411 West Ocean Boulevard
Long Beach, CA 90802

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Recommendation to receive and file the Fiscal Year 2017 Second Budget Performance Report. (Citywide)

This report includes information on the City's Fiscal Year 2017 (FY 17) budget performance through May 31, 2017, for all funds.

Summary

As of May 31, 2017, no significant concerns have been identified with the City's restricted funds, and any funds that are showing year-end estimates that exceed budgeted appropriations will be resolved with planned budget adjustments that will be presented to the City Council later in FY 17. However, General Fund revenues are not coming in as anticipated. This is primarily due to a large unplanned one-time drop in residual property tax revenues as described below. As mentioned in the first performance report on April 4, 2017, the City is taking a precautionary approach to managing the budget by requesting City Manager Departments to save 0.5 percent of their total FY 17 General Fund budget, less any one-times, due to the various uncertainties. In light of the revenue shortfall, departments have been asked to save additional funds above the original 0.5 percent, but the additional department savings are not factored into the year-end estimate at this time. If savings are not sufficient, the City may need to use the operating reserve to end the year in balance. It is the City's goal to manage expenses to cover any revenue shortfall. Therefore, the City could ultimately end the year with a small surplus. This report summarizes the General Fund performance, and provides additional details on the status of other funds. Please see Attachment A for a breakdown of citywide expenditures by fund.

General Fund and Uplands Oil Fund Overview

Based on current estimates as of May 31, 2017, it is anticipated that the General Fund will end the year with zero funds available and Uplands Oil Fund with $0.3 million. As mentioned in the March 14, 2017 Fiscal Outlook, a year-end surplus for any one-times is not expected due to certain revenue streams coming in lower than anticipated, the medical marijuana implementation costs, and labor negotiation costs. The estimated FY 17 sources and uses are summarized in the table below and described in further detail in the subsequent sections.

General Fund and Uplands Oil Fund Estimates f FY 17 Performance as of May 31, 2017		
	($ in millions)	
	General	**Uplands**
Beginning Funds Available (10/1)	**3.1**	**0.8**
Sources		
Revenues	458.7	7.3
Other Sources (Release of funds includes rel from Operating Reserve)	13.1	-
Total Sources	**471.8**	**7.3**
Uses		
Expenditures	(475.3)	(7.8
Other Uses (i.e. carry-over, reservations)	(0.5)	
Total Uses	**(475.8)**	**(7.8**
Ending Funds Available (9/30)	**0.0**	**0.3**

General Fund - Sources of Funds

<u>Revenues</u>

As of May 31, 2017, the overall General Fund revenues are projected to come in lower than expected. While key revenue streams such as Utility Users Tax and Franchise Fees continue to perform below budgeted levels, the FY 17 overall projected revenue shortfall is largely due to a $5.4 million decline in revenues from the Redevelopment Property Tax Trust Fund, following the dissolution of the Redevelopment Agency (RDA). This decline is due to successful property tax appeals by companies in the Harbor area and results in a one-time large revenue impact, as well as a smaller ongoing revenue reduction. Partially mitigating this shortfall, are higher than estimated property tax revenues, including activity from prior year secured property tax generated from the countywide payments on prior year delinquencies, as well as positive growth in property taxes resulting from assessed valuations continuing to rebound from the recession.

In addition, the price of oil is currently higher than budgeted in FY 17. The FY 17 Adopted Budget oil projections assumed $35 per barrel, yet our updated estimates include oil revenue that has actually been received to date with anticipated revenue at $45 per barrel for the remainder of the year. However, there continues to be volatility in the market, so we are watching this revenue closely. Additionally, City oil revenue is dependent on more than just the price of oil. Other factors affecting revenue include production levels and exploration and production costs. Attachment B provides a breakdown of the top 40 General Fund revenue performance by source.

Other Sources

A key source of funds for the FY 17 Adopted Budget was revenue received in FY 16 and carried over to be a “release of reserves” in FY 17. These sources were from various revenues above projected levels in FY 16. In addition to these revenues recognized in the FY 17 Adopted Budget for one-time uses, FY 16 year-end surplus was also reserved and programmed by the City Council as part of the Budget Adjustments on February 14, 2017. These previously set-aside funds were released in FY 17 and used for prior approved purposes, which include: implementing the City Council’s policy to reserve 5 percent for unfunded liabilities for FY 16, funding for strategic investments including the police academy, police overtime to impact violent crime, Sunday library hours, watershed monitoring and compliance, parks conservation needs, Measures MM and MA election costs, medical marijuana implementation costs, carryover of FY 16 one-time investments that were not completed, and transfers to capital improvement projects for City Council District priorities, among others. In addition, a potential use of the operating reserve may be needed in order to end the year in balance. However, as mentioned earlier, departments have been asked to save additional General Fund expenses, and so it is the goal for the City to end the year in balance. In fact, if revenues hold, or enough additional savings occur, the City could end the year with a small surplus. This situation will be closely monitored.

General Fund - Uses of Funds

Expenditures by Department

As of May 31, 2017, citywide estimates are projecting the General Fund expenditures to come in right under the FY 17 Adjusted Budget. Departments are collectively on track to save 0.5 percent of their budgeted appropriation as requested by the City Manager earlier in the fiscal year to prepare for various unbudgeted initiatives; however, departments are including the costs related to Medical Marijuana Implementation in their estimates-to-close even though these costs are not currently budgeted in the departments. Currently, only the City Clerk’s Department is estimating to come in over budget due to receiving an invoice for the Long Beach portion of the November 2016 countywide elections from the Registrar-Recorder County Clerk’s Office. The City Clerk’s Department is attempting to absorb this added cost, but a future budget adjustment may be necessary to bring appropriations under budget and funds have been set aside for this purpose. All departments and funds will continue to be monitored for the remaining part of the fiscal year. As mentioned earlier, in light of the revenue shortfall, departments have been asked to save additional funds above the 0.5 percent, but the additional department savings are not factored into the estimate at this time.

The City’s medical marijuana implementation is underway. On February 14, 2017, the City Council approved setting aside $1.4 million in one-time funds for bridge funding to cover the initial implementation costs until the revenue started coming in. At that point in time, staff projected start-up costs to be approximately $3.5 million, but recently revised cost estimates are closer to $2 million for FY 17. These lower cost estimates are due to licensed businesses taking longer to start operations than originally anticipated and delays in filling City positions relating to medical marijuana implementation. This will continue to be closely monitored for the remainder of the year. Attachment C provides a breakdown of General Fund expenditure performance by department, with notable variances identified in the footnotes of the attachment.

Since the first performance report, an additional five employee groups have approved Memorandums of Understanding that are effective from the beginning of FY 17 until the end of FY 19. The Long Beach Firefighters Association (FFA), Long Beach Association of Confidential Employees (LBACE), Long Beach Management Association (LBMA), City Prosecutors Association (CPA), and Long Beach Supervisors Employee Association (LBSEA). The costs of these agreements in FY 17 have been offset by taking less conservative budgetary actions, such as reducing collection charges for worker's compensation, general liability, and health care, as well as eliminating the funding for some optional retirement liabilities. Salary increases that follow the approved contracts have been included for all employee groups in the FY 18 Proposed Budget, along with appropriate offsets to present a balanced budget.

Other Uses

The Other Uses category represents assignments of funds available for future specific purposes. In FY 17, the source of funding for Other Uses is the Measure B budget stabilization rainy day fund from Measure A tax revenues and the Successor Agency's sale of property proceeds. In FY 17, the General Fund is estimated to end the year with zero funds available and will likely not have any additional funds left to set aside 5 percent for unfunded liabilities, per City Council policy, unless the financial situation changes, or to fund any additional FY 18 one-times.

Measure A Revenues and Expenditures

Pursuant to the June 7, 2016 Measure A ballot initiative, on January 1, 2017, businesses in the City began to collect an additional 1 percent in sales tax on all tangible personal property sold at retail in Long Beach. The City Council committed $35,640,000 in anticipated FY 17 Measure A revenues to fund priority public safety maintenance and restorations, as well as capital improvement projects to help rebuild Long Beach's infrastructure projects, and the administration of the Measure A tax. On February 14, 2017, the City Council approved funding for the restoration of Paramedic Rescue 12 and the reinstatement of Police Academy operations and reallocated $500,000 to time sensitive Fire Station roof repair projects through the deferral of $2.0 million in residential street repair until FY 18.

As reflected in Attachment D, as of June 30, 2017, $11,234,719 has been expended and $8,457,003 has been encumbered, or obligated, for ongoing and one-time, public safety and infrastructure purposes. To facilitate reporting on Measure A revenue and expense, they are budgeted and tracked in a unique subfund of the General Fund. Personnel costs, which are primarily public safety maintenance and restorations, are budgeted in the respective departments. Transfers from the General Fund operating budget into the Measure A subfund and to the Capital Projects Fund (CP 201) for infrastructure projects will be made periodically throughout the year based on approved budgeted amounts.

Sales tax revenue is remitted to the State on a monthly basis, but State disbursements to cities are estimated based on prior year data with true-ups to actual revenue provided at the end of every quarter. As of June 30, 2017, after the State had trued-up their monthly remittances to actuals, Measure A revenues are $15,201,381. While in line with revenue estimates for the ramp up period of Measure A collection, this is a new revenue source and so it is being closely watched. If Measure A revenues do not come in as anticipated, certain Measure A one-time expenditures may need to be deferred until FY 18. Due to the current timeframes of implementing these capital projects, it is not envisioned that this will be an issue for FY 17 project performance; however, revenue delays could potentially shift future year project timing. This will continue to be closely monitored.

FY 17 Revenues - All Other Funds

<u>Uplands Fund and Tidelands Operating Funds</u>

The City's oil revenues continue to be impacted by price fluctuations. The FY 17 Adopted Budget oil projections were based on $35 per barrel. Updated oil price estimates are for an average of $45 per barrel for the rest of the year. The revised revenue estimates have led to an increase to the Uplands Fund revenue projections, which covers General Fund operations and one-time investments, and in the Tidelands Operating Funds revenue, which funds both operations and capital investment in the Tidelands area. The estimates-to-close, as of May 31, 2017, within these Funds do not include the higher amounts and will need to be realigned to reflect updated projections. Due to the volatility in various factors impacting oil prices, staff continues to closely monitor these funds and will update revenues at year-end.

There are no other revenue concerns related to all other funds to report at this time.

FY 17 Expenditures - All Other Funds

<u>Refuse and Recycling</u>

The Refuse and Recycling Fund receives the majority of its revenue from refuse and recycling charges. Other revenue sources include, but are not limited to, grant money from the State for various outreach efforts, revenues from the sale of recyclables collected through the City's residential recycling program, and fees paid by the City's licensed private refuse haulers for AB 939 compliance. Over the years, operating shortfalls have used funds available to offset the shortfall. After many years of implementing various efficiency measures, the fund continues to operate at a structural imbalance. To address the structural imbalance, the City retained an outside consultant to complete a comprehensive cost of service review and develop a rate model. While the City has adjusted the rates in the past for general CPI increases, there has not been a general refuse rate increase since 2003.

Gas Tax Street Improvement

The Gas Tax Street Improvement Fund is used to account for the receipt and expenditure of gasoline tax funds apportioned under the State Streets and Highways code, as well as other sources dedicated to street improvements such as grant revenue. Expenditures are made for any street-related purpose on the City's system of streets, including reimbursement to the General Fund for eligible street maintenance costs. Gasoline tax revenues have declined 34 percent since FY 14. This decline is largely attributed to increased use of fuel-efficient and alternative fuel vehicles. With the recent passage of the Road Repair and Accountability Act (SB-1) by the State legislature, FY 18 gasoline tax revenues are anticipated to increase by $4.1 million as compared to FY 17. The additional funds will begin to restore a portion of the gas tax revenues lost in recent years. In the out-years, it is anticipated that gas tax revenues will increase significantly, which will provide additional funding for street rehabilitation.

This matter was reviewed by Deputy City Attorney Amy R. Webber on July 28, 2017.

City Council action is requested on August 15, 2017.

[Fiscal Impact]

Approve recommendation.

DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER