Legislation Details (With Text)

File #:	21-0136	**Version:** 1		**Name:**	FM - FY 20 Year End report
Type:	Agenda Item			**Status:**	Approved
File created:	1/29/2021			**In control:**	City Council
On agenda:	2/16/2021			**Final action:**	2/16/2021

Title: Recommendation to receive and file the Fiscal Year 2020 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)

Sponsors: Financial Management

Indexes:

Code sections:

Attachments: 1. 021621-R-12sr&att.pdf

Date	Ver.	Action By	Action	Result
2/16/2021	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2020 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 2020 (FY 20) budget performance. The information provided is subject to change, as the books for FY 20 are not fully closed and all numbers are unaudited, although a significant change is considered unlikely. There are a few funds where the budgetary funds available are still being developed and thus the information provided is based on the current information available. While the financial report primarily discusses the General Fund, significant information for other funds is highlighted where applicable.

The City has 139 financial funds summarized and reported as 37 budgetary fund groups (36 fund groups with expenditures) covering 23 departments, including the separately managed Water and Harbor Departments. In this report, any reference and discussion of “funds” will be referring to the budgetary fund groups. The Adjusted FY 20 Budget for these funds and departments is $4.7 billion. 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 13 percent of the City’s Adjusted Budget.

YEAR-END BUDGET PERFORMANCE REPORT

Overall Summary

FY 20 was an unprecedented year, with the City facing a series of issues - a worldwide pandemic, the injustices and increased exposure of systemic racism, and economic disruption. The COVID-19 crisis significantly altered the City's plans, priorities, and focus in FY 20 and has had a significant impact on the City's finances.

The General Fund is ending FY 20 with a $19.7 million shortfall and will be drawing down on nearly all of the City's Operating Reserve, as well as some of the City's Emergency Reserve, to close out the year in balance. This is below the projected shortfall range of a $25 million to $41 million shared earlier with the City Council during the FY 21 Budget development process. An overview and additional details on the General Fund status are provided in the sections below.

Other funds that were adversely impacted by the pandemic and/or other fiscal challenges and drawing down on their budgetary funds available are the Tidelands Operating Fund, the Special Advertising and Promotions Fund (SAP), the Insurance Fund, the Civic Center Fund, and the Towing Fund. While the SAP fund still has some remaining budgetary funds available and the Tidelands Operating Fund appears to also have some, the Insurance, Civic Center, and Towing Funds are projecting a negative ending funds available and will need to be closely monitored with potential mitigating adjustments needed in FY 21. Additional information on these and other funds with notable status updates are discussed in the Other Funds section of this report.

In terms of pandemic-related funding, as of the end of FY 20, the City Council has approved grant awards of approximately $134 million for use toward pandemic response, including grants of financial assistance or reimbursements, and from the Federal Emergency Management Agency (FEMA). Many of these grant awards are multi-year awards with varying timeframes, and the FEMA awards still need to be approved and obligated by FEMA. Additional funding approved in FY 21, such as Project Homekey or other awards not yet executed, are not included in this figure. Actual expenses incurred in FY 20 across multiple funds total $67.2 million, of which $37.7 million is labor costs and $29.5 million is non-labor costs (materials, supplies, and services). This includes both departmental operating and emergency response costs, and is mostly offset with grants (i.e., FEMA and CARES Act) as well as being funded by internal City resources. This report briefly discusses the impact of the pandemic and offsets on the General Fund, and also includes budget adjustments needed to implement various transactions related to pandemic cost accounting. However, a comprehensive overview of expenses and offsets related to the pandemic will be provided under a separate cover.

This report also has significantly more FY 20 year-end budget adjustments than usual. With rapidly changing information and uncertainty surrounding the impact of various actions such as fee waivers, citywide closures, pandemic-related costs, as well as the significant and prolonged diversion of staff to pandemic response, it was particularly difficult to analyze and project the impact of the pandemic on the budget and potential budget adjustments needed in departments during the year. These budget adjustments include technical corrections to align actuals to appropriation as well as appropriations needed for cost overruns, which will be further described throughout this report.

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 D1 - Measure A Summary of FY 20 Revenues and Expenditures
- Attachment D2 - Measure A Summary of FY 20 Infrastructure Project Expenditures

General Fund and Uplands Oil Fund Overview

When the FY 20 Budget was adopted, it was done prior to the completion of negotiations and thus the potential financial impacts of employee contracts were not included in the adopted budget. While the outcome of the negotiations was unknown at the time, it was noted during the budget process that the cost could be up to $12 million if general wage increases were similar to CPI. It was noted that these potential costs would need to be funded with a one-time funding source, either from a surplus of funds by year-end (through a combination of better than expected revenues and departmental expenditure savings) or if not available, a potential drawdown on reserves. At the time of budget development, the high FY 19 revenue performance was an encouraging sign that at least some key City revenues might potentially be higher than budget in FY 20. Nonetheless, the FY 20 Budget began with the need to generate a significant amount of savings or surplus to be in balance by the end of the year.

Then the pandemic hit, and it soon became apparent that all previous fiscal projections would be significantly impacted. During the year, it was projected that the General Fund would have an overall year-end shortfall of $25 to $41 million due to pandemic-related revenue loss and increased expenditures. This projection factored in a potential range of losses in major revenue streams including sales tax, oil revenue, and Transient Occupancy Tax (TOT), as well as potential pandemic response cost increases related to unbudgeted staff time and material purchases.

The final General Fund shortfall for FY 20 is $19.7 million. This final result is better than the potential mid-year projections due to several factors impacting both revenues and expenditures. In terms of revenue, the pandemic had a clear adverse impact on the revenue increase staff was previously anticipating before the pandemic. However, there were some revenue streams that performed better than originally budgeted, and these gains helped mitigate the severity of the overall pandemic-related losses that was expected at the beginning of the pandemic. While there were losses in oil, Transient Occupancy Tax (TOT), parking citations, ambulance fees, and other departmental revenues, revenues such as property tax and cannabis performed better than budget. Sales tax, prior to the pandemic had been projected to perform significantly better than budget because the budget was established at a lower point prior to seeing the strong FY 19 performance. However, sales tax ended FY 20 at around budget, reflecting a significant loss from pre-pandemic projections, but performing better than expected under the pandemic conditions.

Additionally, revenue loss was mitigated by other staff action, such as not funding the annual oil field abandonment liability costs to preserve as much of the expected oil transfer, as well as making additional transfers from the Gas Fund due to strong revenue performance in the Gas Fund while staying within the City Charter limits of 12 percent. Again, because FY 20 began the year with the need to generate surplus to cover the net result of revenues (non-grant related) ending around budget, which was not sufficient in covering the anticipated expenditure needs, and negotiation costs, these staff actions have helped the City end the year below the lower range of the potential projected shortfall.

On the expenditure side, staff took proactive measures to address the projected shortfall during the year. The City Manager issued mid-year savings targets to departments to scale back on any non-essential spending to generate savings, implemented a mid-year hiring freeze to generate vacancy savings, and recommended to the City Council the suspension of some previously approved one-time projects. Many departments met their savings targets and generated savings. These savings, however, were not sufficient in offsetting the additional costs incurred that included unexpected expenses such as the civil unrest response, the negotiated raises that ended up having an impact of approximately $10.5 million for the General Fund, and the additional funds that needed to be reserved for negotiated one-time payouts in FY 21 and the Measure M litigation lawsuit.

Federal and State grants also helped to mitigate losses and cover pandemic-related costs. Approximately $9.1 million of eligible General Fund costs were moved out of the General Fund and into the Special Grants Fund to be offset with FEMA or State CARES Act match funding. Additionally, $8.1 million of eligible General Fund pandemic-related operating expenses were covered by State CARES Act funding. Only about $1.7 million of eligible pandemic-related expenses that hit the General Fund were not offset and needed to be absorbed by the General Fund. Additional information on this as well as a full detail of pandemic-related expenses and offsets is provided in a separate memorandum.

Ultimately, the General Fund revenues were not sufficient in covering expenditures and uses, resulting in a $19.7 million shortfall. The details of the FY 20 General Fund and Uplands Oil Fund sources and uses are summarized in Table 1 below:

Table 1: FY 20 Performance - General Fund and Uplands Oil Fund		
	(in $ millions)	
	General Fund	**Uplands**
Beginning Funds Available (10/1)	**$ 7.98**	**$ 0.22**
Sources		
Revenues	594.10	9.74
Other Sources: (Release for Reserves)	27.52	-
Total Sources	**621.63**	**9.74**
Uses		
Expenditures	(593.33)	(9.74)
Other Uses: (e.g. encumbrances, reserves for carryover, etc.)	(45.38)	-
Other Uses: Measure A Reserve/ For Future Use	(10.56)	-
Total Uses	**(649.27)**	**(9.74)**
Ending Funds Available (9/30/20)	**$ (19.67)**	**$ 0.22**

FY 20 General Fund sources totaled $621.63 million, comprised of $594.10 million in revenue and $27.52 million in “other sources,” largely made up of the release of reserves for one-time expenditure purposes that were authorized (budgeted) in FY 20. FY 20 uses totaled $649.27 million, comprised of $593.33 million in expenditures; $45.38 million in other uses, primarily carryover from unspent one-time funds and other liabilities, the majority of which the City Council designated in previous actions such as CARES Act funded programs, previously-approved reservations of funds and encumbrances for commitments made in FY 20; and, $10.56 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.

Additionally, a reservation of $477,876 is included for the Legislative Department in accordance with normal budgetary practice to roll over Council Districts’ operating surplus to augment Council District Priority Funding. An appropriation increase request for this use of funds will be brought to the City Council in a FY 21 Budget Adjustment letter.

The $19.7 million General Fund shortfall is proposed to be addressed by the following:

· $223,045 from Uplands Oil Fund surplus, to be included in a FY 21 Budget Adjustment Report for City Council’s formal consideration.

· $12,648,757 of Operating Reserve. Currently, there is $13.5 million in the Operating Reserve (inclusive of the Measure B reserve, which is $1,725,232). Per the Measure B Ordinance, only half of the Measure B reserve can be used in one year, so this action will leave $862,616 remaining in the Operating Reserve. This is essentially 0 percent of normal operating expenditures and below the minimum of 2 percent and a normal maximum of 7 percent per the City’s financial policies.

- $6,794,781 of Emergency Reserve. Currently, there is about $46.0 million in the Emergency Reserve. With this recommendation, there will be $39.2 million remaining in the Emergency Reserve, which is 7.1 percent of normal operating expenditures and below the minimum of 8 percent and the target level of 10 percent per the City's financial policies.

If there are any final changes to year-end numbers once the books are officially closed and audited, the difference will be adjusted in the amount of Emergency Reserve that is needing to be utilized. Additionally, the City still has approximately $1.5 million unallocated funding in its Unfunded Liability Reserve account, which is funded by the City's policy of setting aside 5 percent of any General Fund year-end surplus funds for future unfunded liabilities. There are no funds being allocated to this unfunded liability reserve account at the end of FY 20. With this action to use reserves to address the FY 20 General Fund shortfall, the City will now be below the recommended minimum amounts for both the Operating and Emergency Reserves, with the Operating Reserve almost fully utilized. Replenishing these reserves with any future funds available will be a high priority, including the use of any federal stimulus funds the City might receive.

General Fund - Sources of Funds

For FY 20, $594.1 million in General Fund revenue was received and includes $40.3 million in CARES Act funding. Overall, various key revenue streams experienced major losses due to the COVID-19 pandemic when compared to prior year revenue or pre-pandemic estimates for FY 20. However, despite losses in key areas - such as TOT, Parking Citations, Emergency Ambulance fees, other revenue streams such as property tax, cannabis revenues, public works permit fees, and additional one-time revenue from the Gas Fund Group outperformed the FY 20 budget and helped mitigate the losses. In addition to some revenues exceeding budget, other revenue sources such as Sales and Use Tax did not experience as large a loss as initially projected due to the pandemic and ultimately came in at or around budgeted levels.

<u>Major revenue losses</u>

- Transient Occupancy Tax (TOT) actuals came in at $13.6 million, which is $9.4 million under budget due to the pandemic and associated health order restrictions. The total includes $1.1 million in TOT generated from short-term rentals (STR). This exceeded the $927,000 budgeted for STR revenue in FY 20. Additionally, FY 20 actuals include $306,334 in new revenues generated from Measure B for arts organizations and the Long Beach Convention Center. Measure B increased the General Fund portion of TOT by 1 percent and was effective July 2020. Despite new revenues from Measure B and better than anticipated performance from STRs, Long Beach TOT continues to be an extremely volatile revenue source and is heavily dependent on conventions and business travel. Partial recovery is anticipated in FY 21 but most likely at a slow pace. Staff will closely monitor the revenue.

· Parking Citations actuals ended the year at $14.9 million, $4.4 million less than budgeted. Although actuals include a $10 fine increase as approved in the FY 20 budget, actual performance in FY 20 was severely impacted by the pandemic and by City programs intended to provide relief to individuals during the Safer-at-Home Public Health Order. As part of citywide relief efforts, late fees and penalties on all parking citations were suspended on March 17, 2020, and street sweeping citations were suspended starting March 17, 2020 and resumed on May 18, 2020. This is in addition to street sweeping citation dismissals provided to those experiencing COVID-19-related hardships. Although there were no changes pertaining to non-street sweeping violations, revenue generated from street sweeping violations make up the majority of parking citation revenue - averaging about 60 percent of total parking citation revenues to the General Fund. Finally, with City Hall closed since March 2020, payments transitioned from in-person to phone and online. Despite phone and online payment options, overall revenue collections were lower than normal due to the COVID-19 pandemic and associated City actions.

· Emergency ambulance fee revenues (including First Responder Fees) totaled $13.1 million and is $2.8 million under budget. This shortfall is largely due to a reduction in ambulance transports experienced during the fiscal year (likely due to the pandemic). In addition, revenue collections were likely lower than anticipated due to COVID-19 financial hardships experienced by individuals.

· To reflect the difficulties businesses faced, business license tax (and other fees) could be deferred for much of FY 20 into FY 21, if the business was significantly impacted by the pandemic. The budget for business license taxes was $12.5 million and $12.0 million was received, a shortfall of approximately $408,000. It is not expected that all this lost revenue will be recovered in FY 21.

· 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. During FY 20, oil prices dropped to unprecedented levels and, at one point, were negative. The FY 20 budget assumed the price of oil at $55, with the actual oil price averaging about $45 for the year. To mitigate some of the revenue impact of reduced oil prices, $1.3 million in funding that is typically set aside for oil field abandonment was not funded this year. The final net oil revenues transferred to the General Fund was $7.2 million, $1.6 million under budget.

<u>Better than anticipated revenues</u>

· Sales and Use Tax came in slightly under budget at $64.5 million. Due to the pandemic, it was anticipated that the City would experience significant losses in major industry groups including restaurant, hotels, and general consumer goods. While this was the case, losses in these categories were mitigated by relatively steady performance in comparison to prior year in areas such as Autos and Transportation, as well as gains in other areas including Food and Drugs, which includes much higher cannabis sales. Finally, increased online sales tax continued to be generated following the 2018 Supreme Court

Wayfair decision (mandating additional collection), which was implemented in California with AB 147 in 2019. The resulting impact in FY 20 is estimated at $2.6 million in new revenues from the countywide sales tax pool (where much online sales tax is collected), which was further increased by the transition to online shopping that resulted from the pandemic.

· FY 20 Measure A revenues showed similar patterns compared to sales tax as the taxes are similar in nature. This includes stable performance in Autos and Transportation, as well as gains in Food and Drugs similar to the experience in Sales and Use Tax. Measure A revenues ended the year at $62.2 million, which is $2.5 million higher than budgeted. As a relatively new revenue source, part of the reason for the variance in the budget to actuals is that the FY 20 revenue budget was set at a lower point, before it became evident that Measure A revenue was performing well (based on FY 19 actuals). There was also little available history on which to project Measure A. As with Sales and Use Tax, Measure A actuals include an estimated $2.8 million in new revenues received through AB 147, which ensures that online retailers collect and remit Measure A along with Sales and Use Tax.

· Property tax revenue, including Property Tax In-Lieu of VLF, ended the year $2.8 million higher than budget. FY 20 actual revenues were impacted by significant valuation increases from large development and improvements including Oceanaire Apartments and Long Beach Exchange. This is in addition to large parcel sale transactions that are now captured in the City's assessed valuations, including the sale of parcels at the former McDonnell Douglas/Boeing site. While FY 20 actual revenues were not impacted by the pandemic, it is important to note that FY 20 is based on values enrolled during calendar year 2019. Post-pandemic impacts, if any, will not be seen until FY 22. Further, because of Proposition 13, the City's underlying assessed valuation growth was already constrained to an annual 2 percent maximum until a reassessment occurs due to a change in ownership or construction. The State Board of Equalization has since directed County Assessors to use 1.036 percent as the allowed inflation adjustment under Proposition 13 for 2022 instead of the 2 percent used in recent years.

·Cannabis business license tax and fee revenues were budgeted at $4 million, and actuals were $10.3 million, excluding fees for the cannabis equity program. The revenues outperformed budget by $6.3 million. The significant increase above budget is primarily due to much higher average dispensary tax payments due to a surge in cannabis sales following the pandemic. Post-pandemic, there continues to be uncertainty surrounding the cannabis market, but FY 21 does assume that sales will stabilize at higher levels with at least a portion of increased sales to continue from FY 20.

·Public Works permit revenue for curb, walkways, and excavation permits ended the year at $6.3 million, which is $4.6 million above budget. Much higher than anticipated revenues are attributed to both operational changes and increased permit volume. Operationally, the department utilized consultants to augment staff and address both current and backlogged permits. In terms of volume, the City experienced an uptick in permits overall, but particularly for excavation permits related to fiber optic installation throughout the City. Of the increased amount, the Public Works Department is requesting an appropriation increase to address departmental budget expense overage due to increased permit processing costs including additional consultant support in FY 20. The request for appropriation is included in this report.

· FY 20 year-end revenues include an increased one-time transfer from the Gas Fund. Due to better than expected performance, the Gas Fund Group was able to increase the FY 20 transfer to the General Fund Group from the budgeted $9.6 million to $13.5 million, which is within the City Charter-authorized level of 12 percent. The increased transfer added $3.9 million in new revenue to the General Fund and was offset by additional Gas Fund revenues.

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

Other Sources

Other sources of funds totaled $27.52 million in FY 20. The majority of these other sources are comprised of the release of reserves set aside in FY 19 to fund City Council-approved expenditures that were anticipated to occur in FY 20, such as the FY 19 encumbrances to be paid in FY 20, support for a Police Recruit Academy, City Manager Strategic Initiatives for FY 20, and release of $8.74 million in Measure A surplus funds from FY 19 for use in FY 20. It also includes carryover of one-time funds from previous allocations that were not completed. Lastly, other sources include $2.8 million in expected, but not yet received, revenue for wildland fire and Community Hospital maintenance costs reimbursements that the City expects to receive in FY 21 and is being credited to FY 20 for determination of budgetary funds available.

General Fund - Uses of Funds

Expenditures by Department

General Fund spending totaled $593.33 million or 93 percent of the Adjusted Budget. However, this amount includes some savings due to City Council-authorized one-time projects that have not yet been spent and encumbrances that will carryover to FY 21 (including CARES Act-funded community projects, Measure A non-infrastructure one-times). Including these commitments, General Fund spending came in at 98 percent of budget.

The Adjusted Budget amount of $635.7 million includes the budget adjustments being requested in this report to align budget with actual spending. With the exception of the Economic Development Department, the Police Department, and the Citywide Activities Department, all other General Fund departments ended the year within appropriation. The Economic Development Department, the Police Department, and the Citywide Department required appropriation increases to cover expenses above budget that did not have specific funding offset sources. These expenses drew down budgetary funds available and impacted the General Fund's bottom line. Below are descriptions of those specific appropriation adjustment needs that did not have specific offsets:

- The Economic Development Department exceeded their budget by $1.9 million due to unfunded costs associated with the maintenance or beautification of City-owned properties, general administration of the department operations, and the transfer of ineligible grant-related expenses from the Community Development Grants Fund to the General Fund. Budget adjustments for some of these items were requested in the City Council-approved Third Budget Adjustment letter and the remainder are requested in this report.

- The Police Department exceeded their budget by $2.1 million due to unplanned overtime costs related to law enforcement efforts for various activities including the citywide COVID-19 response and first amendment and civil unrest events. While actual costs related to these activities was higher, savings attributable to vacancies allowed the department to absorb many of the costs. The appropriation increase amount needed to cover the remaining shortfall is requested in this report

- The Citywide Activities Department came in overbudget by $1.5 million largely 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. Additionally, per the required Measure M litigation, the City was required to set aside $3 million of funds into escrow in FY 20. The appropriation increase amount needed to cover the shortfall is requested in this report.

During the year, in response to the adverse fiscal impacts of the pandemic, the City Manager issued mid-year savings targets. The following departments met their full target amount: City Auditor, City Attorney, City Manager, Civil Service, Financial Management, Fire, Health, Library Services, and Parks, Recreation and Marine. For the Legislative Department, in accordance with normal budgetary practice, Council District operating surplus of $477,876 is included for reappropriation to Council District Priority Funding.

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

<u>Other Uses</u>

Other uses of funds, not-related to Measure A, totaled $45.38 million in FY 20 and are comprised of assignments to reservations for carryover for projects funded but not yet completed, planned FY 21 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 21 one-time needs including the set aside required for the Measure M litigation; previously City Council-approved one-times not fully expended that will be re-appropriated in the FY 21 First Budget Adjustment Report; reservations of FY 20 departmental encumbrances for costs incurred in FY 20, but will be expended in FY 21; and, reservations for the proceeds from sales of former-RDA properties set aside per City Council policy. Other Uses also include $25.62 million of the State allocation of CARES Act funds to be released and reappropriated for use in FY 21. This set aside is comprised of $19.62 million in Community and Business Support programs and $6 million to support the FY 21 citywide COVID-19 response effort. Measure A-related items include the reservation of $2.79 million of planned funding to be set-aside to complete the out-year plan; the reservation of $2.25 million of revenue transferred back from the Capital Projects Fund to support the purchase of land for the new Fire Station 9; the reservation of $241,000 in unspent funds for the previously approved jail clinician, magnolia tree and irrigation pump programs, which will be expended in FY 21; and $5.28 million in surplus Measure A funds is being reserved for allocation in FY 21, as recommended in the following section.

Measure A Revenues and Expenditures

The City Council initially budgeted $57.8 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, with the final adjusted budget being revised to $63.3 million to account for FY 19 surplus funds that were allocated for FY 20 Measure A projects. The FY 20 budgeted revenue was $59.7 million, and was initially projected to decline to $56.6 million due to the pandemic. As reflected in Table 3 below, Measure A revenue was $62.2 million, $2.5 million over the initial budget. The higher revenues are attributed to increases in Food and Drugs categories, significantly higher cannabis sales, as well as new online revenue generated following the 2018 Supreme Court Wayfair decision that was implemented in California with AB 147. Measure A ended the year with a $5.28 million surplus as a result of the higher revenue, some expenditure savings in the Police Department associated with Body-Worn Camera program, and the release of the $1.8 million allocation for the savings from the delayed Police Academy. The $5.28 million is currently unallocated in the Measure A plan, and the City Manager is proposing to allocate these dollars toward critical infrastructure projects.

Table 3: FY 20 Measure A Performance		
		(In millions)
		Actuals
Sources		
Measure A Revenue	$	62.23
Other Sources (Additional Releases to balance [1])		8.74
Other Sources (Tranferred Back to Measure A from CIP [2])		2.35
Total Sources		**73.32**
Uses		
Expenditures	$	(62.76)
Other Uses: Measure B Reservation [3]		-
Other Uses: Including Station 9 for use in FY 21 [4]		(2.49)
Other Uses: Reserve for approved Measure A plan out-years [5]		(2.79)
Total Uses		**(68.04)**
FY 20 Year-End Status	**$**	**5.28**

[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 and the City Council approved release of $7.3 million in carryover revenue from FY 19 surplus.*

[2] *Reflects the City Council approved transfer back to the Measure A fund of cash previously set aside for Station 9 in the CP Fund Group.*

[3] *Based on the decline in General Fund revenues due to the pandemic no Measure B Stabilization funds will be reserved in FY 20.*

[4] *As part of FY 20 adjusted budgeted funds were approved for the purchase of land to house the new Station 9, jail clinician, magnolia tree removal and irrigation pumps. The funds were not fully expended in FY 20 but are planned to be set aside to be reappropriated for these purposed and spent in FY 21*

[5] *Reflects the planned reservation of funds set aside 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.*

The $5.28 million surplus is recommended to be reserved and appropriated in FY 21 to support key Measure A priorities listed below:

- o Enhancement to the Public Works Department of $1,483,189 for street improvements associated with the Measure A Infrastructure Investment Plan to address Residential and Arterial Street needs as identified in the Pavement Management Plan.
- o Enhancement to the Public Works Department of $1,000,000 for priority facility improvements for various park facilities (including at Scherer, Wardlow, McBride, and Silverado), as identified in the Facilities Conditions Assessment. Priority improvements include critical roof and heating, ventilation and air conditioning systems repairs that if left unaddressed can quickly multiply the costs for repair.
- o Enhancement to the Public Works Department of $1,000,000 for required improvements in the Sidewalk, Curb Ramp, and ADA Compliance program to address the commitments made in the 2017 ADA Settlement Agreement.
- o Enhancement to the Public Works Department of $800,000 to contribute to the

total project costs of installing the Traffic Circle Wayfinding Sign and making needed landscaping improvements, which will complement the recently completed traffic safety improvements at the traffic circle.

- o Enhancement to the Public Works Department of $750,000 for the City’s tree trimming program to increase vehicle and pedestrian safety by trimming trees in high need areas and replacing severely deteriorated signage at those locations.
- o Enhancement to the Public Works Department of $250,000 to contribute toward the costs of repairing and upgrading citywide security cameras. Priority locations will be identified in coordination with the Police and Technology and Innovation Departments.

These recommendations will be included in a FY 21 Budget Adjustment Report for City Council consideration, but the appropriation will be made 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.

Attachment D also provides a summary of the FY 20 Measure A, including a breakdown of this budget and spending, as well as the details on the progress of infrastructure spending. A total of $26.4 million was allocated to infrastructure in FY 20, for a four-year (FY 17 to FY 20) total of $114.5 million. As of September 30, 2020, $65.0 million has been expended for infrastructure purposes. Due to the length of time necessary to complete some capital projects, $49.5 million in approved projects are still in progress at the close of FY 20 and will be carried over to be able to complete the projects.

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.

<u>Airport Fund</u>

The Airport Fund Group provides funding for Airport Operations and Airport Capital Improvement Projects. In 2020, the travel industry faced an unprecedented decline in air travel due to the COVID-19 pandemic that adversely impacted airport revenues. The Airport Fund saw operating revenues decline by over $17 million from budgeted levels for FY 20. A reduction in operating expenses during the same time helped offset some of the impacts to the fund from the dramatic drop in revenues. The receipt of the CARES Act grant was also a major help to mitigate the pandemic’s financial impacts to the fund. However, full recovery in air travel is expected to take several years and reductions to the FY 21 budget for the Airport Fund have been made. The Airport Fund continues to be closely monitored and Airport management will make further adjustments to its operation as needed.

<u>Civic Center Fund Group</u>

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 Garage, new Public Safety Garage, and Lincoln Park. The ongoing revenue resources to this fund include charges from departments occupying the Civic Center facilities.

FY 20 costs included unbudgeted expenses that caused the Civic Center Fund Group to be over budget by $1.8 million**.** The amended Memorandum of Understanding (MOU) with the Port was approved on January 6, 2020, which included costs for FY 19 and FY 20. These costs include payment to the Port for unbudgeted licensing, easement, parking facility, and data room costs located in the Port Building. The total costs paid to the Port in FY 20 for the data room, parking facility, and easement was $1.2 million. Revenue to offset these expenses includes $249,000 received from the Port and $600,000 from the Department of Technology and Innovation. Additionally, Civic Center security MOU costs with the Police Department were overbudget by $277,349 and citywide expenses for overhead costs were overbudget by $559,057. Budget adjustments to align actuals with appropriation are requested in this report. Currently, the fund is projected to be in a substantial negative budgetary funds available status, but increased interdepartmental charges in FY 22 (mostly borne by cost increases to the General Fund) and the payment of an accounts receivable by Plenary expected no later than September 2022 are expected to eventually bring the fund back into balance.

<u>Gas Fund Group</u>

The Gas Fund Group provides full natural gas utility services to residential and business customers in Long Beach and Signal Hill. In 2020, the Gas Fund spent $4.9 million on gas pipeline capital improvements, which was lower due to COVID restrictions. Revenue from gas operations were up 9 percent compared to FY 19. This increase is attributed to continued strong demand due to a cooler weather. Due to above expected revenue performance, the Gas Fund Group is able to transfer an additional $3.9 million above the budgeted $9.6 million, for a revised total transfer to the General Fund of $13.5 million. Of the additional revenue to the General Fund, $2,205,000 was transferred and appropriated as part of the City Council-approved Third Budget Adjustments Letter. Later, as part of year-end analysis of the Gas Fund Group, final year-end revenues even further exceeded expectations and an additional $1.7 million was identified and transferred to the General Fund. A request to appropriate this additional year-end transfer to the General Fund is included in this report. The one-time revenues resulted in a total transfer amount to the General Fund of $13.5 million, which is within the 12 percent maximum established by the City Charter through Measure M.

<u>Insurance Fund Group</u>

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. Settlement payouts in FY 20, however, have declined from the previous year of $28 million to $8 million, which can be attributed to the pandemic that caused all trials to be postponed to 2021; only a few small claims were awarded in FY 20 with no judgments. On the other hand, General Liability Insurance premiums were a significant adverse hit to the fund this fiscal year at more than double the cost from the prior year at $7.4 million. The costs associated with procuring casualty insurance have increased for public agencies as the market availability for these types of insurance coverages have been declining as the number of claims have risen. In the City Council-approved Third Budget Adjustment Letter, an appropriation increase of $3.3 million was approved in the Insurance Fund in the Human Resources Department to cover the unbudgeted additional premium costs associated with procuring General Liability, Specialty Coverage (Helicopter, K-9, Hull, Boat), Property Insurance, and Workers' Compensation insurance. These costs were offset by a draw down on funds available, which has had an adverse impact on budgetary funds available, and is projecting to be in a negative balance with also a concerning negative cash position. These costs will be recouped from charges to user departments in FY 21 and, as needed, will require an increase in charges in the FY 22 budget to bring the fund back into balance and restore cash to a reasonable level. Workers' Compensation costs are 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 20 was $0.32 per barrel of oil produced and remained at this rate until it was increased to $0.33 on June 2020. The rate will remain at $0.33 unless increased by the CPI effective June 2021. In accordance with Proposition H, the barrel tax was temporarily suspended for one month in April 2020 when the average cost for the month dropped below $20/bbl. FY 20 revenues were $3.0 million, which is a 9 percent decrease compared to the prior year and included other revenues related to Proposition H, such as interest and penalties. The decrease is largely due the April tax suspension, as well as year-over-year declining oil production.

Refuse/Recycling Fund Group

The Refuse/Recycling Fund receives approximately 94 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 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 20, reduced market values for recyclable commodities have impacted revenue. However, revenues exceeded expenditures and budgetary funds available increased in FY 20.

In FY 20, the Refuse Fund's expenditures were $2.3 million under budget due to the number of vacancies in the Bureau. In FY 21, the Environmental Services Bureau (ESB) is anticipating expenditures to increase due to ESB projecting to be fully staffed, as well as taking into consideration the drastic increases to refuse and recycling-related expenses such as disposal fees, fleet costs, and personnel costs. Additionally, due in part to the local stay-at-home health orders, there has been a significant increase in refuse, which translates to more collection staff and equipment, as well as additional disposal charges.

ESB forecasts that the Refuse Fund budgetary funds available may be exhausted in the next few years without any adjustments. In addition to escalating costs, State-mandated organics collection programs will further impact the fund. As a result, ESB of the Public Works Department will be conducting a Cost of Service study with the help of a consultant specializing in the solid waste industry. The study will set the rate for refuse, recycling and organics collection at the true cost of service. Once the study is complete, staff will bring recommendations to the City Council on how the rates should be adjusted.

<u>Special Advertising and Promotions Fund Group</u>

The Special Advertising and Promotions (SAP) Fund Group has been severely impacted by the pandemic as its main revenue source is TOT, which is paid by hotel guests and collected by hotels and remitted to the City. Other sources of revenue include studio filming permits and event permits, which have also been severely impacted by the pandemic. Revenues in FY 20 are 36 percent lower than FY 19. To address this revenue loss, staff and the City Council have suspended some one-time projects in the SAP Fund Group to generate savings. Additionally, other savings were able to be achieved due to the cancellation of special events to comply with Safer at Home guidelines.

The SAP Fund Group began the year with approximately $5.5 million in funds available and ended the year with approximately $2.4 million in funds available. Due to the actions, of staff and the City Council to reduce expenses in FY 20, the drawdown on funds available has not been as severe as originally estimated at the beginning of the pandemic. The SAP Fund Group will need to be monitored in FY 21 and FY 22 and it is anticipated additional reductions or other actions may be needed as the pandemic’s negative impact on revenues will likely continue for some time. TOT has historically been a very volatile revenue source with slow recovery in past downturns and recessions.

<u>Tidelands Operations Fund Group</u>

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 Tidelands Operations Fund Group also accounts for debt service on the Aquarium, Pike, and other related Tidelands area parking garages and facilities. 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 Tidelands Operations Fund Group has been significantly impacted by the pandemic with substantial reduction in oil revenues. At the peak of the pandemic's impact, the price of oil even went negative for a short-time in April 2020. Since then, and for the remainder of the year, it averaged around $35-$40 per barrel, under the budgeted FY 20 level of $55 per barrel. The fund is also incurring costs for the temporary closing of the Convention Center. To help protect the fund's financial status, the City Council has approved staff's recommendation to suspend $2.4 million in one-time projects in FY 20, and staff have deferred to a future year the normal $5.9 million cost to support the cost of oil field abandonment. Due to these actions, the fund appears to be ending with a slightly positive funds available. This projection, however, has significant uncertainty due to challenges with the financial system and limited staff availability (due to the pandemic). This fund will need careful monitoring and additional review.

FY 21 is anticipated to have unbudgeted costs associated with debt service on Tidelands bonds on the Queen Mary and potentially the Aquarium, as well as continuing Convention Center losses. On the positive side, budgeted oil revenues assumed $35 per barrel and oil is currently substantially higher. Due to the expected financial difficulties, FY 21 also includes a second year of deferring funding for oil field abandonment reserve. Tidelands reserves may need to be utilized to balance the budgets if not enough savings or other solutions are found. The out-years beyond FY 22, however, show a potential significant increase in oil revenues with an assumed annual recovery of oil prices and the impact of some contractual changes with the State that will also impact revenues positively. Much of that increase may be needed to restore the lost funding of the oil field abandonment reserve and to replenish operating reserves if they are drawn down.

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. It is funded through towing fees and proceeds collected from the lien sale of unclaimed vehicles. The COVID-19 pandemic and associated response resulted in revenue being $1.8 million less than budgeted. Factors contributing to the decreased revenue include 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. Even with these cost reduction measures, the Towing Fund Group ended FY 20 with a net annual loss of $577,000. The FY 20 deficit in the Towing Fund exceeded its budgetary Funds available at the beginning of FY 20 of $502,000 and the fund ended the year in a small negative position. The annual $1 million General Fund transfer was also cancelled as there were no surplus funds to transfer. Fees were raised as part of the Adopted FY 21 budget. The Towing Fund's health and ability to make the FY 21 General Fund transfer will be largely contingent upon the status of the COVID-19 pandemic and associated response in the coming year. Staff will be monitoring this fund as well as its ability to make any General Fund transfer in FY 21 and FY 22, which does not seem likely.

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 20 oil revenue budget was based on $55 per barrel. Actual oil prices averaged about $45 per barrel throughout FY 20. The budget was anticipated at $8.8 million but with the losses the transfer was projecting to be $5.9 million. However, to mitigate the reduced transfer to the General Fund in the lower price environment, there was no set-aside to fund the oil field abandonment reserve, and the total amount transferred to the General Fund from FY 20 net oil revenues was $7.2 million. Oil field abandonment funding is a necessary cost and obligation and any funds not set aside in FY 20 will need to be made whole in later years.

FY 20 YEAR-END APPROPRIATION ADJUSTMENTS

On September 3, 2019, the City Council adopted the Appropriations Ordinance governing the City's Adopted Budget for FY 20. 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 20 year-end are noted in the Fiscal Impact section.

This matter was reviewed by Deputy City Attorney Amy R. Webber on February 1, 2021.

City Council action is requested on February 16, 2020, to close the City's books for FY 20 in a timely manner.

To accurately reflect FY 20 year-end transactions and match appropriations to expenditures, the following actions are requested:

City Manager

- *Increase appropriations in the General Fund Group in the City Manager Department by $260,761 to transfer funds to the Community Development Grants Fund Group in the Economic Development Department for costs associated with the continuation of oversight of the Cannabis Equity Hire Program, offset by a release of reserves in the General Fund Group for this purpose.*

  On October 9, 2018, the City Council authorized one-time funds in the amount of $200,000 for the Pacific Gateway Workforce Innovation Network (PGWIN) to establish the start-up Cannabis Equity Hire Program. This program facilitates pathways to employment with the cannabis industry for eligible applicants to achieve a 40 percent equity hire requirement for all adult-use cannabis businesses in Long Beach. In the City Council-approved Third Budget Adjustment Letter, an appropriation increase was granted in the Community Development Grants Fund Group in the Economic Development Department in the amount of $260,761 to address $84,100 in additional program costs in FY 20 and $176,661 additional ongoing program costs in FY 21. The City Manager Department is requesting an appropriation to make this approved transfer of funds for the Economic Development Department.

Economic Development

- *Decrease appropriations in the General Fund Group in the Economic Development Department by $417,017 to correct the appropriation needed to cover the costs of eligible grant-related expenses transferred to the General Fund from the Community Development Grants Fund Group.*

  In the City Council-approved Third Budget Adjustment Letter, the Economic Development Department requested an appropriation increase in the General Fund Group in an amount of $1,624,844 to offset expense transfers from the Community Grants Fund Group for its Workforce Development grant programs that were not able to be covered by grants, and thus needed to be absorbed by the General Fund. Since then, the Department was able to identify some of those costs to be eligible grant expenses and lessening the adverse impact on the General Fund, with the total impact to the General Fund being about $1.2 million. An appropriation decrease is requested in the General Fund Group by $417,017 to adjust for the costs that are no longer needing to be absorbed by the General Fund. The Department has already implemented several process improvements related to the programmatic and financial management of its grant programs that will minimize the need to transfer expenses to the General Fund Group in FY 21 and beyond.

· *Increase appropriations in the General Fund Group in the Economic Development Department by $755,583 for costs associated with maintenance and utility expenses for the Community Hospital of Long Beach, offset by deferred reimbursement revenue from the tenant to be received during FY 21.*

At the start of FY 20, the City transitioned the care and use of Community Hospital of Long Beach to MWN Community Hospital, LLC, the tenant selected to reopen the hospital. Due to the complexity of the transfer of the hospital, the transition took an extended period of time resulting in the increase of City expenditures for maintenance and utilities costs. The tenant has indicated they will reimburse the City for the expenses, estimated at $755,583. The reimbursement revenue is expected to be received in FY 21. Expenditures were incurred in the General Fund Group in the Economic Development Department.

· *Increase appropriations in the General Fund Group in the Economic Development Department by $954,367 for unfunded costs associated with the maintenance or beautification of City-owned properties and the general administration of department operations, offset by a combination of additional citywide revenue received in the General Fund Group and by drawing down from General Fund Group reserves.*

In FY 20, the Economic Development Department incurred approximately $954,367 in unbudgeted expenditures for the maintenance, beautification, and administration of City-owned properties. The Department also supported unbudgeted internal services provided for other City departments. An appropriation increase is needed for these expenses, offset by $639,816 of the administrative recovery fees (5 percent) received from the management of sales of Successor Agency property and intended to be used for property management purposes and by $314,551 of General Fund Group reserves.

Energy Resources

· *Increase appropriations in the Gas Fund Group in the Energy Resources Department by $1,700,000 to transfer funds to the General Fund Group, offset by additional revenue.*

Due to above-expected revenue performance in FY 20, the Gas Fund Group was able to transfer an additional $3,905,000 in one-time revenue to the General Fund Group. One-time revenues increased the total transfer to the General Fund from the budgeted $9,630,736 to $13,535,736. Of the total additional one-time transfer, $2,205,000 was transferred and appropriated as part of the City Council-approved Third Budget Adjustments Letter. Later, as part of year-end analysis of the Gas Fund, final year-end revenues in the Gas Fund Group even further exceeded expectations and an additional $1,700,000 was identified that could be transferred to the General Fund. The total transfer of $13,535,736 to the General Fund, including the one-time additional transfer, is within the City Charter authorized level of 12 percent.

Fire

· *Increase appropriations in the Tidelands Operating Fund Group in the Fire Department by $580,194 for various cost overages as described below, offset by drawing down from funds available.*

Fire Department expenses in the Tidelands Operating Fund Group were over budget by $580,194, and therefore an appropriation increase is requested to align appropriation to actual spending. There are several reasons for this overage. First, the Fire Department incurred $214,671 in major maintenance costs for one of its rescue boats. While these expenses were planned for and budgeted, there was an accounting transaction issue where the expenses were budgeted in FY 18, but actuals hitting in subsequent years; therefore, there was not sufficient budget to support these costs in FY 20. Additionally, Non-Career Lifeguards in the Marine Safety Division provided a high level of support to the City's COVID-19 efforts, primarily at testing sites. This resulted in unbudgeted staffing costs of approximately

$144,000. Non-Career/Seasonal Lifeguard costs exceeded budget by approximately $182,000. Due to greater beach attendance throughout the year, Non-Career Lifeguards were utilized to provide safety both on the beach and in the water. In the late spring and early summer, a County-wide closure of available recreational options for the public brought more attendance to the beach, as the public believed that the beach was a safe outdoor alternative. Despite a series of beach and bike path closures by the State and County, Lifeguards were the primary mechanism of education and enforcement of the Public Health Order. During the summer season, greater than normal beach attendance caused the Department to augment normal staffing levels with additional Lifeguards. An expansion of the Colorado Lagoon swim area led to greater than usual beach attendance at that site, requiring deployment of a greater number of Lifeguards on a daily basis. Finally, the Marine Safety Division was able to implement a highly successful and safe Junior Lifeguard Program in the Summer of 2020. This was accompanied by additional unbudgeted costs of approximately $57,000 to comply with recommendations for smaller student-to-instructor ratios, plus an increase in staffing to establish daily health screenings of class participants and disinfect high-touch equipment used by Junior Lifeguards.

Police

· *Increase appropriations in the General Fund Group in the Police Department by $2,109,250 for overtime costs related to law enforcement efforts from civil unrest, offset by drawing down from General Fund Group reserves.*

In FY 20, the Police Department incurred $4.0 million in unplanned overtime costs for law enforcement efforts arising from unprecedented and unforeseen events related to COVID-19 pandemic response activities and training, planning and staffing for first amendment and civil unrest activities. Approximately $1.8 million of this unplanned overtime was absorbed within the appropriated Police Department General Fund budget by savings generated by higher than normal sworn and civilian vacancies and delays in hiring and onboarding, which resulted from the new social distancing guidelines and the Stay at Home Order. Overtime costs related to the pandemic that were FEMA-eligible were transferred out of the Department as they will be funded by either FEMA or CARES Act funding. The remaining $2.1 million in unplanned overtime costs has resulted in a budgetary overage in FY 20 and an appropriation increase is requested to address this overage.

Public Works

· *Increase appropriations in the General Fund Group in the Public Works by $561,712, offset by staff augmentation and excavation permit processing revenues.*

Due to the pandemic, many Public Works operating revenues such as parking and citations incurred a decline from prior years. However, permit revenue for curb, walkway, and excavation permits ended the year at $6.3 million, which is $4.6 million above budget. This higher than anticipated revenues can be credited to both operational changes and increased permit volume. Operationally, the Department utilized consultants to augment staff and address both current and backlogged permits. In terms of volume, the City experienced an uptick in permits overall, but particularly for excavation permits related to fiber optic installation throughout the city. Of the increased amount, the Public Works Department is requesting an appropriation increase of $561,712 to address departmental budget expense overage due increased permit processing costs including additional consultant support in FY 20.

· *Increase appropriations in the Civic Center Fund Group in the Public Works Department by $479,220 for Police security MOU costs and licensing and easement costs and in the Citywide Activities Department by $1,559,056 for data center, parking facility, and indirect cost charges, offset by a drawdown on funds available and to be recouped through future interdepartmental MOU charges.*

The Civic Center Fund Group administers services, maintains operations, and facilities related to the Civic Center complex. In June 2019, the City entered into a Memorandum of Understanding (MOU) with the Board of Harbor Commissioners (Port) regarding the construction, operation, maintenance, use and ownership of City Hall, Port Administration Building and the Civic Plaza. The MOU emphasis shared costs including facilities and rooms. The City agreed to pay the Port for the installation of a data room, long-term storage operations, parking facilities, and easements, which cost $1,000,000 in FY 20 and was recorded in the Citywide Activities Department. Other unbudgeted costs in the Citywide Activities Department included $559,056 for the Indirect Cost Plan. In the Public Works Department, unbudgeted costs included $277,349 in Police security costs for monitoring City Hall, and $201,871 in licensing and easement costs that is part of the MOU with Port.

Citywide

· *Increase appropriations in the General Fund Group in the Citywide Activities Department by $1,086,811, to adjust for the new methodology for allocating the citywide full-cost allocation plan.*

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 $1,086,811 is requested to bring budget in line with actuals.

· *Increase appropriations in the General Fund Group in the Citywide Activities Department by $3,000,000 to place Measure M revenue in escrow in accordance with a Stay Order Agreement on Water and Sewer transfers.*

In June 2018, voters approved Measure M which would allow the City to continue the historical transfer of Water, Sewer, and Gas Funds to the General Fund. In 2019, litigation on Measure M transfers challenged the constitutionality of only the Water and Sewer portions. The Los Angeles Superior Court since ruled in favor of the plaintiffs against the City and the City is appealing the decision. Until a final judgement is made, the City has agreed to escrow $3 million of the FY 20 transfer totaling $14.3 million. The appropriation increase will support the transfer to the escrow fund, where funds will be held until the case is decided.

· *Increase appropriations in the Tidelands Operating Fund Group in the Citywide Activities Department by $5,741,443 for $4,863,918 Aquarium of Pacific Challenge grant transfer and $877,525 in net transfers for Tidelands Rainbow Harbor and Aquarium Debt Funds, offset by operating transfers within the Tidelands Operating Fund Group.*

In FY 20, as a result of the State's and City's health orders issued due to the pandemic, the Aquarium of the Pacific Corporation and Pike suspended public visitation and revenues were severely impacted. Aquarium rent revenues and parking sales are used to pay debt service on the 2012 Aquarium refunding bonds. In 2017, the City also loaned the Aquarium funds to expand the educational exhibit facility of the Aquarium (Pacific Visions Project). As a result of the pandemic, the Aquarium prepaid the loan to the City in its entirety and the balance of the City's conditional Challenge Grant was in turn paid to the Aquarium with a net result of a cash payment to the City by the Aquarium of $4.8 million. The one-time payment was transferred to the Tidelands Operating Fund Group and was reserved as it is intended to be used for debt service on the Aquarium debt in future years. To service Aquarium and Rainbow Harbor debt, transfers are made within the Tidelands Operating Fund Group. The appropriation increase is to align with actuals to reflect transfers within the Tidelands Operating Fund Group.

Pandemic Related

· *Increase appropriations in the General Fund Group in the Citywide Department by $4,756,433 to transfer funds to the General Grants Fund Group, offset by CARES Act funds allocated toward citywide response.*

As part of the FY 21 State budget, the City was allocated $40.28 million in CARES Act. These funds were designated for citywide COVID response, Community Support, and Business Support and Resilience activities. Only the Community Support and Business Support and Resilience activities were budgeted. The $19.13 million citywide response portion of the allocation was left unbudgeted until a better understanding of the citywide response needs was determined. It has now been determined that of the $19.13 million, $8.37 million will be used to offset General Fund costs, not directly related to one of the five approved FEMA projects. These funds will stay in the General Fund. Of the citywide response costs, $6 million will be reserved and re-appropriated to support the significant citywide response in FY 21. An appropriation increase is requested for the $4.76 million of the $19.13 million, to do an operating transfer to transfer funds to the General Grants Fund Group to cover the costs of staff substantially dedicated to the COVID-response that FEMA grants will not cover as well as to provide the 25 percent local FEMA match requirement.

· *Increase appropriations in the General Grants Fund Group in the Citywide Activities Department by $7,080,127 to match the expenditures that have identified offsets, related to the EOC/IMT and Great Plates Delivered COVID-19 projects, offset by anticipated FEMA cost recovery, CARES Act - Citywide Response, and grant revenues.*

Costs for City staff that were redeployed from their regular duties to the Emergency Operations Center (EOC) and Incident Management Team (IMT) to support pandemic response operations and costs for the Great Plates Delivered projects were all directly charged or transferred to the General Fund Grants Group. This appropriation provides the appropriations to match the expenditures (that have approved identified offsets), which in turn are funded from FEMA Public Assistance, other grants, and CARES Act - Citywide Response.

· *Increase appropriations in the Health Fund Group in the Health and Human Services Department by $1,938,760 to match the expenditures related to the COVID-19 Citywide Testing project and the Non-Congregate Shelter project, offset by anticipated reimbursement funds from FEMA Public Assistance, Health Fund Group funds available and associated grant revenues.*

Through various transactions during FY 20, the City Council approved $7.8 million in appropriation to cover the Citywide COVID-19 testing program and the Non-Congregate Sheltering projects for COVID-19 isolation and quarantine (commonly referred to as Project RoomKey and Hyland hotels). As of FY 20, year-end additional appropriation authority of $1,938,760 is necessary to cover the costs expended in FY 20, offset by anticipated FEMA Public Assistance, Health Fund Group funds available, and associated grant revenues. Significant additional costs have been incurred for citywide testing in FY 21. Appropriation for these costs will be requested in FY 21, once FEMA and other federal and State offsetting funding is known.

Approve recommendation.

[Enter Body Here]

JOHN GROSS
INTERIM DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER