



General Fund Projections Trends and Implications

Budget Oversight Committee

August 9, 2022



Pandemic Hit Hard in FY 20

What was happening during March 2020 – February 2021

- March 2020 – Pandemic hits and **Stay-at-Home orders issued**
- September 2020 – **The FY 21 Budget was adopted** anticipating pandemic's impact
 - A projected \$30 million shortfall proposed to be balanced with a mix of structural and one-time solutions that included \$11 million from employee furloughs and \$8 million of reserves
- February 2021 – **FY 20 Year End Report** – General Fund shortfall of \$21 million
 - Use of Reserves was needed
 - \$12.6 m of \$13.5 m Operating Reserve
 - \$7.9 m of \$46.0 m Emergency Reserve

Good News and Strong Recovery

What was happening during March 2021 – February 2022

- March 2021 – Federal and other Grants: **Long Beach Recovery Act**
 - Eliminated the employee furloughs for second half of FY 21
 - Funds made available to replenish reserves in General Fund and Special Advertising and Promotions Fund
- August 2021 – **The FY 22 Budget was adopted** as a “pause” year
 - Projected \$30 million shortfall (\$27m structural, \$3 m one-time)
 - Balanced using one-time funding made available through LBRA
 - Minimal changes to services preserving great services and amenities
 - Provide for additional time to see how the economy would recover.
- February 2022 – **FY 21 Year-End Report** – General Fund surplus of \$2.2 million
 - Revenues were not as severely impacted by pandemic as anticipated in Aug 2020

Strategic Use of Resources to Maintain and Enhance

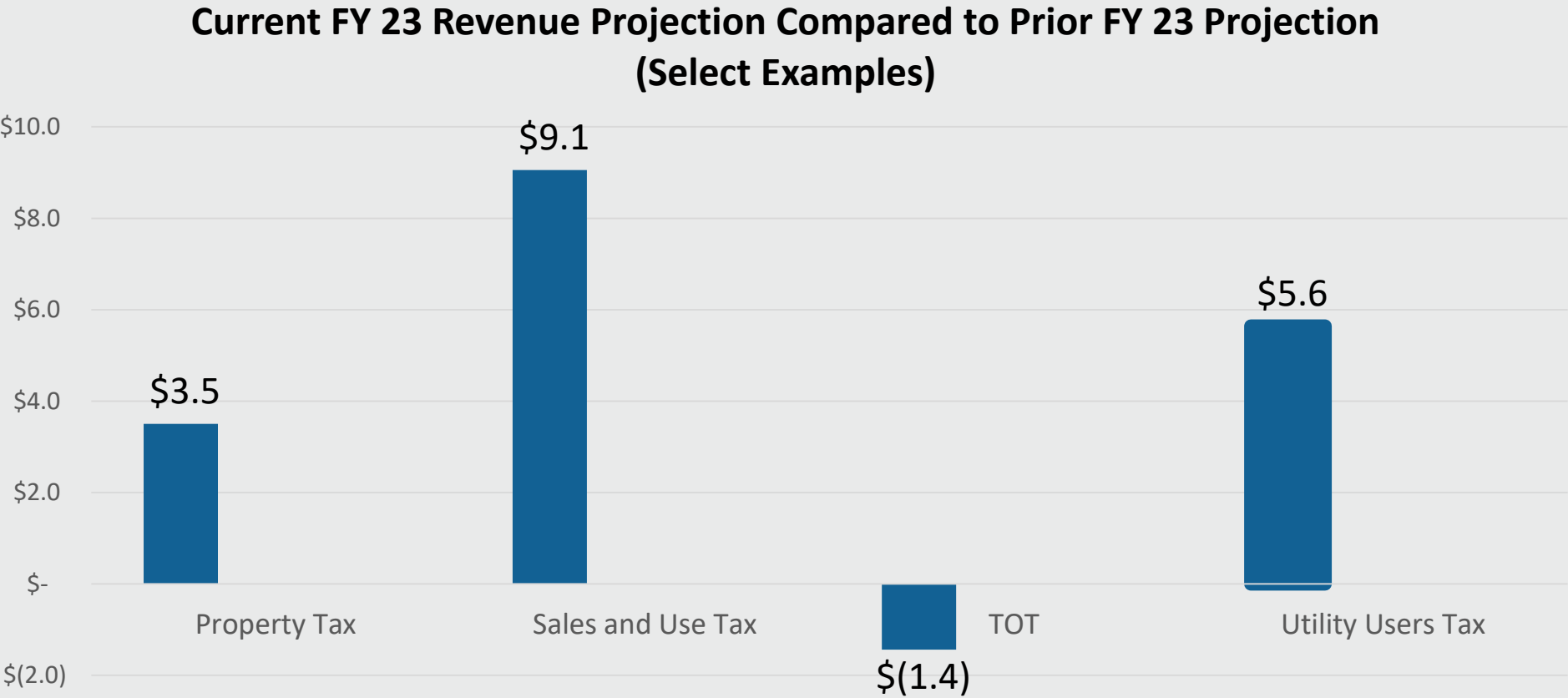
What is happening during March 2022 – Current

- March 2022 – **FY 23 Early Projections**
 - Projected a \$11.8 million General Fund structural shortfall, but FY 21 LBRA funding available to cover
 - Shortly after, State Supreme Court declined to review the Measure M litigation.
- May 2022 – **FY 22 Mid-Year Performance Report** reflecting improved projections
 - \$30 million projected shortfall improved to \$18 million
 - Additional Long Beach Recovery Act funds anticipated to be available
 - Measure M revenue loss for FY 22 covered by reserves set aside for this purpose
 - Projections subject to change by year-end
- August 2022 – **The Proposed FY 23 Budget Released**
 - Structural shortfall remained similar at \$11.7 million (\$20.2 million when counting Measure M loss) and \$4.9 million in one-times
 - Measure M revenue loss of \$8.5 million covered by reserves set aside for this purpose
 - Balanced using one-time funding including LBRA

Improved Revenue Projections for FY 23

- Based on information made available from FY 21 Year-End Results and anticipated FY 22 performance, revenue projections for FY 23 were improved as staff conducted a new forecast as part of the Proposed FY 23 Budget process.
- Compared to previous revenue projections for FY 23, the updated projections improved by \$22 million (excluding Measure M revenue loss)
- This was the main factor in the improved shortfall projection for FY 23 going from the projected \$35.6 million (from August 2021) to \$11.7 million
- The \$11.7 million shortfall does not take into consideration the revenue loss related to the Measure M litigation, which would bring the shortfall up to \$20.2 million

Improved Revenue Projections for FY 23, continued



Drivers for the General Fund Shortfall Projection

FY 23 Incremental Change – Increase/(Decrease) compared to FY 22 \$ in millions			
	Sources	Uses	<i>Net Impact to Fund Help/(Hurt)</i>
FY 23 Revenue Change	25.3		25.3
FY 23 Expense Change		22.2	(22.2)
CM Budget Proposal (structural)		0.8	(0.8)
Additional Measure A Support		(2.9)	2.9
Backing out Impact of Measure A related revenues	1.6		1.6
Measure B (Stabilization Fund) Set Asides		0.2	(0.2)
Shortfall from Previous Year		26.9	(26.9)
Total	26.9	47.2	(20.2)
Shortfall if excluding Measure M litigation related revenue loss			(11.7)

Notable General Fund Revenue Trends

- Property Taxes – **Increased \$9.8 million** from FY 22 Budget, **Total: \$150.2 million**
 - Largest City revenue source
 - Strong forecast due to continued strength of property sales, improvements, and new developments in the City.
- Sales Tax – **Increased \$10.5 million** from the FY 22 Budget, **Total: \$82.1 million**
 - Second largest City revenue source
 - Strong forecast exceeding even pre-pandemic levels
 - Continued growth across various categories, including the countywide pool.
- Measure A – **Decreased \$1.6 million** from the FY 22 Budget, **Total: \$67.4 million**
 - Decrease is due to tax going to $\frac{3}{4}$ of a percent in 2023 instead of the current one percent due to impact of County's Measure H
 - Revenue at full 1% would have been \$83 million and reflects similar positive trends as Sales Tax

Notable General Fund Revenue Trends, continued

- Transient Occupancy Tax– **Increased \$2.4 million** from FY 22 Budget, **Total: \$18.7 m**
 - Very volatile revenue source, heavily impacted by pandemic
 - Largely dependent on conventions and business meetings
 - Full recovery anticipated by FY 24 but many factors may impact projections
- Utility Users Tax (UUT)– **Increased \$4.9 million** from FY 22 Budget, **Total: \$38.2 m**
 - 5 percent tax on usage of water, telephone, and electric utilities
 - Forecast assumes continued growth from FY 22 estimates which is anticipated to exceed budgeted expectations based on current year receipts
- Cannabis Tax Revenues – **Increased \$2.8 million** from FY 22 Budget, **Total: \$12 m**
 - Projections anticipate activity levels will remain at higher levels that started in FY 20 when City experienced increased demand during pandemic
 - Does not include any impact of potential tax changes

Notable General Fund Revenue Trends, continued

- Oil Revenue– **FY 23 based on price of oil at \$55 per barrel**
 - Budget based on financial practice of structurally budgeting lower than likely oil price to hedge against risks of this revenue's high volatility
 - Surplus funds can be used towards critical one-time needs and additional set-asides for oil well abandonment
 - FY 22, current year projection for average price of oil is at \$90 per barrel (compared to budgeted \$55/bbl). Surplus funds will:
 - Allow \$12 million capital projects in Tidelands (included in FY 23 Budget)
 - Cover normal abandonment set-asides PLUS an additional contribution up to 25%

FY 22 Projections \$ in millions	Normal Abandonment	Additional up to 25%	Total
Uplands	\$1.6	\$0.4	\$2.0
Tidelands	\$7.1	\$1.8	\$8.9

Notable General Fund Expense Trends

- Salary Changes – **Increased \$19 million** from FY 22 Budget, Total Budget: \$479.8m
 - Includes previously negotiated pay raises and benefit changes in employee labor contracts, and step increases for current employees
 - General inflator representing potential cost of living increases included for groups with expired contracts at the beginning of FY 23
- Pension (CalPERS) – **Increased \$518,000** from FY 22 Budget, Total Budget: \$108.2m
 - Significantly smaller increase than previous years
 - Improvement mainly due to high investment return of 21.3% in 2021 (CalPERS investment return assumption is 6.8%)
 - Pension costs will most likely increase in FY 25 and beyond, due to CalPERS actual investment return of minus 6.1% (preliminary estimate) for year ending June 30, 2022

Notable General Fund Expense Trends, continued

- Insurance Fund– MOU to GF **decreased by \$1.4 million** from FY 22 Budget
 - While General Liability related costs have been a cost driver in the past few years, the costs have remained flat in FY 23
 - Premium rates for Worker's Compensation have been reduced by 4.5 percent as a healthy funds available status allowed for a reduction in overhead rates
- Health Benefit Related Costs– **Increased \$2.6 million** from FY 22 Budget
 - Healthcare spending expected to return to pre-pandemic levels with increased cost adjustments due in part to delayed care during lockdown

Notable General Fund Expense Trends, continued

- Fleet Fund MOU – MOU to GF **increased \$0.8** from FY 22 Budget
 - Purchase, maintenance, and replacement of vehicles costs
 - Expenses related to both parts and sublet services are anticipated to increase, and fuel prices are anticipated to stay high
- Other Expense Changes– Increased **by \$400,000** from FY 22 Budget
 - Includes other cost centers including debt service payments, various other citywide MOU costs, citywide indirect cost plan allocations
 - Debt service payments to finance funds owed to Water Fund as a result of the Measure M litigation is also included

Proposed FY 23 Budget – General Fund Balancing

FY 23 General Fund Budget Updates since March Projection (\$ in millions)

	Surplus/(Shortfall)*		
	Structural	One-time	Total
Preliminary Shortfall as of March	(11.8)	-	(11.8)
Citywide Revenue and Expense Updates**	(7.6)	-	(7.6)
Proposed Budget Changes	(0.8)	(4.9)	(5.7)
Revised Surplus / (Shortfall)	(20.2)	(4.9)	(25.1)
<u>Budget Balancing Solutions</u>			
Funds made available through LB Recovery Act		14.5	14.5
Release of Reserve for Measure M shortfall		8.5	8.5
FY 22 Police savings for Community Crisis Response		1.0	1.0
Citywide indirect cost plan allocations update		1.1	1.1
Final Surplus / (Shortfall)	(20.2)	20.2	0.00
<i>Shortfall without the Measure M impact for reference</i>	<i>(11.7)</i>		

* A positive number helps bottomline fund status; a negative number is a hit/cost to bottomline fund status

** Includes impact of Measure M litigation loss at \$8.5 million

General Fund Fiscal Outlook FY 24 and Beyond

Assumptions & Uncertainties

- **Negotiations with Bargaining Units** – POA, FFA, LGA contracts expires last day of FY 22; Miscellaneous expire last day of FY 23
- **Future costs** that may occur but are not currently factored in, such as conversion to cleaner energy options
- **Assumes no recession over the forecast horizon**
- **No significant resurgence of the pandemic and progress towards recovery will continue**

	FY 23	FY 24	FY 25	FY 26
Surplus/(Shortfall) -Annual	-	(5.4)	2.3	0.2
Shortfall from Previous Year	-	(20.2)	-	-
Final Surplus / (Shortfall)	-	(25.6)	2.3	0.2

* Shortfall in each year is assumed to be solved. Number for each year is the new projected shortfall for that year

Next Steps and Plan for Future

- FY 23 Projections are trending in a positive direction
- Moving forward, it will be important to continue to maintain fiscal prudence and discipline.
- One-time solutions may not always be available to balance future budgets
- Develop a plan for a structurally balanced budget for FY 24

CITY OF
LONG BEACH

Fiscal Year
2023
Proposed
Budget

Questions?