same one-time revenue projection issues as sales tax, part of the reason for the variance in projection is the newness of the tax, the difficulty of the City's consultants to project it, and the businesses getting used to remitting the use tax on a timely and consistent basis. As Measure A becomes stabilized, future growth rates and one-times will likely closely align with normal sales tax revenues.

Based on the most recent data, and assuming no significant changes to current trends, additional surplus above budget is anticipated in FY 20 for both Measure A and non-Measure A sale tax revenues. Chart 2 below shows the variability of the City's sales tax revenue even in a good economic period. There was an unprecedented 20 percent jump in FY 18 that at least partially was one-time in nature and included adjustments due to the new State sales tax system. However, FY 19 continued to reflect a continuing increase in higher revenues, including another year of high one-times.

Chart 2. SALES AND USE TAX
FY 10 - FY 19
(\$ in Millions)



To assist in analyzing trends and assess how to best make future projections, the City retains

the services of two consultants to provide advice on sales tax and Measure A forecasting. An outside consultant is also utilized to assist with property tax projections.

Other Revenues

In addition to sales and use tax, several other major revenue sources came in much better than budgeted. These revenues mitigated the other revenues that came in below budget and also contributed to the high year-end surplus. Positive revenue trends impacting FY 19 year-end actuals include the following:

- The General Fund receives an annual transfer from the Uplands Oil Fund of oil revenue from land-based oil wells in which the City has an interest. The price of oil was budgeted at \$55 per barrel in the Uplands Oil Fund with a budgeted \$9.1 million revenue transfer to the General Fund. However, oil prices averaged about \$63 per barrel. Based on both the price of oil and oil production/overhead costs, the actual transfer to the General Fund from net oil revenues came in at \$10.6 million and was close to the \$10.4 million previously projected during the year.

Property tax revenue came in both higher than budget and the mid-year projection. Property tax revenue includes revenues derived from Property Tax in Lieu of VLF and property tax from former RDA project areas. Based on the available information at that time, mid-year estimates anticipated \$1 million in revenues higher than budget. However, actual revenues were \$6.5 million higher than budget. This was largely due to unanticipated valuation increases resulting from various factors seen in more current data, including large commercial projects such as the AES Alamitos Modernization Project. Staff is working closely with a consultant to assess the continued impact of development and improvements in the City.

- FY 19 year-end revenues include an increased one-time transfer from the Gas Fund. The increased transfer added \$1 million in new revenue to the General Fund and was offset by additional Gas Fund revenues. The transfer was within the City Charter authorized transfer levels. This amount was not included in previously reported General Fund estimates.

Despite several revenue sources coming in higher than anticipated, other revenue sources came in under budget as follows:

- City's Telephone Utility Users Tax continues to experience significant declines in recent years due to people abandoning land-lines and competitive pricing models in the mobile market. This revenue came in \$1.7 under budget, of which \$1.3 million was anticipated during the mid-year projections. The Electric Utility Users Tax revenues also declined, driven by the continued issuance of California Climate credits, coming in at \$411,000 less than budgeted
- Cannabis business license tax and fee revenues were budgeted at \$5 million, and actuals came in at \$4.8 million. While this is below budget, this is above what was anticipated during the year due to higher than expected average sales at licensed cannabis businesses.

- Transient Occupancy Tax (TOT) actuals came in \$2.2 million less than budgeted. A significant reason for the underage was a negative adjustment of \$1.8 million that was needed to record revenue in the correct year. Additionally, TOT revenues came in less than the budget, which assumed higher increases in average revenue per available room than realized. In terms of short-term rental revenues, General Fund actuals were \$687,554, which is only slightly less than the General Fund budgeted amount of \$700,000.
- Parking citation revenue came in lower than projected. The budget estimate for new revenue from the FY 19 parking citation rate increase was too aggressive and did not fully take into account the historical collection rate. At the same time, in compliance with State law, the City expanded the use of payment plans. The payment plans delay the receipt of fine payments and, as a result, likely lower overall parking revenue.

Attachment B provides a breakdown of the top 40 General Fund revenue performance by source, with significant variances identified in the footnotes.

Other Sources

Other sources of funds totaled \$50.95 million in FY 19. The majority of these other sources are comprised of the release of reserves established in prior fiscal years, including \$10 million to fund settlement payments related to the Utility Users Tax lawsuits and \$3.3 million to fund the Open Space Bonds debt service. Other sources also include the release of reserves set aside in FY 18 to fund City Council approved expenditures that were anticipated to occur in FY 19, such as the FY 18 encumbrances to be paid in FY 19, the FY 19 Police Academy, City Manager Strategic Initiatives for FY 19, and carryover of one-time funds from previous allocations that were not completed. Lastly, other sources include the release of \$10.32 million in Measure A surplus funds from FY 18, for use in FY 19, and FY 18 year-end surplus appropriated by the City Council as part of the FY 19 First Budget Adjustment letter for Measure A infrastructure uses.

General Fund - Uses of Funds

Expenditures by Department

Actual General Fund spending totaled \$599.7 million, or 98 percent of the Adjusted Budget. Some of the savings is due to Council authorized one-time projects that have not yet been spent, encumbrances that will carry over to FY 20, and planned year-end savings for specific [purposes. Net <http://purposes.Net>](http://purposes.Net) of these items, General Fund spending came in at 99 percent of budget. This collective savings across the General Fund Departments increased the year-end surplus.

With the exception of the Library Department (Library), the City Clerk Department, and the Citywide Department all General Fund departments ended the year within appropriation. The Library exceeded their budget as a result of costs associated with Sunday library hours at the Burnett, El Dorado, Michelle Obama, and Bay Shore branch libraries and, to a lesser extent, costs associated with the new main library. The City Clerk had higher than anticipated costs for election-related expenditures. An appropriation increase of \$86,000 was approved as part of the FY 19 Third Budget Adjustment letter that the City Council approved on December 17,

2019, but after that time the accounting was updated to require an additional \$7,200 appropriation increase in the City Clerk's budget. The Citywide Activities Department came in overbudget due to the new methodology for allocating the citywide full-cost allocation plan that brings the City into compliance with federal grant requirements, but creates potential variances between budget and actuals. Appropriation increase requests are included in this report, offset by year-end surplus, to cover the overages in the Library, City Clerk, and Citywide Departments' budgets.

The Legislative Department, City Auditor's Office, and the City Prosecutor's Office experienced significant savings in their operating budgets. In accordance with normal budgetary practice, Council District operating surplus is included for reappropriation to Council District Priority Funding. The City Auditor's Office and City Prosecutor's Office requested the use of approximately half their surplus to use for specific projects and this table reflects these requests that have already been approved by the City Council. The rest of the surplus generated by the City Auditor and City Prosecutor dropped to the overall General Fund bottom line, and are reflected in the funds available, as shown, that can help the City address critical needs at the discretion of the City Council. The Police Department generated savings of \$2.0 million, net of one-time carryover and encumbrances, resulting from vacancies primarily in sworn positions. Of that surplus, \$1.4 million was earmarked to fund Police Academy costs in FY 20 for the current recruit class #94. Additional funds will be needed for future recruit classes, and are included as part of the Measure A surplus recommended uses. There were also savings in departments from City Council-approved one-time funds that were not fully expended. These projects are expected to be completed in future years and the remaining funds are reserved for the approved purposes at the end of FY 19, included as part of other uses described in the Other Uses section below. These unspent departmental and one-time funds will be included for re-appropriation in the FY 20 First Budget Adjustment Report.

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

Other uses of funds, not-related to Measure A, totaled \$23.5 million in FY 19 and are comprised of assignments to reservations for carryover for projects funded but not yet completed, planned FY 20 one-time budget spending, budgeted one-time funds that were unspent at year-end, and other City liabilities. Examples of these reservations include funding set aside for the FY 20 one-time strategic initiatives, included as part of the FY 20 Adopted Budget; previously approved one-times not fully expended that will be re-appropriated in the FY 20 First Budget Adjustment Report; reservations of FY 19 departmental encumbrances for costs incurred in FY 19, but will be expended in FY 20; reservations for the proceeds from sales of former-RDA properties set aside per City Council policy; reservation of the Police Department's savings earmarked for the FY 20 costs of Police recruit academy class #94; funds set aside to maintain the General Fund reserves within policy levels; and, reservation of 1 percent of Measure A and Measure MA funds for the Measure B Rainy Day Fund. Additionally, FY 19 year-end actuals included \$11.87 million in Measure A revenue above budgeted levels, of which \$4.57 million was allocated as part of the FY 20 Adopted Budget for Fire Engine 17 and \$3.0 million was approved as a contingent appropriation for Fire Station 9, which will now be incorporated into the FY 20 revised Measure A allocation plan. The

remaining \$4.30 million in surplus Measure A funds is being reserved for allocation in FY 20, as recommended in the following section.

Measure A Revenues and Expenditures

The City Council initially budgeted \$56.3 million in Measure A expenditures to fund priority public safety maintenance and restorations, capital improvement projects, and funds for the administration of the Measure A tax, and later adjusted the budget to \$64.3 million to account for FY 18 surplus funds that were allocated for FY 19 Measure A projects. The FY 19 budgeted revenue was anticipated at \$54.5 million, which was later increased to \$59.1 million during the mid-year estimates. As reflected in Table 3 below, FY 19 yearend actuals for Measure A revenues were \$66.4 million, which is \$11.9 million over the initial budget. Of this amount, \$4.6 million was anticipated as part of mid-year estimates, and were reflected in estimates-to-close and the FY 20 Adopted Budget. FY 19 year-end actuals for Measure A expenditures were slightly under budget due to some savings in the Measure A administration costs. Between surplus revenue and expenditure actuals, excluding funds already obligated, there is \$4.3 million in surplus unallocated Measure A funds available at year-end FY 19.

¹ *Planned Releases represent funding set aside/released as per the approved ten-year Measure A plan.*

This allocation accounts for the timing of projected revenues and the project funding needs in the plan.

² *Reflects the City Council approved release of \$7.9 million in carryover revenue from FY18 surplus.*

³ *Measure B is projected and reserved as a use of structural Measure A revenue allocations.*

⁴ *As part of FY20 budget adoption \$4.57M was set aside for Engine 17 and \$3.0 M was approved for Station 9, if sufficient FY19 YE surplus was available.*

Based on the FY 20 Budget Adoption City Council actions, \$3.0 million of the first available additional FY 19 year-end General Fund surplus is now automatically appropriated for Fire Station 9.

The \$4.30 million in excess of the previously allocated funds is recommended to be reserved and appropriated in FY 20 to support key Measure A priorities, including fully funding existing Measure A committed projects and then implementing the City Council direction for new Measure A projects. The recommendations for uses of Measure A surplus include the following:

- Enhancement for the Police Department of \$1,797,438 to support the FY 20 Police Academy class #95, set to begin July 2020. Additional funding is likely needed to fully fund this recruit class. If additional funding is needed, staff will report back to the City Council along with potential funding sources.
- Enhancement for the Public Works Department and Financial Management Departments of \$800,000 to contribute to the total project costs of converting a former landfill site to the new Davenport Park.
- Enhancement for the Public Works Department of \$1.5 million for the funding needed for the El Dorado Field Turf conversion project, which was recently approved and recommended to the City Council on November 21, 2019 by the Parks and

Recreation Commission and includes construction of a new artificial turf field similar to those recently completed at Admiral Kidd, Seaside, and Drake Parks.

Enhancement for the Parks, Recreation and Marine Department of \$100,000 for irrigation pumps, and for the Public Works Department of \$100,000 for tree stump removal per the direction of the City Council and the Budget Oversight Committee as part of the FY 20 Adopted Budget.

These recommendations will be included in the FY 20 First Budget Adjustment Report for City Council's formal consideration, but the appropriation approval will be contingent upon the confirmation by the Measure A Citizens Advisory Committee that the proposed uses are in conformance with the intent of Resolutions No. RES-16-0018 and RES-16-0017 prioritizing spending.

In addition, staff is recommending that the first \$3.0 million of unallocated Measure A FY 20 surplus funds be allocated to support the Police Academy Building project. Currently, the Measure A Plan has \$15.0 million allocated to this project; however, cost estimates are showing this funding needs to be \$18.0 million.

Attachment D also provides a summary of the FY 19 Measure A spending, including a breakdown of this budget and spending, as well as the details on the progress of infrastructure spending. A total of \$31.9 million was allocated to infrastructure in FY 19, for a three-year (FY 17 to FY 19) total of \$88.1 million. As of September 30, 2019, \$47.7 million has been expended for infrastructure purposes. Due to the length of time necessary to complete some capital projects, \$40.4 million in approved projects are still in progress at the close of FY 19 and will be carried over to be expended until the projects are complete.

Other Funds

This section highlights key information on select funds. Attachment A provides a breakdown of citywide expenditures by fund for all of the 35 expenditure budgetary fund groups.

Gas Fund Group

The Gas Fund Group provides full natural gas utility services to residential and business customers in Long Beach and Signal Hill. In 2019, the Gas Fund spent \$8.4 million on gas pipeline capital improvements, which is consistent with past spending on capital. Revenue from gas operations were up 21 percent compared to FY 18. This increase is attributed to increased demand due to a cooler winter than the prior years. Due to onetime higher revenues in FY 19 from a cold winter, the Gas Fund was able to transfer an additional onetime amount of \$1.0 million to the General Fund for a total transfer of \$10.4 million, while remaining within the policy levels established by the City Charter through Measure M.

Insurance Fund Group

The Insurance Fund accounts for the City's self-insurance program for Workers' Compensation and General Liability (including property and auto). General Liability claims, settlements and judgment costs have risen in recent years, and in FY 19, the claims and insurance premiums were approximately \$28 million on a cash basis, far more than previous years. Additional funding will be needed in future years and the level of funding needed is

being evaluated. Worker's Compensation costs is also being evaluated to assess whether additional funding is needed to ensure current costs are covered.

Police and Fire Public Safety Oil Production Act (Proposition H) Group

On May 1, 2007, the voters approved Proposition H, a special tax of \$0.25, with an annual Consumer Price Index (CPI) increase on every barrel of oil produced and restricted to fund police and fire services. The tax assessed in FY 19 was \$0.32 per barrel of oil produced, and will remain at this rate into FY 20 unless annually adjusted in June 2020. Total FY 19 revenues were \$3.4 million, which is a 2 percent increase compared to the prior year and included other revenues related to Proposition H, such as interest and penalties. Actual revenues directly generated from annual Proposition H taxes were \$3.2 million, a 3 percent decline from the prior year due to year-over-year declining oil production. As a result, the FY 20 revenue is anticipated to be lower as well, and FY 20 appropriations were reduced to align with available funding. Staff will continue to monitor this fund closely.

Refuse/Recycling Fund Group

The Refuse/Recycling Fund Group receives approximately 91 percent of its total revenues from refuse and recycling charges. The remaining funds come from State grants for various 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. In FY 19, revenues in the Refuse Fund were \$45.8 million and expenditures were \$49.9 million.

In FY 19, the Environmental Services Bureau of the Public Works Department completed a Cost of Service study with the help of a consultant specializing in the solid waste industry. The study concluded that the City needed to adjust its refuse and recycling rates to reflect the true cost of service for the refuse/recycling programs. Consequently, staff recommended to the City Council that the rates be adjusted in two steps. The first step took effect on March 1, 2019 and the second took place on October 1, 2019. Staff will continue to monitor the Refuse/Recycling Fund Group and evaluate additional rate adjustments as costs continue to rise and additional State mandates regarding refuse collection and waste diversion come into law.

Special Advertising and Promotions Fund Group

The Special Advertising and Promotions Fund Group (SAP) accumulates revenue primarily from Transient Occupancy Tax. Other sources of revenue include studio filming permits, event permits, and donations. In FY 19, expenditures exceeded revenue by \$560,800 due to the budgeting of one-time projects from funds available. These one-time uses included wayfinding signage citywide and art on public buildings, MOLAA Facilities Master Plan, support for corridor activations and advertising and media consulting services. FY 19 is projected to end the year with a funds available of \$5.06 million, an amount that will be further drawn down to an estimated \$1.89 million in FY 20 due to funding of the City Council-adopted one-time priorities and preliminary updates and adjustments to expected revenue. The SAP fund will continue to be monitored closely in FY 20 to ensure the continued health of the fund.

Tidelands Operations Fund Group

The Tidelands Operations Fund Group is used to account for operations, programs, maintenance, and development of beaches and waterways, the Convention Center and capital projects in the Tidelands area. The primary sources of revenue are actual charges for services between public safety departments and the Harbor Department, the annual transfer from the Harbor Revenue Fund, and net revenue from oil operations in the Tidelands areas. The FY 19 Adopted Budget oil projections were based on \$55 per barrel. Actual oil prices averaged \$63 per barrel throughout FY 19, resulting in revenue higher than the FY 19 Adopted Budget. Due to the transition to the new Munis system, the FY 19 year-end Tidelands Operations Fund Group funds available is not available at this time. Staff will bring the final status back to the City Council along with recommendations for the uses of the anticipated funds available in a future communication, either in the FY 20 First Budget Adjustment Letter anticipated in March or the FY 20 First Performance Report anticipated in April.

Tidelands Oil Revenue Fund Group

The Tidelands Oil Revenue Fund (TORF) Group is used to account for the proceeds from oil operations within the Tidelands area. Oil production costs and transfers to the Tidelands Operations Fund as well as to the State of California account for a majority of the expenditures in the fund. Higher than initially projected oil prices resulted in a transfer to the Tidelands Operations Fund of \$15.4 million, which is \$3.9 million higher than originally budgeted. As a result of the higher actual average oil prices, FY 19 expenses in TORF exceeded budget. An increase in appropriation is included as part of the recommendation below to align budget to actuals.

Uplands Oil Fund Group

The Uplands Oil Fund accounts for oil revenue and production costs for City-owned oil produced outside the Tidelands area. Oil production costs and transfers to the General Fund make up the majority of expenditures in the fund. Expenditures also include accumulating reserves for the City's portion of oil well abandonment and site clearance liabilities. The FY 19 oil revenue budget was based on \$55 per barrel. Actual oil prices averaged about \$63 per barrel throughout FY 19. The total amount transferred to the General Fund from FY 19 net oil revenues was \$10.6 million, which included \$1.5 million in additional revenue than originally budgeted. This transfer is from current net FY 19 oil revenue and does not include \$650,000 in one-time funding for the Police and Health and Human Service Departments appropriated in FY 19 from FY 18 ending funds available. Additionally, \$46,000 was set aside from FY 19 funds to support the one-times approved as part of the FY 20 Budget Adoption night decisions. The remaining unallocated surplus in FY 19 is \$222,391. Staff's recommended uses of these funds available were listed earlier in this report.

TECHNICAL FY 19 YEAR-END APPROPRIATION ADJUSTMENTS

On September 4, 2018, the City Council adopted the Appropriations Ordinance governing the City's Adopted Budget for FY 19. Periodically, changes in revenue or operating conditions require appropriation adjustments. For example, in certain cases, these adjustments enable

departments to expend recently awarded grant revenue for which there is no existing appropriation. In addition, changes for multi-year grants/projects are necessary to bring appropriations in line with final grant/project award amounts. In accordance with the City's practice, these adjustments are presented periodically to the City Council for consideration. The requested appropriation adjustments for FY 19 yearend are noted in the Fiscal Impact section.

This matter was reviewed by Deputy City Attorney Amy R. Webber on February 4, 2020.

City Council action is required prior to the closing of the City's books for FY 19.

To accurately reflect FY 19 year-end transactions, the following action are requested:

Increase appropriations in the General Fund Group in the City Clerk Department by \$7,200 for one-time election activities, offset by additional citywide revenue received in the General Fund Group.

The City Clerk Department received one-time funds in FY 19 of \$663,000 for Election-related expenditures; however, the final costs were higher than anticipated. While the Department was able to absorb some of the costs within current operations, an appropriation increase of \$7,200 is necessary to cover the costs of actual election expenditures, offset by citywide FY 19 General Fund Group funds available due to citywide revenues received above budget.

- Increase appropriations in the General Fund Group in the Library Services Department by \$109,600 to align budget to actuals, offset by General Fund yearend surplus.

As part of the FY 19 adopted budget, \$180,000 in one-time funds was appropriated to add Sunday library hours at Bay Shore, Burnett, El Dorado, and Michelle Obama branches. This one-time amount was only estimated to cover costs for 9 months. During FY 19, the selected libraries were open 4 hours (half) days on Sundays for 44 weeks with over 39,000 visitors. Considerable administrative costs for security, custodial, and utilities during these hours resulted in going over the one-time budget. Additionally, the Library has unbudgeted costs for an electric loading dock cart and new library card reader equipment associated with the new Main Library. An increase in appropriation of \$109,600, offset by year-end surplus is requested to align the budget with actual expenditures.

- Increase appropriations in the General Fund Group in the Citywide Activities Department by \$1,349,290, to adjust for the new methodology for allocating the citywide full-cost allocation plan, offset by additional citywide revenue received in the General Fund Group.

The Citywide Activities Department is over-budget due to the new methodology for allocating the citywide full-cost allocation plan. This methodology brings the City into compliance with federal grant requirements, but led to a variance between budget and actuals. An appropriation increase of \$1,349,290 is requested to bring budget in line with actuals, offset by General Fund funds available due to citywide revenues received above budget.

- Increase appropriations in the Debt Service Fund Group in the Citywide Activities Department by \$137,416 to fund construction costs, offset by lease revenue bond proceeds for the build of the Police Parking Garage.

The Debt Service Fund Group is over-budget due to the new methodology for project budgeting implemented as part of LBCOAST. This methodology of allocating costs to the funding source has led to a variance between budget and actuals. An appropriation increase of \$137,416 is requested to bring budget in line with actuals, offset by lease revenue bond proceeds.

- Increase appropriations in the Tidelands Oil Revenue Fund Group in the Energy Resources Department by \$500,000 to align the budget to actual expenditures associated with higher oil revenues, offset by revenue.

The Tidelands Oil Revenue Fund Group is used to account for the proceeds from oil operations within the Tidelands area. Oil production costs and transfers to the Tidelands Operations Fund Group as well as to the State of California account for a majority of the expenditures in the fund. Higher than initially projected oil prices resulted in revised operating costs and corresponding increases in payments (classified as expenditures) to the State of California Lands Commission and to the transfer amount to the Tidelands Operations Fund Group. An increase in appropriation of \$500,000 is requested to bring appropriation in line with actuals, offset by revenue.

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
ACTING CITY MANAGER