

EXECUTIVE SUMMARY

OVERALL BUDGET FINANCIAL SUMMARY¹

The Fiscal Year 2021 (October 1, 2020 through September 30, 2021) all funds budget for the City of Long Beach is estimated to total \$2.6 billion, including \$491 million for the Capital Improvement Plan. Table 1 below shows the total Proposed Budget for the City's General Fund Group, including one-time expenditures, enterprise fund groups (Gas, Refuse, Water, Airport, Development Services, Harbor etc.) and all other fund groups (Successor Agency Operations, Debt Service, etc.). Due to the modified budget process and timeline this year, the Proposed FY 21 budget number reflects only the City Manager Proposed Budget decisions and do not yet include updates for interdepartmental charges, grant and carryover clean up, and other technical budget items. These numbers will be updated for the Adopted Budget and are anticipated to change and likely increase the FY 21 expenditures, particularly in the non-General Fund fund groups.

Table 1. Total Budget (\$ in millions)					
	<u>FY 20 Adopted</u>	<u>FY 21 Proposed</u>	<u>% of Total</u>	<u>% Change</u>	
General Fund - Recurring	\$ 521.1	\$ 538.5	20%	3%	
General Fund - One-Time	34.7	5.1	0%	-85%	
Enterprise Funds	1,147.4	1,126.0	43%	-2%	
All Others	1,101.6	976.9	37%	-11%	
Total	\$ 2,804.8	\$ 2,646.6	100%	-6%	

Attachments L through T as outlined below provides additional financial summary details at this point in time. These attachments will be updated when the budget is adopted to reflect updates to estimates and final system balancing:

- Attachment L – Summary of Budgets by Department (All Fund Groups)
- Attachment M– Summary of Budgets by Department (General Fund Group)
- Attachment N – Summary of FTEs by Department (All Fund Groups)
- Attachment O – Summary of FTEs by Department (General Fund Group)
- Attachment P – Summary of FY 20 to FY 21 FTE Changes by Department
- Attachment Q – Summary of Expenditures by Fund Group
- Attachment R – Summary of Revenue by Fund Group
- Attachment S – General Fund Top 40 Revenues
- Attachment T – Fiscal Policies

GENERAL FUND GROUP

The General Fund group accounts for approximately 20 percent of the total budget and provides many of the resources for core City services. This includes policing, fire response, parks, streets

¹ Due to the shortened nature of the budget process as impacted by the COVID-19 pandemic, the numbers presented in this summary and attachments are estimates and may change at budget adoption and at the time the final budget document is prepared.

EXECUTIVE SUMMARY

and sidewalks repair, and library services. Most other fund groups and resources are restricted by law for other purposes and cannot be used to support these core functions.

Balancing the FY 21 Budget

The May budget projection provided to City Council during the FY 21 budget development process indicated an estimated shortfall at that time of \$30 million. This shortfall has been resolved for FY 21 using a multi-prong strategic approach that considers cost saving innovations and efficiencies, new and reallocated revenues, departmental structural service reductions, and utilization of one-time savings including the use of reserves, and potentially savings through employee furloughs and other employee contributions from employee labor groups to help transition into permanent service reductions. This multi-pronged approach has also allowed for the funding of the high priority and critical enhancements related to the Racial Equity and Reconciliation Initiative and addressing the impacts of systemic racism in Long Beach.

Table 2 below shows the breakdown of the budget balancing actions with additional information provided below the table. Details for many of these items can also be found either in other places in this executive summary or in the City Manager's Transmittal Memo. Ultimately, the City has balanced the FY 21 budget shortfall through a combination of structural solutions as well as the utilization of one-time savings at a little less than \$14 million. The majority of these one-time savings are from the potential furloughs or other savings being negotiated with the employee labor groups, which would provide immediate short-term relief to help avoid significant layoffs and service reductions in FY 21. The use of one-time funds is typically not recommended in balancing a budget as the solutions are temporary only for the current proposed year, and any shortfall covered by one-time funds used will need to be solved structurally in the subsequent year, exacerbating future year challenges. However, given the unique and extraordinary situations of the current year due to the pandemic, the level of uncertainty that exists with the economy and how it will react and adapt to the current events, and the significant size of the shortfall with its implications on painful service reductions to the community, the use of one-time funds is a recommended strategic element for balancing FY 21.

EXECUTIVE SUMMARY

Table 2. FY 21 General Fund Budget Balancing Elements (\$ in millions)			
	Structural	One-time	Total
Preliminary Shortfall as of May	(30.2)	-	(30.2)
Citywide Revenue/Expense Updates	1.7	-	1.7
Reduced Water Transfer	(2.0)	-	(2.0)
<i><u>Departmental Submittals</u></i>			
Department Reductions	16.9	1.9	18.8
Racial Equity and Reconciliation Adds	(2.5)	-	(2.5)
One-time Implementation Delay Costs	-	(1.9)	(1.9)
<i><u>Other Budget Balancing Items</u></i>			
Increase Cannabis Tax	0.8	-	0.8
Related Funds Savings to General Fund	1.4	-	1.4
Employee groups contributions	-	11.0	11.0
Anticipated use of reserves	-	2.9	2.9
Revised Surplus / (Shortfall)	(13.9)	13.9	0.0
<u>Other One-time Uses and Sources</u>			
<i>Uses</i>			
Racial Equity and Reconciliation One-times		(0.7)	
Strategic Investment One-times		(3.7)	
Other departmental one-times		(0.1)	
<i>Sources</i>			
Additional Gas Fund Transfer and other adjustments		1.3	
Anticipated use of reserves		3.3	
Total One-time Sources/(Uses)		-	
TOTAL ANTICIPATED USE OF RESERVES			
For balancing budget and one-times		6.1	

- *Preliminary Shortfall as of May* – The preliminary General Fund Group shortfall for FY 21 as presented to the City Council in May 2020. This included additional revenue of \$4.1 million from expected additional Measure A revenue which was trending above budget.
- *Citywide Revenue/Expense Updates* – Since May, minor updates to citywide revenue and expense projection updates resulted in a reduction of the shortfall by \$1.7 million.
- *Reduced Water Transfer* – In recent years, the City has received from the Water Department a Water Fund Group transfer amount linked to historical transfer

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EXECUTIVE SUMMARY

amounts. The amount typically increases each year with inflation. For FY 21, the Water Board has proposed reducing the historically-based transfer amount by \$2 million, which is an additional impact on the budget on top of the costs related to the Measure M settlement. This adjustment reflects that transfer reduction.

- *Department Reductions* – Departmental net reductions saved about \$18.8 million.
- *Racial Equity and Reconciliation Adds* – Enhancements related to the Racial Equity and Reconciliation Initiative add \$2.5 million in costs.
- *One-time Implementation Delay Costs* – The one-time implementation delay costs for some reductions will result in reduced savings for FY 21 (savings will not be for the entire year). An example are items that contract out City services and require a special study before that can be done.
- *Increase Cannabis Tax Rate* – This is a proposed 1 percent increase in the business license tax rate (within voter approved authorization) on cannabis dispensary businesses. It is estimated to generate about \$800,000 in additional revenues and will be used for the purposes earlier designated by City Council and to fund the Racial Equity and Reconciliation efforts.
- *Related Funds Savings to General Fund* – These savings of approximately \$1.4 million includes reductions in charges by the General Services Fund Group and the Fleet Services Fund Group due to service and other adjustments, therefore generating savings in the charges to the General Fund Group.
- *Employee Groups Contributions* – The City is negotiating with employee groups seeking savings of at least \$11 million through employee furloughs or other actions that employee bargaining groups may agree to in these difficult times to prevent further service reductions and avoid additional layoffs. Any one-time contributions will help mitigate service reductions in FY 21. If these one-time savings are not realized, the City will need to implement other service reductions mid-year and/or utilize even more operating or emergency reserves.
- *Anticipated Use of Reserves* – The City anticipates that even with all other actions described above, approximately \$2.9 million of reserves will be needed to balance the FY 21 operating budget. Additional reserve use is also anticipated to be needed to fund key one-time investments included in the budget and described below.
- *Other One-time Investments* – The Proposed FY 21 budget also includes strategic one-time investments needed for the Racial Equity and Reconciliation Initiative, citywide strategic one-times, and other departmental items. These items are further described in the City Manager’s Message and Attachments and total to approximately \$4.5 million.
- *Sources for One-time investment needs* – A one-time additional Gas Fund Group transfer to the General Fund Group above the structurally budgeted level is anticipated to help fund at approximately \$1.3 million, but an additional \$3.3 million is anticipated to be needed and funded by drawing down reserves.

EXECUTIVE SUMMARY

- Total use of Reserves to balance the structural shortfall and one-time investment needs* – The drawing down of reserves to cover the remaining gaps of the structural shortfall and one-time funding needs is estimated at approximately \$6.1 million. Currently the City's operating reserve has 13.5 million (which includes \$1.7 million from Measure B) and the Emergency Reserve has \$45.5 million. It is anticipated that some of these funds may be needed to help resolve the FY 20 shortfall and so it is uncertain at this time how much of the reserves will be available for use in FY 21. Again, the proposed use of these reserves is only due to the unprecedented situation as exacerbated by the pandemic and the significant level of uncertainty in knowing how the economy will respond in the short and long-term. It is not a recommended approach for budget balancing in normal circumstances as it would not be fiscally prudent to deplete the use of reserves that may be needed for future needs or emergencies (i.e. earthquakes).

Proposed FY 21 General Fund Group Changes By Department

Table 3 summarizes the departmental net fund impact of the FY 21 General Fund Group proposed changes excluding one-times, along with the budgeted position changes. The total departmental changes were approximately \$16.3 million (made up of \$18.8 million in reductions plus a cost of \$2.5 million in enhancements related to the Racial Equity and Reconciliation Initiative). These figures exclude any Measure A changes as that is discussed and documented separately as part of the Measure A plan. The details of what makes up these changes by department are detailed in Attachment E to the City Manager's Transmittal Memo.

Table 3. FY 21 Structural General Fund Net Impacts by Department			
Departments	FY 21 Proposed Changes	Position Changes	% of General Fund Dept Solutions
Mayor and Council	(237,500)	-	1.5%
City Attorney	(138,998)	(2.00)	0.9%
City Auditor	(108,708)	(2.00)	0.7%
City Clerk	(111,693)	(1.00)	0.7%
City Manager	624,034	1.20	-3.8%
City Prosecutor	(243,500)	-	1.5%
Civil Service	(125,632)	(0.70)	0.8%
Development Services	(249,511)	(4.00)	1.5%
Disaster Preparedness and Emergency Communications	(471,360)	(2.00)	2.9%
Economic Development	(139,000)	-	0.9%
Financial Management	(1,292,311)	(11.71)	7.9%
Fire	(2,762,324)	(3.08)	17.0%
Health & Human Services	1,539,936	(1.00)	-9.5%
Library Services	(247,144)	0.70	1.5%
Parks, Recreation and Marine	(613,026)	(11.47)	3.8%
Police	(10,239,823)	(64.53)	62.9%
Public Works	(1,462,308)	28.93	9.0%
TOTAL	(16,278,868)	(72.66)	100.0%

** Excludes Citywide Activities*

EXECUTIVE SUMMARY

- *4 percent reduction average* - Department reductions were done using a Balanced Outcomes Budget Approach, not across the board reductions. Overall departmental reductions were about 4 percent of their budgets, representing a significant portion of their budgets but preserving core operations. The larger the department, generally the larger the dollar contribution to the overall shortfall solutions. Additionally, if potential employee furlough savings are factored in, departments are cutting costs in FY 21 by an average of 9 percent of their budgets.
- *Police Department is 63 percent of the savings* - The Police Department's reduction makes up 63 percent of the \$16.3 million in reductions as they are the largest department and their reductions have a larger dollar value than cuts in a smaller department. When the potential furloughs are included, the FY 21 reduction for the department is approximately \$12.9 million at 5.2 percent of their departmental budget.
- *The Fire Department's reduction uses one-time savings for FY 21* - \$1.9 million of the \$2.8 million in budget reductions are temporary one-time elimination of funding for fleet replacement until the Fire Department can identify permanent cuts for FY 22 or earlier. A comprehensive study will be conducted in FY 21 to assess Fire operations and develop approaches for Fire Department reductions that will need to be included in the Proposed FY 22 budget, identifying the \$1.9 million in structural solutions from FY 21 as well as any additional amount needed for FY 22. The temporary delay in fleet replacement funding means that a large portion of the Fire fleet will be one-year older before it can be replaced.
- *City Manager Department increases reflect reductions offset by addressing the Racial Equity and Reconciliation Initiatives* – the City Manager's Department includes reductions but they are offset by the transfer of the Office of Equity from the Health Department and other priority enhancements related to the Racial Equity and Reconciliation Initiative. Excluding these enhancements, the City Manager's reduction items totaled about \$146,000.
- *Health Department increase includes the reallocation of HEART teams and funding to implement Racial Equity and Reconciliation Initiative* – The Health Department's changes include the addition of 3 nurse positions as part of redesigning the Homeless Education and Response Team (HEART) with a greater public health focus utilizing Nurse positions rather than Firefighters. The current two HEART teams, each staffed by two Firefighters, will now be staffed by two Nurses positions for each HEART team, utilizing this additional of 3 new Nurse positions and a 4th Nurse position funded from grants. In addition, the changes also include the \$1.5 million set-aside for implementation of the Racial Equity and Reconciliation Initiative.

General Fund Group Budget Outlook

As part of its financial planning, the City provides a multi-year forecast of the General Fund Group, assuming no change in service levels. A preliminary projection is provided at the beginning of the budget process and an updated projection is provided when the proposed budget is released and is then periodically updated thereafter.

EXECUTIVE SUMMARY

Table 4 below shows the General Fund Group Budget Outlook through FY 24. Based on the Outlook, there are extremely challenging years ahead. The FY 22 shortfall includes the carryover impact of the FY 21 shortfall that was resolved only temporarily by the use of one-times. That \$14 million portion of the FY 21 shortfall needs to be solved structurally in FY 22 along with the FY 22 base shortfall of \$18 million. The shortfalls in any year assume that the shortfalls from a previous year have been structurally resolved (except for FY 21 as described).

Table 4: General Fund Surplus / (Shortfall) in \$ Millions*					
	FY 21 Proposed	FY 22 Projection	FY 23 Projection	FY 24 Projection	Total
Surplus/(Shortfall)	-	(18)	(23)	(22)	(63)
<i>Additional Shortfall from Previous Year</i>	-	(14)	-	-	(14)
Total Shortfall	-	(32)	(23)	(22)	(76)

* This chart assumes that any shortfalls are structurally solved each year.

The Outlook includes the following assumptions:

- The pandemic is going to have a continued impact into FY 21
- The recovery begins in FY 21, but revenues will not be at its previous FY 19 levels for a couple years.
- No resurgence of the pandemic or a second wave.
- Negotiated contract costs are included and general cost of living wage increase are assumed for others. This assumption will be revised based on actual negotiated contracts.

There is a great deal of uncertainty as to what will be the actual impacts of the pandemic on the economy and what the impacts will be on businesses, industries, and City revenue. This will continue to be closely monitored. These projections also do not include any additional costs incurred by the City in response to the pandemic. The City continues to apply for grants and advocate for State and Federal funds to offset costs associated with responding to the public health emergency.

Major General Fund Group Revenue Trends

Revenues in the General Fund Group are typically unrestricted in their use and predominantly derived from local taxes. In FY 21, similar to the previous years, taxes account for approximately 69 percent of General Fund Group revenues. In FY 21, Property Taxes, Sales Tax (including Measure A), Property Tax in Lieu of Vehicle License Fees (VLF) and Utility Users Taxes (UUT), alone account for 63 percent of General Fund Group revenue. Similar to other California cities, Long Beach General Fund Group revenue growth are constrained by the natural rate of year-over-year growth of these tax revenues. Prior to the Covid-19 pandemic, base revenue increase (not including unusual one-time gains or losses) experienced trouble even achieving inflation. In FY 21, the impact of the pandemic is significant and certain key revenue resources are anticipated to perform much lower than prior projections. With continued uncertainty regarding economic and revenue recovery, these projections will continue to be monitored and updated throughout FY

EXECUTIVE SUMMARY

20, as more data becomes available. The section below outlines additional details on various revenue streams.

- Property Taxes – The largest City revenue source by far in FY 21, total property tax is anticipated to generate \$133.7 million. Although positive growth in assessed valuations is projected to continue into FY 21, the pandemic impact to valuations in the outyears starting in FY 22 is currently unknown. If the predicted reduced value growth driven by sales declines and reduced new construction do materialize, the resulting revenue decrease will be reflected starting in FY 22. These assumptions also extend to Property Tax in Lieu of VLF. As a result of Proposition 13, the City's underlying assessed valuation growth was already constrained to two percent per year until a reassessment occurs due to a change of ownership or construction. Post-pandemic, it is also anticipated that the reduced CPI will result in inflation adjustments of less than the maximum 2 percent.
- Sales Tax – The City's second largest revenue, sales tax revenue (not including Measure A) is projected to generate \$66.7 million in FY 21, reflecting loss due to the impacts of the pandemic. While FY 21 is anticipating a 9 percent decline from pre-pandemic projections, outyears are projecting growth from the FY 20 losses and general recovery to FY 19 revenue levels by FY 22. Despite significant losses across various sales tax categories deeply impacted by the pandemic including restaurants and hotels, some revenue loss is mitigated by increases or continued steady performance in other categories including revenues from the countywide pool and sales from Long Beach buying companies established by the City Council to promote sales tax revenues.
- Measure A – The City's Transactions and Use (sales) Tax, known as Measure A, is projected to generate approximately \$62.7 million in FY 21, which will be deposited in the General Fund Group. This revenue stream has experienced significant declines due to the pandemic and current projections reflect an 8 percent decline from pre-pandemic projections. Similar to Sales Tax, it is projected that FY 21 will continue to experience losses from previous levels but are expected to experience general recovery to FY 19 revenue levels by FY 22.
- Transient Occupancy Tax (TOT) – The FY 21 General Fund Group budget for TOT, which is charged on hotel and motel room stays, is \$13.8 million. Long Beach TOT is an extremely volatile revenue source, heavily dependent on conventions and business meetings, and has been deeply impacted throughout FY 20 by significant reductions in occupancy due to travel and social distancing restrictions in response to the pandemic. The current projection reflects a 38 percent loss from pre-pandemic projections. This projection also includes anticipated revenues from collecting TOT from short-term rentals, which began in FY 19. TOT revenue has historically been incredibly volatile and has demonstrated slow recovery in past downturns and recessions, not returning to previous revenue levels for many years. Similarly, current projections, while anticipating some recovery beginning in FY 21, do not show a recovery back to current pre-pandemic levels for several years. TOT revenue will be closely monitored to determine the full impact of the pandemic. How long it will take for the revenue to recover is dependent on many factors still currently unknown.
- Users Utility Tax (UUT) – This is a five percent tax on usage of water, telephone, electric utilities and is projected to generate \$34.9 million in FY 21. Overall UUT in FY 21 is

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EXECUTIVE SUMMARY

projected to decrease by 3 percent compared to the FY 20 budget. Telephone Users Tax revenues are anticipated to decline by 29 percent in FY 21 as part of the continued erosion in wired revenues due to limited numbers of new subscribers and a highly competitive price environment.

- Ambulance Fees** – Emergency ambulance fee revenue (excluding First Responder Fees and Ground Emergency Medical Transport reimbursements) has been a relatively stable revenue source, but the growth rate is low or non-existent unless external factors occur such as rate increases to ensure full cost recovery. In FY 21, to align the City’s rates to those charged by the County and improve cost recovery for these services, the department proposes to increase ALS and BLS transport rates from \$2,282 and \$1,523 to \$2,540 and \$1,695, respectively. The proposed changes are anticipated to result in an annual revenue increase of \$398,763. However, due to lower transports and reduced reimbursements, the revenue increase will be used to meet the current budget set in FY 20. As such, FY 21 will remain flat from the FY 20 budget at \$13.6 million.
- Cannabis Related Revenues** –The FY 21 General Fund Group budget initially anticipated approximately \$7.8 million in revenues, which is a growth from what was previously budgeted in FY 20 at \$4 million. With the proposed 1 percent tax increase, estimated revenues for FY 21 is \$8.6 million. Other than the tax increase, the increase is due to higher than expected average sales at licensed cannabis businesses. In FY 20, revenues experienced a notable increase due to higher demand during the pandemic. Following the pandemic, there continues to be uncertainty surrounding the cannabis market, but FY 21 assumes that sales will stabilize at higher levels and a portion of the increased sales experienced in FY 20 will continue into the next year.
- Oil Revenue** – Due to the pandemic, oil prices in FY 20 dropped to unprecedented levels and, at one point, were negative. The projection for the FY 21 budget assumes the price of oil to be \$35 per barrel, a decrease from \$55 per barrel assumed prior to the pandemic. In the outyears, oil prices are projected to increase to \$40, \$50, and \$55 for FY 22 through FY 24 respectively. Both price and production efforts impact the City’s oil revenues, which in turn impacts what net revenues are available for transfer to the General Fund Group. Net oil revenues are also impacted by increased cost, primarily the cost of oil well abandonment and annual increases to oil-related expenditures. Table 5 below shows actual and anticipated annual revenues available for transfer to the General and Tideland Fund Groups based on the estimated barrel prices. In FY 20 and FY 21, due to the significant losses, the net transfers assume no funding that is typically set aside for oil well abandonment and partial set aside in FY 22.

Table 5: Revenues Based on Estimated Oil Barrel Prices

In millions of \$	FY 18 Actual	FY 19 Actual	FY 20 Est.	FY 21 Budget	FY 22 Proj.	FY 23 Proj.	FY 24 Proj.
Barrel Price Estimate	\$ 66.2	\$ 63.2	\$ 35.0	\$ 35.0	\$ 40.0	\$ 50.0	\$ 55.0
Uplands	\$ 11.1	\$ 10.6	\$ 7.5	\$ 4.7	\$ 4.4	\$ 5.0	\$ 5.3
Tidelands	\$ 17.0	\$ 15.4	\$ 12.3	\$ 9.5	\$ 9.3	\$ 15.8	\$ 21.0

EXECUTIVE SUMMARY

Major General Fund Group Expense Trends

On the expense side of the equation, pension and other benefit costs, wages, infrastructure, and technology maintenance are the main factors for increases.

- **Pension (CalPERS) Cost Increases** – Pension costs are one of the City’s major costs. Pension costs also are trending to have the largest year to year dollar cost increase of any cost and can also be one of the largest expense drivers. The cost increase can vary sharply from year-to-year because of the way the State (CalPERS) determines the City’s annual contribution. The cost increases are due to the ongoing efforts by CalPERS to improve the funding of the CalPERS pension plan to eventually reduce and end the City’s unfunded pension liabilities. In FY 21, General Fund Group pension costs are anticipated to increase by approximately \$5.5 million from the prior year bringing the total General Fund Group budget for pensions to \$98.5 million (\$166.7 million All Fund Groups). The FY 21 rates include the contributions increase due to the impact of CalPERS decreasing the discount rate (investment earnings assumptions) to 7.00 percent. For FY 21, the City has discontinued pre-payment of the unfunded liability portion of the payment to CalPERS due to cash flow concerns. The FY 23 projection includes the first year of expected adverse impact of the pandemic on the economy and current investment earning. The impact is first seen in FY 23 due to an almost 3-year delay in the investment earnings impact on rates adjustments.
- **Other Benefit and General Liability costs** – Workers Compensation and other employee benefits have also been problem cost factors and, typically have costs exceeding inflation. This is not an issue unique to Long Beach. General liability costs for public settlements, claims and judgements spiked in FY 19 due to large litigation cases paid out in FY 19. General liability excess insurance coverage premiums have steadily increased year-over-year. Health care costs on the other hand, have had a very positive trend. In plan years 2017 to 2020, the City’s health plan renewals have consistently been lower than healthcare inflation trend. 2017-2020 industry trend has averaged 6 to 7.8 percent for both PPO and HMO plans. The City’s PPO medical plan, which is the largest plan, has had overall plan cost changes ranging from -3.3 to 1.5 percent during this same period. The City’s favorable renewal trends are a result of the enriched wellness focused programs added through carrier partners, the City’s rate restructure process, and additional savings gained through the annual negotiation process.
- **Measure M litigation Impact** – Measure M, approved by 54 percent of the voters in June 2018, allows the City to continue the historical transfer of Water, Sewer, and Gas fund groups that have supported City services for over 60 years. Litigation on the Measure M transfers brought in 2019 is challenging the constitutionality of the water and sewer transfer. The gas transfer is not impacted by the litigation and will continue. The gas transfer is about one-half the total transfers. On January 2, 2020, the Los Angeles Superior Court (Court) ruled in favor of the plaintiffs and against the City. The City is appealing the decision. Until a final judgment is made, the City has agreed to escrow \$3 million of the transfer in FY 20, \$6 million in FY 21, and all of the transfer beginning in FY 23. This is reflected in the projections. To be conservative, the Outlook assumes the litigation is lost and that the City must issue judgment bonds in FY 24 to repay the Water fund group for historical transfer amounts not escrowed and spent.

EXECUTIVE SUMMARY

OTHER FUNDS GROUPS

In addition to the General Fund Group, the City maintains 37 other major fund groups. Many are narrowly focused and restricted to specific business activities. This section discusses select fund groups with key Citywide issues.

Airport Fund Group

The Airport Fund Group tracks the financial status of Long Beach Airport and its comprehensive operations. Airport revenues are generated from Airline fees, parking operations, concession sales, long-term ground leases of Airport property, and other Airport business operations. The Federal Aviation Administration (FAA) also provides revenue to the Airport Fund Group through its Airport Improvement Program (AIP). The fund group also includes Passenger Facility Charges (PFC) and Customer Facility Charges (CFC) received from airlines and car rental agencies, respectively.

As a result of the COVID-19 pandemic, passenger activity decreased by more than 90 percent in the second half of FY 20. A recovery in passenger activity is currently expected for FY 21, but passenger activity is projected to remain lower than levels seen in recent years. The Airport estimates total passenger volume to be roughly 2.4 million for FY 21 – a decrease of more than 30 percent from recent, pre-COVID years as airlines fly significantly reduced schedules due to decreased demand. Lower activity directly impacts roughly two-thirds of the Airport's operating revenues, including PFC and CFC revenues. Revenues from aircraft landing, parking operations, concession sales and car rentals are expected to be much lower than seen in recent years until air traffic recovers.

JetBlue recently announced that it is ceasing all service to the Long Beach Airport, effective October 6, 2020. The outlook of the pandemic and its impacts on airlines and the industry is uncertain, which places the Airport at high risk of prolonged reductions in airline service. The Airport's efforts to support airline operations during the pandemic include providing airfield parking to store aircraft, rent deferral, deferred fee increases, and COVID-response measures preserve infrastructure critical to air service. These efforts will not only provide relief to airlines during the crisis but will help position the Airport as a more favorable Airport to be served by Airlines in the future.

As revenues are expected to continue to be significantly lower for FY 21 in light of an uncertain outlook for the travel industry, the Airport is focusing on preserving its liquidity and adjusting to a sustainable operation. The Airport continues to closely monitor its cashflow to ensure critical operations and essential projects are funded. The Airport is also cutting its operating budget by over \$3.4 million and reducing its budgeted capital expenditure by \$3.0 million for FY 21. Non-essential projects and maintenance work have been deferred or cancelled. Projects, in particular the Airport's major ongoing project, the Terminal Area Improvement Project (TAIP), continue to be closely monitored and will be phased as necessary to help ensure the Airport maintains the cash necessary for continuing operations. Airfield improvement projects that are primarily funded by federal grants have not been deferred as the required Airport contribution of matching funds is minimal (typically approximately 10 percent). These projects are critical to maintain the airfield

EXECUTIVE SUMMARY

infrastructure which is essential to maintaining the Airport's operating certificate from the Federal Aviation Administration.

In FY 20, the Airport was awarded \$18.4 million in CARES Act relief funds for the Airport's operating expenses and debt service payments. These relief funds, combined with the steps the Airport has taken to reduce expenditures, serve to improve the Airport's FY 20 operating results.

The actions taken by the Airport to reduce expenses, closely monitor projects and preserve cash are prudent to maintain financial stability during this crisis and will help ensure a long-term sustainable operation.

Community Development Grants Fund Group

The Community Development Grants Fund Group is used to account for funds received from the U.S. Departments of Housing and Urban Development (HUD), Labor and Education Departments, and others for economic and community development programs. The fund group also includes county, state and other support for programs including neighborhood improvement efforts that target low and moderate-income areas of the City, homeless services, affordable housing, workforce development strategies, business assistance efforts, and support for youth development.

Each year, the City actively pursues new funding opportunities to support various programs and services. State and federal grants comprise the majority of the revenue in this fund group. The balance of revenue is primarily from residential rehabilitation loan repayments, programmable funds carried over from previous years, and from leveraged co-investment between the Workforce Investment Board (WIB) and other partners. The two major resources in the fund group are HUD's Community Planning and Development formula programs (Community Development Block Grant, HOME Investment Partnerships, and Emergency Solutions Grants) which total \$9.6 million in FY 21, similar to prior year allocations, and Workforce Innovation and Opportunity Act (US DOL) funds, which are comprised of both formulaic allocations from the State as well as discretionary grants dedicated to special populations and/or initiatives. For FY 21, it is anticipated that these funds will increase to approximately \$5.25 million in Formula Funds, and an additional \$1.5 million in discretionary grants to help address COVID-19 related unemployment. Additional grants are likely to be made available by US DOL during FY 21 as part of a broad economic response package, as occurred during the last recession.

Gas Fund Group

The Gas Fund Group in the City of Long Beach's Energy Resources Department (ER) finances the provision of reliable and cost-competitive natural gas service to customers located in the cities of Long Beach, Signal Hill, and portions of neighboring jurisdictions while ensuring continued gas distribution pipeline infrastructure integrity. Ninety percent of the Gas Fund Group's revenues are received directly from gas ratepayers through metered gas sales. Natural gas commodity prices are primarily affected by national natural gas market fluctuations, the functionality of the SoCalGas intrastate gas pipeline system, and variations in weather conditions. Improved extraction technologies have recently resulted in an abundance of additional natural gas supplies nationwide, causing continued downward pressure on natural gas commodity prices. These price benefits are directly passed through to natural gas customers.

EXECUTIVE SUMMARY

To ensure the safe operation of the nation's natural gas pipeline system, federal regulators in the Department of Transportation's Pipeline and Hazardous Materials Safety Administration have significantly increased onsite audits and regulatory reporting requirements of natural gas utilities. The City is now required to prepare a Distribution Integrity Management Plan (DIMP) that delineates potential threats to the safe operation of the Long Beach natural gas pipeline system and describes the City's high priority focus on replacing natural gas pipelines installed between the years 1920 and 1950.

Over the past four years, the California Public Utilities Commission (CPUC) has authorized multiple increases to the rates charged by the Southern California Gas Company (SoCalGas) and San Diego Gas & Electric (SDG&E) to their ratepayers. Most recently, on January 1, 2020, the CPUC authorized a rate increase for SoCalGas which resulted in their residential natural gas transmission rates now being 32 percent higher than ER's current residential natural gas transmission rates.

The CPUC authorized the rate increases to provide SoCalGas and SDG&E the necessary revenues to fund replacement of their aging natural gas pipeline infrastructure, to fund pipeline integrity programs as required by federal and state regulations, and to facilitate compliance with federal and state environmental regulations. With similar regulatory, environmental, and operational requirements for its own natural gas pipeline infrastructure, ER's costs are impacted similarly to the other California natural gas utilities.

Through efficient cost management and prudent operational practices, ER has not increased its natural gas transmission rates since October 1, 2016. However due to continually increasing regulatory requirements and their associated costs, ER must now implement an increase to its natural gas transmission rates. The proposed natural gas transmission rate increase will result in an estimated increase to the average residential monthly bill of \$2.35, or an effective 10.4 percent overall increase for approximately 77 percent of ER's residential ratepayers. Even with this increase, Long Beach remains 7 percent below SoCalGas residential rates. Residential ratepayers that consume higher volumes of natural gas than the average residential ratepayer can expect to see higher increases than those shown above. ER will continue to reinvest ratepayer revenues into its natural gas pipeline system to safely maintain operations. The rates, if approved, would go into effect on October 1, 2020

Health Fund Group

The Health Fund Group was established to account for funds restricted for public health purposes only. The fund group accounts for revenues and expenditures associated with Federal, State and local grants, health permits, and other fees. With the influx of COVID-19 response grant dollars from various federal and State agencies, the Health Fund Group budget will increase to approximately \$87.9 million, and counting, with 34 percent of the funds used for direct COVID-19 response and recovery and resiliency efforts. Due to the modified budget process and limited timing as impacted by the pandemic, these changes will be reflected in the budget at the time of budget adoption. The remaining budget will be used to support programs focused on retention of existing services which promote health and wellness and provide protection from disease and injury. Since the City's declaration of a local emergency on March 10, 2020, the Health Department has reallocated and infused additional surge staffing of approximately 158 people across the Department to respond to the COVID-19 pandemic both within the Health Department, at the Emergency Operations Center (EOC) and the Joint Information Center (JIC). Health

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EXECUTIVE SUMMARY

Department staff have mobilized to lead and provide support for every facet of the City's emergency response including the Call center Infoline, testing, surveillance and site investigations, managing a 24-bed quarantine and isolation facility, temporary congregate homeless shelters, and a 133 room Project Room Key motel, near daily press briefing and liaising with the State, County and other public health agencies, among many other responsibilities to mitigate the threat of the virus and ensure the health and safety of Long Beach's residents.

The COVID-19 pandemic has adversely impacted and further strained City coffers in the attempt to try and respond to this public health emergency. Fortunately, federal relief by way of the Coronavirus Aid, Relief, and Economic Security (CARES) Act dollars will help ease some of the costs resulting from COVID-19. Federal funds awarded to the City include the Center for Disease Control's funding to enhance detection of COVID-19. The City will receive \$13.3 million of pass through funding from Centers for Disease Control (CDC) to the County to increase the City's capacity to provide testing, surveillance and contact tracing, purchase test kits, and conduct laboratory testing and services.

The Department of Housing and Urban Development (HUD) awarded funds to prevent, prepare for, and respond to the coronavirus among individuals and families experiencing homelessness. In the first round of funding, the City of Long Beach received \$1.8 million and in the second round, the City received \$13.5 million for a total of \$15.3 million. Funding from the first round was primarily used for the operations of the shelters erected for COVID-19 response and prevention, while the second round of funding will be used to respond to COVID-19, including funding the continuation of non-congregate sheltering, outreach, prevention, and rapid rehousing.

In July of 2019, Assembly Bill (AB) 101, was signed into law by Governor Gavin Newsom, authorizing funding for the Homeless Housing, Assistance and Prevention (HHAP) grant. HHAP is a \$650 million block grant program designed to provide direct assistance to cities, counties and Continuums of Care (CoC) in one-time funds to support regional coordination and expand or develop local capacity to address immediate homelessness challenges throughout the State. Total funding for the City of Long Beach was awarded in the amount of \$6.9 million. This funding will be used for on-going operations, but instead will fund infrastructure development related to the City's Navigation Center, prevention, outreach coordination, job programming, safe parking, rental assistance, rapid rehousing, strategic homeless planning, and administrative costs.

Although short term, one-time funding opportunities became available as a result of the pandemic, the pandemic and the redirection of efforts has made it difficult to provide non-COVID related grant funded services and to maximize grant reimbursement for non-COVID related activities. This may put at some risk future funding awards that are based on FY 20 performance. Additionally, the Health Fund Group's permits and fees revenue base is negatively impacted by pandemic related temporary businesses closures due to the Safer-at-Home orders. The reduction in grant and fee revenues will likely result in the need to access the Health Fund Group's fund balance (reserves) to offset lower revenues. Additionally, as a result of lower tax revenue across the County, it is anticipated that the City will see a significant decrease in the allocation of its FY 2020-2021 Measure H grant award to implement Homeless Initiative strategies. While the amount of the decrease is unknown, the Health Department will utilize the newly awarded grants to temporarily cover gaps in service.

While internal stressors such as growing capital and infrastructure needs, rising technology and benefit costs, and increased restrictions placed on grants put pressure on the fund's resilience,

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EXECUTIVE SUMMARY

staff continues to work to identify strategies to address these ongoing challenges to ensure services levels are maintained.

Insurance Fund Group

The Insurance Fund Group is a Proprietary Internal Service fund and accounts for and finances all risk management-related and insurance activities citywide. The City adopted self-insurance programs and obtains excess insurance coverage in the open market. The fund is primarily supported through charges to City departments and funds based on overhead rates and allocation of risk management costs and reimbursements.

The Workers' 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 on the job. In FY 19, the fund had an operating loss of \$0.5 million and an overall net position of a negative \$112 million indicating a long-term underfunding of these costs. In recent years the annual underfunding has been reduced.

General Liability Insurance claims, settlements and judgment costs have risen in recent years and are expected to increase more in future years. As of the end of FY 19, actual settlements and judgments on liability cases paid out was \$24.8 million. In FY 20, liability cases are expected to be less. In FY 19, the fund had an operating loss of \$27 million and an overall net position of a negative \$42 million. Most of the losses have occurred over the last several years where the City lowered funding levels due to budget constraints while at the same time claims unexpectedly soared.

The status of these funds requires close monitoring. It is anticipated that the final costs will be \$34.1 million for Workers' Compensation and \$24 million for General Liability. Due to the modified budget process and limited timing as impacted by the pandemic, these changes and any updates will be reflected in the budget at the time of budget adoption. This represents 9 percent and 43 percent growth in costs from the previous year, respectively. These increases, particularly for General Liability, are necessary to improve the health of the fund, to regain some of the loss for claims paid out in recent years where insufficient moneys had been collected from departments to offset those claims, and to ensure that sufficient funds are set aside for future claims against the City. Approximately 66 percent and 58 percent of fund revenues for Workers' Compensation and General Liability, respectively, are derived from the General Fund Group.

Police and Fire Public Safety Oil Production Act Fund Group

On May 1, 2007, the voters approved the Police and Fire Public Safety Oil Production Tax (Proposition H), a special tax of 25 cents, with an annual CPI increase on every barrel of oil produced and restricted to fund police and fire services. Effective June 1, 2020, the tax increased to \$0.33/barrel oil produced. The estimate revenue is projected at \$3.3 million in FY 21, an increase of \$164,000 over FY 20 budget. However, because oil is a diminishing resource (meaning production normally declines year-over-year), Proposition H revenue is therefore expected to decline year over year starting in FY 22. Should projected revenue reductions materialize, expenditure reductions in Police and Fire services are expected in future years to match the revenue declines.

EXECUTIVE SUMMARY

Special Advertising and Promotions Fund Group

The Special Advertising and Promotion 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, also known as the hotel bed tax and collected by Long Beach hotels and short-term rentals is the largest source of revenue for the fund. The current tax rate is 12 percent of the nightly room rent – half of which is paid to the General Fund Group and the other half to the SAP Fund Group. Other sources of revenue include studio filming permits, special events licenses, and permits and fees.

TOT revenue has been dramatically impacted by the pandemic. Severe TOT revenue losses are expected in FY 20 and into FY 21. Even if tourism, filming and special event permitting begin to rebound in FY 21, TOT revenues have historically had a slow recovery after a downturn. As a result, based on current projections, the SAP Fund Group is projecting to rapidly draw down on its funds available and reserves. This fund could have all its reserves depleted by FY 22 or FY 23. To begin to mitigate this rapid drain on funds available, FY 20 one-time projects are being evaluated to see if any projects could be defunded to generate savings. In FY 21, the budget is also proposing about \$860,000 in reductions, and will likely need to plan for further reductions in future years. Even with these solutions, the projection is showing a rapid decline in funds available and the City will need to very closely monitor the situation and maximize any opportunity to generate savings or preserve funding.

Tidelands Area Fund Group

Tidelands Area Fund Group is comprised of the Marina and Queen Mary funds. Sources of revenue for these funds are generated from various activities, specific to each fund. The Marina Fund revenue is generated through recreational and commercial use of marina property. Fees include dock/slip fees, restaurant, retail and grounds rental leases, concession fees, park use fees, and special events and filming. The Marina Fund revenues are pledged for the repayment of the Marina Revenue Bonds, Series 2015, which financed improvements to the Alamitos Bay Marina and prepaid existing Division of Boating and Waterways loans. The Alamitos Bay Marina was completed in April 2018.

The Queen Mary Fund revenue is generated through rent from the Queen Mary master lease, which includes Queen Mary base rent, sublease rent from Catalina Express and per passenger fee rent from Carnival. In recent years, these rental revenues were sufficient to offset debt service on bonds received and appropriated on-ship capital improvements, including upgrades to educational exhibits and renovations to the Fire-Life Safety systems ship-wide. In FY 20, Carnival Cruise revenues have been impacted by COVID-19 pandemic as they have suspended all operations and as a result, that revenue due in FY 21 is expected to not be enough to pay the full debt service on the Queen Mary 2017B bonds. The amount needed from other Tidelands sources in FY 21 is expected to be less than \$2.4 million. It is currently anticipated this will be a one-year problem, but that situation is being closely monitored.

Tidelands Operating Fund Group

Tidelands funds are customarily combined under the umbrella of Tidelands Operating Funds. To facilitate understanding and transparency of the status of the funds, the FY 18 Budget separated

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EXECUTIVE SUMMARY

out the Tidelands Operating Fund from the other Tidelands Area Funds (Marina, Queen Mary and the Rainbow Harbor Area funds). In FY 20, the funds have been further refined with parking-related operations, previously in the Rainbow Harbor Fund, being grouped under the 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.

To fund operations, the FY 21 Proposed Budget includes a projected \$18.8 million transfer from the Harbor Revenue Fund and a projected \$9.4 million transfer from the Tidelands Oil Revenue Fund Group, based on \$35 per barrel. Due to low oil prices, the proposed oil transfer has dropped 30 percent from the FY 20 Adopted budget level of \$12.3 million. The fund contributes to the Aquarium, 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. Due to the significant revenue declines in the Tidelands area as a result of the COVID-19 pandemic, revenues anticipated to fund these various debt service obligations will not be realized. As a result, in FY 21, the Tidelands Operating Fund Group is expected to make debt service payments of up to \$2.2 million for Aquarium bonds (Aquarium closed or lower visitation level due to outside exhibits only), a \$600,000 loss in the Tideland's normal share of Convention Center profits and an additional \$5 million to support the net revenue loss for the Convention Center operations (because the Convention Center has been closed). In FY 21, it is also currently expected that the Tidelands Operating Fund Group will pay up to \$2.4 million for the Queen Mary 2017B bonds (due to Carnival Cruise not operating for a good part of 2020 – payments for FY 21 debt service are based on prior year passenger fees) and \$2.5 million or potentially more in support of the Convention Center to offset projected net operating losses from an FY 21 reopening because it is expected to take a good part of FY 21 to be at full convention bookings.

To help support operations in the Tidelands Operating Fund Group, the Proposed FY 21 budget does not include the normal set-aside of \$5.9 million for a reserve to grow the set-aside for future oil well abandonment. This temporary lack of funding for oil well abandonment is projected to be made up in future years and will detract from net revenues at that time.

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 over half of the revenue in this fund is from overhead fees and less than half is from oil sales. As stated in an earlier section on Oil Revenue, the FY 21 Budget includes a projected price of oil of \$35 per barrel, and \$4.7 million of structural funding (transferred from the Uplands Oil Fund Group to the General Fund Group). To offset the reduced transfer to the General Fund Group in the lower price environment, there is no set-aside assumed to fund oil well abandonment until FY 22 when prices are projected at \$40 per barrel. Oil well abandonment is a necessary obligation of the operation and any funds not set aside in FY 20 and FY 21 will need to be made up in later years.

EXECUTIVE SUMMARY

FINANCIAL POLICIES

The City of Long Beach has 28 Budgetary and Financial Policies that help guide and inform strong financial management in the City. These policies can be found in Attachment T “Fiscal Policies”