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Recommendation to receive and file a Fiscal Year 2021 (FY 21) Budget Performance Report providing an update on the City's FY 21 financial status and projections for year-end. (Citywide)

Overall Summary

This report provides a preview of the potential FY 21 year-end projections along with a disclosure of outstanding variables that may impact the final fiscal year-end result, which will be reported in the Year-End Performance Report planned for February 2022 (per normal schedule). These year-end projections are based on department analysis of data as of May 31, 2021 (the most recent available analysis completed, due to timing and staffing constraints) and some more recent data and analysis on major revenues. The attachments show actual budget performance (actuals) through July 31, 2021.

This report for FY 21 reflects a year-end projection that has more variables and volatility of potential outcomes than normal years given the level of new factors that could impact budget performance due to the pandemic. The FY 21 budget was established during the start of the pandemic when Long Beach, along with all other cities in the nation, faced tremendous uncertainty as to how the pandemic would impact the economy and the City's finances both on the revenue and expenditure side. When the FY 21 budget was proposed and finalized, the economy was in a recession and it was uncertain how severe the downturn would be and how long it would last.

Taking into consideration this context and variabilities, this report shows optimistic trends that indicate the overall fiscal impact of the pandemic will not be as severe as previously anticipated. For the General Fund, the projections in this report are showing a small operating surplus of approximately \$0.5 million. However, there are many outstanding variables, and it

is possible that the final General Fund status could swing to be an operating shortfall or even a greater operating surplus. For Measure A, the recent surge in customer spending has increased sales tax revenue and preliminarily at this time a net program surplus of \$10.1 million is now projected for the year, although one quarter (July through September) of revenues have yet to be received and could change this projection at year-end. Staff will continue to monitor and analyze these and other factors as departments work to complete year-end transactions.

A final report with any recommendations will be brought to the City Council in February based on actual year-end transactions for FY 21 rather than projections. In this report, the City Manager will report on any recommended uses of funds available, including the funding for the following high priority projects as directed by Mayor and City Council with the adoption of the FY 22 Budget: MLK Jr. Statue Restoration and park area improvements; North Long Beach Pool feasibility study; All Abilities Playground design enhancements for Admiral Kidd Playground and other potential playground projects; Duck Pond gap funding as necessary; Tree Trimming enhancements; Bluff Park Historic Lamps; Bixby Bandshell and park improvements; Gateway Sign (405 and 22) implementation; Public Fireworks show on July 4th; and, Beach Streets. Additionally, the City Manager will consider other major needs eligible under Measure A, and will include a comprehensive list of recommended projects in the February year-end report for City Council consideration.

While the financial report primarily discusses the General Fund, pertinent information for other funds are highlighted where applicable. The City has 126 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. 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, which comprises approximately 17 percent of the City’s Adjusted Budget as of July 31, 2021.

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

YEAR-END BUDGET PERFORMANCE REPORT

General Fund and Uplands Oil Fund Overview

The FY 21 Budget was developed during the summer of 2020 when the City was first grappling with the realities of the pandemic, along with other unexpected global events including civil unrest, that exacerbated the strain on the City’s financial situation. The City was

in a recession period with unprecedented levels of uncertainty when developing projections for the FY 21 budget. FY 20 ended the year with a General Fund shortfall of \$21 million, requiring the City to dip into both its operating and emergency reserves, something that had not been done in a very long time. For FY 21, the City was facing a projected \$30 million structural shortfall and adopted a budget with both structural and one-time solutions, including savings from employee furloughs and an estimate of up to \$8 million additional drawdown of reserves for both structural and one-time needs.

In spring of 2021, the City received news of federal and other grants that became the basis of the Long Beach Recovery Act, initially presented to the City Council in March 2021. This provided funds to eliminate the employee furloughs for half the year, replenish reserves, and temporarily cover any FY 21 and FY 22 shortfalls (in addition to providing significant funds to invest into economic recovery and community health for businesses and residents).

Current projections now show a small General Fund operating surplus of approximately \$0.5 million. This is a significant improvement to the adopted budget projection that anticipated a shortfall of \$8 million. As mentioned earlier, there are still significant variables that may swing projections into an operating deficit or even a greater operating surplus. Some of these variables include, but are not limited to: the accuracy of department projections with many factors complicating projection analysis, such as furloughs that were initially budgeted and then partially reversed; challenges in projecting pandemic-related costs that might be incurred; potential FEMA-eligible reimbursements that are not yet known; new expenses related to projects approved by the City Council without a funding source; limited data available for revenue projections due to timing delays of actual revenue receipts; and, ongoing uncertainty regarding pandemic recovery or potential relapse with the Delta variant. For perspective, it should be noted that the level of projection accuracy being analyzed here represents a very small percentage of the General Fund budget. For instance, a swing in projections of \$1 million would be less than one-fourth of 1 percent of the budget.

The projections are showing a small operating surplus, bolstered by some key revenue streams performing much better during the pandemic than was anticipated, including Sales Tax and Oil revenues. On the expenditure side, while there are some departments that are projecting overages, collectively, total expenditure projections are less than budget. There are also some planned and required reservations, including the Charter-required Measure B stabilization fund and the Court-required set aside for the Measure M litigation. Overall, this reflects an improvement to the bottom line from the original anticipated \$8 million shortfall, and if an operating deficit still occurs, it would be covered by Long Beach Recovery Act funds.

The projected FY 21 General Fund and Uplands Oil Fund sources and uses are summarized in Table 1 below:

Table 1: FY 21 Projection - General Fund and Uplands Oil Fund		
	(in \$ millions)	
	General Fund	Uplands
Beginning Funds Available (10/1)	\$ -	\$ -
Sources		
Revenues	601.99	11.16
Other Sources: (Planned release of reserves, other adjustments)	50.19	-
Total Sources	652.18	11.16
Uses		
Expenditures	(630.20)	(9.53)
Other Uses: (e.g. encumbrances, reserves for carryover, etc.)	(8.12)	(1.63)
Other Uses: Measure A Reserve/ For Future Use	(13.40)	-
Total Uses	(651.72)	(11.16)
Ending Funds Available (9/30/21)	\$ 0.46	\$ 0.00

The projected FY 21 General Fund sources total \$652.2 million, comprised of \$602.0 million in revenue and \$50.2 million in “other sources,” largely made up of the release of reserves for one-time expenditure purposes that were authorized (budgeted) in FY 21. The projected FY 21 uses total \$651.7 million, comprised of \$630.2 million in expenditures; \$8.12 million in other uses, including reservations of funds for encumbrances or potential roll over Council District Priority Funding, and potential citywide adjustments from indirect cost plan and FEMA-related transfers; and, \$13.4 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, they are not included in the General Fund funds available calculation in the table above; instead, they are discussed in a separate Measure A section later in this report. The projected FY 21 Uplands Fund sources and uses are both \$11.2 million, with \$1.6 million in other uses representing the annual set aside for future oil well abandonment.

The following sections provide additional information on these General Fund sources and uses.

General Fund - Sources of Funds

Overall, General Fund revenues are projected to be higher than projected in the Adjusted FY 21 Budget by \$15.7 million. There are various key revenue streams that are projecting shortfalls due to the COVID-19 pandemic, including Transient Occupancy Tax (TOT), which is recovering slower than previously projected in the budget, and Parking Citations and Emergency Ambulance Fees, where revenue collections are anticipated to be impacted by pandemic-relief efforts. However, despite these projected shortfalls in key areas, other revenue streams such as sales tax, property tax, cannabis revenues, Public Works permit fees, and oil revenue are projected to outperform the FY 21 budget and will help mitigate the losses.

Major revenue loss projections

- Transient Occupancy Tax (TOT), including revenues generated from the additional 1 percent from Measure B, is projected to end the year at \$12.8 million. This is \$2.7 million under budget, which was already set lower to account for the pandemic. When the budget was developed, it was projected that TOT activity would begin to partially recover throughout FY 21, assuming that conventions and business travel would resume (albeit limited) as pandemic-related travel and social distancing restrictions were lifted. FY 21 estimates based on data covering October 2020 through June 2021 reflect a slower than anticipated recovery. Long Beach TOT continues to be an extremely volatile revenue source and is heavily dependent on conventions and business travel. Staff will continue to closely monitor and evaluate performance as more information is made available.
- Parking Citations actuals are projected to end the year at \$14.2 million, \$3.8 million less than budgeted. Although regular parking citation payments, penalties, and collection processes resumed on July 1, 2021, actual FY 21 performance continues to be 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 continued citywide relief efforts, the FY 21 projection includes reduced revenues related to the Street Sweeping Relief program, which allows residents experiencing COVID-19 hardships to appeal street sweeping citations and request a waiver for citations issued between May 18, 2020 and June 30, 2021. While this program does not impact non-street sweeping violations, revenue generated from street sweeping violations makes up the majority of parking citation revenue - approximately 66 percent of total parking citation revenues to the General Fund.

In addition, the City also provides the opportunity for customers to enroll in COVID-19 Relief Payment Plans to avoid incurring late fees and penalties. While this program and the City's other standard and indigent payment plan programs provide customers flexibility in paying citation fines, it is anticipated that this will impact the timing of collections, where revenues due in FY 21 may be collected in FY 22.

- Emergency ambulance fee revenues (including First Responder Fees) are projected at \$14.3 million, \$1.0 million less than budgeted. Although the City is experiencing a gradual increase in transport activity compared to the prior year, the projected shortfall in FY 21 reflects an increase in the number of non-insured customers likely, non-transports, and less collection efforts, all as a result of the COVID-19 pandemic.
- In addition to certain major revenue sources projected to underperform in FY 21, revenue streams across various City departments are anticipated to come in under budget by a total of \$10.6 million. This amount is comprised of multiple revenue shortfalls that have been impacted heavily by the pandemic, such as: \$2.7 million in utility late fees, which are suspended as part of pandemic-relief efforts; \$1.3 million for reduced demand of police services for special events; and, \$2.3 million from parks programs and facility rentals. These projections, based on data as of May, may change with updated data and will be monitored as part of year-end review.

