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Title:	Recommendation to receive and file the Fiscal Year 2017 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)				
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Date	Ver.	Action By	Action	Result
2/20/2018	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2017 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 2017 (FY 17) budget performance. The information provided is subject to change, as the books for FY 17 are not fully closed. However, it is anticipated that these numbers are unlikely to significantly change. While the financial report primarily discusses the General Fund, significant information for other funds is highlighted where applicable.

YEAR-END BUDGET PERFORMANCE REPORT

Summary

The City's total FY 17 Adjusted Budget of \$3.3 billion, including carryover, supports 22 departments, including the separately managed Water and Harbor Departments. The City has seven fund types divided into 35 funds that comprise the \$3.3 billion FY 17 Adjusted Budget (Attachment A). 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 in the City, such as police and fire services, libraries and parks, are largely supported by the General Fund, which comprises only 15 percent of the City's Adjusted Budget.

The City ended FY 17 within budget expectations. Year-end spending came in under budgeted appropriation for the General Fund and for all other funds after factoring in technical adjustments requested, which are further described later in this report. Please see

Attachment A for a breakdown of citywide expenditures by fund. The remainder of this report summarizes the General Fund and notable performance for other selected funds. All numbers are unaudited and subject to change.

General Fund and Uplands Oil Fund Overview

The General Fund and Uplands Oil Fund ended the fiscal year with a funds available of approximately \$1.5 million and zero, respectively. The FY 17 sources and uses of funds available are summarized in Table 1 below:

FY 17 General Fund sources totaled \$494.7 million, comprised of \$477.4 million in revenue and \$17.3 million in “other sources” largely made up of the release of reserves for one-times expenditure purposes that were authorized (budgeted) in FY 17. FY 17 uses totaled \$496.3 million, comprised of \$485.1 million in expenditures, \$11.9 million in other uses, consisting of \$7.9 million in general other uses, primarily encumbrances and carryover of unspent one-time funds and other liabilities and \$3.3 million in reservations of new Measure A funds for future uses. The City Council budgeted or designated many of these funds in previous City Council actions, except for the new Measure A funds that are the result of higher than expected revenue.

Overall, while General Fund revenues for the year were lower than budgeted, the combination of the 0.5 percent savings target instituted mid-year and additional departmental cost savings, allowed the General Fund to end the year with positive funds available. Variances from budgeted revenues and expenditures are analyzed to determine the degree to which variances are one-time or ongoing in nature. Ongoing variances are taken into account in estimating the status of the FY 18 budget and developing FY 19 budget projections.

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 17 ending funds available is projected to be \$1.5 million for the General Fund and zero for the Uplands Oil Fund. The funds available in the General Fund is in addition to operating and emergency reserves for the Fund, which ended the year at 2 percent or \$9.0 million and 9.8 percent or \$44.5 million, respectively. Both are within the City’s financial policy thresholds for these reserves. The proposed uses for the funds available are shown in Table 2 below. Due to significant needs, for FY 17, we are recommending a \$0.08 million ending funds available in the General Fund, and to use essentially all the funds available in the Uplands Oil Fund. A low or zero funds available in the Uplands Oil Fund is acceptable because the fund has an operating reserve of \$500,000.

The recommendations for uses of Funds Available include the following:

- Set aside 5 percent of funds available for unfunded liabilities to comply with the City Council's adopted financial policy. This includes \$75,014 from the General Fund.
- Per FY 18 Budget Adoption City Council actions, \$750,000 of the first available additional FY 17 year-end General Fund surplus is appropriated for capital infrastructure or existing City programming, to be divided equally between the City Council Districts for District priorities. There are sufficient funds available to meet this contingent appropriation; therefore, this item is included as a use of funds available.
- Carryover of \$305,095 in General Fund savings from the Legislative Department which, by practice, will be allocated to supplement each respective Council District's funds for District priorities, in accordance with the Procedures for Implementation document of November 9, 2015.
- Carryover for the City Prosecutor's Office savings to provide one-time support for one-time needs in FY 18. Savings of \$24,000 from the General Fund will be requested by the City Prosecutor for appropriation by the City Council in a separate letter.
- Carryover for the City Auditor's Office savings to provide one-time support for one-time needs in FY 18. Savings of \$58,000 from the General Fund was requested by the City Auditor and appropriated by the City Council in a separate letter on December 19, 2017.
- Enhancement for the Economic Development Department of \$150,000 for consulting services to assess the seismic conditions at the Community Hospital site, assess the condition of the hospital structures for reuse opportunities and, if sufficient, for a real estate appraisal and marketing of the site.
- Enhancement for the Health and Human Services Department of \$15,000 to cover additional funding needed for the Winter Homeless Shelter.
- Enhancement for the Health and Human Services Department of \$40,000 to support the Violence Prevention Program's ability to leverage grant applications for CalVIP, Prop 47, My Sister's Keeper and other grant funding opportunities.

Consistent with the City Council-approved FY 18 Budget motion on September 5, 2017, staff is available to review these proposed year-end uses with the Budget Oversight Committee (BOC), if requested. Accordingly, where applicable, the appropriation requests for these proposed uses of the surplus will be brought to the City Council on March 13, 2018, to provide the opportunity for any potential BOC review.

General Fund - Sources of Funds

Revenues

As of fiscal year-end, \$477.4 million of General Fund revenue was received, which included one-time revenues such as \$6.3 million of savings from the Employee Benefits Fund achieved from recognizing health care cost savings and eliminating optional funding for some retirement liabilities to help fund the negotiated MOUs with the bargaining units; \$2.2 million of City - Redevelopment Agency (RDA) loan repayment revenue that the State Department of

Finance approved for use in repayment of the City's Open Space Bonds debt service; \$2.0 million in proceeds from the sale of former RDA properties; and, \$2.0 million in reimbursement for Fire Department staff related to statewide mutual aid deployments and special events.

Even with these one-time funds, FY 17 General Fund revenues were lower than budgeted. The revenue shortfall is primarily attributed to a \$5.4 million decline in property tax revenues associated with the former RDA project areas. This decline is due to successful property tax appeals by companies in the Harbor area and resulted in a one-time large adverse revenue impact, as well as a smaller ongoing revenue reduction. Growth in other revenue sources, including property tax, property tax in lieu of vehicle license fees, oil revenue from the Uplands Oil Fund, first responder fee, and natural gas-related revenue, among other revenue sources served to mitigate the shortfall. Additionally, Measure A revenues were higher than expected during the ramp-up period. Analysis of revenue streams is ongoing to determine what, if any, portion of the changes in revenue should be considered structural and anticipated to impact the FY 18 and FY 19 budget processes.

Attachment C 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 \$17.3 million in FY 17. These other sources are comprised of the release of reservations established in prior fiscal years, a significant portion of which was budgeted for release in FY 17 as part of the FY 17 Adopted budget for activities such as the Police and Fire academies and City Manager strategic one-time initiatives. In addition, during the course of FY 17, via City Council action, several releases of reservation were requested including funds for FY 16 encumbrances to be paid in FY 17, carryover of one-times from FY 16, and City Manager-led department savings in FY 16 to offset Civic Center costs.

General Fund - Uses of Funds

Expenditures by Department

Actual General Fund spending totaled \$485.1 million, or 97 percent of the adjusted budget. Collectively, the City Manager's request for departments to save 0.5 percent of their budgeted appropriation, to offset a portion of the projected revenue shortfall, was met. Factors contributing to the budget versus actual expenditure variance included savings from all departments, including the Police Department, which ended the year \$5.3 million under budget. The Police Department's year-end savings is primarily related to savings generated from budgeting the full annual amount for the Los Angeles Metro Blue Line contract, while actual spending occurred for only part of the year with Metro law enforcement training beginning in late spring and officers officially being deployed on July 1, 2017. The Legislative Department, City Auditor's Office and the City Prosecutor's Department also had savings; however, these savings are being requested by the respective departments as uses of funds

available to fund FY 18 appropriation increases for City Council District priorities and one-time support for the City Auditor's Office and City Prosecutor's Office. Additionally, there were some City Council-approved FY 17 one-time funds that were not fully expended but reserved at the end of FY 17 and included as part of other uses described in the Other Uses section. These unspent departmental and one-time funds are included for re-appropriation in the FY 18 First Budget Adjustment Report.

Attachment B 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, non-related to Measure A surplus, totaled \$7.9 million in FY 17 and are assignments to reservations for future uses (carryover), including planned FY 18 one-time budget spending, FY 17 budgeted one-time funds that were unspent at year-end, and other City liabilities. Examples of these reservations include the \$1.7 million intended for FY 17 one-time strategic initiatives that will be re-appropriated in the FY 18 First Budget Adjustment Report; \$677,016 in one-time savings from medical marijuana implementation that will be needed in FY 18; \$229,256 for FY 17 departmental encumbrances; \$414,162 in proceeds from sales of former-RDA land set aside per City Council policy; and, \$390,769 for reservation of 1 percent of Measure A and Measure MA funds for the Measure B Rainy Day Fund. Additionally, \$3.3 million in Measure A revenue above the amount allocated by the City Council in FY 17 is being reserved for allocation in FY 18, as explained in the following section.

Measure A Revenues and Expenditures

Pursuant to the June 7, 2016 Measure A ballot initiative, on January 1, 2017, businesses in the City began to collect an additional 1 percent in sales tax on all tangible personal property sold at retail in Long Beach. The City Council budgeted \$35.6 million in anticipated FY 17 Measure A revenues to fund priority public safety maintenance and restorations, as well as capital improvement projects to help rebuild Long Beach's infrastructure and the administration of the Measure A tax.

As reflected in Attachment D, as of September 30, 2017, \$23.9 million of Measure A funds have been expended and \$1.8 million have been encumbered, or obligated, for ongoing and one-time public safety and infrastructure purposes. Due to the length of time necessary to complete some capital projects, \$9.9 million in approved projects, still in progress at the close of FY 17, will be carried over to be expended until complete.

Sales tax revenue is remitted to the State monthly, but State disbursements to cities are estimated based on prior-year data with true-ups to actual revenue provided at the end of every quarter. As of September 30, 2017, actuals for Measure A revenues, including the accrual for revenues earned in FY 17 but not yet received, are \$38.9 million. These figures are above previous revenue estimates for the ramp up period of Measure A collection. As this

is a new revenue source, it is being closely watched to determine how much of this positive variance is ongoing.

Between surplus revenue and expenditure actuals, excluding funds obligated for one-time public safety and infrastructure purposes, there is \$3.3 million in total Measure A surplus funds in FY 17. It is recommended that these funds be reserved and appropriated in FY 18 to ensure that key Measure A infrastructure projects are not deferred from the original schedules. Measure A project budgets were based on preliminary engineering estimates; as detailed design has progressed, however, there have been several projects that are projected to exceed budget. These surplus funds will help mitigate some of these cost overruns. Additionally, \$145,000 of this surplus is needed to administer Measure A, which is partially funded from expenditure savings in this area in FY 17.

Lastly, as described below there is a sufficient surplus in the Tidelands Fund to fund the contingent appropriation for the Convention Center improvements, and so, as previously approved by the City Council, \$1.0 million of Measure A funds that were planned for Convention Center improvements will instead be appropriated for replacement, repair and rapid response for sidewalks to be used Citywide based on need. These proposed uses of Measure A will be brought to the Measure A Citizens Advisory Committee for their review. Similar to the other General Fund year-end uses, staff is available to review these with the BOC as well, and the appropriation for these items will be brought to the City Council on March 13, 2018, to provide the opportunity for any potential BOC review.

Other Funds

Civic Center Fund

The Civic Center Fund is used to maintain, improve, and operate the Civic Center complex, which includes City Hall, Main Library, Lincoln Park, Police headquarters, Fire Station 1, and related parking facilities. Starting in FY 14, all funding and project costs associated with the New Civic Center Project are also accounted for in this fund. The ongoing revenue sources to this fund are rental payments from departments, employee parking charges from the departments occupying the facilities, and public parking charges. Minor sources of revenue include special events and interest earnings. The sources of funds were approximately \$11.2 million and uses of funds were \$12.2 million. FY 17 costs exceed revenue because carryover appropriation related to Civic Center project costs is reflected in the FY 17 expense actuals but all revenue related to the project does not appear in FY 17 since most was received in FY 16.

Gas Fund

The Gas Fund provides full natural gas utility services to residential and business customers in Long Beach and Signal Hill. In 2017, the Gas Fund spent \$18.5 million on capital improvements, including \$10.2 million on the City's gas pipeline infrastructure and \$8.3

million on the final phase of the Advanced Metering Infrastructure (AMI) project, which has replaced over 150,000 customer meters. In addition, the Gas Fund contributed a \$9.9 million budgeted transfer to the General Fund. Revenue from gas operations is up 21 percent compared to FY 16. This increase is attributed to increased demand due to a cooler winter than the prior years.

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

On May 1, 2007, the voters approved Proposition H, a special tax of 25 cents, 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 17 was \$0.29 per barrel of oil produced and then increased to \$0.30 per barrel in June 2017. Revenues were \$3.4 million and expenses were \$4.2 million for FY 17. Market fluctuations impact the production of oil, which impact Proposition H revenues. Declines in production in FY 17 due to declines in the price of oil resulted in an 8 percent decline in the number of barrels taxed from the previous year. To utilize the funds available generated in previous years and address the need for targeted public safety services, the City Council authorized the one-time use of \$500,000 in funds available for Homelessness Rapid Response in the Police and Fire Departments. Each department was budgeted an additional \$250,000 for this homeless initiative. Due to the structural imbalance in FY 18 this fund is being closely watched and may require reductions in FY 19.

Tidelands Funds

The Tidelands Fund are comprised of the Tidelands Operations, Marina, Queen Mary, and Rainbow Harbor Funds, and supports operations along the beaches and waterways. Expenditures closed the fiscal year within budget appropriations at \$150.2 million. One-time expenses in FY 17 include \$12 million for the Queen Mary project, including \$3.5 million in inter-fund borrowing from the Tidelands Operations Fund to support the Queen Mary project until bond financing was secured. The primary sources of Tidelands Operations Fund 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. For FY 17, total revenue in the Tidelands Funds was \$126.9 million. The transfer from the Tidelands Oil Revenue Fund was \$5.4 million higher than the FY 17 Adopted Budget and illustrates the variable nature of this funding stream. Staff monitors Tidelands revenue and expenditure projections throughout the year to determine the impact of oil prices on both the operating budget and capital projects. Per City Council action in the FY 18 Adoption Budget, \$1.0 million of the first available additional FY 17 year-end Tidelands Operations Fund surplus is to be appropriated for one-time improvements to the Convention Center in lieu of using Measure A funds for this purpose. There are sufficient funds available to meet this contingent appropriation and, therefore, this item is included as a use of funds available. In addition, there is \$1.8 million in FY 17 year-end Tidelands Operations Fund surplus plus additional funds available from completed projects. Staff has developed the following recommendations for the use of these funds consistent with the reprioritization criteria established by the City Council in 2015:

Refuse Fund

The Refuse Fund 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. The Refuse Fund has relied on funds available to offset operating shortfalls over the past few years, yet has not increased fees to match increasing costs. Staff is currently engaged in a study of the current rate structure to ensure the City's refuse and residential recycling rates are equitable and appropriate. The study includes a comparative rate survey, recommendations for an updated rate structure, and a new rate model.

Uplands Oil Fund

The Uplands Oil Fund accounts for oil revenue outside the Tidelands area, and for all costs and revenues for the City's proprietary oil interests. Oil production costs and transfers to the General Fund make up the majority of expenditures in the fund. The Uplands Oil Fund began FY 17 with funds available of \$758,738. The total amount transferred in FY 17 was \$9.6 million, which included \$690,000 one-time transfer for one-time purposes in FY 17. The FY 17 Adopted Budget oil projections were based on \$35.00 per barrel. Actual oil prices trended around \$50.00 per barrel throughout FY 17. This increased the initial estimated transfer to the General Fund from \$5.8 million to \$9.6 million. Staff continues to closely monitor this fund.

Tidelands Oil Revenue Fund

The Tidelands Oil Revenue Fund is used to account for the proceeds from oil operations within the Tidelands area. Similar to the Uplands Oil Fund, higher than anticipated oil prices in FY 17 led to increased oil related expenditures. In the Tidelands Oil Revenue Fund, higher than anticipated prices led to increased remittance payments to the State of California for Tidelands oil, as well as an increased transfer to the Tidelands Operations Fund. The transfer to the Tidelands Operations Fund was \$5.4 million higher than the FY 17 Adopted Budget. Staff continues to closely monitor this fund.

TECHNICAL FY 17 YEAR-END APPROPRIATION ADJUSTMENTS

On September 13, 2016, the City Council adopted the Appropriations Ordinance governing the City's Adopted Budget for FY 17. 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 17 year-end are noted in the Fiscal Impact section.

This matter was reviewed by Deputy City Attorney Amy R. Webber on February 5, 2017.

City Council action is required prior to the closing of the City's books for FY 17.

To accurately reflect FY 17 year-end transactions, the following action is requested:

- Increase appropriations in the Tidelands Oil Revenue Fund (NX 420) in the Long Beach Gas and Oil Department (GO) by \$934,882 to align budget to actuals, offset by oil revenue.

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER