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8/21/2018	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2018 Second Budget Performance Report. (Citywide)

This report includes information on the City's Fiscal Year 2018 (FY 18) budget performance through May 31, 2018, for all funds.

Summary

As of May 31, 2018, no significant concerns have been identified with the City's General Fund or other funds. Any funds that are showing year-end estimates that exceed budgeted appropriations will be resolved with proposed budget adjustments that will be presented to the City Council later in FY 18.

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, 2018, it is anticipated that the General Fund will end the year in balance with an estimated \$515,790 in funds available and Uplands Oil Fund with an estimated \$20,758. The estimated FY 18 sources and uses are summarized in the table below and described in further detail in the subsequent sections.

General Fund and Uplands Oil Fund Estimate FY 18 Performance as of May 31, 2018			
(\$ in millions)			
	General Fund		Uplands
Beginning Funds Available (10/1)	\$	1.5	\$ 0.3
Sources			
Revenues		516.8	15.1
Other Sources (Release of funds in from Operating Reserve)		10.0	-
Total Sources		526.8	15.1
Uses			
Expenditures		(510.1)	(14.1)
Other Uses (i.e. carry-over reservation)		(17.6)	(1.3)
Total Uses		(527.7)	(15.4)
Ending Funds Available (9/30)	\$	0.52	\$ 0.0

General Fund - Sources of Funds

Revenues

As of May 31, 2018, the overall General Fund revenues are projected to be higher than previously expected. This is largely because of an additional \$9.8 million one-time transfer from the Gas Fund, as approved by the City Council as part of the Second Budget Adjustments on May 22, 2018. Over the past several years, the City has actively taken steps to reduce the historical transfer in the Gas Fund in order to create a stronger fund balance, fund reserves, and in additional capital projects. As a result of those actions, strong fiscal management by the Department of Energy Resources, and above average performance, the Gas Fund is currently very healthy and in a position to resume the support that was previously held back intentionally. The City Charter specifically authorizes these transfers under situations where the status of the fund is healthy. This one-time transfer will allow the City to fund strategic one-time investments in FY 19, as recommended in the FY 19 Proposed Budget, and has been set aside for that purpose as described in the Other Uses section.

Other revenue sources combined are projected to end the year generally as expected to cover expenses. Some key revenue sources are projecting to be less than anticipated. This includes the Utility Users Tax and Franchise Fees. Cannabis-related revenues are also coming in much lower than projected because cannabis businesses are taking longer to start operations than originally planned. Additionally, there is a shortfall of approximately \$4.8 million of utility revenue transfers due to the adverse impacts of water and sewer utility transfer litigation. However, other key revenues such as Sales Tax (non-Measure A) and Property Tax are anticipated to perform better than budgeted levels. The price of oil is currently higher than budgeted in FY 18. The FY 18 Adopted Budget oil projections assumed \$45 per barrel, yet updated estimates include oil revenue that has been received to date with anticipated revenue at around \$70 per barrel for the remainder of the year. While increased oil-related costs, including higher oil well abandonment costs, will lower the net oil revenues available at year-end, this revenue stream will help offset under-performing revenues. Oil revenue to the City may change as there continues to be volatility

in the oil market and other factors impacting net oil revenues such as production levels, exploration, and production costs. Overall, well- performing revenues are expected to offset projected shortfalls in other revenue areas.

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 18 Adopted Budget was revenue received in FY 17 and carried over to be a “release of reserves” in FY 18. These sources were from various revenues above projected levels in FY 17. The FY 17 year-end surplus was reserved and programmed by the City Council as part of the First Budget Adjustments on February 20, 2018, and as part of the FY 17 Year-End Surplus on March 13, 2018. These set-aside funds were released, as needed, in FY 18 for previously City Council-approved purposes, which include implementing the City Council’s policy to reserve 5 percent for unfunded liabilities for FY 17; medical marijuana implementation costs; and, carryover of FY 17 one-time investments that were not completed such as funding for Multi-Service Center Facility repairs and homeless rapid response, and various Council Districts’ Priority Funding.

General Fund - Uses of Funds

Expenditures by Department

As of May 31, 2018, the General Fund expenditure estimates, collectively, are projecting to end the year slightly under the FY 18 Adjusted Budget. The FY 18 Adopted Budget included \$1.8 million of department savings targets to account for the natural turnover in filling positions citywide and was calculated at 1.25 percent of non-sworn personnel costs for each fund. These targets were increased mid-year for the General Fund to 1.3 percent of non-sworn personnel costs or 0.5 percent of a department’s total structural budget, to address the City Council’s direction to save as much money as practical without impacting jobs or programs. These targets were incorporated into departments’ budgets, and all General Fund Departments are expected to meet the targets and end the year within budget.

Currently, a few departments, Citywide Activities, Fire, and Legislative, are showing year-end estimates that could be over budget, but solutions have been tentatively identified. All Departments are expected to come in within budget after anticipated budget adjustments are made. The Citywide Activities Department is showing year-end estimates higher than the FY 18 Adjusted Budget, but will end under budget pending an upcoming budget adjustment to appropriate a transfer of funds to the Debt Service Fund, a technical correction. Per the agreement with the State, the City will receive Redevelopment Property Tax Trust Fund (RPTTF) funds to make debt-service payments for the Open Space Lease Revenue Bond, which will be transferred to the Debt Service Fund. The Fire Department’s projected \$2 million overage is due to expenses related to overtime fighting the wildland fires, which will be reimbursed by the State, overtime staffing special events, and the early start of the next fire academy. The Legislative Department’ projected overage will be remedied with two previously approved budget adjustments that have not yet posted to the accounting system. All departments and funds will continue to be monitored.

The Police Department is estimating to end the year under budget by a planned \$3.4 million.

These savings were anticipated and planned. They will be carried forward as part of the funding for one of two police academies in FY 19. These funds will be reserved at the end of FY 18 and appropriated in a mid-year budget adjustment in FY 19.

The City's cannabis business program has been making progress since voters approved Measure MA and MM last year. Revenues from cannabis businesses have not been as expected due to the slower than anticipated pace at which businesses are opening and operating. The actual cost of the cannabis business program implementation has also been lower than what was budgeted. Both the revenues and costs 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.

Other Uses

The Other Uses category represents assignments of funds available for future specific purposes. In FY 18, the Other Uses include setting aside funds for the Measure B budget stabilization Rainy Day Fund from Measure A tax and Cannabis revenues, savings in the Police Department that will be carried over to FY 19 to support a police academy, the Successor Agency's sale of property proceeds and funds from the additional transfer of revenue from the Gas Fund that will be used to fund strategic investments and other one-times as part of the FY 19 Proposed Budget.

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 transaction and use tax (similar to a sales tax) on all tangible personal property sold at retail in Long Beach. The City Council committed \$47.7 million in FY 18 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. As of May 31, 2018, Measure A revenues for the year were \$39.1 million, and it is anticipated that revenues at year end will be \$53.3 million, or \$5.6 million more than originally budgeted. Measure A revenue is challenging to project due to the timing of revenue receipts and, as it is a relatively new revenue source, without an established history or pattern.

On May 22, 2018, the City Council approved funding use of \$1 million of the higher than anticipated Measure A revenue for parks projects in FY 18. The recommended uses of the remaining anticipated surplus, along with other unallocated Measure A revenue through FY 23, has been included in the FY 19 Proposed Budget for one-time public safety and infrastructure purposes.

As reflected in Attachment D, Summary of FY 18 Measure A Revenue and Expenditures, as of May 31, 2018, \$9 million has been expended or moved to the Measure A subfund and \$8.3 million has been encumbered, or obligated, for ongoing and one-time public safety and infrastructure purposes. To facilitate reporting on Measure A revenue and expense, Measure A is 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 General Fund operating budgets of the respective departments. At year-end, expenditures and personnel costs for public safety maintenance and restorations will reflect the budgeted levels.

FY 18 Revenues - All Other Funds

Uplands Fund and Tidelands Operations Fund

The City's oil revenues continue to be impacted by oil price fluctuations. The FY 18 Adopted Budget oil projections were based on \$45 per barrel. Updated oil price estimates are for an average of \$70 per barrel for the rest of the year. The revised revenue estimates project an additional estimated \$2.1 million transfer amount from the Uplands Fund to the General Fund, which covers General Fund operations and one-time investments. In the Tidelands Operations Fund, FY 18 oil revenue is projected to be an estimated \$3.1 million above the budgeted amount, and is used to fund both operations and capital investment in the Tidelands area. Overall, the Tidelands Operations Fund is projected to end FY 18 with a \$4.1 million surplus. A list of projects being proposed that utilize this surplus is included in the FY 19 Proposed Capital Improvement Program budget. 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 18 Expenditures - All Other Funds

Refuse and Recycling

The Refuse and Recycling Fund receives the majority of its revenue from refuse and recycling charges. Other revenue sources include 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. There have been operating shortfalls over the last few years and funds available have been used to offset these shortfalls. 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. The study will recommend a rate increase sometime in FY 19 to better reflect the cost of service to the ratepayer. 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.

On June 3, 2018, a 25-year pipeline lease agreement between the City and Southern California Gas (SCG) expired and the lease will not be renewed. FY 18 revenue from the lease is estimated to be only \$3.4 million, a \$1.35 million reduction from the previous year. The lease revenue will be eliminated in FY 19 for a total reduction of \$3.4 million from the FY 18 budget. This reduction is offset by the continued increase in revenues from above-average Gas Fund performance and the reduction of expenditures for meter reading. Meter reading is no longer needed because of the completion of the Automated Metering Infrastructure project. Above-average performance experienced in FY 18 and the City's intentional reductions to historical Gas Fund transfers have led to a strong and healthy Gas Fund available funds. Staff will continue to monitor the Gas Fund's financial health to ensure that customers are appropriately served and pipeline integrity is being maintained with an adequate level of repair and replacement.

This matter was reviewed by Deputy City Attorney Amy R. Webber on August 7, 2018.

City Council action is requested on August 21, 2018.

[Fiscal Impact]

Approve recommendation.

JOHN GROSS
DIRECTOR OF FINANCIAL MANAGEMENT

APPROVED:

PATRICK H. WEST
CITY MANAGER