



Legislation Details (With Text)

File #: 19-0803 **Version:** 1 **Name:** FM - FY 19 2nd Budget Performance Report
Type: Agenda Item **Status:** Approved
File created: 8/1/2019 **In control:** City Council
On agenda: 8/20/2019 **Final action:** 8/20/2019
Title: Recommendation to receive and file the Fiscal Year 2019 Second Budget Performance Report. (Citywide)
Sponsors: Financial Management
Indexes:
Code sections:
Attachments: 1. 082019-R-22sr&att.pdf

Date	Ver.	Action By	Action	Result
8/20/2019	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2019 Second Budget Performance Report. (Citywide)

This report includes information on the City's Fiscal Year 2019 (FY 19) budget performance through May 31, 2019, for all funds.

Summary

As of May 31, 2019, no significant concerns have been identified with the City's General Fund or other funds. Any funds that are showing year-end estimates that exceed budgeted appropriations will be resolved with budget adjustments that will be presented to the City Council later in FY 19.

This report summarizes the General Fund performance and provides additional details on the status of other funds. Please see Attachment A for a breakdown of citywide expenditures by fund.

General Fund and Uplands Oil Fund Overview

Based on current estimates as of May 31, 2019, it is anticipated that the General Fund will end the year in balance with an estimated \$249,256 in funds available and Uplands Oil Fund with an estimated \$53,318. The estimated FY 19 sources and uses are summarized in the table below and described in further detail in the subsequent sections.

**Table 1: FY 19 Performance -
General Fund and Uplands Oil Fund**

	(in \$ millions)	
	General Fund	Uplands Fund
Ending Funds Available (9/30)	\$ 2.19	\$ 0.69
Sources		
Revenues	557.79	14.09
Other Sources: (Release for Funds)	25.98	-
Total Sources	583.77	14.09
Uses		
Expenditures	(565.65)	(13.73)
Other Uses: (e.g. encumbrances, reservations, etc.)	(15.45)	(1.00)
Other Uses: Measure A Reserve/ For Future Use	(4.61)	-
Total Uses	(585.72)	(14.73)
Ending Funds Available (9/30)	\$ 0.25	\$ 0.05

General Fund - Sources of Funds

Revenues

As of May 31, 2019, the overall General Fund revenues are projected to be higher than the previous projections. Several key revenue sources are trending better than projected and are helping to mitigate some revenue streams that are underperforming and cover expenses. Positive revenue trends include the following:

- The price of oil is budgeted at \$55 per barrel and budgeted as a \$9.1 million revenue transfer to the General Fund. Based on both barrel price and production efforts, the transfer to the General Fund from current net oil revenues is anticipated to be \$10.4 million. This amount 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 Uplands Oil Fund ending funds available. While average price per barrel has been close to budget, there have been lower oil-related expenditures. Both price and production costs impact the City's net oil revenues (gross revenues minus oil related expenditures), and can result in a greater transfer to the General Fund than anticipated. Staff will continue to closely monitor the market and operations.
- Sales Tax (non-Measure A) is also expected to end the year better than originally projected, although not as high as in FY 18. Actuals in FY 18 included one-time use tax revenue from construction projects and a one-time revenue derived from the State changing its remittance schedule resulting in an extra payment in FY 18 that is not projected to be repeated. Similarly, Measure A revenue is anticipated to exceed

budgeted levels and follow the same trends as non-Measure A Sales and Use Tax. Additional information on Measure A revenues and expenditures is described later in this report.

- Property Tax revenues continue to show positive growth and revenues are anticipated to come in higher than budgeted. This includes revenues derived from Property Tax in Lieu of VLF, as well as property tax from former RDA project areas.
- Additionally, starting in FY 19, the City will start to receive new revenue from the Ground Emergency Medical Transport Quality Assurance Fee (QAF) program. Under the QAF program, the California Department of Health Care Services (DHCS) will impose a quality assurance fee on ambulance revenue received by each emergency medical transport provider. In return, DHCS will increase reimbursements for ambulance transports provided for Medi-Cal patients. For FY 20, \$1.5 million in QAF revenue is projected and included in the budget. This is a new revenue source and staff will closely monitor its performance throughout FY 19 and evaluate estimates as revenue is received.

Continued positive performance in these and other key revenue sources are anticipated to offset revenue sources trending lower than budgeted. Some of the key revenue sources projecting to be less than anticipated include Telephone Utility Users Tax due to decline in the number of land-lines and competitive prices. Additionally, although FY 19 actuals as of May 31, 2019 are already higher than prior FY 18 year-end actuals, cannabis-related revenues are still projected lower than budgeted due to slow start-up of cannabis businesses. The collection of short-term rental revenue is also slated to be less than budgeted due to timing of program start-up and implementation. General Fund FY 19 estimates currently include \$375,000 in short-term rental revenue, which is less than the \$700,000 currently budgeted. The collection of this revenue started in April 1, 2019, and as this is a new revenue source with only two months of experience available, more accurate estimates for FY 19 will be available over the next few months as the program continues.

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

Other Sources

A key source of funds for the FY 19 Adopted Budget was revenue received in FY 18 and carried over to be “released” in FY 19. These sources were derived from various revenues above projected levels in FY 18, with a significant portion coming from an additional transfer from the Gas Fund. The FY 18 year-end surplus was reserved and programmed by the City Council as part of either the FY 19 Adopted Budget or the First Budget Adjustments on February 19, 2019. These set-aside funds are released, as needed, for City Council-approved purposes, which include \$9.8 million for one-times as set aside in the Adopted Budget, \$10.3 million of Measure A revenue per the out-years

plan and to offset infrastructure costs increases, \$3.4 million to support Police Academy operations, \$1.86 million for one-time projects in FY 18 that had not yet been fully utilized, and \$600,000 for FY 18 encumbrances.

General Fund - Uses of Funds

Expenditures by Department

As of May 31, 2019, the General Fund expenditure estimates, collectively, are projecting to end the year slightly under the FY 19 Adjusted Budget. Currently, a few departments, City Clerk, Citywide Activities, Economic Development, Fire, and Library Services, are showing year-end estimates that could be over budget, as described below. Budget adjustments will be recommended for any overbudget and the projections include these adjustments. There are expected to be sufficient appropriation within the overall General Fund budget to makes these adjustments.

- The City Clerk Department is anticipating higher than budgeted election-related expenses in FY 19, due to the special election in the First Council District.
- Litigation related costs have resulted in higher than budgeted expenses in the Citywide Activities Department. These costs will generally be offset by reserves set aside for this purpose.
- Operating charges related to maintaining the Community Hospital site have resulted in significant costs to the Economic Development Department.
- The Fire Department is above budget due to expenses related to fighting the wildland fires, which will be reimbursed by the State. These expenses are offset by federal reimbursement revenue.
- The Library Department is projected to have a small overage but is working to resolve it by year-end.

The Police Department is estimating to end the year under budget by a planned \$5.3 million. Most of these savings were anticipated due to the timing of the consolidation of the Special Services Officers from the Airport Department. These funds will be reserved at the end of FY 19 to fund future police academies.

Both the revenues and costs will continue to be closely monitored for the remainder of the year. Attachment C provides a breakdown of General Fund expenditure performance by department, with notable variances identified in the footnotes.

Other Uses

The Other Uses category represents assignments of funds available for future specific purposes. In FY 19, the Other Uses include set aside funds for the

Measure B reserve from Measure A tax and cannabis revenues, revenue above budget from Measure A, which will be reserved to fund the out-year Measure A plan and potentially for public safety restorations or other one-time Measure A items, savings in the Police Department that will be carried over to FY 20 to support a police academy, and funds from the higher than budgeted revenue that will be used to fund the City Manager's recommended strategic investments and other one-times as part of the FY 20 Proposed Budget.

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 transaction and use tax (similar to a sales tax) on the sale, storage, use, or other consumption of all tangible personal property within the City for a ten-year period. In FY 19, the City Council appropriated \$56.3 million from Measure A to fund priority public safety maintenance and restorations, as well as capital improvement projects to help rebuild Long Beach's infrastructure projects, and the administration of the Measure A tax.

As reflected in Table 2, it is anticipated that revenues at year-end will be \$59.1 million, or \$4.6 million more than originally budgeted. This additional revenue has been incorporated into the Proposed FY 20 revised Measure A spending plan. The additional \$4.6 million will be reserved, per the revised Measure A out-year plan presented as part of the FY 20 Proposed Budget, to potentially fund City Council-requested public safety restorations.

Table 2. Summary of FY 19 Measure A Budget & Impact

	FY 19 Adopted	FY 19 ETR	Net Impact
Total Measure A Revenue	\$54,580,859	\$59,145,422	\$4,564,563
Planned Release of FY 18 surplus	\$2,359,752	\$2,379,552	\$19,800
Release of FY 18 surplus for infrastructure projects		7,944,740	7,944,740
Total Measure A Expenditures	(\$56,315,464)	(\$54,179,179)	(\$2,136,285)
Measure B Reservation		(\$545,209)	(\$545,209)
Reservations per Out-year Plan		(4,568,381)	(4,568,381)
FY 19 Year-End Surplus (Projected)	\$ -	\$ -	\$ -
¹ Actuals Allocated represent funding set aside for infrastructure projects			
² FY 19 Adjusted Budget reflects the City Council approved release of funds were budgeted to ensure that key Measure A and other infrastructure projects were funded			
³ Measure B is projected and reserved as a use of structural Measure A funds, not as an expense			

The projection of Measure A revenue is challenging due to both the fact that it is a new revenue with delayed (from the State) revenue receipts and because implementation issues related to the State's new tax collection system make it extremely difficult to identify the actual revenue collection pattern. Additionally, there can be unanticipated one-times that come in due to a transaction in one year that is not consistent year-over-year and can fluctuate greatly. It is possible that revenues may be higher or lower than the projections noted above due to these factors. Staff will continue to closely monitor actuals and update projections accordingly.

FY 19 Revenues - All Other Funds

Uplands Fund and Tidelands Operations Fund

The City's oil revenues continue to be impacted by oil price fluctuations. The FY 19 Adopted Budget of \$9.1 million was based on oil projections of \$55 per barrel. Based on both barrel price and production efforts, the transfer to the General Fund from current net oil revenues is anticipated to be \$10.4 million. This amount 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 Uplands Oil Fund ending funds available. In the Tidelands Operations Fund, FY 19 oil revenue is projected to be an estimated \$1.8 million above the budgeted amount of \$11.4 million, and is included in that fund's projection. Overall, the Tidelands Operations Fund is projected to end FY 19 with a \$2.6 million surplus. A list of projects being proposed that utilize this surplus is included in the FY 20 Proposed Capital Improvement Program budget. Due to the volatility in various factors impacting oil prices, staff continues to closely monitor these funds and will update revenues at year-end.

There are no other revenue concerns related to all other funds to report at this time.

FY 19 Expenditures - All Other Funds

Refuse and Recycling

The Refuse and Recycling Fund receives the majority of its revenue from refuse and recycling charges with other revenue coming from State grants for outreach efforts, revenues from the sale of recyclables collected through the City's residential recycling program and fees paid by the City's licensed private refuse haulers for AB 939 compliance. Due to the rising costs and increased State mandates associated with refuse and recycling operations, the Refuse and Recycling Fund has experienced operating shortfalls over the last few years requiring reserves to be used to offset these shortfalls. To address the structural imbalance, a Solid Waste Cost of Service and Rate study was initiated and completed in FY 19. On February 5, 2019, the City Council

approved a two-step rate adjustment as recommended by the study, effective March 1, 2019 and October 1, 2019. The rate adjustments will begin the process of eliminating the structural deficit, positioning the operation into a more secure financial outlook.

Gas Fund

The Gas Fund has seen increases in revenues from gas transmission charges to customers and a reduction of expenditures for meter reading after the Automated Metering Infrastructure project was completed in FY 18. Above average revenue performance occurred over the last few fiscal years and has continued in FY 19. This has resulted in a healthy Gas Fund funds available. Repair and replacement of aging natural gas infrastructure, pipeline integrity programs, and compliance with state and federal environmental programs continues to be a high priority.

The California Public Utilities Commission (CPUC) authorized increases to the gas transmission rates charged by Southern California Gas Company (SoCalGas) and San Diego Gas & Electric (SDG&E) to ratepayers in 2019 with additional increases proposed for 2020 through 2022. There has been no increase to the City's transmission rates charged to customers since October 2016. As a result, staff will be evaluating rates during FY 20.

This matter was reviewed by Deputy City Attorney Amy R. Webber on August 8, 2018.

City Council action is requested on August 20, 2018.

[Fiscal Impact]

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER