



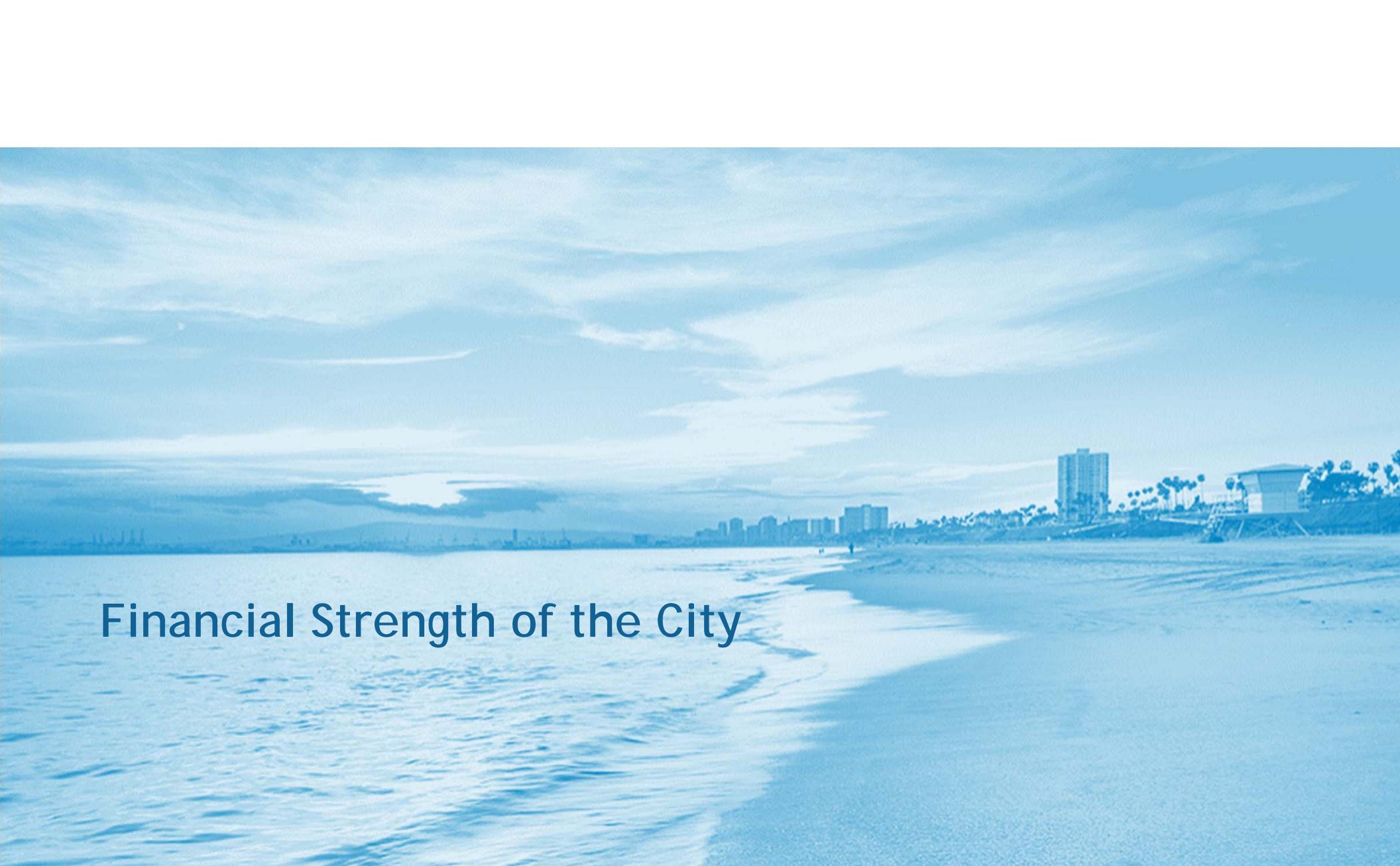
Budget Update and Restart of the Budget Process

Projections, Goals, and Proposed Actions

Study Session - May 19, 2020

Discussion Topics

- Financial strength of the City
- Impact of COVID-19 pandemic on economy and services
- Projection update and budget process
- Goals and strategies for budget balancing

A blue-tinted photograph of a beach and ocean. The foreground shows the gentle waves of the ocean meeting the sandy shore. In the distance, a city skyline is visible, including several tall buildings and palm trees. The sky is filled with soft, wispy clouds. The overall mood is serene and coastal.

Financial Strength of the City

Strong Financially

- **Balanced budget**
 - A key to good financial management and maintain bond rating
- **Reserves**
 - General Fund: Operating reserve - \$13.5 million (2.5%); Emergency reserve - \$45.5 million (8.5%)
 - Other reserves - primarily for unfunded liabilities, capital, and one-time projects
- **Other**
 - AA credit rating
 - Large and diverse tax base, strong liquidity position
 - Prior to pandemic - great economy and development activity
 - Full service city



Impact of the COVID-19 Pandemic on Economy and City Services

The COVID-19 Pandemic Impact is Severe and Unprecedented

- The nation has not seen anything like this before
- Businesses shut-down, unemployment skyrocketing
- Revenue decline is sharp and quick
- Substantial pandemic expenditures - level of reimbursement not certain
- Uncertain economy restart pattern and unknown pandemic pattern
- A quick rebound is no longer considered likely
- Lack of one-time funding
- Bond (credit) rating and reserves at risk
- City services will be impacted

Many Cities Are Severely Impacted

- Cities in California and across the country are recognizing the major financial and economic problem requiring major budget actions
- Most California cities use a July 1 fiscal year

Agency	Shortfalls and Budget Actions
City of Los Angeles	<ul style="list-style-type: none">• \$231m revenue loss in current year; \$194 - \$594m in FY 21• Borrowing \$70m from special and reserve funds• 26 furlough days (excludes public safety and sanitation workers)• Significant cuts such as 20% reduction in street sweeping• 10% reduction in infrastructure spending
San Diego	<ul style="list-style-type: none">• \$300m revenue loss over FY 20 and FY 21• 10% reduction in services including elimination of 342 positions – including 23 police staff with 17 sworn positions, 97 library positions, 89 parks positions

Many Cities Are Severely Impacted

Agency	Shortfalls and Budget Actions
Santa Monica	<ul style="list-style-type: none">• \$48m revenue loss in current year; \$102m in FY 21; \$74m in FY 22• \$86m in proposed cuts (337 FTEs and 144 temp positions)• Up to 15% reduction in pay for management• Street sweeping from weekly to monthly• Voluntary early separate incentive program
San Francisco	<ul style="list-style-type: none">• \$167 - \$287m shortfall in current; \$528 - \$779m in FY 21; \$444-\$612m in FY 22• Budget timeline pushed back 2 months, adopting budget in October instead of July
Oakland	<ul style="list-style-type: none">• \$36m revenue loss in current year; \$54m in FY 21• Hiring freeze• Laid off part-time employees including parks and library staff
Sacramento	<ul style="list-style-type: none">• \$30m revenue loss in current year; \$60m in FY 21• Looking at redirecting Measure U (their version of Measure A) previously slated for economic inclusion projects
San Jose	<ul style="list-style-type: none">• \$45m revenue loss in current year; \$65m in FY 21• Furloughs for more than 1,000 of its temporary and part-time employees• Use of earmarked reserves and cutting capital expenses

Long Beach Services Will Also Be Impacted

- As with many other cities, the revenue losses are too large to absorb. Both staffing levels and services will be impacted
- Actions need to be taken quickly to minimize shortfall impacts
- The City did not receive Large City CARES Act funding, but the Governor has proposed a \$450m allocation of state CARES monies to cities and Long Beach is a recipient
 - Potentially fund payroll and other expenses re: COVID-19 response and future response and recovery efforts to help residents and businesses
- HEROES Act under consideration that could provide more than \$1 trillion to state and local governments
- Pursuing other grants and funding including County funding

Opportunity to Transform and Reimagine Service Delivery

- The pandemic has created a significant fiscal crisis and likely substantive impact on services
- Opportunity to look at new ways of delivering services and transform the way the City works to provide services to our residents and businesses
- We have already rapidly and effectively adapted our organization to respond to the crisis and stay at home orders
- Moving forward, we will continue to reimagine work and service delivery, and assess strategic investments to propel Long Beach into the future
 - Technology investments and innovations
 - Investments into businesses to lay foundation for resilient local economy
 - Organizational structures and service delivery models

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Budget Projection Update and Process

FY 20 Direct Impacts of City's Actions re: the Pandemic

Area	Impact
EOC operations and departmental actions	<ul style="list-style-type: none"> • \$11m General Fund and \$5m other funds (total \$16 m) through 5/18, excl Health Dept • Potential General Fund unreimbursed/unbudgeted costs \$3-6 m for year • Response activities rapidly change depending on community needs and virus spread
Health staffing and testing	<ul style="list-style-type: none"> • \$2.5m through 5/18, might be \$15-20m by end of year, \$3-5m unreimbursed • Anticipate expenses through FY 22 until vaccine is available; will drain Health Fund reserves
Parking citation revenue	<ul style="list-style-type: none"> • About \$2m through 5/18; might be \$5-6m by end of year if no enforcement continued
Towing	<ul style="list-style-type: none"> • About \$300,000 now; if extended, might be \$1.5m by end of year
Utility related fees (no fees/shut-offs)	<ul style="list-style-type: none"> • About \$700,000 through 5/18; if extended, might be \$2.0m by end of year • Unknown costs from permanently unpaid normal service charges
Bus. License penalty waivers	<ul style="list-style-type: none"> • About \$170,000 through 5/15; might be \$650,000 by year end for penalties • Unknown cost from permanently unpaid business license tax
Permitting deferrals	<ul style="list-style-type: none"> • Less than \$200,000
Rent deferral	<ul style="list-style-type: none"> • City gets over \$2.4m/month in rent. Could have significant impact in FY 20; if deferral results in eventual non-payment, may result in permanent losses. No loss estimate possible at this time.

FY 20 General Fund Projection - Significantly Worse

Revenue / Expense	Adverse Impact in \$ millions - loss	Additional Notes
Sales Tax (Non Measure A)	\$12	<ul style="list-style-type: none"> • 17% decline from pre-pandemic projections
Transient Occupancy Tax	\$10	<ul style="list-style-type: none"> • 43% decline
Oil Revenue	\$3	<ul style="list-style-type: none"> • 30% decline • Budget is \$55/bbl vs. current is mid-\$20s/bbl • Loss is partially mitigated by not funding \$1.3m set-aside for future abandonment costs
Parking citation revenue	\$2	<ul style="list-style-type: none"> • 11% decline
Pandemic costs	\$6	<ul style="list-style-type: none"> • \$13.9m costs to date • \$3-\$6m estimated as not reimbursed
Other revenues	TBD	<ul style="list-style-type: none"> • Anticipated to impact other revenues but additional review needed

- *Based on preliminary analysis – actual data not available; may change significantly*

FY 21 General Fund Projection - Significantly Worse

Revenue / Expense	Adverse Impact in \$ millions - loss	Additional Notes
Sales Tax (Non Measure A)	\$6	<ul style="list-style-type: none"> 9% decline from pre-pandemic projections
Transient Occupancy Tax	\$8	<ul style="list-style-type: none"> 36% decline
Oil Revenue	\$5	<ul style="list-style-type: none"> 55% decline Project was \$55/bbl vs. revised \$30/bbl Loss is partially mitigated by not funding \$1.3m set-aside for future abandonment costs
Other revenues	TBD	<ul style="list-style-type: none"> Anticipated to impact other revenues but additional review needed

- Projection will change significantly depending on situation; more likely to be worse than better*

General Fund Shortfall

Current Projection of Shortfall (\$ in millions)

FY 20	FY 21	FY 22	FY 23
(25) to (41)	(30)	(13)	(22)

Each years' shortfall starting in FY 21 must be structurally solved to avoid the unsolved amount adding to the next year's shortfall

- Key assumptions:
 - Range in FY 20 reflects the high level of uncertainty for revenue loss
 - Pandemic revenue losses mostly end in FY 21 with no second phase or other general recession
 - Includes current negotiated contract costs and general cost of living raises for others
 - Includes higher CalPERS costs in FY 22 and beyond due to FY 20 investment losses
- Long-term large projected shortfalls indicate a need for a long-term plan and substantive corrective actions

Tidelands Operating Fund Shortfall

- Without any corrective action, fund is projecting to end FY 20 with negative \$5m in funds available. If no changes are made, it grows to negative \$19m by end of FY 21
- Key assumptions:
 - Oil is budgeted at \$30, \$35, \$45 and \$55 per barrel in FY 21 through FY 24 respectively
 - Extra costs for bonds due to Aquarium and QM revenue shortfalls as assumed to occur only in FY 21
 - Funding, per contract, of Convention Center loss of \$5m in FY 20 and \$2.5m in FY 21
 - No funding of \$6m annual oil well abandonment costs in FY 20 - FY 22 (3 years)
- Fund has major uncertainties and risks; FY 20 and FY 21 shortfalls recommended to be addressed by combination of project defunding, reduction of operating costs, and use of reserves

Special Advertising and Promotion Fund Shortfall

- Without any corrective action, fund is projecting to end FY 20 with negative \$0.7m in funds available. If no changes are made, it grows to negative \$2.6m by end of FY 21
- Key assumptions:
 - Transient Occupancy Tax revenues are heavily impacted for one-half year in FY 20, and throughout all FY 21. Assumes a general recovery by FY 22
 - Extra 1% tax, effective July 1, is not included in these numbers and is assumed dedicated per resolution for specified purposes
- Fund has significant risk with volatile revenue source; FY 20 and FY 21 shortfalls recommended to be addressed by combination of project defunding, reduction of operating costs, and use of reserves

Measure A

- Projected revenue loss of \$5m in FY 20 compared to FY 20 budgeted Measure A plan and projections. For FY 21, below projected revenues by \$2 m
- Inclusive of the approved ballot measure, out-years beginning in FY 22 projected to be higher than revenue levels assumed in the FY 20 budget plan
- Assumes a general recovery by FY 22 - may be optimistic
- A revised spending plan will be developed and proposed that takes into account temporary revenue decline, the difficulty in funding public safety operations, and long-term revenue increase from the approved ballot measure
- May recommend use of some unallocated revenue and projects to be potentially postponed or defunded to help maintain public safety services

Airport Fund

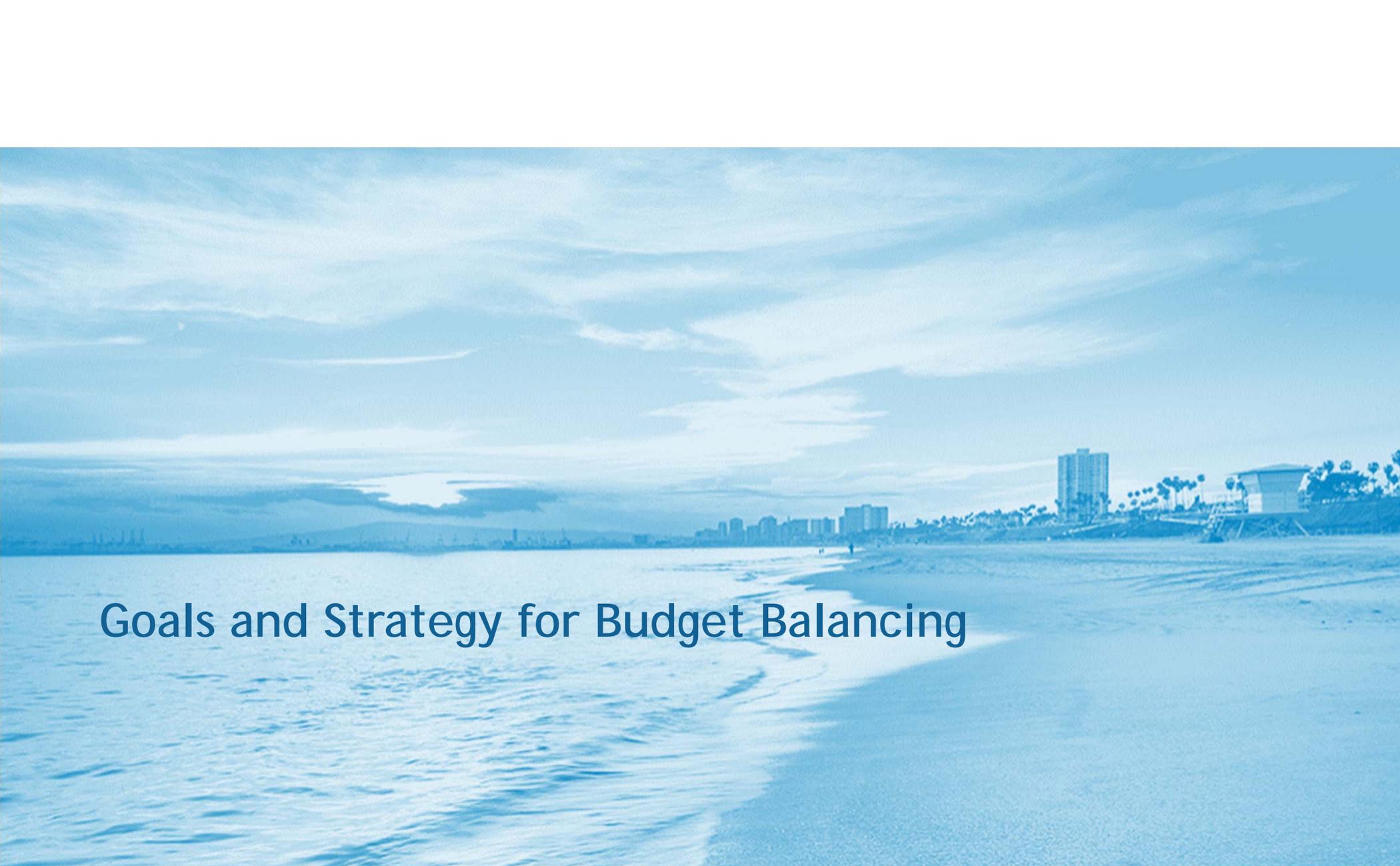
- Unprecedented drop in traffic - loss potentially up to \$20m in FY 20
- Too early to have meaningful future projections
- Maintaining adequate cash is the key goal
- City's practice of maintaining a large funds available has made a huge difference
- The \$18m CARES grant funds help but anticipate expending over next 6 months
- The Terminal Area Improvement Project is being phased to allow it to be halted at various points, if necessary to protect cash
- Adaptation by airlines and passengers could affect the Airport's future
- The status of the Airport Fund and the airline and passenger situation will be continuously monitored

Other Funds and Other Impacts

- COVID-19 is likely impacting most funds, including enterprise funds
- Mobility and other State and County funding from Gas Tax and Sales Tax will be adversely impacted
- Utility funds revenues including penalty fees likely down
- Towing fund revenues are down significantly due to reduced tows and cancellation of lien sales
- Impacts such as these have not yet been fully analyzed and will be monitored and evaluated
- All funds will be asked as part of budget process to evaluate health of fund and find efficiencies

Revised FY 21 Budget Process

- Restart the delayed process - goal of normal adoption date
- Intent is to provide City Council and the public with close to normal time for review, budget hearings, and discussion
- Shortened process times; less time or information for in-depth analysis
- Proposed budget will be a booklet summarizing proposed changes and will also include the Mayor's recommendations
- Adopted Budget book prepared and published after budget is adopted
- During the FY 21 year, strategies will be developed for future years

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Goals and Strategy for Budget Balancing

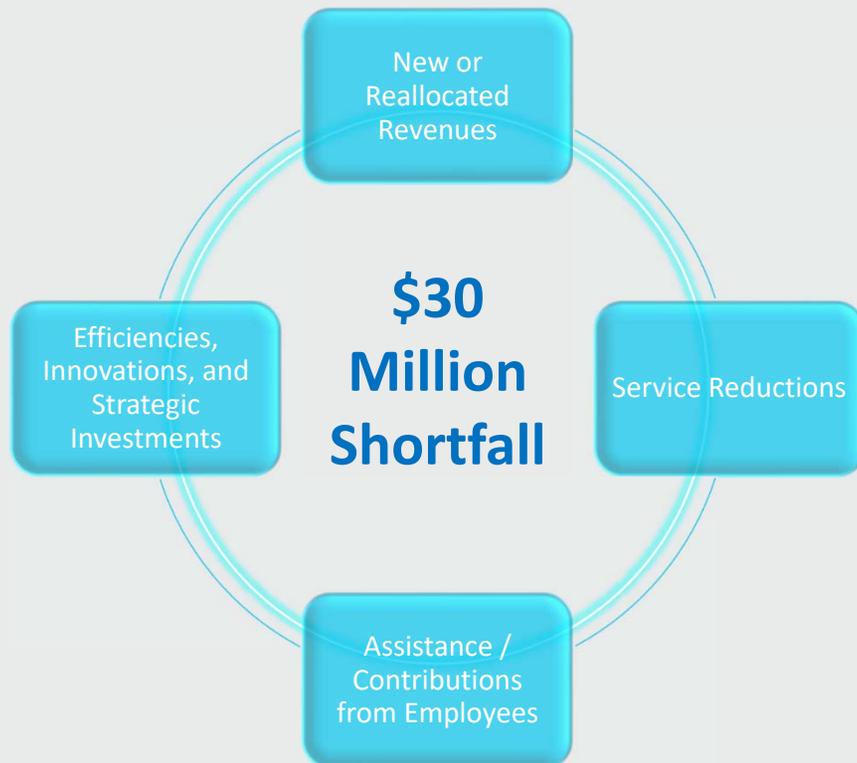
FY 20 and FY 21 Budget Actions Goals

- No adverse impact to COVID-19 pandemic public safety/health response
- Reduce non-critical expenditures as much as practical
- Strategic use of operating or emergency reserves that preserves for future
- No layoffs of full-time staff in FY 20, reduction in part-time staffing/hours
- Minimize layoffs by utilizing attrition / reduction of vacant positions in FY 21
- Balanced Proposed Budget
- Emphasize core services and maintaining a balance of services
- Look for transformation opportunities
- Find ways to make needed investments in the City's economic future

FY 20 Budget Actions Strategy

- Hard hiring freeze and cutback on non-essential expenses
- Provide recommendations on defunding non-critical capital projects
- Reconsider summer activities and programs impacted by pandemic
- Emphasize full-time staffing over part-time or non-career staffing
- Defer decisions on the fire and police academies until later in the FY 21 budget process to better understand funding and budget ramifications
- Encourage innovation and investment opportunities

FY 21 Multi-Prong Strategic Approach for General Fund



- Look to new or reallocated revenue
Measure A and Ambulance fees to support public safety
- Explore additional efficiencies, innovations, and strategic investments
Identify options for operational efficiencies, consolidations, new ways of business, leveraging technology, strategic investments, economic resiliency
- Assistance and contributions from employee groups
Savings to help reduce layoffs and service cuts
- Service reductions that prioritize the City's core services/values, and outcome based decision making process

A Balanced Outcomes-Based Approach

- Balance of the following critical services
 - Meet required local, State, federal mandates and legal requirements
 - Ensure adequate support staffing for front-line services and systems for effective delivery of services
 - Core services to the community
- Prioritize and balance the following core services with reasonable response/service levels
 - Police patrol, emergency medical, and fire services
 - Infrastructure response (sidewalks, potholes, facilities maintenance)
 - Maintenance of public spaces/assets (landscapes, graffiti abatement, tree trimming, etc.)
 - Response to homelessness
 - Maintaining or enhancing revenues
 - Quality of life services (library, recreation, community programming)
 - Youth and senior support

Achieving the Balance

- Outcomes:
 - Structurally balance the budget
 - Preserve organizational capacity to effectively operate
 - Retain acceptable service levels
- Steps to take
 - Review additions over the past five years
 - Reevaluate acceptable service levels
 - Explore technology and other ways of serving the public
 - Whole organization approach - look at outcomes, rather than percent of funding reduction
 - Review service delivery changes from a whole City and equity lens.
 - Pursue fee and cost recovery where appropriate
 - Look at services differently - need to consider different ways to operate
 - Recognize that service reductions will occur and adapt approach

Why a Balanced Approach?

- Overconcentrating service reductions in any one area would be detrimental
- Exempting areas leads to fractured service approach
- All areas should be evaluated in a crisis of this level
- Our services are linked, e.g. public safety continuum
 - Public Safety relies on libraries and parks
 - Poor infrastructure and maintenance can drive fire calls and crime
 - Homelessness drives increases in fire and police
 - Support for front line workers is critical to their effective operation

Continuum of Public Safety



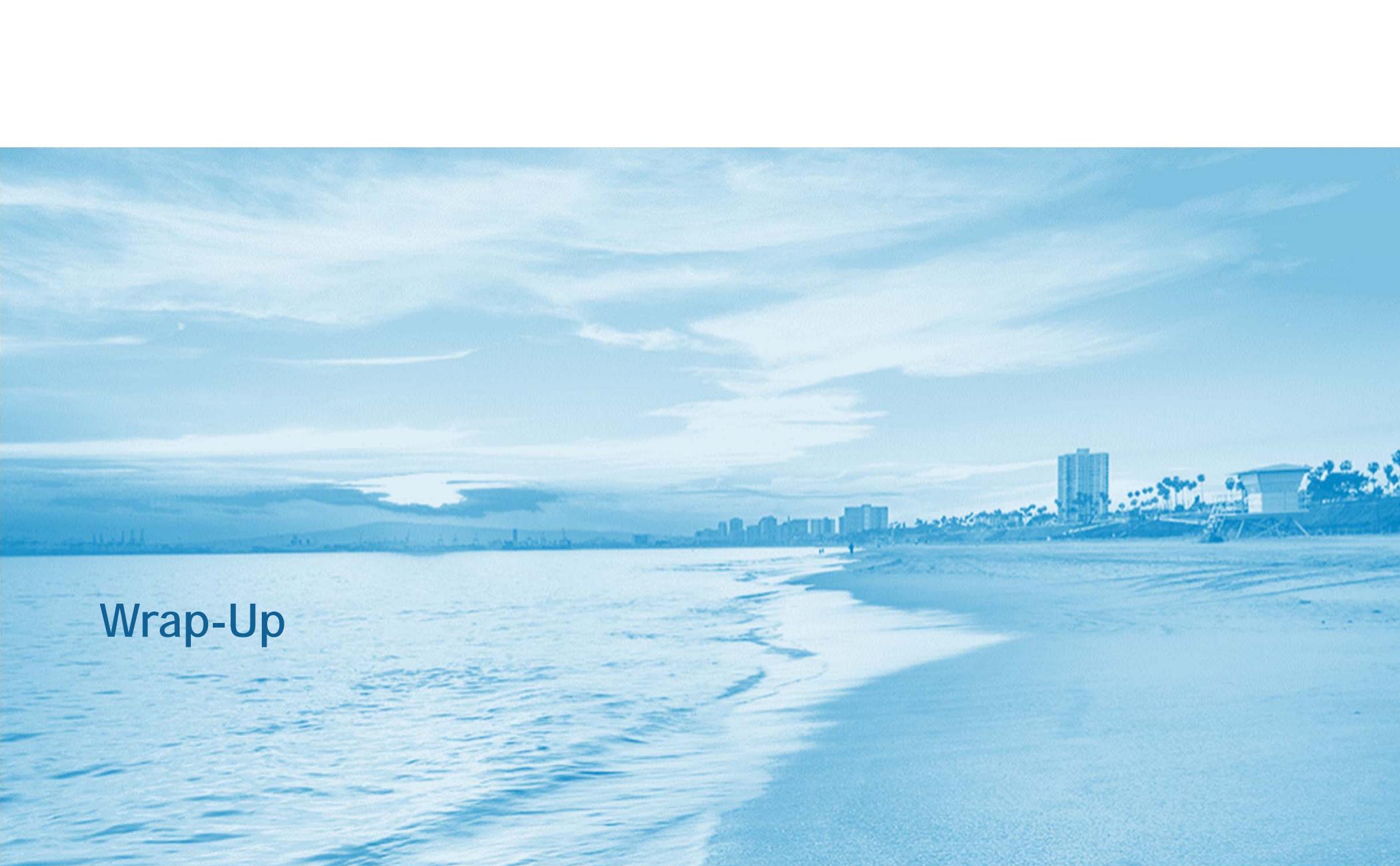
Finding \$30 Million in Solutions is Very Difficult

- Service reductions will be substantial, although will work to minimize with other offsets as available
- Size of shortfall (\$30m) makes it necessary to look at entire organization and menu of options

Department	FY 21 Base Budget (\$ in Millions)	% of General Fund
Police	249.1	48.3%
Fire	103.8	20.1%
Disaster Preparedness and Emergency Communications	12.9	2.5%
Public Works	41.3	8.0%
Parks, Recreation, and Marine	35.1	6.8%
Library Services	14.3	2.8%
Elected & Appointed	29.2	5.7%
All Other Departments	29.8	5.8%
Total	515.5	100%

Budget Process Will Identify Options

- Generating of many options to consider, and what the alternative is, leads to better decision-making
- Reduction targets will total above the expected need - provides options and flexibility
- All departments, including non-City Manager Departments, will be requested to submit reductions
- Non-Public Safety will be a range from range of 0-12% of budgets; Public Safety will be a range of 0-3.5% of budgets
- Final recommendations will be based on the Balanced Outcomes-Based Approach
- Projections will be updated during the budget development process - may get worse
- Contingency plans will be reviewed/developed

A wide-angle photograph of a beach and ocean, tinted in shades of blue. The ocean is on the left, with gentle waves washing onto the sandy beach on the right. In the distance, a city skyline is visible under a cloudy sky. The text 'Wrap-Up' is overlaid on the left side of the image.

Wrap-Up

Conclusion

- Pandemic has substantially changed the City's financial landscape
- Significant service reductions across the board will be needed
- Service reductions will emphasize maintaining core services and values
- Making the necessary difficult decisions will position the City for the future
- Long Beach's strong economic position and attraction for development and businesses should help it recover as quickly as possible
- This budget year and the next few years will be very difficult, but the City is resilient and innovative!