

Overview of Proposed FY 21 Budget Balancing Strategies

August 6, 2020

Fiscal Year
2021
Proposed
Budget



Outline

- General Fund
- Special Advertising and Promotions Fund
- Tidelands Operating Fund

General Fund Development of Shortfall

- The FY 20 Adopted Budget includes structural and one-times and is balanced
- At the beginning of the budget development process, staff develops the FY 21 Base Budget.
 - Base Budget expense removes one-times and reflects updated costs of doing same services. Examples: Pension costs, negotiated raises, general liabilities, etc.
 - Base Budget also includes preliminary revenue projection updates
- This Base Budget is what determines FY 21 Shortfall or Surplus projections that determines budget development process
- City Manager proposed budget actions is compared to this FY 21 Base not the FY 20 Adopted Budget

General Fund Balanced with Structural and One-time Solutions

- FY 21 budget relies on both structural and one-time solutions to balance budget
- One-time solutions are recommended due to significant challenging factors:
 - Magnitude of problem
 - Mitigating potential impacts to residents and businesses
 - Unknown fiscal considerations associated with pandemic
- There is also the possibility of positive relief and aid, such as additional federal aid (i.e., HEROES Act)

General Fund Operating Budget Balancing Elements

From the Proposed FY 21 Budget Book – Executive Summary Chapter

Table 2. FY 21 General Fund Budget Balancing Elements (\$ in millions)

	Structural	One-time	Total
Preliminary Shortfall as of May	(30.2)	-	(30.2)
Citywide Revenue/Expense Updates	1.7	-	1.7
Reduced Water Transfer	(2.0)	-	(2.0)
<i><u>Departmental Submittals</u></i>			
Department Reductions	16.9	1.9	18.8
Racial Equity and Reconciliation Adds	(2.5)	-	(2.5)
One-time Implementation Delay Costs	-	(1.9)	(1.9)
			-
<i><u>Other Budget Balancing Items</u></i>			
			-
Increase Cannabis Tax	0.8	-	0.8
Related Funds Savings to General Fund	1.4	-	1.4
Employee groups contributions	-	11.0	11.0
Anticipated use of reserves	-	2.9	2.9
Revised Surplus / (Shortfall)	(13.9)	13.9	0.0

General Fund Operating Budget Balancing Elements

- ***Preliminary Shortfall as of May*** – Preliminary General Fund shortfall for FY 21 as presented to the City Council in May 2020.
- ***Citywide Revenue/Expense Updates*** – Since May, minor updates to citywide revenue and expense projection updates
- ***Reduced Water Transfer*** – For FY 21, the Water Board has proposed reducing the historically-based transfer amount by \$2 million, which is an additional impact on the budget on top of the costs related to the Measure M settlement.

General Fund Operating Budget Balancing Elements

- ***Department Reductions*** – Departmental net reductions
- ***Racial Equity and Reconciliation Adds*** – Enhancements related to the Racial Equity and Reconciliation Initiative
- ***One-time Implementation Delay Costs*** – One-time reduced savings for FY 21 due to anticipated delay in implementing some proposed items (savings will not be for the entire year).
- ***Increase Cannabis Tax Rate*** – Proposed 1 percent increase in the business license tax rate (within voter approved authorization) on cannabis dispensary businesses.

General Fund Operating Budget Balancing Elements

- ***Related Funds Savings to General Fund*** – Reductions in charges by the General Services Fund Group and the Fleet Services Fund Group due to service and other adjustments, generating General Fund savings.
- ***Employee Groups Contributions*** – The City is seeking savings of at least \$11 million through employee furloughs or other actions agreed to by employee bargaining groups through negotiations
- ***Anticipated Use of Reserves (for operating)*** – Approximately \$2.9 million of reserves will be needed to balance the FY 21 operating budget. Additional reserve use is also anticipated to be needed to fund key one-time investments

General Fund One-time Investments Sources and Uses

From the Proposed FY 21 Budget Book – Executive Summary Chapter

Other One-time Uses and Sources

Uses

Racial Equity and Reconciliation One-times	(0.7)
Strategic Investment One-times	(3.7)
Other departmental one-times	(0.1)

Sources

Additional Gas Fund Transfer and other adjustments	1.3
Anticipated use of reserves	3.3

Total One-time Sources/(Uses)	-
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TOTAL ANTICIPATED USE OF RESERVES

For balancing budget and one-times	6.1
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General Fund One-time Investments Sources and Uses

- ***Other One-time Investments*** – Strategic one-time investments for the Racial Equity and Reconciliation Initiative, citywide strategic one-times, and other departmental items.
- ***Sources for One-time investment needs*** – A one-time additional Gas Fund Group transfer to the General Fund Group above the structurally budgeted level and an additional \$3.3 million draw down on reserves.
- ***Anticipated Use of Reserves (for one-times)*** – Approximately \$3.3 million of reserves will be needed to fund the proposed one-time investments

General Fund Reserves

- **Total anticipated use of reserves** – \$6.1 million to address operating and one-time needs
- **Current Reserves**
 - Operating reserve – \$13.5 million (which includes \$1.7 million from Measure B)
 - Emergency Reserve – \$45.5 million.
- **Unknown FY 20 Need for Reserves** – It is anticipated that some of these funds may be needed to help resolve the FY 20 shortfall and so it is uncertain at this time how much of the reserves will be available for use in FY 21. Additionally, there is significant pandemic related uncertainty in FY 21.

General Fund Outlook

From the Proposed FY 21 Budget Book – Executive Summary Chapter

	FY 21 Proposed	FY 22 Projection	FY 23 Projection	FY 24 Projection	Total
Surplus/(Shortfall)	-	(18)	(23)	(22)	(63)
<i>Additional Shortfall from Previous Year</i>	-	(14)	-	-	(14)
Total Shortfall	-	(32)	(23)	(22)	(76)

* This chart assumes that any shortfalls are structurally solved each year.

Assumptions

- Continued impact of pandemic into FY 21 with recovery beginning in FY 21. Revenues not at FY 19 levels for a couple of years
- No resurgence of pandemic or second wave; no major business failures or City forgiveness
- Includes current negotiated contract costs and general cost of living raises for others

Tidelands Operating Fund

- Previous projection showed the fund to end FY 20 with negative \$5 million in funds available, growing to a negative \$19 million by end of FY 21.
- Key challenges
 - Oil revenue declines
 - Convention Center loss of \$5 million in FY 20 and \$2.5 million in FY 21
 - Costs for bonds due to Aquarium and Queen Mary revenue shortfalls in FY 21
- Strategies
 - No funding of \$6 million annual oil well abandonment costs in FY 20 and FY 21, and partial in FY 22
 - One-time project savings in FY 20 to generate some additional funds available
 - Reduction of \$2.4 million in FY 21 spending
 - Use of reserves and potential future reductions until oil revenue improves

Special Advertising and Promotions Fund

- Previous projection showed drawdown of over \$5 million to end FY 20 with negative \$0.7 million in funds available, growing to a negative \$2.6 million by end of FY 21.
- Key challenges
 - Transient Occupancy Tax (TOT) revenues have been significantly impacted with dramatic slowdown of tourism industry
 - TOT revenue historically has shown slow recovery in past downturns and recessions
 - All reserves could be depleted by FY 22 or FY 23 with no back up sources remaining
- Strategies
 - One-time project savings in FY 20 to generate some additional funds available
 - Reduction of \$850,000 in FY 21 costs
 - Likely need additional reductions in future depending on situation

More information
available online:
www.longbeach.gov/budget

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