

# Planning for the Long-Term in Long Beach

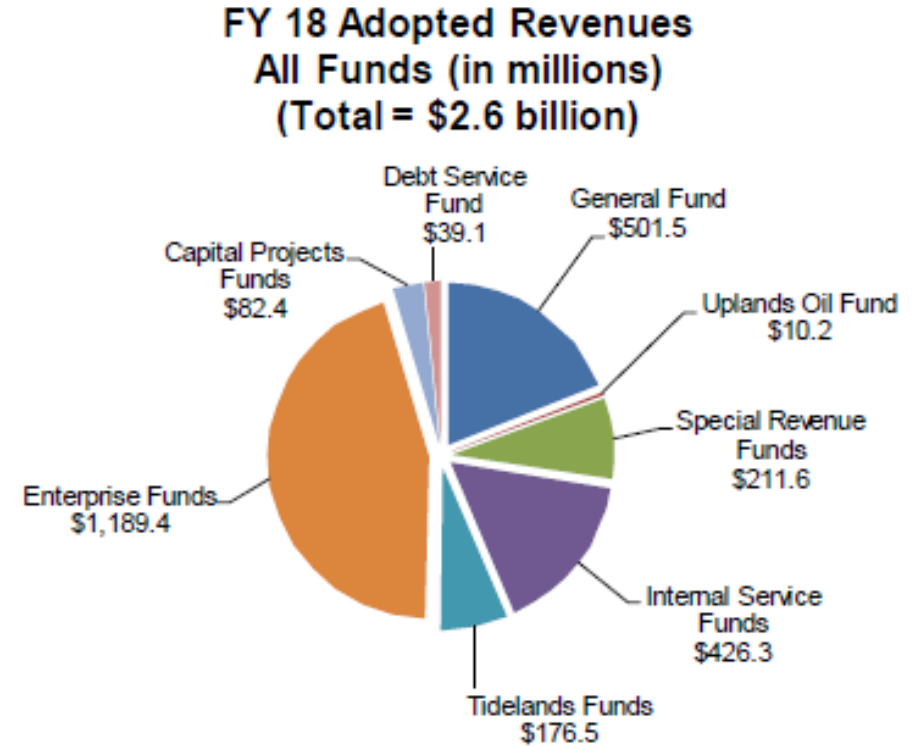
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PRESENTED BY LEA ERIKSEN, ASSISTANT FINANCE DIRECTOR

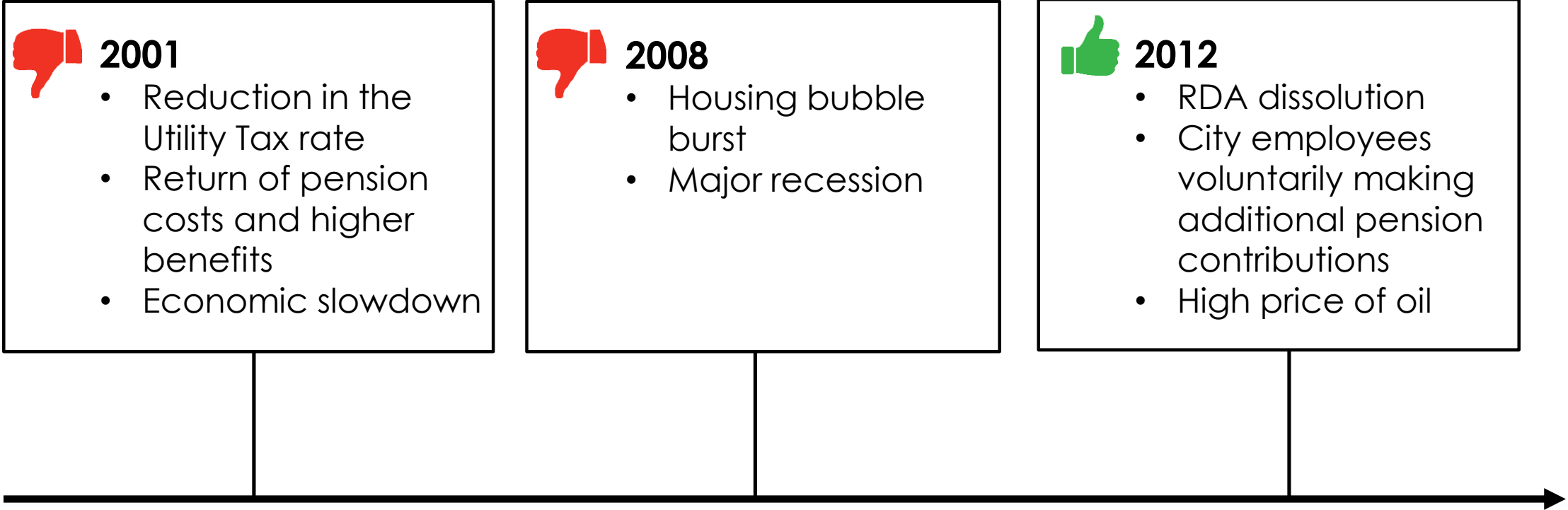
FEBRUARY 22, 2018

# Long Beach Budget Basics and Background

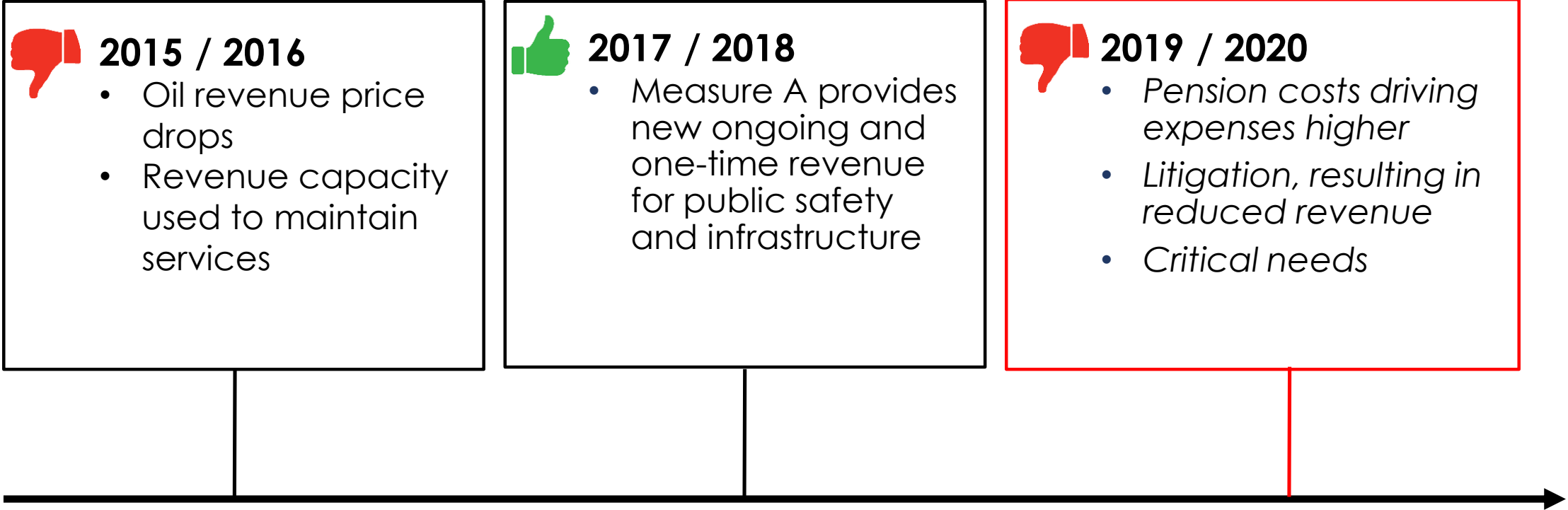
- 36<sup>th</sup> largest city in USA; 7<sup>th</sup> largest city in California
- \$2.6 billion budget; over 5,000 employees
- 70% of General Fund budget goes to Public Safety



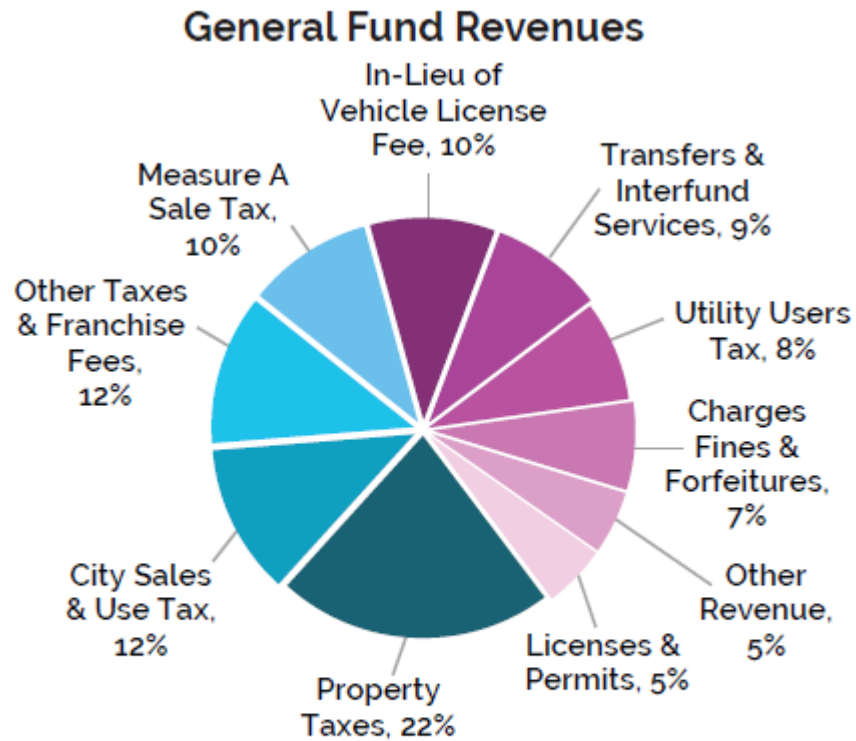
# A Brief Long Beach Budget Background



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# Most General Fund Revenues are from taxes

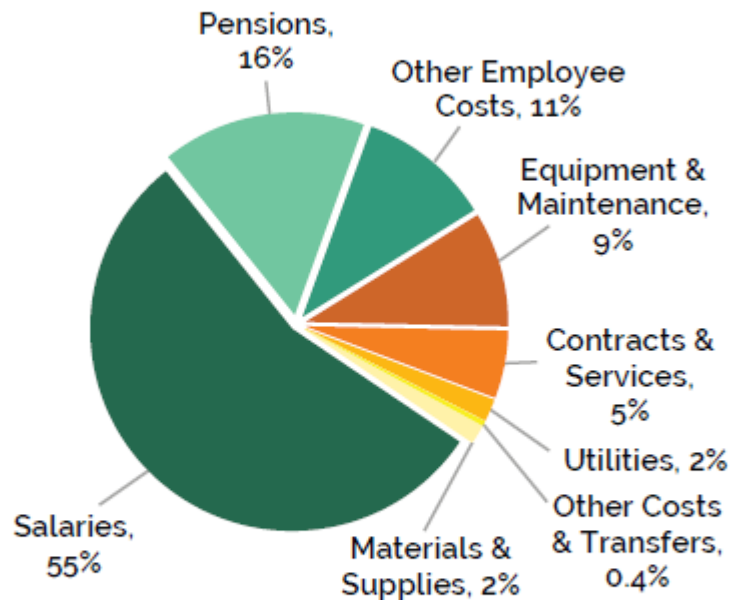


The General Fund primarily relies on general tax revenue. In FY 18, approximately 59 percent of all General Fund Revenues come from taxes. The City receives 21 percent of L.A. County property taxes.

- Revenue growth rate improved, but not expected to improve much more
- Revenues mature or constrained and typically have little ability to grow
- Limited ability to increase its key revenue base
- Land mostly developed
- Fees cannot exceed cost of service
- Between FY 10 and FY 16, structural revenues grew on average less than 1% annually

# General Fund Expenses are Driven by Employee Costs

**General Fund Expenditures  
by Category**




82 percent of General Fund expenditures are used to pay the salaries and benefits of the employees that perform City services. All other General Fund expenditures account for 18 percent.

- City costs are driven by salaries and benefits – City is a service organization; uses people to provide services
- Employee related expenses grew at rates much higher than limited revenue. Between FY 10 and FY 16:
  - > Health Care growth: on average 4% increase per year
  - > Pensions growth on average 5 to 7% increase per year
- No current projection shows expenses growing less than revenues

# Key Challenges Facing Long Beach

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- Unfunded Employee Benefit Liabilities – Pensions, sick leave, retiree health subsidy and workers compensation
  - Reduced Oil revenues – funds both operations and one-time investments
  - Critical Infrastructure Needs – deteriorated streets, sidewalks, facilities, storm water, technology
  - Litigation – recent lawsuits challenged utility fund transfers for general city services

# Employee Benefit Related Unfunded Liabilities

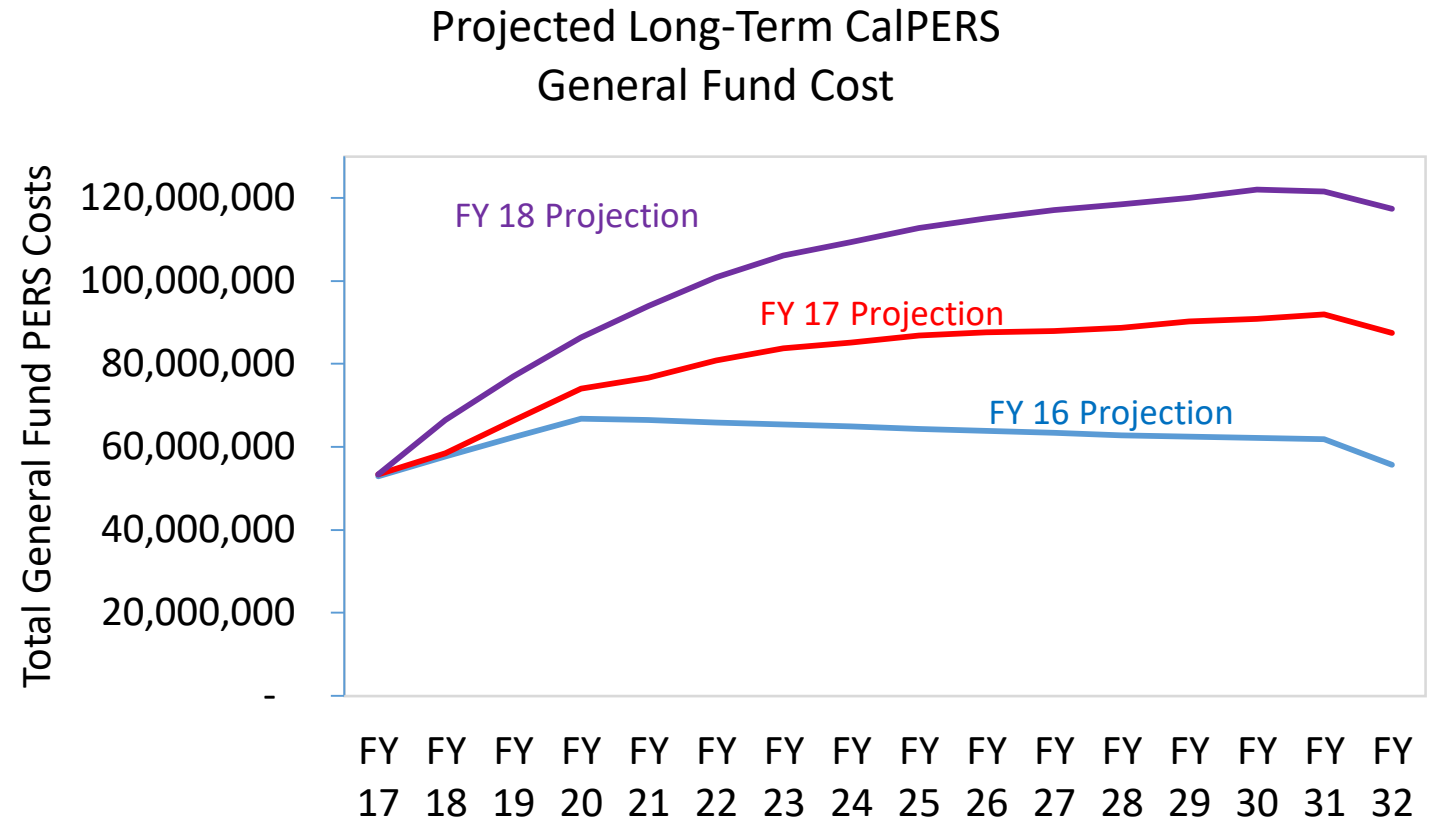
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<b>Current Unfunded Liabilities \$ in Millions</b>	
Pension	\$897
Sick Leave	130
Retiree Health Subsidy	43
Worker's Compensation	114
<b>Total</b>	<b>\$1,185</b>



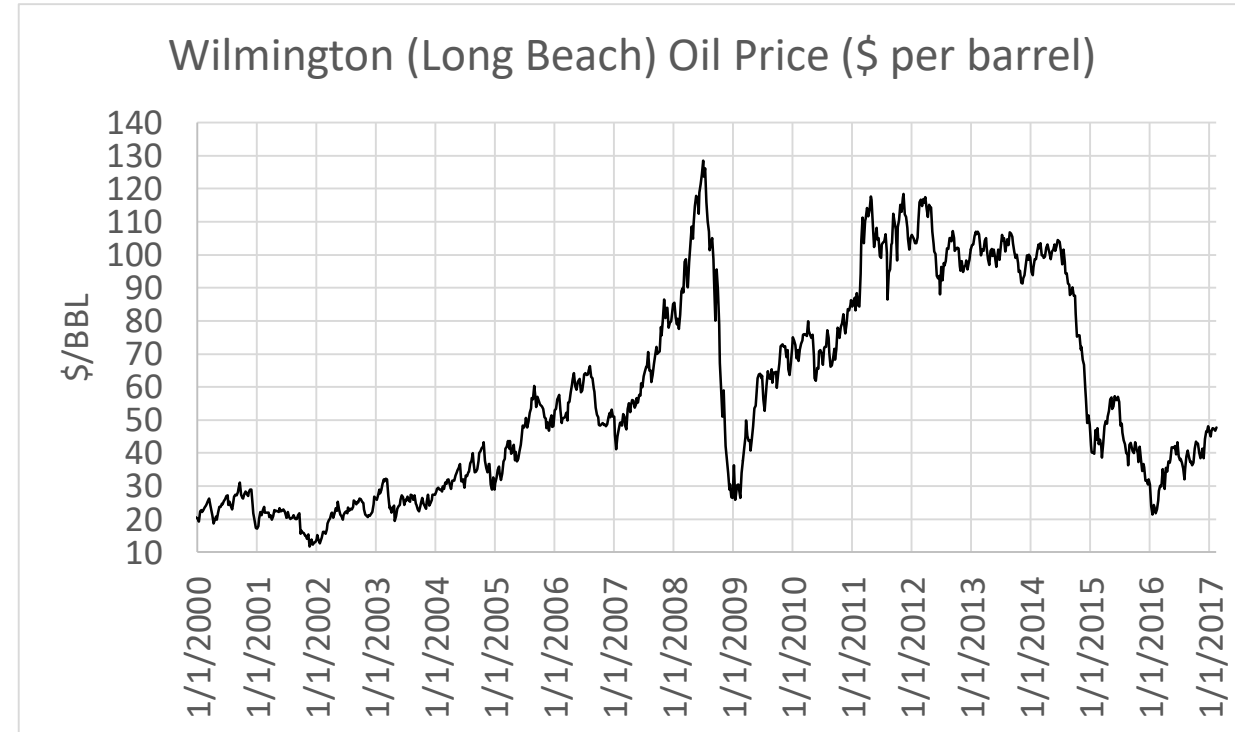
# Pension Costs Projection

- City uses consultant to project 30 years out
- CalPERS Board Changes puts City on track to pay off unfunded pension liabilities over 30 years
- Rate of growth expected to slow and peak in FY 31 and decrease slowly thereafter
- CalPERS board considering additional actions



# History of Long Beach Oil Price

- Oil revenue supports both operations and one-time investments
- Was at \$100/barrel for years, per Financial Policy, budgeted only “stable” \$70 level.
- Revenues dropped to \$25/barrel and haven’t recovered fully



# Critical Infrastructure Needs

- Seismically challenged civic center
- Transportation Infrastructure Needs – streets, bridges, sidewalks, alleys, etc.
- Community Infrastructure Needs – police, fire, libraries, parks & recreation
- Technology Needs – fiber network, outdated equipment, key technology systems
- Total need over 10 years: \$2.8 billion

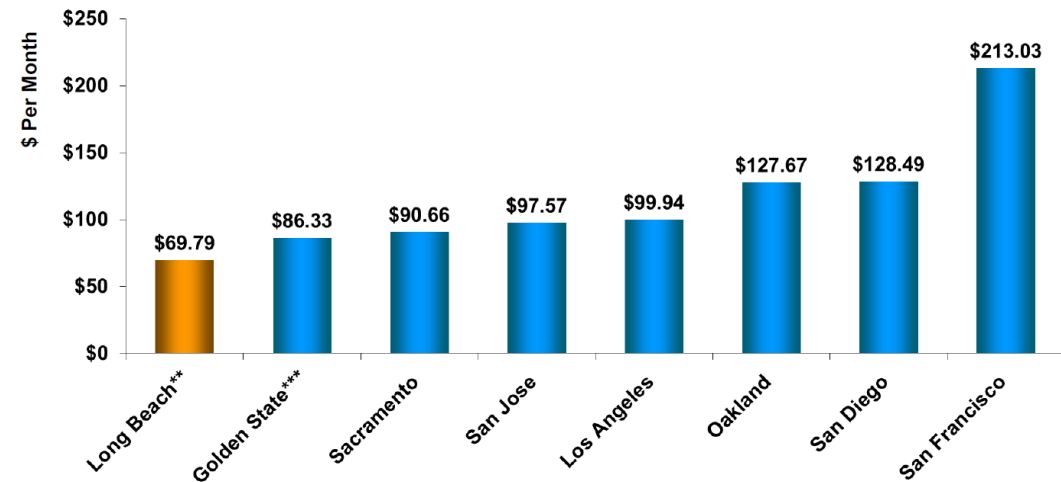


# Litigation

- Resident lawsuit alleged gas utility transfer violated the State's Prop 26. Being appealed; Potential impact \$10 m annually
- Resident lawsuit alleged water and sewer utility transfers violated State's Prop 218. Recently settled; Impact: \$8.3 m annually

## Water and Sewer Residential Bill Comparison\*

Source: Raftelis Rate Study, May 2017  
Rates effective Oct 1, 2017



\* 10 ccf Water and 10 ccf Sewer \*\* Includes \$13.83 LA County Sanitation Charge  
\*\*\* Combined Golden State Water and LB Sewer Rates

# City Council Adopted State of Art Financial Policies

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- Budget will be structurally balanced
- Budget includes multi-year financial projections
- Budgeting is annual – mid-year changes to be minimized
- Emergency and operating reserves will be maintained
- Revenue projections are to be reasonably conservative
- Stable revenue sources used to fund operations
- One-times are for one-time uses & 5 percent unfunded liability set aside
- Debt will be at appropriate levels
- A long-term financial plan will be maintained
- 13 other policies (total of 22)

# Long Beach Budget Process

Month	Activity
Oct - Feb	Internal review of financial status and develop the City Manager's financial and programmatic direction and strategy. This includes incorporation of long-term drivers and priority needs.
Early Mar	City Manager presents to City Council the City's financial status and a projection for next three years. City Manager describes his goals and direction for the proposed budget and gets input from Council
April	Departments develop their budget recommendations and capital needs
May - June	City Manager develops, reviews and finalizes the proposed budget
July 3	City Manager submits proposed operating budget and capital budget to Mayor
Aug 2	Mayor submits proposed budget with Mayor's recommendations to City Council and community
Aug - Sept	Budget hearings are held by City Council; town meetings are held in the Council Districts
Sept 15	Deadline for City Council to adopt the budget
Oct 1	Start of new fiscal year
Ongoing	Weekly meetings between City Manager and Financial Management to discuss big initiatives. Use weekly City Manager Department Director meetings to talk about big initiatives.

# Solutions to Challenges Facing Long Beach

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- Overall: Use Strong Financial Management and follow Financial Policies
  - > Ensure structurally balanced budget and closely monitor budget and implement mid-year savings targets, if needed
  - > Prepare and update three year outlook
    - Use consultants and other data sources for key revenue projections (sales tax, prop tax, etc.)
    - Use consultants for key drivers (pensions, health care, other liabilities)
    - Projections for specific drivers extend beyond three years for financial planning
  - > Minimize new ongoing programs and set aside one-time revenues at year end for one-time uses such as litigation, technology, and other critical needs
  - > Maintain emergency and operating reserves
  - > Use financing tools, where appropriate, to fund investments (P3, equipment leases, city property as collateral)

# Solutions to Challenges Facing Long Beach

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## Specific Challenges:

- Employee Benefit Liabilities
  - > Negotiated with employee groups to pay full pension costs and to reduce health care costs;
  - > Use pre-pay option for unfunded pension liability portion;
  - > Put aside 5% of General Fund surplus each year
- Oil revenues
  - > Conservatively budget revenues for operations
  - > Proactively fund abandonment costs



# Solutions to Challenges Facing Long Beach

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## Specific Challenges:

- Critical Infrastructure Needs
  - > Prioritize infrastructure using data-based plans like pavement condition index, sidewalk assessment, alley assessment, and facility condition assessment
  - > Entered into P3 partnership to pay for new civic center and spur private development
  - > Voters passed 10-year 1.0 percent transaction and use tax (Measure A). General tax; half devoted to infrastructure and half to maintain and restore public safety
  - > Use equipment leases and spendable reserves for technology needs
- Litigation – pursuing charter amendment to maintain status quo of more than 60 years of historic transfers

# Moving Forward using a Long Term Financial Plan

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- Still facing challenges, so will develop a more formal long-term financial plan
  - > Consistent with City Council's financial policies
  - > Include long-term financial projections and strategic approach to
    - Manage financial stress
    - Prioritize infrastructure, technology, operational unfunded needs
    - Maintain structural balance
  - > Coordinate with
    - City's economic development blueprint, a 10 year vision to support economic opportunities for workers, investors and entrepreneurs
    - City's general plan, land use element, and other planning documents
  - > Provide for consistency in volatile times
  - > Provide strategies for large project expenses
  - > Facilitate Long Beach to achieve strategic priorities and goals

# Questions and Discussion

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