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Title:	Recommendation to receive and file the Fiscal Year 2023 (FY 23) Mid-Year Budget Performance Report providing an update on the City of Long Beach's FY 23 financial status and projections and adjust appropriations in departments to reflect the funding where programs will be managed. (Citywide)				
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Date	Ver.	Action By	Action	Result
6/13/2023	1	City Council	approve recommendation	Pass

Recommendation to receive and file the Fiscal Year 2023 (FY 23) Mid-Year Budget Performance Report providing an update on the City of Long Beach's FY 23 financial status and projections and adjust appropriations in departments to reflect the funding where programs will be managed. (Citywide)

Overall Summary

This report includes information on the City of Long Beach's (City) FY 23 budget performance through March 31, 2023 for all funds and provides FY 23 year-end estimates of expenditures based on department analysis of data for the first quarter of the fiscal year (the most recent available expenditure analysis). Year-end estimates of revenues incorporate the most recent actuals and analysis. The attachments show actual budget performance through March 31, 2023. Final year-end results (scheduled to be brought to the City Council in February 2024) may differ significantly due to the range of potential outcomes.

The FY 23 Budget for the General Fund was adopted in September 2022 projecting a $19.6 million structural shortfall, inclusive of an $8.5 million revenue loss related to the Measure M litigation, as well as $8.9 million of one-time uses. The funding gap for these structural and one-time uses was slated to be covered with funds made available through the Long Beach Recovery Act (Securing our City's Future) and other reserves set aside for this purpose.

In March 2023, a fiscal outlook update projected a significant revenue update eliminating the impact of the pandemic on the forecast and improving the revenue projections by $40.1 million for FY 24 and each year beyond. This report reflects the same improvement for the current fiscal year. As a result of that update, combined with continued significant vacancy

savings reflected in department expenditure year-end estimates, the General Fund is now projected to end FY 23 with an operating surplus of $20.5 million. A majority of these funds are proposed to be allocated for potential, critical one-time needs that will be disclosed and reviewed as part of the Proposed FY 24 Budget. This is positive news in terms of one-time resources in the short-term, but under the assumption of a more normal labor market with less employee turnover, the outyear forecast for the General Fund is still indicating annual shortfalls even with the major revenue recalibration, which underscores the need to minimize or avoid structural cost increases.
While this financial report focuses on the General Fund, pertinent information for other funds is highlighted where applicable. For example, Measure A is projecting an operating and net program surplus of $11.1 million, with $7.5 million of these funds being allocated for uses as part of the FY 24 budget development process and to support the outyear Measure A plan. The Tidelands Operating Fund section discusses the impact of the higher oil prices than assumed in the budget, which results in a projected surplus with funds also being earmarked for critical projects to be proposed as part of the FY 24 Budget. Overall, the City has 163 financial funds summarized and reported as 36 budgetary fund groups covering 24 departments, including the separately managed Utilities and Harbor Departments and the new Police Oversight Department. In this report, any reference to “funds” means the budgetary fund group. Except for the General Fund, all of these funds are designated for specific activities, such as the Harbor, Gas, and Tidelands Funds.

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
- Attachment D - Long Beach Recovery Act Expenditures and Revenues
- Attachment E - Long Beach Recovery Act Program Allocations

BUDGET PERFORMANCE REPORT

General Fund and Uplands Oil Fund Overview

The FY 23 Budget was adopted in September of 2022 and included strategic investments, including both structural and one-time funding, while preserving current services and avoiding adding to the assumed General Fund structural shortfall (the operating deficit that exists when ongoing/reoccurring revenue sources do not cover ongoing/reoccurring expenditures). The City began the budget development process in the Spring of 2022 with a preliminary projected FY 23 structural shortfall of $11.9 million and adopted the budget with a structural shortfall of $11.1 million, excluding the structural impact of the Measure M litigation lawsuit at $8.5 million. When this is included, the structural shortfall was projected at $19.6 million. Additionally, the FY 23 Budget included $8.9 million of one-time uses. Both the structural shortfall and one-time uses were slated to be covered with funds made available through the Long Beach Recovery Act and other reserves set aside for this purpose.

On March 7, 2023, staff presented to the City Council the fiscal outlook and an update on the FY 24 budget development process. This outlook provided an updated forecast for FY 24 and beyond based on updated information available as of FY 22 year-end close, which was provided to the City Council in the FY 22 Year-End Performance Report on February 7, 2023. The most significant part of this forecast update was the major recalibration of revenues to eliminate any remaining pandemic impact on the projections as the actuals of FY 21 and FY 22 did not reflect the negative pandemic impact that was anticipated. Overall, revenue projections for FY 24 improved by $40.1 million compared to previous projections.
For FY 23 year-end, staff is anticipating a similar recalibration of revenue estimates, with over $40 million of revenue projection improvements compared to the Adopted Budget, excluding Measure A and revenues from land sale and settlement proceeds. Additionally, the budgetary impact of significant vacancies throughout the City first seen in FY 22 from unfilled positions in an unprecedentedly tight labor market is continuing into FY 23. Most departments are projected to end the year under budget, including the Police Department estimating $12.7 million in savings and the Fire Department projecting about $687,000 in savings.

These factors combined have resulted in a FY 23 year-end projection of a $20.5 million surplus in the General Fund. The majority of these funds are recommended to be prioritized for the highest priority projects of the Mayor and City Council, including homelessness and housing, public safety, and economic development as indicated in the proposed City Council prioritization workshop/process, as well as other investments in infrastructure, parks, neighborhood livability, and other critical operation requirements. The City Manager will propose specific uses of the $20 million as part of the FY 24 budget for the Mayor and Council's consideration, so as to holistically present a plan to address the priorities. Net of these allocations, the General Fund is currently projected to have an ending budgetary funds available of $169,000. This significant improvement in the General Fund status in FY 23 will allow the continued preservation of one-time funds that were made available as part of the Long Beach Recovery Act Securing our City's Future to be used for future year shortfall support in FY 24 and likely FY 25.

It is important to note that while this revenue recalibration has created a significant one-time revenue adjustment in the projections, the outyear forecast for the General Fund that was presented this past March factors in this higher improved revenue levels as a starting point but is still resulting in annual shortfalls, under the assumption that the tight labor market and resulting vacancies do not continue, in the $8 to $11 million range each year from FY 25 through FY 27. This indicates that while one-time funds are available for critical and strategic investments, any increases to structural costs should be minimized or avoided.

The projected FY 23 General Fund and Uplands Oil Fund sources and uses are summarized in Table 1 below. The year-end expenditure estimates are largely based on data from one quarter of the fiscal year, with more recent data utilized for revenue, and there are still significant variables that may swing the figures positively or negatively before the end of the year, especially as the projections are based on limited and early available data in the fiscal year. Final General Fund status will be reported as part of the FY 23 Year-End performance report, scheduled to be presented to the City Council in February of 2024.

Table 1: FY 23 Projection - General Fund and Uplands Oil Fund		
	(in $ millions)	
	General Fund	**Uplands**
Beginning Funds Available (10/1/22)	**$ -**	**$ -**
Sources		
Revenues	712.12	14.78
Other Sources: (Release of Reserves)	43.55	-
Total Sources	**755.67**	**14.78**
Uses		
Expenditures	(715.63)	(12.85)
Other Uses: (e.g. Measure B set aside, Monsanto, etc.)	(8.41)	(1.63)
Other Uses: Measure A Reserve/ For Future Use	(11.10)	-
Other Uses: Reservation for FY 24 Priority Projects/Critical Needs	(20.36)	-
Total Uses	**(755.50)**	**(14.48)**
Projected Ending Funds Available (9/30/23)	**$ 0.17**	**$ 0.30**

Amounts reported in this summary exclude designations for Long Beach Recovery Act uses along with related departmental activity which will be discussed separately in this report.

The projected FY 23 General Fund sources total $755.7 million, comprised of $712.1 million in revenue and $43.6 million in other sources largely made up of the planned release of Measure A reserves of $25.4 million for future use. Other sources also include the release of $6.9 million balancing actions for the Adopted FY 23 Budget. Originally, sources were also anticipated to include a release of reserves to help offset revenue loss related to the Measure M litigation and the unfunded negotiated labor costs related to bargaining agreements signed after budget adoption. However, these are currently anticipated not to be needed due to the improved General Fund status and will be kept in reserve for future unfunded liabilities.

The projected FY 23 uses total $755.5 million, comprised of $715.6 million in expenditures; $39.9 million in other uses which includes $7.5 million set aside from the Monsanto settlement payment from the class action lawsuit with Monsanto Company and will be allocated as part of the FY 24 budget to water quality-related projects and programs, and Measure B stabilization set asides. Other uses also include $11.10 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 projection in the table above; instead, they are discussed in a separate Measure A section below. As previously noted, the General Fund projections have significantly improved since the FY 23 Budget was adopted. Additional resources now projected to be available in the amount of $20.4 million are currently earmarked for critical one-time needs to be disclosed and evaluated as part of the Proposed FY 24 Budget.

The FY 23 Uplands Oil Fund is projected to end the year with a $0.3 million operating surplus, with $1.625 million in other uses representing the annual set aside for future oil well abandonment (The Tidelands Oil Revenue Fund Group also includes the planned set aside of

$7.125 million for abandonment costs). These annual reservations will help the City build reserves to safely retire oil wells in the future and take further steps toward less oil dependency. There are many variables that can impact the status of the Uplands Oil Fund both positively or negatively, particularly with the volatile nature of the price of oil, so actual set aside for oil abandonment will be revisited at the end of the year, including a review of whether there will be any funds for additional abandonment set aside. At year-end, any surplus funds in Uplands Fund may be used to support the General Fund or priority one-time projects, after the five percent set-aside for unfunded liabilities per City Council policy.

General Fund Emergency and Operating Reserves

The funds available in the General Fund described in Table 1 above is not inclusive of General Fund Operating and Emergency Reserves. As of the beginning of FY 23, the Operating Reserve at $16.0 million and inclusive of the Measure B reserve, is 2.9 percent of normal operating expenditures, which is within the policy required range of 2 to 7 percent. The Emergency Reserve, at $47.8 million, is 8.6 percent of normal operating expenditures and is below the target level of 10 percent but above the minimum of 8 percent. The Uplands Oil Fund has an operating reserve of $500,000 and an oil fluctuation reserve of $2.9 million.

General Fund - Sources of Funds

Overall General Fund revenues are estimated to be $95.4 million higher than the Adjusted FY 23 Budget as of March 31, 2023; however, a significant amount of this overage is related to revenue sources designated for specific uses apart from the normal operating budget. The estimated total revenue includes $37.1 million in one-time transfers from other funds for the purchase of properties consisting of $16.1 million from the Health Fund Group for Project Homekey and $21 million from bond proceeds for 125 Elm Avenue. Revenues higher than current budget also include $7.5 million settlement payment from the class action lawsuit against Monsanto Company and will be allocated as part of the FY 24 budget to water quality -related projects and programs, and $5 million to account for the revenues designated to cover the Long Beach Recovery Act uses as reported to the US Treasury Department. The revenue figures above budget also includes delayed reimbursement revenue in the amount of $4.7 million from the Ground Emergency Medical Transportation Services (GEMT) supplemental reimbursement program covering prior years' expenditures from FY 18 through the first half of FY 22.

The remaining $41 million of revenue higher than budget is largely due to projection updates since the FY 23 budget development process in Spring 2022. These updated FY 23 projections and related assumptions are consistent with the recalibration of revenues as presented to the City Council during the FY 24 budget outlook on March 7, 2023. Although FY 23 estimates includes shortfalls in certain revenue areas across various City departments, significant improvement in other key revenue streams are expected to outweigh the impact of underperforming revenues.

Revenue streams anticipated to come in under budget include estimated revenue shortfalls of

$2.7 million (or 94 percent) related to the continued suspension of utility late fees to provide financial relief to residents and businesses. Utility late fees are expected to resume late in FY 23 following community outreach prior to reinstatement. Charges for special services and services to proprietary funds are also estimated at $5.1 million (or 21 percent) under budget. Figures reported in these categories are largely comprised of revenues received by the Police Department to reimburse for services provided to internal City and external customer agencies and are based on actual expenses incurred to provide service. Actual revenue shortfalls realized by the end of the year will have corresponding expenditure savings.

Key sources that are estimated higher than projected in the FY 23 Budget are further described below and include utility users, property, sales and use, and transient occupancy taxes as well as interest earned from pooled cash and a higher transfer from the Uplands Oil Fund Group:

- Revenues generated from the five percent Utility Users Tax (UUT) on usage of telephone, electric, gas and water are dependent on energy prices and customer usage. Franchise fee revenue collected for gas and electricity is also similarly impacted by these same variables. UUT and franchise fee revenue is estimated to exceed budget by $9.6 million (or 25 percent) and $7.5 million (or 61 percent), respectively. Higher Gas UUT revenue of $3 million is due to the steep price increases to natural gas early in the fiscal year. On February 1, 2023, the City Council approved authorization for the City Manager to work with the Long Beach Utilities Department to promptly implement a Natural Gas Price-Spike Relief Program for those residential gas customers most in need of payment assistance where realized revenue higher than normal budget will be distributed to low-income seniors, persons experiencing a disability, and those experiencing residential need from February 16 through March 31, 2023. In addition to gas UUT, revenue from gas pipeline franchise fees are projected to be $6.7 million higher than budget. Further, also due to energy price increases, revenue collected from electric UUT are estimated to be $7.5 million more than budget with electric franchise fees estimated to be $794,000 higher than budget. Although gas and electric UUT revenue are both significantly higher than budget, FY 23 estimates anticipate a shortfall in water UUT revenue which is expected to be $1.9 million lower than budget likely due to decreased consumption during the significant rainfall experienced earlier in the fiscal year.

- The FY 23 property tax revenue forecast was based on the assessed valuation provided by the County of Los Angeles for 2021/2022 values, covering 2020 calendar year sales and other values set by the assessor as of January 1, 2021. Property tax revenue is projected to end the year $7.4 million (or 5 percent) higher than budget. Better than anticipated revenues are largely driven by citywide valuation increases (including former-RDA areas) not anticipated during FY 23 budget development from new development and improvements, as well as prior year adjustments such as supplemental tax revenues which is based on the change in valuation following the completion of a property sale, transition of ownership, or new construction.

- Sales and Use Tax (non-Measure A) is projected at $88.6 million, which is $6.5 million (or 8 percent) higher than budget. This estimate is based on the most current data available as of the calendar year fourth quarter, which reflect much stronger taxable sales during the holiday months than anticipated last spring when the forecast was originally made. Although the FY 23 estimates include slowed growth from the prior year in the City's share of the countywide pool, higher revenues are anticipated from better-than-expected performance in other sectors such as restaurants, hotels and general consumer goods. Similar to FY 22 year-end actuals, additional sales tax revenue continues to be generated from the price increases to fuel and automobiles, as well as one-time use tax revenues from development projects occurring in the City. As further described later in the Measure A section of this report, similar trends are also impacting Measure A revenues which are also now estimated higher than budget.

- Transient Occupancy Tax (TOT), including revenues generated from the additional one percent from Measure B, is now estimated to end the year at $25.2 million which is $4.4 million (or 21 percent) over budget. When the FY 23 budget was developed, the forecast assumed that conventions and business travel activities would return close to average pre-pandemic levels. Instead, FY 23 estimates are now based on current year activity with revenue levels anticipated to exceed average pre-pandemic levels.

- Interest-pooled cash revenue is subject to interest rates and the mix of securities in the City's investment pool. In 2020, this revenue experienced lower earnings from decreased interest rates with the annual budgeted revenue remaining relatively unchanged. Since then, actual revenues have improved and are now anticipated to exceed budgeted levels in FY 23. Due to the Federal Reserve increasing interest rates, and higher cash balances within the General Fund Group, revenue from interest pooled cash is anticipated at $8.9 million, which is $5.2 million (or 143 percent) higher than budget.

- The General Fund Group receives an annual transfer from the Uplands Oil Fund Group of net oil revenue from land-based oil wells in which the City has an interest. In FY 23, the transfer is estimated at $9.6 million, which is $3.5 million (or 58 percent) higher than the budget. The FY 23 budget originally assumed the price of oil at $55 per barrel. However, in FY 23, the actual average price of oil has been much higher and thus is currently estimated to average $78 per barrel for the year, which allows for higher than budgeted net transfers to the General Fund Group. Less than 50 percent of the revenue for Uplands is associated with the sale of oil. More than half of 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 the top 40 General Fund revenue performance by source.

<u>Other Sources</u>

The projection for Other Sources is about $43.6 million in FY 23. The majority of these other sources are comprised of the release of reserves set aside in FY 22 to fund City Council-approved expenditures that were anticipated to occur in FY 23, such as $1.4 million of FY 22 encumbrances to be paid in FY 22, $4.7 million of carryover of one-time funds from previous allocations that were not completed, $1.6 million of carryover for Council District priority funds, $2.9 million of funds reserved at the end of FY 22 to support the capital acquisition cost of a motel through Project Homekey, $1 million for operational efficiency planning at the Police Department Headquarters building and $6.9 million balancing actions for the Adopted FY 23 Budget. Lastly, this includes the release of $25.4 million in Measure A reserves planned for use in FY 23.

Originally, sources were also anticipated to include a release of reserves to help offset revenue loss related to the Measure M litigation and the unfunded negotiated labor costs related to bargaining agreements. However, these are currently anticipated not to be needed due to the improved General Fund status and will be kept in reserve for future unfunded liabilities. Additional Long Beach Recovery Act Securing the City's Future category funds may be preserved to support financial sustainability and balance operating budget shortfalls projected in FY 24 and likely FY 25 and beyond.

General Fund - Uses of Funds

<u>Expenditures by Department</u>

Based on departmental analysis using data as of December 31, 2023, the General Fund expenditure estimates, collectively, are projecting to end the year under budget by approximately $24 million ($17 million when excluding the Citywide Activities Department that reflect savings related to the Measure A plan implementation and does not affect the General Fund bottom line). The following departments have noteworthy savings compared to their budgets.

- The City Auditor's Office is projecting to end the year with a savings of $0.5 million (17 percent of budget) due to salary and attrition savings. Timing considerations, including the length of time for open job requisitions, the process for selecting, onboarding, and screening of candidates, contributed to significant salary savings as vacant positions were unfilled for a portion of the year. The recruitment process is ongoing and open positions are expected to be filled by the close of the fiscal year.

- The Citywide Activities Department is projecting to end the year with savings of $7.2 million (10 percent of budget) largely due to the savings in the Measure A plan, which will be discussed in further detail later in this report.

- The Civil Service Department is projected to end the year underbudget by $0.3 million (8 percent of budget) mainly due to salary and benefit savings with some savings in maintenance, materials and operations such as office supplies and training. The department is expected to be fully staffed by the close of the fiscal year.

- The Fire Department is projecting to end the year with $0.7 million underbudget (1 percent of budget) due to position vacancies among the Firefighter classification. The Fire Department is currently preparing to start its upcoming Fire Recruit Academy, termed 2023A, with a starting goal to onboard 48 recruits in August of 2023. Additional funding to support the larger academy will be evaluated by the end of the year and may utilize a combination of year-end savings and Measure A one-time support.

- The Financial Management Department is projected to end the year with a savings of $0.6 million (3 percent of budget) due to salary savings mainly in the Business Services Bureau. Recruitments are underway for vacancies.

- The Police Department is projecting to end the year with a savings of approximately $12.7 million (4 percent of budget) due to the continued challenges with staffing levels including increased separations and retirements in both sworn and civilian classifications, staffing shortages in key areas that delayed hiring across all classifications, and dramatic declines in the candidate pool for police recruits. In FY 22, the Department strategically allocated savings towards key initiatives to provide higher levels of transparency, accountability, and operational efficiencies. The Department has identified additional critical initiatives to be allocated from FY 23 savings which will reviewed as part of the budget development process and will be disclosed as part of the Proposed FY 24 Budget.

- The Public Works Department is projecting to end the year with savings of approximately $0.8 million (2 percent of budget) mainly being driven by vacancy savings. The Department is actively pursuing filling these vacancies and are at various stages of approval. Additionally, the City has experienced a significantly heavier than normal wet season after these projections were conducted, and the Public Service Bureau is expecting increased maintenance costs in FY 23, which are not reflected in these estimates. Finally, the Public Service Bureau is working on improving service delivery by purchasing equipment that had previously been deferred due to lack of funding. As such, the Department of Public Works may anticipate a shift to end FY 23 at budget.

In the face of the lowest national unemployment rate in 54 years, most industries and sectors are having difficulty attracting and retaining quality job candidates. The City is not immune to these challenges and as a result a strong focus has been placed on addressing the City's current recruitment climate and enhancing the organization's ability to help attract and retain top talent. The FY 23 Budget included many enhancements to facilitate efforts towards recruitment and retention, including the creation of a new Talent Acquisition Division within the Human Resources Department and funding for a retention incentive that aimed to recognize current City employees for their loyalty, dedication and hard work.

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

<u>Other Uses</u>

The FY 23 projection for Other Uses of funds, not related to Measure A and the Proposed FY 24 Budget critical projects, totals $8.4 million and is comprised of $7.5 million set aside from the settlement payment from the class action lawsuit against Monsanto Company to be allocated as part of the Proposed FY 24 Budget to water quality-related projects and programs, and $0.9 million set aside towards the Measure B stabilization reserve. As previously noted, the General Fund projections have significantly improved since the FY 23 Budget was adopted. As a result, additional resources now projected to be available in the amount of $20.4 million are currently earmarked for critical one-time needs reviewed as part of the budget development process and will be disclosed as part of the Proposed FY 24 Budget.

Measure A related items include a set aside of $11.1 million to back out the impact of any Measure A surplus from the analysis of the General Fund. Additional information on Measure A is provided in the next section.

Measure A Revenues and Expenditures

The Adopted FY 23 Budget initially projected Measure A revenues at $67 million in FY 23. The FY 23 Budget was developed during the Spring/Summer of 2022. At that time, it was projected that this revenue stream would continue to recover and more closely align to pre-pandemic levels in FY 23. Current projections are showing Measure A revenues significantly exceeding pre-pandemic levels, likely ending the year at an estimated $72 million, $4.5 million higher than budgeted (or 7 percent). As mentioned in the General Fund - Source of Funds section earlier in this report, higher revenues are due to similar trends impacting sales and use tax revenue (non-Measure A) including continued improvement across various categories such as restaurants, hotels, and general consumer goods. FY 23 also includes higher revenues from unanticipated price increases for automobiles and fuel, as well as one-time use tax revenues from development projects occurring in the City.

In terms of uses, Measure A continues to support the programs previously approved by the City Council and reflects the intent of the initiating ballot measure with all the funds being allocated to maintain and enhance public safety services, and support infrastructure investment, public safety, and set aside for the Measure B stabilization fund. Additionally, the City Council approved the FY 23 First Budget Adjustment Report on March 7, 2023, which included the contingent appropriation adjustments to implement the recommended uses of the $9.8 million Measure A surplus as proposed and detailed in the FY 22 Year-End Performance Report. These proposed recommendations for the uses of Measure A funds are contingent upon confirmation from the Measure A Citizens Advisory Committee (CAC) that the proposed uses are in conformance with the intent of Resolutions No. RES-16-0018 and RES-16-0017 prioritizing spending. It is anticipated these items will be approved in FY 23 at a CAC meeting in the Summer of 2023. Once approved the appropriation adjustments will be reflected in the FY 23 Measure A plan. In addition, the Measure B reservation projection is slated to increase to $0.7 million to reflect the projected increase in Measure A revenues.

Table 2 below provides a summary of these revenue and expenditure projection updates, resulting in an estimated year-end operational surplus of $3.6 million. This amount is inclusive of $7.5 million set aside for proposed uses in the FY 24 Budget as well as the $9.8 million set aside funding at the end of FY 22 for City Council-approved priority projects in FY 23. The remaining $3.6 million anticipated FY 23 operating surplus is not recommended to be allocated at this time but rather revisited at FY 23 year-end when actual status of the fund is fully determined. Any additional funds remaining at year-end can be allocated as part of the FY 23 Year-End Performance report and could include uses such as the Fire Academy and others as needed.

Table 2: FY 23 Measure A Budget and Year-End Projection		
	FY23 Adopted Budget	FY 23 Estimate
Sources		
Measure A Revenue	67.45	71.96
Other Sources (Release of Reserve) [1]	17.73	17.73
MEASURE A - Releases of Reserves-FY 22 Surplus [2]	7.51	7.51
Other Sources (Release for FY 22 one-times carryover) [3]		0.14
Measure A surplus FY22 [4]	-	9.83
Total Sources	92.68	107.16
Uses		
Expenditures	(92.01)	(85.50)
Other Uses: Measure B Reservation	(0.67)	(0.72)
Other Uses: FY 23 Surplus Reservation for Adopted FY24 [5]		(7.50)
Other Uses: Measure A surplus FY 22 [4]		(9.83)
Total Uses	**(92.68)**	**(103.55)**
FY 23 Year-End Projection	**0.00**	**3.60**

[1] *Previously, per the Measure A out-year funding plan, funds were being accumulated as reserves for future planned projects such as the rebuilding of the Police and funding public safety communication technology upgrades that had cash needs in different years. These funds are now being released to fund these planned projects as well as additional uses added in FY 23.*

[2] *The Adopted FY 23 budget was fully funded using $7.5 million of FY 22 operating Surplus*

[3] *In FY 22, a total of $0.137 million of approved projects were not fully expended but are planned to be reappropriated in FY 23. This included budget for irrigation pumps and outreach for the North LB pool feasibility study.*

4. Represents funding set aside at the end of FY 22 for Council approved new projects in FY 23. The $9.83 million is contingent upon confirmation from the Measure A Citizens Advisory Committee (CAC). It is anticipated these items will be approved in FY23 in a future CAC meeting in the summer of 2023

[5.] *Set aside for projects to be reviewed as part of the budget development process and will be fully disclosed as part of the Proposed FY 24 Budget.*

Long Beach Recovery Act

On March 16, 2021, the City Council approved the Long Beach Recovery Act (LB Recovery Act), becoming one of the first major cities to approve a COVID-19 recovery program utilizing federal American Rescue Plan Act (ARPA) funds. The LB Recovery Act is funded by various sources, including the General Fund as a result of the City's approach to using federal ARPA funds. The U.S. Department of Treasury's (U.S. Treasury) Final Rule allows ARPA funding to be used to provide and maintain current government services (e.g., provision of police, parks, and recreation services) up to the amount of the City's calculated revenue loss due to the pandemic. In compliance with the Final Rule, the City will use the majority of ARPA funds to maintain existing, eligible City services (specifically, parks and recreation and police services) for FY 21, FY 22 and FY 23. The ARPA funding provided to the City thereby offsets General Fund monies, which are then used to deliver City Council-approved programs for the LB Recovery Act. This spending approach, consistent with the Final Rule, does not result in any increased budgetary allocations or levels of service for the Parks, Recreation and Marine (PRM) or Police (PD) Departments. The total budget for PRM and PD were unaffected by this approach.

Therefore, the City's reporting to the U.S. Treasury will show the majority of ARPA funds as being used to provide government services, while the City's Recovery Act reports will continue to show the programs promised to residents and businesses. This funding allocation method reduces the substantial administrative costs associated with ARPA compliance and reporting requirements, and substantially reduces any City grant compliance risk that could result in the U.S. Treasury's recoupment of the City’s ARPA funds.

In addition to using ARPA funds to maintain eligible City services, the remaining portion of ARPA funds will be used to provide direct relief grant payments to those impacted most by the pandemic.

The LB Recovery Act totals $296.6 million to support programs through December 2024 in three main categories:

- Economic Recovery: $71.2 million
- Healthy and Safe Community: $149.7 million
- Securing Our City’s Future: $75.7 million

The Economic Recovery programs focus resources on residents and businesses most impacted by the pandemic to promote an effective and inclusive economic recovery that strengthens revenue generation and leverages consumer spending to stimulate lasting economic growth. The Healthy and Safe Community programs focus resources on addressing the underlying social determinants of health while prioritizing basic needs and the mental and physical health of community members most adversely impacted by the pandemic. The Securing our City’s Future category funds the restoration of City services by eliminating employee furloughs, helping the City weather the next financial crisis by replacing lost revenue, and providing critical time for the City to develop financial and service strategies to address future projected significant operating budget shortfalls.

LB Recovery Act Sources

Since adoption of the LB Recovery Act in March 2021, the City has secured $296.6 million from a variety of recovery-related funding sources. The table below provides detail on all funding sources supporting LB Recovery Act.

Table 3: Long Beach Recovery Act Funding Sources (in millions)

Funding Source	**Updated Sources as of March 31, 2023°**
General Fund*	$125.8
General Fund**	4.1
American Rescue Plan Act (ARPA) Direct Relief Grants+	10.0

Airport Rescue Grants^	15.1
CDC Public Health Workforce Development Grant	2.8
ELC Schools Re-Opening Safety Grant	1.1
Emergency Rental Assistance Program (ERAP) - Round 1	30.2
ERAP - Round 2	34.1
ERAP - Reallocation Funds	17.0
Epidemiology and Laboratory Capacity (ELC) Grant	26.8
Health Disparities Grant	7.7
HUD Home-ARP (Homelessness)	10.2
Long Beach Community Foundation - Ballmer Group Grant	0.1
Long Beach Community Foundation - Knight Donor Grant	0.2
Vaccination Grant	5.1
Youth Workforce Development Grant	6.3
Total Long Beach Recovery Act Funding	**$296.6**

* Funds made available due to funding from ARPA covering existing City services.

** Funds made available due to funding from CARES covering existing City services, Police Department savings, and other sources.

+ This represents the portion of LB Recovery Act programs funded directly by ARPA. The remaining portion of ARPA funding will be used to support existing City services.

^ Airport Grants are funded by ARPA as a direct allocation to the Airport Department. This is separate from the City's direct allocation of ARPA funds.

° Total amounts received will vary depending on actual funding received.

The total LB Recovery Act funding has grown from $290.4 million to $296.6 million since the end of FY 22. The increase is due to revised funding amounts of existing grants. Attachment D provides status summary of FY 23 expenditures and revenues as of March 31, 2023 by department further described in the sections below. Attachment E details the revised LB Recovery Act programs, sub-programs, and the associated allocation amounts.

In terms of actual revenues and grant funds received, $7.7 million was received in LB Recovery Act revenues in the first half of FY 23 - $5 million in the General Fund to technically record ARPA funding for existing City services reported to the US Treasury Department and $2.7 million in other funds. A total of $1.9 million was received by the Health and Human Services Department in Epidemiology and Laboratory Capacity (ELC) Grant funds, and $0.8 million in grant revenues were received to support other LB Recovery Act programs.

<u>LB Recovery Act Uses</u>

LB Recovery Act programs continue to evolve as additional grants and other sources are identified. The following table summarizes the updated budget and expenditures to date by

Program Category.

Table 4: Long Beach Recovery Act Program Categories (in millions)

	Updated Allocations *as of 03/31/2023*	**FY 21 Actuals**	**FY 22 Actuals**	**FY 23 Actuals** *as of 03/31/2023*	**Balance Remaining** *as of 03/31/2023*
Economic Recovery*	$71.2	$1.3	$32.1	$3.2	$34.6
Healthy and Safe Community*	149.7	22.6	71.4	18.3	37.4
Securing Our City's Future	75.7	33.7	22.2	0.0**	19.8**
Total LB Recovery Act	**$296.6**	**$57.6**	**$125.7**	**$21.5**	**$91.8**

* *These categories include a preliminary allocation of LB Recovery related administrative overhead costs. Actual allocations may vary depending on future program expenditures.*

** *Based on projections in this report, no funding is anticipated to be needed at the end of FY 23 as a budget shortfall is not expected for FY 23. However, funds are anticipated to be needed to cover the anticipated budget shortfalls for future fiscal years. Actual amount needed will be revisited at the end of FY 23 and other potential uses will be evaluated as part of the Proposed FY 24 Budget process. Actual FY 23 year-end use will reduce the Balancing Remaining shown in the last column.*

Two programs accounted for more than 76 percent of the total spending through the first six months of FY 23 - the Emergency Rental Assistance Program ($8.7 million) and the Epidemiology and Laboratory Capacity for Prevention and Control of Emerging Infectious Diseases (ELC) Program ($6.9 million). The total amount spent in the General Fund was $4.4 million. The Securing Our City's Future category is slated to cover $2.5 million of additional administrative support costs, some of which were not able to be charged to direct grant programs while others were new needs and not originally accounted for in the overall administrative allocations.

Other Funds

This section highlights key information on select funds. Attachment A provides a breakdown of citywide expenditures by fund for all 36 expenditure budgetary fund groups.

Airport Fund Group

Passenger activity for the first half of FY 23 fell short of projections due to airline schedule complications during the holidays and American Airlines' exit from Long Beach Airport. However, recent announcements by Southwest Airlines for increased service at Long Beach Airport will increase passenger activity in the second half of the fiscal year, offsetting some of the shortfall from the first half. The Airport expects to end the fiscal year with over 3.5 million passengers recorded, just 3 percent lower than budgeted activity level. This lower activity level would have resulted in operating revenues coming in slightly under budget, but proposed fee increases in the second half of the fiscal year, along with revenue growth from other sources, will help close the gap in revenue projections to help fund increases in operating expenses.

The new baggage claim area opened in April 2023 and adds additional cost to operate the Airport. These increases are on top of new operating expenses from the new ticketing facility and baggage screening facility that opened in the prior year. High inflation rates also incrementally increase cost of operations as new service contracts are renewed and supplies are purchased. Savings from personnel vacancies help offset some of the increases in operating expenses with minimal impacts to customer service. The labor market continues to be a challenge for the Airport as vacancies and turnover rates remain high. Employee recruitment and retention continues to be a focus for the Airport.

Overall, passenger activity is expected to recover to pre-pandemic levels this fiscal year and will yield satisfactory financial results for the Airport. Growth in revenue sources will help the Airport keep up with the increases in operating expenses. New facilities and more non-stop destinations than ever from Long Beach provide an optimistic outlook for the Airport for the remainder of year.

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, Public Safety Garage, and Lincoln Park. The ongoing revenue resources to this fund include charges from departments occupying the Civic Center facilities.

Current FY 23 projected costs include expenses from facility management, security, and the Memorandum of Understanding (MOU) with the Port. These costs include payment to the Port for licenses and easement costs located in the Port Building, including the Facilities Management Contractor Office, Reprographics, Archive Room and the Vault. The current projected revenues for FY 23 are expected to cover all costs for the year. The fund began FY 23 in a negative budgetary funds available status of a negative $3.5 million but two factors are expected to bring the fund back into balance in FY24: 1) interdepartmental charges included in the FY 23 budget to recoup citywide expenses for operational costs; and 2) the payment of an accounts receivable by Plenary expected no later than February 2024.

Employee Benefits Fund Group

The Employee Benefits Fund Group was created to finance and account for employee paid time off (i.e. sick leave, vacation, holiday, etc.) and fringe benefits, such as retirement (almost entirely CalPERS pensions), health/dental/life insurance, Social Security and Medicare. The revenue for this fund group is derived from charges to departments based on an allocation of employee benefit costs and administration of payroll and human resources costs.

Since FY 21, the City has been prepaying the annual Unfunded Accrued Liability payment owed to CalPERS, rather than paying throughout the year in equal monthly installments. This prepayment for FY 21, FY 22 and FY 23 resulted in savings of several million dollars across all funds, because CalPERS credited the City at a higher discount (interest) rate on the prepayment than the City could have earned by holding onto the funds longer and investing them in short-term securities. However, due to the timing of the prepayment to CalPERS, which is required in the month of July, and the City's fiscal year beginning in October, this prepayment reflects a large cash drain and significant decrease in the budgetary funds available as of September 30 in any year the prepayment is made. Conversely, the budgetary funds available will increase in any year when a prepayment to CalPERS is not made.

Currently, one-year Treasury yields are noticeably higher than the discount rate (3.4 percent) the City would be credited by prepaying CalPERS. If that rate differential persists into late July, then the City will not prepay CalPERS, but instead hold on to the cash in the Employee Benefits Fund and invest it in higher-yielding securities. The final decision will be made in July 2023 right before the CalPERS prepayment is due based on one-year Treasury interest rates at that time. If the prepayment is not made, the budgetary funds available is estimated to go from $24.7 million at the beginning of FY 23 to $113.8 million at the end of the fiscal year. However, that projected $89 million increase in budgetary funds available is not recommended to be used for increased appropriations, because the liability for accrued but unused vacation and sick leave for which the funds were originally designated still exists. That liability is simply no longer recorded in the Employee Benefits Fund, per generally accepted accounting principles (Governmental Accounting Standards Board Statement No. 75), while the cash accumulated to pay those future obligations is still there.

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 2023, the Gas Fund is projected to spend $11.6 million on gas pipeline capital improvements. Revenues from gas operations are projected to be up 26 percent compared to FY 22. This increase is attributed to the gas price crisis during the winter months. Due to significant economic impact to rate payers and the implementation of one-time credits in addition to increased low-income discounts, the annual transfer to the General Fund Group is estimated to remain at the budgeted amount of $13,797,641. Year-end revenues and the overall status of the fund group will determine the final transfer amount which can be up to the maximum of 12 percent of gross revenue as 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 23, the COVID-19 pandemic emergency ended, resulting in the fund no longer receiving grant dollars from various Federal and State agencies for direct COVID-19 response and recovery and resiliency efforts. In the last few years, this funding supplemented existing budget used to support programs focused on retention of existing services, which promote health and wellness and provide protection from disease and injury. The Health and Human Services Department (Department) is transitioning to a new phase of the COVID-19 response, continuing some level of service provision through July 2024, but teams will be dismantling as those funding resources will end.

As the City ramps down on COVID-19 efforts, it has ramped up in addressing homelessness since the City declared a State of Emergency on Homelessness on January 10, 2023. Prior to the emergency, the Department was already addressing the homelessness issue by activating locations for temporary shelter and permanent supportive housing. On June 28, 2022, the California Department of Housing and Community Development (HCD) granted the City $5.6 million for the installation of modular non-congregate shelter units to safely house people experiencing homelessness at the Long Beach Multi-Service Center (MSC). Additionally, on July 28, 2022, the City was notified by HCD that it was awarded $25 million, as part of the Homekey Program (Homekey) Round 2 grant funding, for converting the property located at 5950 Long Beach Boulevard into 78 units of interim or temporary housing for people experiencing homelessness. Of this amount, $21.3 million was for the acquisition and renovation of the property.

On July 19, 2021, Assembly Bill (AB) 140 was signed into law by Governor Gavin Newsom, authorizing funding for the Homeless Housing, Assistance and Prevention Round 3 (HHAP-3) program. HHAP-3 is a $1 billion block grant program that provides local jurisdictions with flexible funding to continue efforts to end and prevent homelessness in their communities. Total HHAP-3 funding for the City is $8.5 million and could be used for existing and ongoing operations or expansion of services such as: rapid rehousing, navigation center operations, sheltering for transitional age youth, sobering centers, intensive case management services (ICMS), mobile Multi Service Center (MSC) stations, modular shelter operations, and potential expansion of the MSC. In addition, on March 29, 2023, the City was notified of being awarded $13.2 million for the HHAP-4 program. This funding will build upon the foundation established with past rounds of HHAP funding to build stronger collaboration and partnership in communities across the state to address immediate homelessness challenges.

Additionally, the City was awarded $1.3 million from the Conrad N. Hilton Foundation (Foundation) for the period of November 1, 2022 through October 31, 2025, to provide therapy and counseling to people on the streets, with the goal of improving mental health and substance use resources and services connections. Funding would also be used to provide moving assistance for people experiencing homelessness and to procure a vehicle for the program.

Furthermore, the City was awarded $1.3 million from LA Care Health Plan and Health Net to improve the quality of life and health outcomes of Medi-Cal members by implementing a broad delivery system, program, and payment reform across the Medi-Cal program. Funding will be used to develop Enhanced Care Management (ECM), Community Supports (CS) and Housing Transition/Navigation Services, under the California Advancing and Innovating Medi-Cal's (CalAIM) Incentive Payment Program. Furthermore, the City received $553,323 from the California Department of Health Care Services Capacity and Infrastructure Transition Expansion and Development (CITED) Program, under the Providing Access and Transforming Health (PATH) Initiative, for the transition, expansion, and development of ECM and CS under CalAIM. PATH-CITED funds will support the assessment of current software for the population health management functionality needed to serve high-risk and high-need populations. CalAIM is comprised of interdisciplinary approaches to care that address the clinical and non-clinical needs of high-cost and/or high-need populations (populations of focus) in Medi-Cal through a systematic coordination of services and comprehensive, community-based care management. Populations of focus are defined as high utilizers of emergency services, people experiencing homelessness, and adults with serious mental illness or substance use disorder who are impacted by complex social factors.

Outside of these funds, the City received grant funding to invest in its public health workforce and infrastructure, which were heavily impacted by the COVID-19 pandemic. Funding is being used to supplement critical public health operations and infrastructure, while also making strategic investments possible that will have lasting effects on public health. Collectively, the City received $2.8 million from the California Department of Public Health and $6.7 million from the Centers for Disease Control and Prevention.

The Health Fund Group's permits and fees revenue base continue to recover from the negative impact of the pandemic over the past three years. The Department went through a fee study to review fees and services provided by the Environmental Health Bureau resulting in the department's recommendation to increase some fees. These fee changes were approved by the City Council and went into effect on May 23, 2023, with some fee increases being phased in in the next 3 to 4 years.

Internal stressors such as growing capital improvement and infrastructure needs, rising technology and benefit costs, and increased restrictions placed on grants put pressure on the fund's resilience. It is anticipated that for FY 23 the Health Operating Fund's budgetary funds available will be drawn down from $9.6 million to $6 million to cover some of these expenditures, including costs that are ineligible to be covered by grants due to grant restrictions. These projections may change by year-end due to many variables that impact projection accuracy, including review of grant requirements. Staff continues to work to identify strategies to address these ongoing challenges to ensure service 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 Group 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. This amount is being recouped by charges of premiums to departments. The charges to departments have remained relatively flat since FY 22 as the fund continues to grow in budgetary funds available. FY 23 began with $17.7 million in budgetary funds available for the Worker's Compensation Fund and is projected to end the year with $22.3 million. Staff will be evaluating the financial status of the fund and taking the budgetary funds available into consideration when determining future adjustments to departmental collection rates.

The General Liability program accounts for the City's miscellaneous insurance, settlements, judgments, and defense for all liability related activities. These charges have increased from prior years due to projected increased costs based on the most recent actuarial study. General Liability costs for settlements and judgments had been increasing sharply prior to the pandemic, resulting in the depletion of cash in the General Liability Insurance Fund. The large settlements and losses were in multiple departments and appeared to be typical of high jury settlements across the country, not an issue unique to Long Beach. In FY 22, settlements and judgments increased more than 85 percent from the prior year. This is due to the uptick in reportable claims and backlog of court cases resuming normal operations. In addition, costs for miscellaneous insurance such as property insurance are rising significantly, in part due to some losses the City has incurred in recent years.

The table below provides a five-year history of miscellaneous insurance costs and settlements and judgments costs, plus projected FY 23 costs.

	Actuals					Projecte
(in millions)	FY 18	FY 19	FY 20	FY 21	FY 22	FY 23
Misc Insurance	$ 3.7	$ 3.5	$ 7.4	$ 10.5	$ 14.1	$ 11.4
Settlements & Judgments	$ 15.2	$ 27.2	$ 8.4	$ 3.2	$ 11.3	$ 14.6
Combined Total	**$ 18.9**	**$ 30.7**	**$ 15.7**	**$ 13.7**	**$ 25.4**	**$ 26.0**

Due to the increased settlement and judgment costs incurred in FY 18 and FY 19, the General Liability fund decreased to a negative budgetary funds available status. Since then, the interdepartmental MOU for General Liability has been increased to recoup for these losses and bring the fund back into a healthy status, and the fund is currently on a good path towards recovery. FY 22 began with a negative $12.8 million in budgetary funds available and ended the year with a negative $7 million. In FY 23, there is a projected operating surplus of $5.2 million, bringing the projected FY 23 ending budgetary funds available status to approximately a negative $1.8 million.

Refuse and Recycling Fund Group

The Refuse/Recycling Fund provides for refuse and recycling collection for residents and businesses of Long Beach in a timely and cost-effective manner, ensuring compliance with the State's solid waste diversion laws. 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 programs and 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. Over $4 million is provided annually to the General Fund to reimburse for programs such as street maintenance, tree trimming, stormwater and environmental compliance.

Over the past few years, the costs associated with refuse collection and disposal have increased and new unfunded State mandates have been introduced, requiring City compliance. These factors have contributed to expenditures continuing to outpace revenues. To comply with State-mandated organics collection SB 1383, the Environmental Services Bureau (ESB) of the Public Works Department implemented a commercial organics pilot program. The pilot program was implemented in June 2021 and services over 190 commercial accounts on a weekly basis. ESB plans to expand the commercial organics collection program with full implementation set to begin at the end of FY 23.

Refuse rates were last adjusted on September 1, 2022, but costs for service have continued to increase significantly. The increased costs include insurance, fleet, staffing, the pilot organics program, other costs related to internal services and unfunded State mandates, such as SB 1383. In response to these increases, a Proposition 218 hearing is set for June 20, 2023 to propose current solid waste rate adjustments. The two proposed rate adjustments are for July 1, 2023 and October 1, 2023. If the proposed rates are approved, they are anticipated to generate an estimated surplus in the Refuse and Recycling Fund Group of $250,000 in FY 23. However, this projected surplus would only result in the Refuse Fund having reserves equal to approximately 5 weeks of operating revenues, beginning FY 24. Without the proposed rate increases, the Refuse Fund is projected to be insolvent in the near future.

Special Advertising and Promotions Fund Group

The Special Advertising and Promotions Fund Group (SAP) 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 City’s municipal code. Transient Occupancy Tax (TOT) 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, six percent of which is allocated to the General Fund Group, and six percent to the SAP Fund Group. The remaining one percent was added per the 2020 voter approved Measure B (TOT) and is intended for the City’s arts organizations and the Long Beach Convention and Entertainment Center per City Council Resolution. Other sources of SAP revenue include studio filming permits, special events licenses, and other permits and fees.

TOT revenue was dramatically impacted by the pandemic. Due to revenue lost as a result of decreased activity, the budgetary funds available declined in FY 20 and 21. To mitigate this, $5.2 million was needed to replace lost revenue using funds made available through the LB Recovery Act (Securing Our City's Future category), which brought the budgetary funds available back to pre-pandemic levels at the end of FY 21. In FY 22, TOT revenue continued significant improvement, ending the year at $9.6 million, close to $1.3 million higher than budget (or 15 percent), and helping to add to the budgetary funds available. In FY 23, the budget was originally adopted with SAP expenditures exceeding revenue. However, TOT is estimated to exceed average pre-pandemic averages at $10.2 million which is $2.9 million higher than budget (or 40 percent), and this is anticipated to be able to cover most of the projected expenditures. The SAP Fund began FY 23 with $7.0 million in budgetary funds available and is projected to end the year with $6.9 million in budgetary funds available. While TOT revenue has recovered and is anticipated to surpass pre-pandemic levels for FY 23, TOT continues to be a volatile revenue source that is sensitive to economic variables and can cause large swings to fund status year over year.

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 City's three recreational marinas (Alamitos Bay Marina, Long Beach Shoreline Marina and Rainbow Marina) including all maintenance, operations, security, fire and Emergency Medical Technician (EMT) services. Revenue is generated through recreational and commercial use of marina property. Fees include dock/slip fees (paid by boat owners), restaurant, retail, and grounds rental leases, concession fees, park use fees, and special events and filming fees. 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 Marina Fund revenues are pledged for the repayment of the bonds and future dock and related area improvements. The Marina funds are projecting a $3 million surplus for FY 23.

The Queen Mary Fund tracks the revenues and expenditures associated with the Queen Mary ship and the management and development of adjacent City-owned properties on Pier H. The City gained direct control of the Queen Mary in 2021 following the declared bankruptcy of the prior operator, Urban Commons. Financials from ship operations show that prior to COVID-19, the ship itself had the ability to generate significant revenue, upwards of $57 million gross a year. Private operators in the past had obligations and interests the City does not have, including having to pay back investors and guarantee certain amounts of return on investment. Absent those commitments, if the Queen Mary can fully reopen and generate the same amount of gross revenue, significant dollars should be available to reinvest back into to ship restoration, maintenance, preservation, and the ultimate development of the additional land site which can help provide long-term funding for operations.

After years of closure resulting from the COVID-19 pandemic and delays to needed critical repairs, the Queen Mary reopened on a limited basis to host hotel guests, visitors and events in April 2023. A full reopening is expected later in the fiscal year. To support re-opening and initial operating needs at the Queen Mary, the partnership between the City and the Port of Long Beach, the Port will advance $12 million over a three-year period beginning in FY 23 with $7 million. The initial $7 million Port advance can also help offset debt service on the outstanding Queen Mary bonds in FY 23. In FY 23, with the Port's advance, it is anticipated the Tidelands Operating Fund Group will not be required to contribute to the Queen Mary's operational, debt service, and capital needs. The advance plus any operating revenues are projected to structurally balance the fund in FY 23. The City will eventually repay the Port's advance from the City's 50 percent share of new revenue that the Port expects to generate by improving and leasing idle City-owned land in the port area.

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.

In FY 22, the Aquarium of the Pacific Revenue Bonds Series 2012 was refunded with the issuance of Series 2022 Tidelands Revenue Refunding Bonds. The refunding ended the 2012 AoP rental payments and the new Series 2022 will continue to be supported and backed by the Tidelands Operating Fund Group with pledges of available Tidelands revenues before operating expenses. In FY 23, the Harbor revenue transfer (a transfer of 5 percent of the Harbor's Gross revenues is required by the Charter) is anticipated to be $23.4 million and the projected transfer from the Tidelands Oil Revenue Fund Group at $27 million which is $14.3 million higher than the $12.7 million budget due to high oil prices experienced this year, currently projected at an average price of $78 per barrel for the year instead of the the budgeted $55 per barrel, and also assuming the $7.125 million annual set-aside for oil field abandonment funding. However, in FY 24 and beyond, oil revenues into the Tidelands Operating Fund Group will be heavily impacted if the Statewide referendum in November 2024 on Senate Bill 1137 (SB 1137) (new regulations and restrictions on the oil and gas industry in California) upholds the law.

The fund group has contributed to the support of the operations, debt and critical repairs of the Queen Mary. As a result of the partnership between the City and the Port of Long Beach described above, the Port will advance $7 million in FY 23 and a total of $12 million over three years to the City to fund the operations and debt service of the Queen Mary. Thus, additional Tidelands Operating Fund Group support is not anticipated to be needed in FY 23. However, Queen Mary critical capital repairs will continue to be funded from previous surplus allocations from the Tidelands Operating Fund Group.

The fund group also contributes to the 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 FY 23 projections have the Convention Center operating at a potential loss of $800,000 to $1.6 million, which would be borne by the Tidelands Operating Fund. FY 23 will be the last fiscal year of debt payments for Rainbow Harbor as the debt matures in 2023.

Largely due to the higher oil-related revenues, it is estimated that the fiscal year will end with a surplus of approximately $15-$17 million. $11 million of this projected surplus has been set aside for FY 24 Tidelands capital improvements, which will be disclosed as part of the Proposed FY 24 Budget.

Towing Fund Group

The Towing Fund provides the City's towing and vehicle lien sale operations. It also 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.

In FY 22, there were no residual pandemic impacts. Towing revenues exceeded budget due to vehicle storage fees being above budget by about $800,000. Expenditures exceeded budget due to $500,000 in additional fleet replacement costs. Overall revenues exceeded overall expenditures to help keep the fund balance in the positive. As a result, the fund was able to make the budgeted General Fund transfer in FY 22, which was adjusted down to $700,000 to help address the Towing budgetary funds available challenges.

In FY 23, Towing operations continue to focus on efficiencies and improvements, identifying non-personnel expense reductions wherever possible. Towing will also complete the full implementation of a new software project, which will offer new, more efficient system interfaces, modern technologies, and better integration with the City's financial and accounts receivable systems. Midway through FY 23, overall expenditures are trending three percent below budget. Towing revenue is trending lower in FY 23 than in FY 22 despite a slight increase in towing fees, with total year-end revenue estimated coming in 10 percent under budget. This is largely due to a lower number of tows being called in by citywide initiating operations. Overall, the Towing Fund Group is anticipated to end the year in an operating deficit and as a result draw down from the budgetary funds available. Depending on the health of the fund group at the end of the fiscal year, it may not be able to make the General Fund transfer. This will be evaluated and determined as part of the FY 23 Year-End Performance Report.

Uplands Oil Fund Group

The Uplands Oil Fund Group accounts for oil revenue outside the Tidelands area and accounts for 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, approximately half of the revenue in this fund is from overhead fees and half is from oil sales. The FY 23 Budget assumed a price of $55 per barrel; however, it is anticipated that the average price per barrel in FY 23 will be around $78 per barrel. Based on this projection, it is estimated that the Uplands Oil fund will be able to transfer $9.6 million to the General Fund Group, which is $3.5 million higher than budgeted. These figures include the annual set-aside of $1,625,000 needed for oil field abandonment funding. Staff is currently evaluating the potential option of setting aside additional funds above this planned amount for oil field abandonment based on final year end performance of oil revenues. If this were to occur, additional funds would be reduced from the net proceeds available for transfer to the General Fund Group. The final resolution will be reported in the FY 23 Year-End Performance report.

This matter was reviewed by Deputy City Attorney Monica Kilaita on May 25, 2023.

City Council action is requested on June 13, 2023, but there are no pressing timing considerations.

There is no fiscal or local job impact associated with this recommendation. This recommendation has no staffing impact beyond the normal budgeted scope of duties and is consistent with existing City Council priorities.

Approve recommendation.

[Enter Body Here]

KEVIN RIPER
DIRECTOR
FINANCIAL MANAGEMENT

APPROVED:

THOMAS B. MODICA
CITY MANAGER