



Fiscal Outlook and FY 24 Budget Development Update

City Council Study Session – March 7, 2023

Budgetary Accomplishments and Achievements



Successfully navigated the revenue losses caused by the pandemic-induced sharp recession in spring 2020, while **maintaining service levels** to the community

Allocated significant funds for the community (\$145.3 million for Healthy Community and \$70.2 million for Economic Recovery) through the Long Beach Recovery Act



Prioritized the **restoration of \$21 million of reserves** that had been utilized to address FY 20 pandemic-impacted General Fund shortfall with funds made available through the Long Beach Recovery Act

Prepared for and addressed **General Fund liability risks** such as the Measure M litigation outcome without budget cuts or service level reductions



General Fund FY 24 Trends, Budget Balancing Strategy, & FY 25+ Forecast

The General Fund Projection Journey Since the Pandemic

Structural and One-time Funding Gaps

	FY 20	FY 21	FY 22	FY 23**	FY 24 Previous Projection
PROJECTION AT ADOPTION	Balanced	-\$8 m shortfall	-\$30 m shortfall*	-\$28.5 m shortfall**	-\$27 m shortfall***
ACTUAL YEAR- END RESULT	-\$21 m shortfall	+\$2 m surplus	-\$11.5 m shortfall	Known in Feb 2024	



- * Structural portion was \$27 m with \$3 m in one-time uses. Original plan was to use funds made available from the Long Beach Recovery Act
- ** Structural portion is \$19.6 million with \$8.9 m in one-times uses. Slated to be funded through a combination of funds made available from Long Beach Recovery Act and reserves to address Measure M litigation
- *** \$26 million is listed in Proposed Budget Book (projections as of June 2022) but is \$27 million with updates/corrections post adoption night

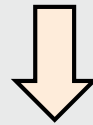
What Changed in the FY 24 Expense Projection Since Previous Projection?

- Major difference between previous projection and current is in the **Salary and Benefits Related Costs**, which has been updated to factor in Police (POA) and Fire (FFA) negotiated updates



+\$18.8 m higher
than previous
projection

- Other expenditure changes increased and decreased, but generally offset each other

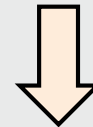


Healthcare Related Costs
(\$1.3 m) less than
previous projection



City Fleet Costs
+\$1.2 m higher than
previous projection

- Other expenditure projections stayed similar



CalPERS Pension Costs
(\$0.2 m) less than
previous projection

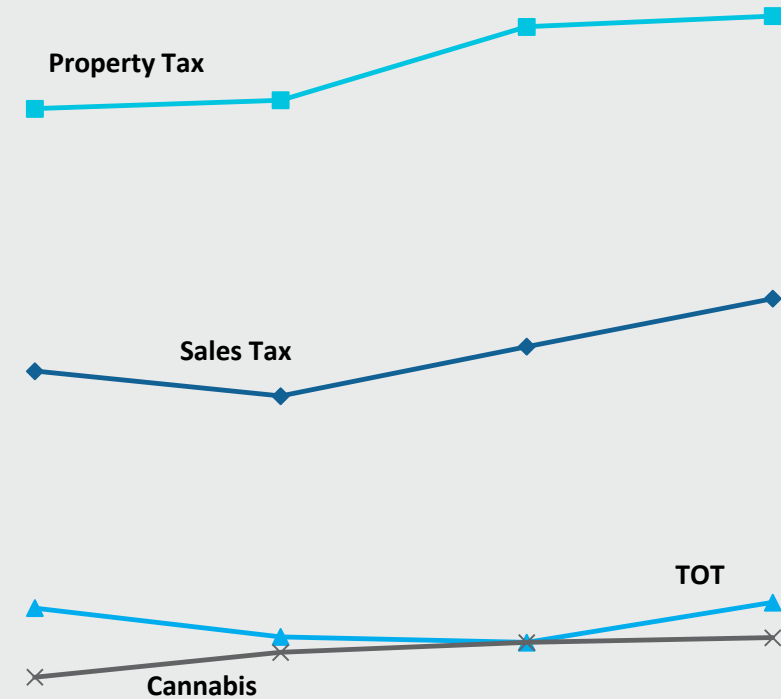
Overall Expenditure Projections increased (higher costs) by \$18.9 million*

**This is the change from the previous FY 24 projection to current FY 24 projection. The year-over-year expenditure change (from FY 23 to FY 24) was \$38.5 m*

What Has Changed in the Revenue Projection Since Previous?

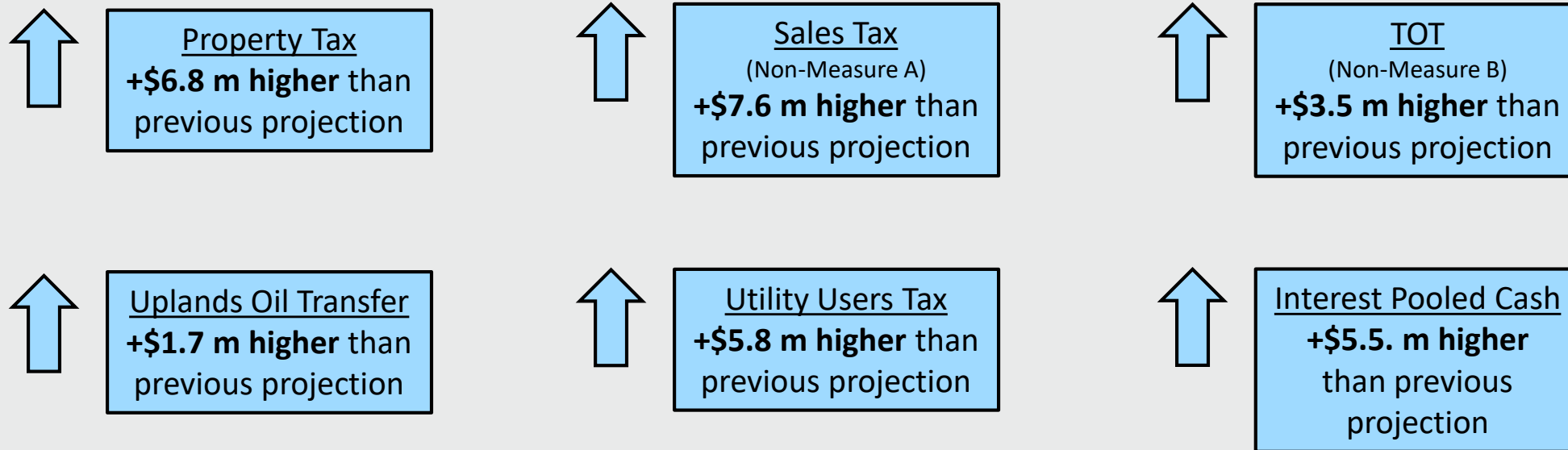
- Recalibrating Revenues to Eliminate Pandemic Impact – FY 21 and FY 22 have not shown significant pandemic impact overall, with revenues continuing to grow more quickly than projected

\$ in Millions	FY 19 Actuals	FY 20 Actuals	FY 21 Actuals	FY 22 Actuals
Property Tax	\$125.6	\$127.4	\$143.0	\$145.3
Sales Tax (Non-Measure A)	\$69.8	\$64.5	\$75.0	\$85.2
Transient Occupancy Tax (Non-Measure B)	\$19.4	\$13.3	\$12.1	\$20.6
Cannabis Tax	\$4.7	\$10.0	\$12.1	\$13.1



What Changed in the FY 24 Revenue Projection Since Previous Projection? -Cont.

- Almost all revenue have been increased significantly compared to previous projections



Overall Revenue Projections increased by \$40.1 million

**This is the change from the previous FY 24 projection to current FY 24 projection. The year-over-year revenue change (from FY 23 to FY 24) was \$52.3 m, excluding Measure A*

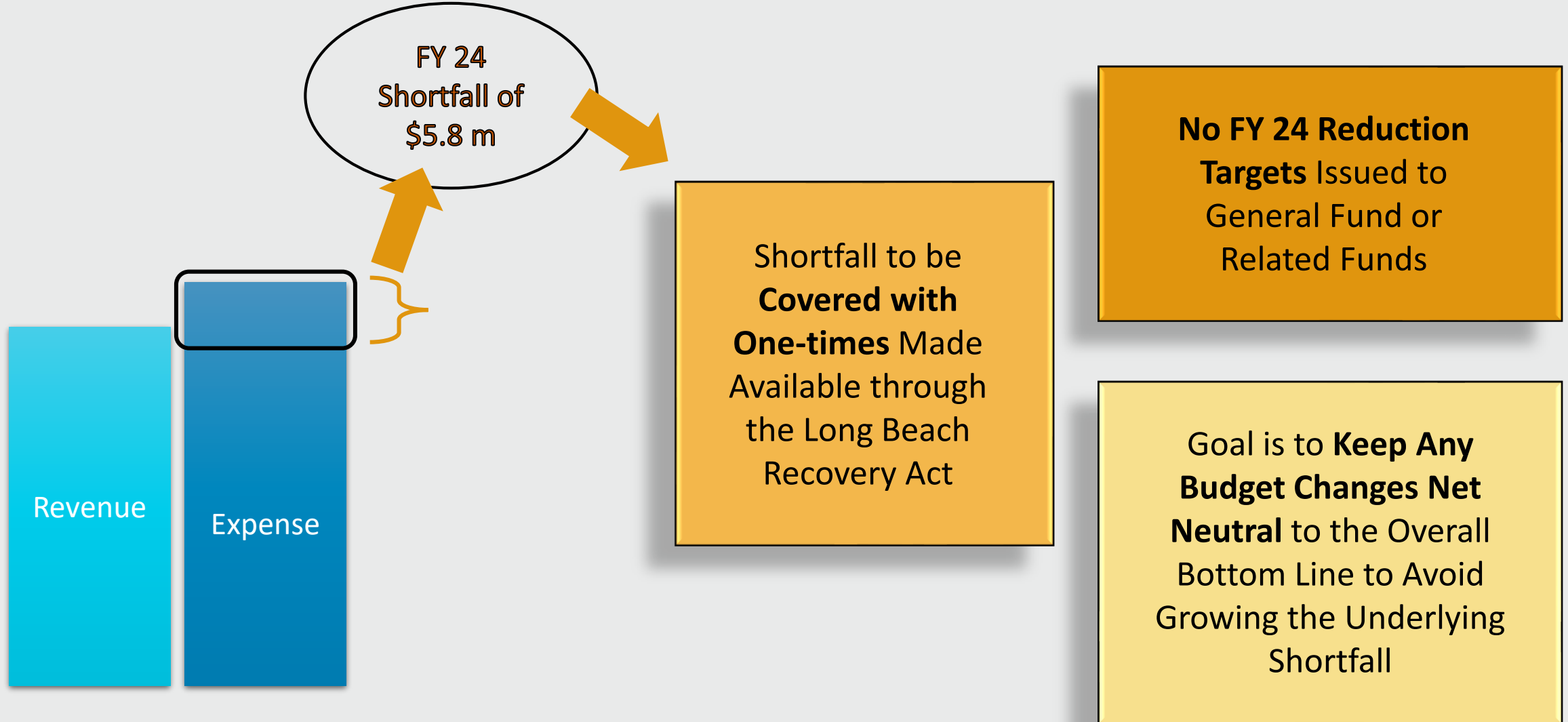
Total Expense & Revenue Impact on the General Fund Bottom Line

Incremental Change View	\$ in Millions
<i>Previous FY 24 Shortfall Projection (June 2022)</i>	<i>(\$27.0)</i>
<i>Projected Additional Expenditure Increase</i>	<i>(\$18.9)</i>
<i>Projected Additional Revenue Increase</i>	<i><u>\$40.1</u></i>
<i>Projected FY 24 Shortfall</i>	<i>(\$5.8)</i>

*These two elements totaling **\$46m** is what was previously referenced as the potential shortfall after negotiations with POA/FFA had concluded **but before any revenue updates***

The Projected FY 24 Shortfall is \$5.8 million

General Fund Budget Balancing Approach for FY 24



Important to Maintain Fiscal Discipline and Strategic Use of One-Times

Future Years Still Showing Shortfalls Even After Recalibrating the Revenues to Eliminate Pandemic Impact in FY 24

Using One-times To Cover Structural Shortfalls Has Opportunity Cost –
Money Diverted From Investments that can Generate Revenue or Create Efficiencies



**Important Not to Add to the Structural Shortfall
that will Result in Even More One-time Funds Diversion and Bigger Problem In Future**



**Use This Season to Explore Investments
that can Generate Revenues and Create Efficiencies**

The Forecast for FY 25+ and Beyond Has Changed

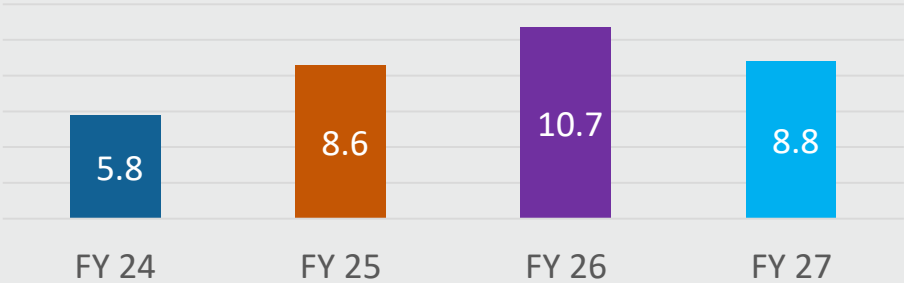
	FY 24	FY 25	FY 26	FY 27	Total Cumulative Structural Impact
Previous Projection (FY 23 Budget Development)	(\$27.0)*	\$2.3	0.2	NA	(\$23.1)
FY 24 Projected Change with POA/FFA Contract Approvals – not a full projection update	(\$43.0)	(\$1.4)	0.2	NA	(\$44.2)
Current Projection	(\$5.8)	(\$8.6)	(\$10.7)	(\$8.8)	(\$33.8)

* \$26 million is listed in Proposed Budget Book (projections as of June 2022) but is \$27 million with updates/corrections post adoption night

General Fund Out-Years (FY 25 and Beyond) Reflect Shortfalls

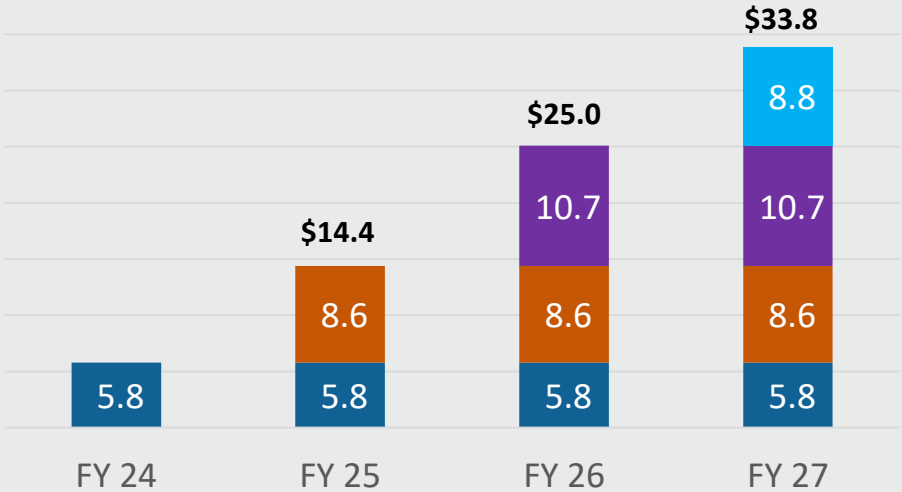
The numbers below only show the **annual shortfall** (new additional shortfall), which assumes previous years' shortfalls are **resolved on a structural basis** each year

Annual Shortfall				
FY 24	FY 25	FY 26	FY 27	Total
(\$5.8)	(\$8.6)	(\$10.7)	(\$8.8)	(\$33.8)



In a scenario where structural shortfalls **are resolved with one-time funds**, the previous year's shortfall **continues forward into the next fiscal year**

Cumulative Shortfall			
FY 24	FY 25	FY 26	FY 27
(\$5.8)	(\$14.4)	(\$25.0)	(\$33.8)



Potential Outlook Scenario: Solving FY 24 with One-Times

FY 24	FY 25	FY 26	FY 27	Total Structural Impact*
(\$5.8)	(\$14.4)	(\$10.7)	(\$8.8)	(\$33.8)



FY 26 and beyond assumes FY 25 and each year there after is structurally solved

*The FY 25 shortfall is inclusive of FY 24 figure. FY 26 and FY 27 are annual amounts. The total cumulative structural impact is the sum of the figures in columns FY 25-FY 27

- In this scenario, by FY 27, **structural solutions of \$33.8 million** need to be identified and implemented – starting with solving \$14.4 million in FY 25
- In another scenario where FY 25 is also covered with one-times, an additional \$14.4 million of one-times would need to be identified for FY 25. Then a structural shortfall of \$25.0 million would need to be addressed in FY 26

Key Expenditure Variables in the Future Forecast

- **Salary and Benefit costs** – includes negotiated contracts and for years with no contracts (FY 24+ for Miscellaneous, and FY 26+ for Public Safety) an inflationary assumption is included (Approx. increase of \$14 million each year). Actual costs/projections will vary depending on actual outcome of negotiations.
- **CalPERS Pension costs** – now projecting to be cost increases in the out years. These costs are very sensitive to market returns and can create volatility in projection stability.

\$ in Millions	FY 24	FY 25	FY 26
<i>Last Year Projection of Change</i> With 21.3% IR in 6/30/21	(\$3.2)	(\$3.5)	(\$2.8)
<i>Updated Projection of Change</i> With (6.1%) IR in 6/30/22	(\$3.4)	\$5.7	\$4.6

- **Inflation/cost increases** – Small buffer included for general cost increases due to inflation but actual experience may change future projection updates

Key Revenue Variables in the Future Forecast

- **Projections also assume no recession**
- **Oil Related Transfer to General Fund** – At the budgeted \$55/bbl assumption for structural operating purposes, projections assume a steady decline in revenues due to production decline with SB 1137 starting to impact beginning in FY 26. Declining revenues due to SB 1137 also anticipated for oil production tax revenues.
- **Cannabis Business License Tax Revenue** – Current projection is assuming \$12 million annually in the out-years. This may change depending on any tax rate changes or rebate program approved by City Council.
- **Sales and Use Tax Revenue** – Future year projections assume normalized growth after significant adjustment in FY 24, factoring in better than anticipated performance across various categories including revenue generated from development in the City.
- **Interest Pooled Cash Revenue** – Much higher interest rates applied to somewhat higher cash balances lead to significantly higher interest earnings

Measure A & Other Funds

Measure A Plan

- The out-year plan Adopted in the FY 23 Budget included a 5 year Measure A Infrastructure Bond Program
- Measure A revenue trend continues to show improvement across various categories such as restaurants, hotels, and general consumer goods.
- Additional funds that may be available in result of higher projections will be slated for consideration as part of the FY 24 Budget Development process.

Measure A Revenue (\$ in millions)

FY 22 Actuals	FY 23 Projections*	FY 24	FY 25	FY 26	FY 27
\$86.0	\$72.3	\$69.1	\$71.2	\$73.3	\$75.5

* Adopted FY 23 was \$67m. Figure above represents updated estimates after FY 22 year-end results. In FY 23, the rate drops from 1% to 0.75% from Jan 2023 through Sept 2027 due to County Measure H in order to stay within the tax rate limit

Other Funds

- **Related Funds** that impact the General Fund are not getting reduction targets similar to the General Fund. However, looking to keep costs down in these other funds.
- **Special Advertising and Promotion Fund** –Transient Occupancy Tax is projected to be fully recovered from the pandemic in FY 24 and beyond. Currently, no one-time funds are anticipated to be needed to keep the budgetary funds available from declining.
- **Tidelands Operating Fund**– With higher oil prices above the budgeted \$55/bbl, FY 22 ended with one-time funds that were reallocated to projects. Additional one-time funds may be available in FY 23 depending on oil prices, which have averaged \$82/bbl to date. A significant concern for Tidelands, however, is SB 1137, which may start impacting revenues beginning in FY 26 and would have a major impact on the fund.



Next Steps

Community Engagement Efforts and Feedback



- For the 2nd year, community engagement was done at the beginning of the budget process with 4 in person meetings and 1 virtual meeting
- Budget Survey also conducted in January/February
- The meetings prioritized Language Access with interpretation services, American Sign Language, and translated materials
- Detailed demographic tracking to better inform future outreach with goal to better engage with diverse and underrepresented members of community
- Feedback results will be transmitted via Memo Spring 2023
- Proposed Budget will also link feedback to relevant proposals

Path to Proposed Budget and Budget Adoption

- Departments will be developing budget proposals and reviewing them with City Manager through May
- Then Budget Book will be built and numbers finalized through June
- Proposed Budget book due to Mayor per Charter Deadline by July 3
- Mayor's recommendations/comments and Proposed Budget released to City Council per Charter Deadline by August 2
- Budget Hearings, Budget Oversight Committee (BOC) Meetings and 2nd Round of Community Engagement in August
- Budget Adoption in September

A nighttime photograph of a city skyline, likely Long Beach, California. The image shows several illuminated buildings, including a prominent one with a curved facade on the left and another with a grid-like pattern of windows on the right. Palm trees are visible in the foreground and middle ground. The city lights are reflected in a body of water in the foreground. A semi-transparent white rectangular box is overlaid on the left side of the image, containing the text "Thank You".

Thank You