

July 3, 2019

HONORABLE MAYOR AND CITY COUNCIL  
City of Long Beach  
California

SUBJECT: Fiscal Year 2020 Proposed Budget

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I am pleased to present the \$2.8 billion Proposed Fiscal Year 2020 (FY 20) Budget. The budget addresses many of the priorities of the Mayor and City Council and is a budget that has been balanced even in the face of challenging cost increases. There is much to celebrate about our great City and the progress, innovations and improvements under the leadership of the Mayor and City Council and the hard work of City staff. Fantastic development and economic growth, beautiful beaches, exciting community events, world class parks, and wonderful, diverse neighborhoods all make Long Beach a great place to live, work, and play.

The past year has been historic for the City of Long Beach. In July, the new environmentally-conscious City Hall and Port Building were completed, marking the most significant major milestone in the City's Civic Center project, with the new Main library opening in September followed by a new 3½ acre park downtown. This Civic Center project is one of the first of its kind in the nation, utilizing an innovative public-private partnership.

The City Hall move occurred amid other exciting innovations, including the rolling out of LB COAST, a modernized Enterprise Resource Planning system. LB COAST provides the City with the technology and software management tools to conduct daily operations in a more innovative, effective, and efficient way. It truly is the biggest technological effort in our City's history.

The City currently has billions of dollars worth of construction underway citywide. We are investing in new business, retail development, and we have thousands of residential units permitted and on the horizon. Tourists and business travelers, who contribute to our local economy, continue to use the nationally acclaimed Long Beach Airport, now celebrating its 95th year.

Long Beach continues to work to provide resources for those experiencing housing insecurity and homelessness, including building new affordable and supportive housing. Using State funds, we also acquired property to build a campus of supportive services, including a year-round shelter for people experiencing homelessness. The City saw its chronic homelessness rate drop by 8 percent in 2019, and the overall rate stayed about steady since the previous count while many other regions experienced a dramatic increase. We will continue to implement the recommendations from our 'Everyone Home Long Beach' task force to ensure that every Long Beach resident has a safe place to live and the opportunity to thrive.

We continue to be recognized on a national level for our accomplishments. Over the past fiscal year, Long Beach was named one of the 10 most walkable cities in the U.S. by Walk Score, and the Parks system was named one of the 18 best in the country by the Trust for Public Land. For the eighth consecutive year, Long Beach has been named a Top 10 Digital City and for the seventh year in a row, we were named one of the best cities in the nation for lesbian, gay, bisexual, transgender and queer inclusion. We continue to be one of the most bike friendly cities and the City has also been recognized by the Southern California Association of Governments for its commitment to environmental sustainability.

Looking ahead, we will have the opportunity to showcase to the world our thriving community when the 2028 Summer Olympic and Paralympic Games come to Southern California with numerous events taking place in Long Beach. Last year, we announced 8 by 28, focused on completing eight critical projects in Long Beach for 2028 Olympic and Paralympic Games. Over the past year, work got underway, with infrastructure improvements along the Metro Blue Line and the start of construction for our very popular beach concession stands.

With all of these accomplishments in mind, I am proud to present a FY 20 Budget that is prudent, forward thinking, and pursues stability as the City undergoes many transitions and changes.

### **The Proposed FY 20 Budget Preserves and Supports Critical Services**

This proposed budget addresses key stated City Council priorities and focuses on maintaining the great services and amenities the City's residents and businesses expect. The budget also enhances some services to address key priorities such as Community Hospital. Due to limited resources, any additions to the budget were restricted to only the most critical services. Key highlights of the FY 20 Budget are presented below. A complete list of FY 20 changes is provided in Attachments A, B, and C to the Executive Summary and further described in the Department Chapters.

#### Addressing Homelessness is Front and Center

Long Beach continues to be a leader among cities across the nation in its systematic approach to addressing homelessness. The City leverages multiple funding streams to implement its innovative and solution focused practices. The 2019 homeless count found only a two percent increase in people experiencing homelessness, in sharp contrast to our neighboring jurisdictions, and Long Beach continues to be 40 percent below the 2011 count – permanently housing over 5,000 people since 2013. This success is the result of the collaborative partnerships between City departments, non-profit, and faith-based partners that drive local efforts and innovations.

In the past year, the City received nearly \$27 million from a variety of Federal, State, and County grants, in addition to City funding. Nearly \$5 million comes from County Measure H and \$12.3 million from the Homeless Emergency Aid Program (HEAP). These funds

are providing prevention services, permanent supportive housing, transitional housing, rapid rehousing, homeless Veteran specific services, Multi-Service Center (MSC) support, along with grants and program administration and funding for a new homeless shelter with 125 beds. The team implemented a number of pilot programs including placing an outreach worker at 911 dispatch to respond to homeless concerns and questions, emergency shelter opportunities in partnership with a local motel owner, a transportation program, taking the first steps toward a safe parking program, and a jobs program. In addition, the City's interdepartmental team, a best practice model that other jurisdictions emulate, meets monthly to strategize on addressing homeless impacts and coordinates closely every day for outreach and response.

The City continues to leverage these resources to address the goals outlined in the Everyone Home Long Beach Taskforce report including increasing prevention services, passing the tenant assistance program, opening the City's new Housing Navigation Center that will provide services and possession storage to up to 100 people on a daily basis, and opening a new 125 bed shelter in North Long Beach.

The FY 20 budget supports these existing services and implements enhancements for addressing homelessness as listed below.

- Funds to support the ongoing costs of utilities at the Housing Navigation Center, which will provide access and referrals to services for people experiencing homelessness as well as a place to store their personal belongings.
- General Fund one-time funds of \$255,000 for the Proactive Homeless Initiative to support the activities of the City's Interdepartmental Work Group, including rapid response, clean-ups, and outreach.

#### Affordable Housing is a Long-Standing and Continuing City Commitment

The FY 20 budget continues to reflect the City's commitment to affordable housing. The production and preservation of affordable housing is essential to the health and vitality of the residents of Long Beach. There are currently 432 affordable housing units under construction in six housing developments. To fund these projects, the City, through The Long Beach Community Investment Company (LBCIC), provided over \$21 million in funding and also leveraged \$172 million in outside funding, resulting in a total investment of more than \$193 million.

Additionally, in FY 19, the City will begin work on the preservation and production of 218 additional affordable housing units. To fund these additional units, the City, through the LBCIC, approved over \$10 million in loans and is anticipating to leverage over \$101 million in outside funding, for a total investment of \$112 million.

With these new investments, there will be a total of 650 new affordable housing units serving extremely low- to low-income households, including homeless households. The Housing and Neighborhood Services Bureau will continue these efforts in 2020, with

several additional housing developments in the planning stages. In addition, staff will continue to work on several important housing policy items, including an Inclusionary Housing policy.

### Public Safety is a Top Priority

Providing a safe community to live in is one of Long Beach's highest priorities. Citywide crime statistics have been reflecting positive trends. In 2018, Violent Crime reflected a 16.5 percent decrease compared to 2017, with double-digit reductions in the areas of Robbery and Aggravated Assault. Property Crime was down 6.4 percent, with reductions in the areas of Residential Burglary, Commercial Burglary, Petty Theft, and Auto Theft. These trends appear to be continuing in FY 19. The City also responded to over 72,000 fire, marine safety, and other emergency incidents equating to over 140,000 unit responses in FY 19. The FY 20 budget continues to provide previously funded public safety services and makes the following additional investments:

- Measure A plays a central role in maintaining public safety services. For the FY 20 budget, an additional 13 police officers and firefighters are supported and maintained by Measure A, bringing the total to 121 police officers and firefighters maintained by Measure A along with 41 new public safety positions (39 sworn) that were added in prior budgets.
- Positions added to the Police Department for full implementation of the Body Worn Camera Program and to provide the support needed to meet state mandates. Measure A one-time funds will cover the acquisition of cameras, technology upgrades, and officer trainings related to the Body Worn Camera Program.
- The Justice Lab, a multidisciplinary team that works to identify and deploy services more effectively to people who come in frequent contact with the justice system, is transferred from the Office of Civic Innovation to the Police Department and funded structurally.
- Measure A one-time funds of \$100,000 to support the jail mental health clinician services in an effort to minimize recidivism, re-arrest rates, and strain on Police and City services.
- Measure A one-time funds of \$2.2 million for the Neighborhood Safe Streets Initiative in the Police Department, which uses community policing strategies to impact violent and property crime trends in the City's neighborhood and corridors.
- General Fund one-time funds of \$800,000 and Measure A one-time funds of \$1.4 million to support the cost of Police Academies ending in FY 20 and FY 21.

## The Public Safety Continuum and Addressing Social Needs Make Long Beach Great

Long Beach is a full-service City and provides a wealth of services such as parks, recreation, marinas, library services, health services, code enforcement, and others that are essential in maintaining the public safety continuum and the overall quality of life for the City's residents. These services help promote a safe and healthy community with focus on things such as public health and general emergency preparedness, healthy active living, educational opportunities and tutoring, afterschool support and activities, open spaces for public, and recreational activities and programs. The FY 20 budget continues to support the efforts of various departments as they strive to provide the best quality services to residents. In addition, new items in FY 20 include:

- Funding for a full-time position dedicated to the Language Access Program to increase the program's coordination and oversight.
- Structural funding for an Adoption Coordinator and administrative support to manage adoption and volunteer programming in the Animal Care Services Bureau, and General Fund one-time funds of \$100,000 for donation support.
- Budget for contract security guards to assist with safety measures for both library staff and patrons at various branch libraries.
- Upgrade of a Physician Assistant to Public Health Physician to increase the capacity of the Tuberculosis and HIV clinics, funded by the Health Fund Group.

## Economic Development Protects the City's Future and Helps Support Services

The concepts of economic development are embedded in each and every City department. Investing in economic development is investing in the future of Long Beach. It is a key part of our strategy to grow the City's revenue base and help balance future budgets. The FY 20 budget will continue to strengthen economic development by supporting work such as the implementation of the adopted Land Use and Urban Design elements. It also supports the continued implementation of the 10-year Blueprint for Economic Development approved by the Mayor and City Council to achieve the vision of Long Beach as the City of opportunity for workers, investors, and entrepreneurs. These efforts are intended to ensure sustained economic success into every neighborhood across the City, with a particular focus on economic opportunities in low-income communities. Initiatives in FY 20 will include the implementation of a Citywide Market for Hourly Labor Program to assist those with irregular work schedules, researching the creation of Opportunity Zones, which provide tax incentives to promote development in underserved areas, and expanding the Start It Up mobile and in-person mentoring program to give business owners and entrepreneurs the tools and education they need to succeed.

In addition, the following new items are added in the FY 20 Budget to better manage and deliver services in support of economic development:

- Positions added for the administration of the short-term rental program.
- Various technology improvements to improve customer experience in planning for projects, including a web-based fee calculator, conferencing tools, and a forms submittal portal – funded by the Development Services Fund Group.
- One-time funds for staff training and materials on updated State building codes to provide informed assistance to applicants at the Permit Center, and one-time funds to support the public engagement efforts in the Planning Bureau – funded by the Development Services Fund Group.

### The Pursuit of Efficiencies and Stable Administrative Services Make the City Strong

FY 20 continues to support key internal, administrative services that are needed to maintain the City's technology, personnel, and financial core capacity. Services supported include functions such as accounting and controls, cash and debt management, procurement management, billing and collections, safety and risk management, recruitment and retention of employees, provision of reliable communications infrastructure, security of the City's systems network, etc. These critical functions provide the internal support needed for the City's organizational health and the health of departments providing services to the community. In addition, the City is always looking to implement innovations, departmental reorganizations, and service delivery model efficiencies, that will help the City better serve the community. The FY 20 budget supports these internal functions and organizational efficiencies, including the following:

- Positions added in the Civil Service Department to strengthen the recruitment processes, including providing support to speed up our City's hiring process.
- Positions added to support the ongoing structure for the new ERP (LB COAST) system, partially offset by the elimination of the Financial Controls Bureau in the Financial Management Department.
- Changes to positions previously assigned to the Cannabis program to better align with current need, including a reclassification of a Firefighter/Inspector to a Clerk Typist and the elimination of a License Inspector in the Financial Management.
- Establishment of a Construction and Pipeline Maintenance Bureau (previously a division) with additional positions in the Energy Resources Department that will help strengthen oversight of pipeline maintenance and construction operations and ensure compliance with federal regulations.
- General Fund one-time funds of \$600,000 to support census outreach and redistricting.

## Arts, Culture, and Communications are Keys to a Vibrant Community

The FY 20 budget continues the support the City has made the past few years towards the promotion of arts, culture, tourism, and communications, which helps build a vibrant Long Beach. In FY 20, the Special Advertising and Promotions Fund Group, supported largely through hotel occupancy tax revenues, has allowed the City to continue its strategic investments in this area. Some highlights include:

- One-time funds to support various investments in art, culture and tourism including funds for planning consultants and other support for co-hosting the Summer Olympic Games, POW! WOW! for art murals, a commemorative history book for the new civic center, and wayfinding signage and historical plaques throughout the City.
- Funding for a national public affairs media consultant to be shared by the City, the Port of Long Beach, and the Convention and Visitors Bureau.
- Communication Specialist position and budget added for the production and coordination of artistic, cultural and educational video programming with a focus in the new civic center.
- An increase in the ongoing support of the Long Beach Convention and Visitors Bureau to enhance its continued promotion of the City for conventions and tourism.
- Public Affairs positions added in the Police, Health and City Manager's Office to support communications, public affairs and community engagement efforts within each respective department.

## Funding for Infrastructure Keeps the City's Foundation Firm

The City continues to be forward-thinking in maximizing resources to invest in infrastructure and other critical needs today to realize ongoing benefits for the future. The FY 20 budget proposes a robust Capital Improvement Program (CIP) bolstered by Measure A funds.

The City's FY 20 Capital Improvement Program is \$117.9 million from various sources excluding the Harbor Department, and including \$19.5 million from Measure A funds dedicated to enhancing the City's aging and deteriorating infrastructure. The investments have been organized by the Sections of the Capital Improvement Program budget book and listed below. Detailed information on all proposed CIP projects, including, Water and Harbor projects, is available in the FY 20 Proposed Capital Improvement Program chapter. The detailed listing of the Measure A infrastructure projects is also available in the City Ballot Measures Chapter and Attachments, which summarizes the recommended uses of all future Measure A funds, including funds from improved revenue projections expected to be realized in the out-years.

- **Mobility** – Mobility improvements include street repair, street and intersection widening, traffic signal system expansion and upgrades, transit improvements, replacement parking and striping, neighborhood traffic management, and bike lanes. Overall, the total investment in mobility is \$54.8 million.
- **Parks** – Park infrastructure improvements are designed to rehabilitate existing park assets and upgrade its outdated irrigation system to reduce water usage. In FY 20, funds will continue to be invested into parks infrastructure such as the Houghton Park Community Center and development of the Los Cerritos Wetlands and Drake/Chaves Greenbelt. Overall the total investment in parks, which is funded by Measure A funds, is \$2.0 million.
- **Public Facilities** – Public Facility improvements address critical repairs necessary to extend the useful life of hundreds of facilities throughout the City. The Public Works Department began a Citywide Facility Condition Assessment (FCA) project in FY 19 with 17 facilities assessed to date. An additional 25 facilities will be assessed by the end of FY 19, bringing the total number of facilities assessed to 42. A completed FCA of all City-owned facilities is anticipated to be completed by 2020. Overall, the total investment for Public Facilities is \$11.2 million.
- **Beaches and Marinas** – Beaches and Marina improvements include investments in the City operated and maintained resources located in and around City beaches, marinas, and waterways. In FY 20, continuous repairs to critical Tidelands facilities continue with the Convention Center and Naples Seawall being priorities. Overall, the total investment for Beaches and Marinas is \$2.0 million.
- **Utilities** – Utility improvements support repairs to the City’s water, sewer, gas, and stormwater systems. In FY 20, the Energy Resources, Water, and the Public Works Department will continue to work closely to coordinate infrastructure improvements that occur in the public right-of-way, complying with the City’s Dig-Once Policy. Overall, the total investment for Utilities is \$43.8 million.
- **Airport** – Airport Improvements support repairs at the Long Beach Airport are funded by the Airport Fund. In FY 20, ongoing improvements include Airfield Pavement Rehabilitation and upgrades to the Airport Terminal Area. Overall, the total investment for Airport is \$4.0 million.

#### Investing in Other Critical Needs and Livability Strengthens the City

In addition to the Capital Improvement Program, the City continues to invest in other critical needs that are core to maintaining and safeguarding the City’s assets including supporting the viability of City’s technology infrastructure, stormwater, facilities, street and road maintenance, an airport, and various utilities. Livability efforts and initiatives continue to promote healthy active lifestyles and the overall safety and quality of life of all residents and visitors. Some highlights of changes in FY 20 are listed below.



- General Fund one-time funds of \$1 million to support the retrofit of the Community Hospital to meet seismic requirements as part of the program to reopen the hospital.
- General Fund one-time funds of \$440,000 to support the maintenance of the Armory and the improvements and repairs of the parking lot at 4th and Atlantic.
- Expanded support for the small cellular program for the permitting of wireless telecommunications equipment that are placed in the public Right-of-Way, which is anticipated to see a significant increase in small cell installations as the wireless telecommunications industry transitions towards 5G technology.
- Support for various needs funded from the Tidelands Operating Fund Group such as additional support for Tidelands water and irrigation needs for tree requirements, landscape contract to maintain landscaping services across the City's parks, and maintenance costs of the surf rake for the beaches.
- Positions and budget added for stormwater-related expenditures and to support the work of the Stormwater division, offset by LA County Measure W revenues.
- Positions and budget added to implement the emerging Micro-Mobility Program with the addition of six e-scooter vendors that have accounted for over 1,000 devices deployed daily on the streets of Long Beach.
- Funding for a green/sustainability program at the Airport, which includes the addition of the Airport's first ever electric vehicles to its fleet.
- One-time funds to assist low-income households with energy efficiency improvements to single family homes, offset by a transfer of AB 32 Cap and Trade proceeds from the Gas Fund.
- One-Time funds for Electric Vehicle Programs in the Fleet Services Bureau to support the City's efforts to reduce greenhouse gas emissions, offset by a transfer of AB 32 Cap and Trade proceeds from the Gas Fund.

### **Strong Fiscal Management to Address Financial Challenges**

Long Beach has been resilient and has transformed itself many times over its 130 years as a municipality. It is continuing to do so at an accelerated pace. Long Beach has a robust economy, a forward-thinking Mayor and City Council, tremendous amenities, a great location, and climate. Along with many other cities, Long Beach has significant financial challenges to maintaining its services, streets, roads and facilities in the future, much less finding the resources to increase services in the many areas needed. Strong fiscal management, cost containment and efficiencies, RDA dissolution, pension reform, and Long Beach voter approved ballot measures have allowed the City to maintain and

even restore and enhance services. Balancing last year's budget (FY 19) was difficult and balancing the Proposed FY 20 budget was even more difficult, but the challenges over the last two years have been met with services generally maintained and, in some instances, new services added. However, in order to balance future budgets, it is expected that some combination of new revenues, unexpected cost decreases, noticeable service reductions, or new ways of service delivery will be required over the next few years. This section discusses the fiscal challenges that exist for FY 20 and the potential longer-term challenges.

### FY 20 Budget Balanced Despite Challenges

The Proposed FY 20 General Fund Budget is balanced and maintains core services. However, the path to this balanced budget was not easy and reflects difficult decisions and diminishing budget balancing solutions. As part of the budget process, City Council reviewed the guidelines proposed by the City Manager for the development of the FY 20 Budget. These guidelines were intended to help develop a budget that would have the least adverse impact on services to residents and businesses as possible. The guidelines that were used in the budget are as follows:

- An increase in parking fines to balance the budget
- Adds that are not mandatory or essential will be minimized
- One-time items will be minimized
- Engine 17, the Six Police Officers, and Community Hospital will not be structurally funded
- No structural funding for new labor agreement costs as there is currently no agreed amount to fund

While these guidelines were instrumental in helping to balance the budget with minimal impact to services, the balancing left some needs unfunded or underfunded, including the budgets necessary for liability insurance and fleet acquisitions. The underfunding cannot continue indefinitely without adverse impact, and restoration of the funding will impact future budgets.

The Executive Summary chapter further describes the budget balancing strategies as well as details on the General Fund revenue and expense drivers and trends.

### Extremely High Demand for One-Time Resources

Demands for one-time resources is high and the FY 20 Proposed Budget was not able to accommodate many of the one-times investments that have been funded in previous years, such as support for Sunday library hours, the Be S.A.F.E program, and Council District Priority One-time Funds (i.e. Divide by Nine).

With regards to the potential new labor agreements in FY 20, since the costs are unknown at this time, the Proposed FY 20 Budget is currently balanced with no structural or one-time funding for labor agreement costs. Any subsequent FY 20 General Fund labor costs

will need to be paid from one-time resources. At present, only about \$250,000 in projected FY 19 surplus is not already allocated in the FY 20 Proposed Budget. Therefore, any labor agreement with costs in FY 20 will need to be funded from a combination of the \$250,000 in projected surplus, any potential surplus above the already projected amount, identification of any temporary reserves that could be used, a possible deferral of some capital projects, or, lastly, use of the operating reserves. It is strongly recommended that the \$250,000 in projected surplus and any additional one-time funds that become available be reserved for funding of any one-time costs associated with labor agreements.

### Engine 17 and Six Police Officers Are Not Included Due to Lack of Funding Sources

As part of the adoption of the FY 19 Budget, the Mayor and City Council requested that the City Manager identify revenue sources to fund both the restoration of Engine 17 and six additional Police Officers. In a December 2018 status update on the budget, the Administration indicated that increased parking fines and ambulance fees might be able to play a substantial role in addressing that request. Unfortunately, by the April 4, 2019 budget update to City Council, it had become clear these revenue sources and any other new revenue would not be enough to structurally fund these services and any new revenues potentially generated from parking fines and ambulance fee increases would be needed just to maintain current services.

The Administration then looked to address the funding for these services using a different approach: use of one-time funding for up to three years as long as there was a clear and definitive pathway to permanent structural funding when the one-time funding ended. In furtherance of that approach, the Administration applied for a SAFER grant for three years of one-time grant funding for Engine 17, and, in addition, has identified \$9.6 million in projected Measure A funding over the next few years. If the SAFER grant is approved, the City would be \$1.8 million short of the necessary one-time funds needed to fund Engine 17 and the Six Police Officers over three years.

While this additional one-time funding could likely be cobbled together from a variety of mechanisms, updated projections indicate that there will not be structural funding available to support these services when the one-time funding ends. As is discussed later in this letter, projections indicate that even to maintain the current level of services, significant new and, as of yet, unidentified revenues would be needed. As a result of a lack of structural funding (and current uncertainty about the proposed one-time funds), Engine 17 and Six Police Officers could not be included in the Proposed FY 20 Budget. These are important service additions and the Administration will continue to look for long-term funding, but the FY 20 budget reflects the higher priority of funding current services.

### Expenditure Growth Tends to Exceed Revenue Growth

The City's ability to maintain services after this next budget year (FY 20) is at risk, primarily because costs are continuing to increase faster than the City's heavily constrained revenues. This is a problem that many cities across the country are facing and particularly those in California with high pension costs and a high cost of living. This

is not a new challenge for Long Beach. Long Beach has had to reduce services in the past and, since the last recession has also implemented many adjustments to maintain services, enhance services whenever possible, and improve the City's financial strength.

The main cost factors impacting the City's ability to maintain service levels are pension and other benefit cost increases, wage increases, and infrastructure and technology support and maintenance costs. Additionally, the amount by which revenue sources can naturally grow year over year is constrained in Long Beach and other California cities. In general, Long Beach's base revenue increases (not including unusual one-time gains or unusual one-time losses) have trouble even growing by the inflation rate. Property tax is constrained by the state constitution and sales tax is constrained by the long-term national decline in the amount of disposable income spent on taxable goods as opposed to the increasing share of disposable income spent on non-taxable (in California) services. Another significant revenue source, the utility tax, is constrained by conservation in electric, water, and gas usage and sharply changing patterns of telephone (non-cellular) use. Many other City revenue sources are relatively static and do not experience significant natural growth.

### Three Factors Have Made the Difference in Recent Years of "Budget Peace" but Are Not Expected to Continue

Notwithstanding the problem that base expenditure growth often exceeds base revenue growth, the City has excelled over recent years in funding and improving services. The basic underlying issue has not radically changed but three key factors have dramatically helped. These three factors, in chronological order, are:

1. Termination of redevelopment agencies (FY 13) – The State's termination of all redevelopment agencies increased General Fund revenue by \$18 million a year
2. Pension Reform by the City (FY 14) – Pension reform by the City and its employees saves the General Fund about \$14 million a year
3. Measure A (FY 17) – The tax revenue generated by Measure A is approximately \$30 million a year for on-going services and another \$30 million a year for one-time uses

Collectively, these three factors add approximately \$62 million a year to the General Fund for ongoing services and another \$30 million a year as one-time revenue for infrastructure and other one-time uses. The benefit of these factors has largely been fully utilized at this point and is not anticipated to increase in the future at a growth rate needed to offset the rate of expenditure growth.

There have been other significant one-time factors. Measure MA, passed in November 2016 has allowed a cannabis tax to support the cost of cannabis enforcement and other public safety, homelessness, and General City services. This tax revenue is increasing and may be of some help in balancing the budget and providing services in the future. Another recent major factor is Measure M passed in June 2018. Measure M did not add

resources for city services, but instead protected existing resources for services. Details of these Measures, their revenues, uses, and accomplishments, can be found in the City Ballot Measures Chapter of the Budget Book.

Economic growth and the major development and redevelopment activity in Long Beach help create additional revenues in the form of property tax, sales tax and the transient occupancy (hotel) tax. In general, however, because the City is so large, the new income from this economic activity shows up as a marginal increase in the growth of City ongoing revenues, not as a major bump. Economic activity alone will not solve the City’s financial and budgetary challenges. However, without the economic development and redevelopment, this would be a different City both in its built environment and services, which would not be as great as they currently are today.

Outlook for Future Budgets

Table 1 shows the General Fund Budget Outlook for the next five years. The Outlook assumes that current expenses and revenue trends continue and also takes into account known future pattern changes. The Outlook assumes a continued strong economy, no recession, no new services, and no increased investment in infrastructure or facility maintenance. As is always the case with projections, the Outlook will change over time as more information becomes known.

| <b>Table 1: Preliminary Budget Outlook FY 20 - FY24</b> |              |              |              |               |               |
|---|--------------|--------------|--------------|---------------|---------------|
| (GF \$ in millions)                                     | <b>FY 20</b> | <b>FY 21</b> | <b>FY 22</b> | <b>FY 23*</b> | <b>FY 24*</b> |
| Surplus/(Shortfall)                                     | 0+10 onetime | (8)          | (14)         | (10) or (17)  | (9) or (12)   |
| Range   | n/a          | (5) to (12)  | (11) to (18) | (7) to (21)   | (6) to (16)   |

\*FY 23 and FY 24 show two numbers for the shortfall, e.g., for FY 23 it is “(10) or (17)”, because labor negotiations are not complete. Depending on the results of the negotiations, the shortfall could potentially be one number or the other.

The Outlook includes ranges for each year to account for the inherent uncertainties in looking at the future. It also assumes a potential cost of living wage increase (assumed to be 2.7 percent) that is provided each year. However, for FY 20, the structural cost of any potential raise is not included in the proposed budget and, as a result, one-time funding will be needed to cover any wage increases in that year.

The cost of any FY 20 wage increase will need to be funded structurally (permanently) in a future year. In that future year when the structural funding occurs, there will be a “doubling up” of costs to account for the structural cost of the FY 20 wage increase as well as any new wage increase in that particular year. The timing details of the actual negotiated agreements now and in the future will determine the year in which that double-up of wage cost occurs.

This Outlook assumes most of the double-up of costs occurs in FY 23 with the balance in FY 24. The double-up could, in fact, occur in any year after FY 20 depending on the outcome of negotiations. In this Outlook, if there is no double-up in FY 23, the budget shortfall is \$10 million but if there is a double-up, the shortfall becomes \$17 million. In FY

24, if there is no double-up, the shortfall is \$9 million but if there is a double-up, the shortfall becomes \$12 million.

While the Outlook has significant uncertainty, it is unlikely that the long-term pattern of financial challenges will materially change, unless there is a recession or some other substantive change in the current revenue and expenditure patterns.

### Unfunded Needs and Liabilities

While the proposed FY 20 budget maintains services and provides funding for many important initiatives, there remain important operating needs and long-term liabilities that are unfunded or inadequately funded in this budget. In addition to needs in basic operations, the key areas of needs and liabilities include: major infrastructure maintenance, self-insurance funding, fleet acquisitions, pension and other post-employment benefits, implementation of the climate action and adaptation plan, preparation for the 2028 Olympics, providing for financial strength and resiliency, and maintaining appropriate levels of technology, administrative and management operations to reasonably ensure appropriate management and financial oversight, direction and controls. These issues are similar to those being faced by many cities and governments.

The City has been conducting studies to ascertain the level of funding needed to repair and/or maintain infrastructure. Sidewalk assessment, road and street condition, and alley assessment studies have all been recently completed and a facilities condition assessment is currently underway. Long-term pension liabilities are a major concern, but the large increases in annual pension funding are projected to eliminate those liabilities over the next thirty years.

From an operations viewpoint, no budget can address all the needs or services that are wanted by the wide variety of constituents and businesses in a City. What is funded is always limited by the available resources, the amount of resources the voters wish to provide, and then allocated to services by the budget. Further discussion on the City's unfunded or underfunded needs and liabilities are described in the Executive Summary.

### Potential Approaches to Addressing Future Budget Challenges

Long Beach has a history of strong financial management and a sound core of financial policies that can serve as an excellent starting point to continue to address the projected budgetary and financial issues. Identifying the issues, analyzing them, and making plans for mitigation is consistent with the financial policies adopted by the City Council. To this end, some potential actions that could be taken are as follows:

- Financial/budget updates: Ongoing updates on both the current and long-term financial projections
- Identification of key revenue and expense challenges, opportunities and uncertainties
- Identification of potential (alternative) revenue sources

- Identification of ways in which services could potentially be provided at lower costs and/or lower rates of cost growth
- Identification of big-picture options that will help immediate future budgets achieve a structural balance
- Identification and consideration of longer-term steps to address the projected financial issues and challenges (and opportunities)

Most, if not all, of the approaches described above could be components of a long-term, financial plan. These approaches would then impact the solutions used in future proposed budgets. A long-term financial plan would be consistent with City Council financial policies and could form a partial basis for and/or be a part of an overall City strategic plan. Any options identified to address fiscal challenges would be discussed and decided by the City Council. The final result of a long-term financial plan would be the adoption of a fiscal roadmap including specific actions and financial practices that would be periodically reviewed and updated to be consistent with current circumstances and the will of the City Council.

The City has a long-term approach to support economic development and redevelopment, neighborhood maintenance and improvement, tourism, and support for businesses as well as maintaining a balanced approach to services. This approach is anticipated to help the City continue to increase its revenue base and is a key to continuing to provide good services to residents, businesses and visitors. For years, the Mayor and City Council have provided support for strong financial management and running a lean and constantly improving organization. Independent reviews by bond rating agencies have consistently affirmed this strong financial management. Taking some or all of the steps identified above will work in concert with the long-term economic approach and will help the City be better prepared for its immediate and long-term financial challenges, support and improve services in the most appropriate way given its resources, and maintain its history of strong financial management.

We await any City Council direction in this area. In the meantime, once the FY 20 budget is adopted, the Administration will develop plans and options to find funding for any one-time labor costs needed in FY 20, achieve a balanced FY 21 and beyond, and will keep the Mayor and City Council apprised of progress and any recommendations.

## **Conclusion**

This \$2.8 billion budget reflects the great support of Long Beach residents and businesses and the collaboration of the Mayor, City Council, and City staff. Fiscally sound approaches and options were proactively discussed with City Council early in the budget process to resolve the projected shortfall in FY 20 and maintain services while contributing to strategic investments.

The Executive Summary, immediately following this transmittal letter, provides a summary of the budget, a list of strategic General Fund one-time strategic investments (Attachment A), FY 20 Summary of Significant Changes (Attachments B and C), Impact

of Critical Technology Needs on Budget Summary (Attachment D), and Unfunded High-Priority Needs and Liabilities (Attachment E). The City Ballot Measures Chapter and Attachments provide additional detail on various ballot measures that has helped the City's strong fiscal standing, including updated projections and summary of uses for Measure A. The balance of the proposed budget document provides details and additional explanations for the General Fund, as well as all other funds.

I want to extend my appreciation to the Mayor and City Council for your fiscal leadership. Also, I can't thank enough the Budget Staff in Financial Management and all the City Manager Departments for the difficult work required to develop and submit this proposed budget. I would also like to thank the City Attorney, City Prosecutor, City Auditor, City Clerk, Civil Service Executive Director, Harbor Department Executive Director, and Water Department General Manager for their continued cooperation and support.

We look forward to working with you as you consider this proposed budget, which accomplishes many things, and as we move forward to address the challenges facing us in the future.

Respectfully submitted,

A handwritten signature in blue ink that reads "P West". The signature is written in a cursive, slightly stylized font.

Patrick H. West  
City Manager