Better than anticipated revenue projections

- Property tax revenue is projected to end the year \$9.4 million higher than budget. Better than anticipated revenues in FY 21 are largely driven by the City's share of property tax revenues from the former redevelopment agency (RDA) project areas. The improved revenues from former RDA project areas are estimated to be comprised of the City's share of prior year adjustments and supplemental taxes in the amount of \$1.5 million, a one-time correction of revenue of \$3.3 million, and approximately \$1.4 million from valuations higher than assumed in the FY 21 budget. Actual revenues also continue to be impacted by annual valuation increases experienced by the City from large development and improvements. Staff is working closely with its property tax consultant to evaluate and determine the exact drivers for the higher revenues. However, confirmation and more detailed information will be available following a review of 2021 revenue data from the County of Los Angeles anticipated for Fall 2021.
- Sales and Use Tax (non-Measure A) is projected at \$75.0 million, which is \$8.2 million higher than budget. This projection is based on the most current data available, covering three quarters of the City's fiscal year, with third quarter data (received in August) showing a sharp increase over the first two quarters. It is uncertain whether this increase will be sustained in the fourth quarter; however, based on previous seasonal trends, the current projections assume a similar performance to the third quarter, making the estimates much higher than budgeted. In general, the FY 21 budget assumed the City would recover more slowly from pandemic-related losses, with full recovery to pre-pandemic levels in FY 22. Higher revenues are due to increases across several sales tax categories including Autos and Transportation, as well as Food and Drugs, which includes much higher cannabis sales. In addition, the City continues to receive a steady increase in its share of countywide pool revenues, driven by the increase in online sales tax activity and AB 147, which ensured sales and use tax collection from online sales. Finally, FY 21 estimates also include one-time use tax revenues from various development projects occurring in the City.
- Cannabis business license tax and fee revenues are budgeted at \$7.9 million, and are anticipated at \$9.2 million by year-end, excluding fees for the cannabis equity program - outperforming budget by \$1.3 million. The better than budgeted projection is primarily due to much higher average dispensary tax payments due to a surge in cannabis sales first experienced in FY 20 during the pandemic. Further, as part of the Adopted FY 21 budget actions, the City Council approved the extension of business hours for dispensaries by two hours. The FY 21 estimates do assume that sales have stabilized at a higher level, which will continue into FY 22. There is no information available for an estimate of the impact of the increased operating hours put in place by the City Council on sales and tax revenues.
- Public Works permit revenue for curb, walkways, and excavation permits is projected to end the year at \$5.5 million, which is \$2.7 million above budget. The higher revenue is attributed to increased permit volume with the increase to curb, walkways, and excavation permits attributed largely to fiber optic installation by multiple wireless providers throughout the City.

The General Fund Group receives an annual transfer from the Uplands Oil Fund of net oil revenue from land-based oil wells in which the City has an interest. In FY 21, the transfer is estimated at \$7.5 million, which is \$2.8 million higher than budget. The FY 21 budget was developed following the unprecedented drop in oil prices in FY 20. Due to uncertainty, the budget assumed the price of oil at \$35 per barrel. However, in FY 21 the actual price of oil is trending much higher, and thus an average of \$58 per barrel is assumed for the entire year, which allows for higher than budgeted net transfers to the General Fund Group. It is important to note that less than 50 percent of the revenue for Uplands is associated with the sale of oil. Over half the revenue received by the City is from administrative overhead fees associated with Tidelands oil production (not the sale of Tidelands oil).

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

The projection for Other Sources is about \$50.2 million in FY 21. The majority of these other sources are comprised of the release of reserves set aside in FY 20 to fund City Council-approved expenditures that were anticipated to occur in FY 21, such as the FY 20 encumbrances to be paid in FY 21, carryover of one-time funds from previous allocations that were not completed, carryover for Council District Priority Funds, and most significantly, \$25.6 million carryover for CARES Act funding. Other Sources also include an adjustment of negative \$2.8 million related to revenues for wildland fire and Community Hospital maintenance cost reimbursements that are expected to be received in FY 21 but were created in FY 20 for the calculation of budgetary funds available. Lastly, this includes the release of \$7.8 million in Measure A reserves planned for use in FY 21.

General Fund - Uses of Funds

Expenditures by Department

Based on departmental analysis using data as of May 31, 2021, the General Fund expenditure estimates, collectively, are projecting to end the year under budget by approximately \$9.1 million. At the time of the projection update and analysis, a few departments were showing year-end estimates that could be over budget, as described below. This will be evaluated again at year-end and any necessary budget adjustments will be requested at that time. There are only two departments showing large discrepancies:

- Economic Development - The department is projecting an overage of approximately \$1.1 million due to unfunded costs associated with the maintenance or beautification of City-owned properties, general administration of department operations, and the transfer of non-reimbursable expense related to maintaining grant-funded activities from the Community Development Grants Fund to the General Fund. In addition, the department anticipates unbudgeted expenses in FY 21 for the Business License, Taxes and Fee Grant

Program authorized by the City Council on November 17, 2020. The department will seek an appropriation increase based on actual program expenses at year-end to offset the grant program, with funding from drawing down General Fund funds available or reserves.

Parks, Recreation and Marine - At the time of this projection analysis, the department was projecting an overage of approximately \$680,000 due to animal medical care costs associated with the Compassion Saves Program. However, the department is anticipating offsetting these costs with a one-time use of trust funds designated for this purpose.

The Police Department's projected savings is \$1.4 million compared to budget. This projection does not include the Long Beach Safety Recovery Plan approved by the City Council on July 20, 2021, and anticipated to be funded by overall improved General Fund projections. The projected savings will be used to cover unbudgeted costs related to completing the Public Safety Parking Garage and the Crime Lab and Property Warehouse Leases. The analysis at this time indicates that the back-to-back Police Academies scheduled for FY 22 have sufficient funding from normal attrition savings within FY 22 and funding does not need to be set aside in FY 21. However, there are many factors that can change the situation, and this will be evaluated again at year-end.

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

Other Uses

The FY 21 projection for Other Uses of funds, not related to Measure A, totals \$8.1 million and is comprised of various reservations, with the most significant being the \$6 million set aside required for the Measure M litigation, as well as Measure B stabilization set asides for Measure MA and Measure B-TOT, and for the roll-over of Council Districts' operating surplus to augment Council District Priority Funds in accordance with normal budgetary practice. Included in Other Uses are placeholders for citywide estimates that could impact the bottom line, such as savings of \$1.5 million of potential costs that could be deemed eligible for FEMA reimbursements, as well as a hit of \$1.5 million from potential adjustments to the citywide indirect cost plan charges.

Measure A-related items include the reservation of \$2.0 million of planned funding to be set aside to complete the out-year plan; the set aside of \$10.7 million to back out the impact of any Measure A surplus from the analysis of the General Fund; and \$0.7 million for the Measure B stabilization fund for Measure A. Additional information on Measure A is provided in the next section.

Measure A Revenues and Expenditures

The Adopted FY 21 Budget initially projected Measure A revenues at \$62.7 million. Therefore, the budget included the same level of uses to fund priority public safety maintenance and restorations, capital improvement projects, public safety-related one-times, Community

Hospital, funds for the administration of the Measure A tax, set aside for the Measure B stabilization fund, and planned set aside for future projects to account for cash flow timing.

The Adopted FY 21 Budget was developed in June 2020 during the beginning of the coronavirus pandemic and economic recession, and when there was limited data and much uncertainty as to the specific impact the pandemic would have on City revenues, including those from Measure A. Factoring in this uncertainty and working with our sales tax consultants looking at industry trends and projections, FY 21 Measure A revenues were budgeted at \$62.7 million, an amount far lower than what had been previously projected for the fiscal year prior to the pandemic. For context, FY 20 Measure A revenues ended the year at \$62.2 million, approximately \$4 million lower than FY 19 actuals.

As noted in the revenue section above, current projections are showing Measure A revenues ending the year at \$73.7 million, close to \$11 million higher than budgeted. Like sales and use tax, higher revenues are due to better than projected performance across several categories, including Autos and Transportation and Food and Drugs, as well as one-time use tax revenues from development projects occurring in Long Beach. Additionally, estimated Measure A revenues include higher than budgeted revenues from AB 147, which ensures that online retailers collect and remit Measure A along with Sales and Use Tax. The projection is based on three quarters of data, with the third quarter (received at the end of August) jumping to levels higher than the first two quarters. While it is uncertain whether the fourth quarter will sustain this increase, similar to sales tax, the current projections are assuming that the fourth quarter will match the third quarter's higher performance.

In terms of uses, various mid-year budget adjustments approved by the City Council have increased the budget to almost \$72 million to account for FY 20 surplus funds that were allocated for FY 21 Measure A projects, as well as transfers from CIP funds back to General Fund/Measure A, mainly to support the land acquisition of Fire Station 9 and a Fire Engineer Academy. In addition, the Measure B reservation projection is slated to increase to \$706,000 to reflect the projected increase in Measure A revenues. Lastly, an allocation of \$800,000 in funds have been set aside to help fund the City's FY 22 ADA sidewalk and curb ramp compliance requirements.

Table 2 below provides a summary of these revenue and expenditure projection updates, resulting in a potential year-end surplus of \$10.1 million. Actual results will be known in February, by which time it is expected that a review of potential uses and priorities of the City Council will have been done so that the City Council can best determine how any surplus may be used. It is not yet known how much of the increased revenue will be part of a pattern continuing into FY 22. While this is very good news, it is recommended that any allocation of these potential surplus funds be considered once numbers are final and in the context of a full review of one-time needs and priorities (i.e., infrastructure bond, funding for infrastructure, public safety support, etc.).

Table 2: Summary of FY 21 Measure A Budget and Year-End Projection

	FY 21 Adopted	FY 21 ETCs	Net Impact to Fund Projected
Measure A Revenue	\$ 62,688,149	\$ 73,713,678	\$ 11,025,529
Planned Release of FY 20 Surplus ¹	-	5,524,444	5,524,444
Transfers Back from Capital Improvement Projects (CIP)		2,906,009	2,906,009
Measure A Expenditures	\$ (60,083,451)	\$ (68,513,905)	\$ (8,430,453)
Measure B Reservation ²	(626,881)	(737,137)	(110,255)
Reservations per Out-year Plan	(1,977,816)	(1,977,816)	-
Additional Reservations ⁴		(800,000)	(800,000)
FY21 Year-End Surplus (Projected)	\$ 0	\$ 10,115,273	\$ 10,115,273

¹Represents funding set aside at the end of FY 20 from year-end surplus of 5,283,189 for Council approved new projects and \$241,255 for projects still in progress and not fully spent.

²Represents \$2,250,000 for Fire Station 9 Land Acquisition, \$165,600 for rent and utility costs for temporary Fire Station 9, and \$490,409 for Fire Engineer Academy transferred from CIP to departments' budgets for utilization.

³Measure B is projected and reserved as a use of structural Measure A revenue allocations. It will show up as a reservation of funds, not as an expense.

⁴Reservation to support the infrastructure funding necessary to be in compliance with legal ADA obligations related to sidewalk and curb requirements.

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.

Civic Center Fund Group

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.

Current FY 21 projected costs include unbudgeted expenses from increased security provided by JCI, security cameras for Old City Hall, and the amended Memorandum of Understanding (MOU) with the Port. The MOU with the Port was approved on January 6, 2020, which included costs for FY 19, FY 20, and FY 21. These costs include payment to the Port for unbudgeted easement, parking facility, and data room costs located in the Port building. The total costs paid to the Port in FY 20 and FY 21 for the data room, parking facility, and easement total \$1.9 million. Revenue to offset these expenses includes \$373,500 received from the Port and \$895,600 from the Department of Technology and Innovation. Additionally, Civic Center citywide expenses for overhead costs were higher than budgeted by \$559,057 in FY 20 and \$410,242 (estimated) in FY 21. 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.

Gas Fund Group

The Gas Fund Group provides full natural gas utility services to residential and business customers in Long Beach and Signal Hill. In 2021, the Gas Fund is projected to spend \$7.0 million on gas pipeline capital improvements, which was lower due to COVID restrictions. Revenues from gas operations are projected to be up 9 percent compared to FY 20. This increase is attributed to continued strong demand due to cooler weather. Due to above expected revenue performance, the Gas Fund Group is projected to be able to transfer an additional \$2.2 million above the budgeted \$12.1 million, for a revised total transfer to the General Fund of \$14.3 million. Year-end revenues will determine the final transfer amount, which will be within the 12 percent maximum established by the City Charter through Measure M.

Health Fund Group

The Health Fund Group was established to account for funds restricted for public health purposes. The fund group accounts for revenues and expenditures associated with federal, State, local and private grants, health permits, and other fees. In FY 21, the fund experienced an influx of COVID-19 response grant dollars from various federal and State agencies for direct COVID-19 response and recovery and resiliency efforts, supplementing existing budget used to support programs focused on retention of existing services that promote health and wellness and provide protection from disease and injury. Since the City's declaration of a local health emergency on March 10, 2020, the Health Department has reallocated and added surge staffing of approximately 248 people to respond to the COVID-19 pandemic within the Health Department, at the Emergency Operations Center (EOC), and at the Joint Information Center (JIC). Health Department staff have mobilized to lead and provide support for every facet of the City's emergency response, including the Call Center Infoline, testing, surveillance and site investigations, managing a 24-bed quarantine and isolation facility, temporary congregate homeless shelters, a 133-room Project Roomkey motel, and near daily press briefings and liaising with the State, County and other public health agencies, among many other responsibilities to mitigate the threat of the virus and ensure the health and safety of Long Beach residents.

The COVID-19 pandemic has adversely impacted and further strained City coffers in the attempt to respond to this public health emergency. Fortunately, federal relief by way of the Coronavirus Aid, Relief, and Economic Security (CARES) Act and American Rescue Plan will help ease some of the costs resulting from COVID-19. Federal funds awarded to the City include additional funding to enhance detection of COVID-19 from the Centers for Disease Control (CDC). The City will receive \$26.7 million of pass-through funding from the CDC to the County to increase the City's capacity to provide testing, surveillance and contact tracing, purchase test kits, and conduct laboratory testing and services. Also, the CDC provided direct

funding to the City to focus on health and wellness impacts among populations most impacted by COVID-19, including race/ethnic communities and those living in poverty. The City was awarded \$7.7 million to: (1) Develop new mitigation and prevention resources/services to reduce COVID-19-related disparities among high-risk populations through collaborations with critical partners that have expertise implementing culturally affirming programs; (2) Improve data collection and data infrastructure to ensure data modernization; and, (3) Expand infrastructure support to enhance health equity among communities that are higher risk and underserved.

The Department of Housing and Urban Development (HUD) awarded funds to prevent, prepare for, and respond to the COVID-19 among individuals and families experiencing homelessness. In the first round of funding, the City received \$1.8 million; in the second round, the City received \$13.5 million for a total of \$15.3 million. Funding from the first round was primarily used for the operations of the shelters erected for COVID-19 response and prevention, while the second round of funding will be used to respond to COVID-19, including funding the continuation of non-congregate sheltering, outreach, prevention, and rapid rehousing. The American Rescue Plan Act (ARPA) administered through HUD's HOME Investment Partnership Program (HOME) will bring additional funding to assist individuals and families who are homeless, at risk of homelessness, and other vulnerable populations. The City is expected to receive \$10.2 million through this funding source. Funding will be used for supportive services, which will include the purchase of two Mobile Outreach Stations, operational costs of the REACH program, and the purchase of 50 Modular Shelter Units. The funding will also go to emergency shelter services, which will entail case management services assisting individuals and families eligible for HUD's Emergency Housing Vouchers.

The City was awarded nearly \$16.7 million for Project Homekey, a Statewide program that seeks to purchase and rehabilitate housing including hotels, motels, vacant apartment buildings and other properties, and convert them into permanent, long-term housing for people experiencing or at risk of experiencing homelessness. The City purchased the property located at 1725 Long Beach Boulevard in November 2020 and selected the Illumination Foundation to manage onsite operations in February 2021. The facility is operating as interim housing while the City identifies additional funds for full conversion to permanent supportive housing. This project is filling a crucial gap by offering more pathways to permanent housing for more people experiencing homelessness.

On June 29, 2020, Assembly Bill (AB) 83 was signed into law by Governor Gavin Newsom, authorizing funding for the Homeless Housing, Assistance and Prevention Round 2 (HHAP-2) program. HHAP-2 is a \$300 million block grant program designed to assist people experiencing homelessness to move into safe, stable housing, with a focus on rehousing individuals currently living in Project Roomkey (PRK) sites. Total funding for the City was awarded in the amount of \$3.3 million. This funding will be used to operate the City's Youth Shelter and to fund a portion of the operational costs for PRK, as well as to support the development and operation of the City's new Navigation Center. Additionally, funding will support the hiring of Case Managers to be stationed at City libraries to provide individuals

with resources and linkages to services.

Although short-term, one-time funding opportunities became available as a result of the pandemic, and the pandemic and redirection of efforts have made it difficult to provide non-COVID-related grant funded services and to maximize grant reimbursement for non-COVID-related activities. This may put at risk some future funding awards that are based on FY 21 performance. Additionally, the Health Fund Group's permits and fees revenue base is negatively impacted by pandemic-related temporary businesses closures due to the Safer-at-Home order that was lifted as of June 15, 2021. A significant draw down on cash did occur in the fund during FY 20 but reimbursements from FEMA are expected to restore some of the funds in FY 21 and result in positive budgetary funds available. Additional offsets that might be possible from FEMA reimbursements are currently being evaluated and will be updated for year-end analysis.

While internal stressors such as growing capital and infrastructure needs, rising technology and benefit costs, and increased restrictions placed on grants put pressure on the fund's resilience, staff continue to work to identify strategies to address these ongoing challenges to ensure services levels are maintained.

Insurance Fund Group

The Insurance Fund Group is an Internal Service Fund that accounts for and finances all risk management-related and insurance activities citywide. The City uses self-insurance and purchases excess insurance coverage in the open market to protect against large losses. The fund is primarily supported through charges (premiums) to City departments and funds based on overhead rates and allocation of risk management costs, recovery fees, and reimbursements received on claims expense and other expenditures.

The Worker's Compensation program, as required by law, offers health and lost wage benefits to employees at no cost if an employee is injured or becomes ill due to job-related issues. In FY 21, the Worker's Compensation recovery allocation is \$33.3 million. This amount is being recouped by charges of premiums to departments. The charges have increased from prior years due to projected increased costs based on an actuarial study.

The General Liability program accounts for the City's settlements, judgements, and defense for all liability related activities. In FY 21, General Liability charges to be collected from departments are \$24 million. These charges have increased from prior years due to projected increased costs based on an actuarial study.

General Liability costs for settlements and judgments have been high in recent years, resulting in the depletion of cash in the General Liability Insurance Fund. The large settlements and losses are in multiple departments and appear to be typical of high Jury settlements across the country, not an issue unique to Long Beach. In addition, costs for property insurance are rising significantly, in part due to some losses the City has incurred in recent years. In FY 20, there were \$15.7 million in cash settlements and judgment payouts.

As a result, the budgetary funds available for the Insurance Fund Group was a negative \$1.8 million in FY 20. In FY 21, with the increase in charges, budgetary funds available is anticipated to stabilize and improve. This will be tracked as part of FY 21 year-end analysis, which will help inform future charges to departments.

Refuse and Recycling Fund Group

The Refuse/Recycling Fund receives approximately 95 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 21, with the COVID-19 pandemic ongoing, the increased amount of refuse tonnage collected and increased costs associated with refuse collection contributed to expenditures exceeding revenues.

In FY 21, the Refuse Fund's projection of expenditures started the year under budget due to the number of vacancies in the Environmental Services Bureau (ESB); however, expenditures have been outpacing revenues. While the local stay-at-home health order has been lifted, there has still been a significant increase in refuse tonnage collected over previous years. In addition, ESB implemented an organics pilot program in FY 21 to prepare for State-mandated organics collection, SB 1383, set to begin in January 2022. The pilot program was offered to select commercial accounts so that ESB could gauge how best to rollout the program citywide.

ESB forecasts that the Refuse Fund balance may be exhausted in the next few years without any rate adjustments, as current revenues are not supporting costs. In addition to escalating costs, State-mandated organics collection programs are expected to substantially impact the fund and increase costs. As a result of unfunded State mandates and increased costs, ESB has begun a Cost of Service study. The study will set rates for refuse, recycling, and organics collection at the true cost of service. Staff estimate the recommendations will be brought to the City Council in early FY 22.

Special Advertising and Promotions Fund Group

The Special Advertising and Promotions (SAP) Fund Group is a Special Revenue Fund dedicated to the specific purposes of "advertising, promotional and public relations projects calling attention to the City, its natural advantages, resources, enterprises, attractions, climate and facilities" according to the Long Beach Municipal Code. Transient Occupancy Tax (TOT), also known as the hotel bed tax, collected by Long Beach hotels and short-term rentals is the largest source of revenue for the fund. The current tax rate is 13 percent of the nightly room rent - 7 percent of which is allocated to the General Fund Group and 6 percent to the SAP Fund Group. Other sources of revenue include studio filming permits and special events licenses, permits and fees.

TOT revenue has been dramatically impacted by the pandemic, but is anticipated to start recovering as we end FY 21 and continue to improve into FY 22. However, even if tourism, filming, and special event permitting begin to rebound, TOT revenues have historically had a slow recovery after a downturn and are not anticipated to fully recover until FY 24. As a result, based on current projections, the SAP Fund Group is projecting to rapidly draw down its funds available and reserves. This fund could have all its reserves depleted by FY 22 or FY 23. To mitigate this rapid drain on funds available, it is part of the Long Beach Recovery Act plan to replenish the draw down on budgetary funds available that occurred in FY 20 and anticipated to occur in FY 21. The current projections are anticipating a need of about \$8 million to replenish the fund over the two fiscal years, but this will be monitored as we close out FY 21. The City will need to very closely monitor the situation and maximize any opportunity to generate savings and/or preserve funding.

Tidelands Area Fund Group

The Tidelands Area Fund Group is comprised of the Marina and Queen Mary funds. Revenue for these funds is generated from various activities specific to each fund. The Marina Fund supports the public dock areas and revenue is generated through recreational and commercial use of marina property. Fees include dock/slip fees, restaurant, retail, and grounds rental leases, concession fees, park use fees, and special events and filming. The Marina Fund revenues are pledged for the repayment of dock and related area improvements. The latest large-scale improvements (replacement of most docks) were funded by Marina Revenue Bonds, Series 2015. The Alamitos Bay Marina dock improvements were completed in April 2018.

The Queen Mary Fund tracks the revenues and expenditures associated with the Queen Mary ship. The Queen Mary was closed during FY 21 as a result of the pandemic. Until the recent bankruptcy of the lessor and Queen Mary operator, Urban Commons, revenue was generated through rent from the Queen Mary master lease, which includes Queen Mary base rent, sublease rent from Catalina Express, and passenger fees originating from the Carnival Cruise passengers' lines that passed through the Queen Mary operator (in accordance with the lease). These revenues were anticipated to be sufficient to offset debt service on bonds issued to help fund urgent improvements to the Queen Mary. Since FY 20, Carnival Cruise revenues have been greatly impacted by the COVID-19 pandemic (cruises were temporarily discontinued until August 2021). During this time, due to bankruptcy proceedings, the City did not receive the limited Carnival Cruise 2020 revenues and did not receive all the 2021 rent payments from Urban Commons. As a result, revenues in FY 21 are not enough to pay the full debt service on the Queen Mary 2017B bonds. The amount needed from other Tidelands sources in FY 21 is expected to be less than \$2.4 million. The lease for the Queen Mary has effectively been terminated as a result of the Urban Commons bankruptcy and the City is currently planning emergency repairs to the Queen Mary in preparation for reopening in FY 22. A total of \$2.5 million has been included in the Adopted FY 22 Budget for these repairs, to be funded by setting aside funds in the Tidelands Operating Fund Group at the end of FY 21. The anticipated operating shortfall in running the Queen Mary is also planned to be supported

by the Tidelands Operating Fund Group. It is currently anticipated that this will not be a permanent problem, but the situation will be closely monitored, particularly with the recent bankruptcy declaration of the Queen Mary operator. The return of the Queen Mary and adjacent properties to City control presents opportunities for increased revenues. For example, under the previous operating agreement with Urban Commons, significant revenues related to special events, filming and parking were retained by the operator. Such revenues could be recognized by the City in future years to help offset costs.

Tidelands Operating Fund Group

Tidelands funds are customarily combined under the umbrella of Tidelands Operating Funds. To facilitate understanding and transparency of the status of the funds, the FY 18 Budget separated out the Tidelands Operating Fund from the other Tidelands Area Funds (Marina, Queen Mary, and the Rainbow Harbor Area funds). In FY 20, the funds were further refined with parking-related operations, previously in the Rainbow Harbor Fund, being grouped under the Tidelands Operating Fund Group. The Tidelands Operating Fund Group, which primarily funds operations along the beaches and waterways, is heavily dependent on base oil revenue and an annual transfer from the Harbor Revenue Fund to support Tidelands operations, including lifeguards, waterfront maintenance, the Convention Center, and Aquarium debt payments.

FY 21 projections include a projected \$18.8 million transfer from the Harbor Revenue Fund (a transfer of 5 percent of the Harbor's gross revenues is allowed by the City Charter) and a projected \$10.0 million transfer from the Tidelands Oil Revenue Fund Group, based on an average price of \$58 per barrel for the year. The fund contributes to the Aquarium, Rainbow Harbor (Queensway Bay), and Pike Parking Garage debt and also receives revenues from profits of, or makes up revenue losses of, the Convention Center (profit and loss excludes utilities, which are paid separately by the Tidelands Operating Fund Group). Current projections for the fund are improved by better oil prices and a net profit from the Convention Center due to the use of the Convention Center to provide emergency shelter for migrant children funded at full cost recovery by the federal government. However, it is not yet known whether the year will end with a slight surplus or a need to draw down reserves. In general, the projected relatively high oil prices and continued healthy Port operations are all expected to help the Tidelands Operating Fund in the longer-term.

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 of some portion of net income. It is funded through towing fees, charges for vehicle storage, 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 as well as not transfer the planned \$1 million transfer to the General Fund. Even with these cost reduction measures, the Towing Fund Group ended FY 20 with a net annual loss, and ending the year with a budgetary funds available of about \$269,000.

For FY 21, fees were raised as part of the Adopted FY 21 budget to help cover costs. However, the continued COVID-19 pandemic and response in the first half of FY 21 continued revenue shortfalls. A revenue rebound in the third quarter of FY 21 plus continued pressure to reduce expense is hoped to lessen the financial impact to the fund, but it is still anticipated that expenses will outpace revenues and funds available will need to be drawn down to cover expenses at year-end, potentially even bringing the fund into the negative. Expense projections currently do not assume the budgeted \$1 million transfer to the General Fund.

For FY 22, Towing operations are anticipated to be at pre-pandemic levels, provided normal tow operations continue. If there are no residual pandemic impacts, restored revenues plus continued pressure to keep expenses low could bring the fund balance into the positive. Staff will continue monitoring this fund as well as its ability to make any General Fund transfer in FY 21 and FY 22, although it does not seem likely for FY 21.

Uplands Oil Fund Group

The Uplands Oil Fund Group accounts for oil revenue outside the Tidelands area and all costs and revenues for the City's proprietary oil interests, including accumulating reserves for the City's portion of oil well abandonment and site clearance liabilities. Revenues are derived from participation in oil operations and oil production overhead fees received by the City as Unit Operator for the Tidelands Oil operations. Presently, over half of the revenue in this fund is from overhead fees and less than half is from oil sales. The FY 21 Budget assumed a price of \$35 per barrel, but it is anticipated that the average price in FY 21 will be \$58 per barrel. It is projected that the Uplands Oil fund will be able to transfer \$7.5 million to the General Fund Group, which is \$2.8 million higher than budgeted. These projections include the needed set aside for oil field abandonment funding.

Note About the Unusual Nature of this Report

This is the first and only Budget Performance Report for FY 21. There will also be a year-end report for FY 21, anticipated during the normal February timeframe. In the past, there would normally have been several periodic performance reports throughout the year. These regular reports have become irregular and infrequent due to an unprecedented series of issues that have adversely impacted the capacity of budget and accounting staff both in Financial Management and in the operating departments to address normal budgetary and financial operational needs. This has been caused by the extremely unusual and voluminous accounting of COVID expenses and funding and the ongoing diversion of staff time to issues such as the pandemic crisis, LB COAST, and other high priority citywide projects, including changes to the budget adoption process in both FY 20 and FY 21. For FY 22, staff will be

looking at whether there is the ability to return to more frequent performance reports. However, whether formal overall performance reports are produced or not, there will still be reports to the City Council of major issues (both positive and negative) as warranted.

This matter was reviewed by Deputy City Attorney Amy R. Webber on September 13, 2021.

City Council action is requested on October 12, 2021, but there are no pressing timing considerations.

[Fiscal Impact]

Approve recommendation.

[Enter Body Here]

KEVIN RIPER
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER