



Potential Revenue Measures

City Council Meeting – June 11, 2024

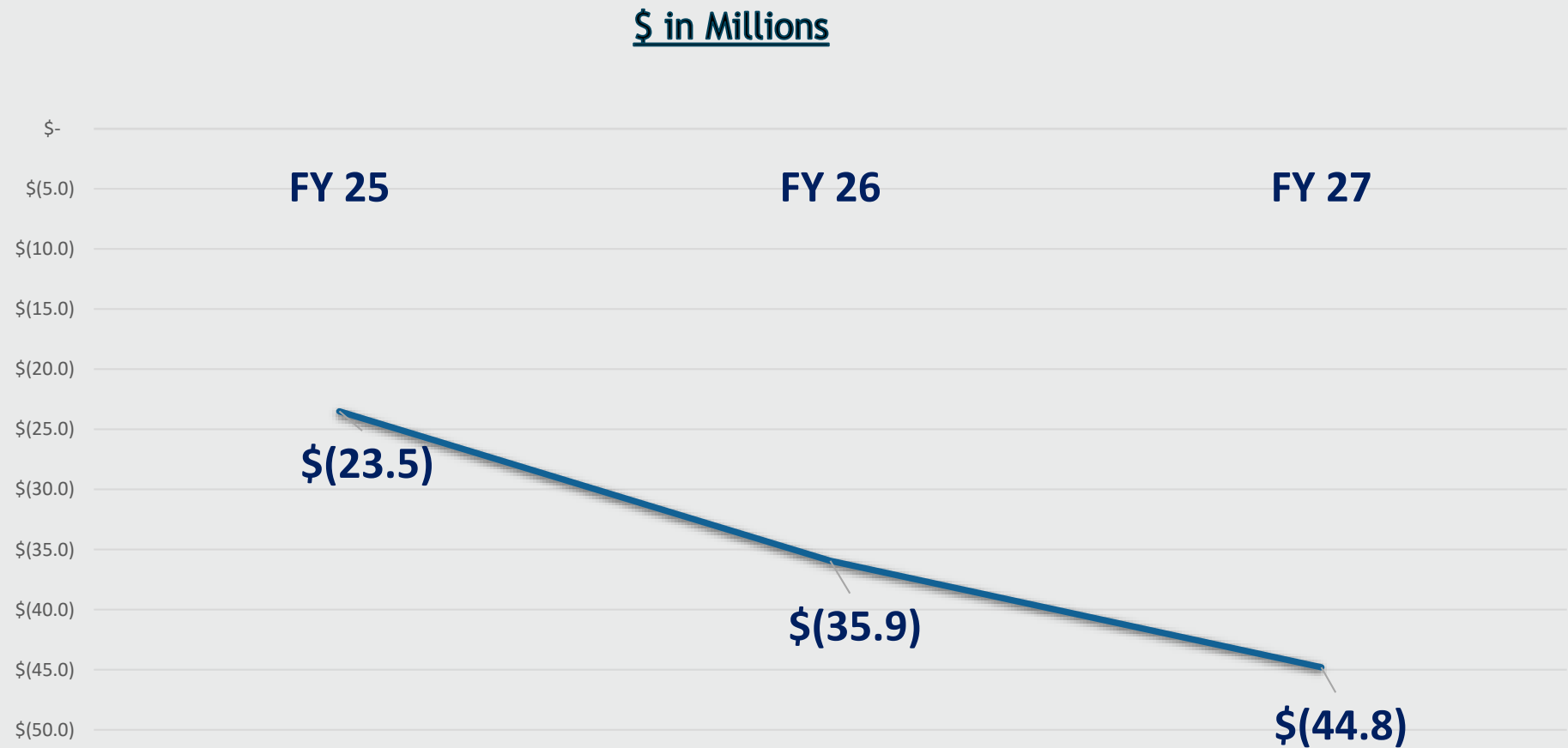
Agenda

- Fiscal Outlook
- Grow Long Beach Strategies
- November 2024 Ballot Context
- Potential Revenue Measure Ideas
- Polling Results

Fiscal Outlook

- On March 19, 2024, staff provided a study session on the City's fiscal outlook and FY 25 proposed budget development.
- Adopted FY 24 Budget projected a \$8.8 million shortfall to be covered on a one-time basis with Long Beach Recovery Act funds.
- FY 24 General Fund (and other funds) status is under review; Mid-Year FY 24 Performance Report anticipated on June 18, 2024.
- This status review will be informative and significant as it is the first comprehensive review that will include labor agreement cost impacts (in the General Fund and non-General Fund Groups).

3-Year General Fund Projected Shortfall as Presented in March



—General Fund Projected Shortfall

Major Projected Deficit Drivers

- **General Labor Wage** continues to rise. For future years with no agreed labor contracts, assumptions in the projection resulted in an average increase of \$15 million per year.
- Significant **CalPERS pension** cost increase due to a negative 7.5% investment return from FY 21/22 (14.3% below expected). Starting in FY 25, rates ramp up over 5 years to cover loss.
- **Sales & Use Tax** current year projections reflected slowed performance in major categories. Future year projections assume normalized growth at 3% annually after FY 25.
- Starting in FY 25, the City will reduce annual planned structural support in the General Fund from **oil proceeds and taxes** down to \$0 by FY 30.
- General Fund's share of **Citywide Internal Services (Insurance, Technology, & Fleet)** primarily due to labor increases, also includes natural cost increases to the cost of doing business such as contracts, materials, & equipment.

Oil-Related Revenue Removed from General Fund Forecast Each Year

<i>(\$ in millions)</i>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>	<u>FY 29</u>	<u>FY 30</u>	<u>Total</u>
Reduce Structural Support	(1.3)	(2.5)	(3.8)	(8.2)	(12.7)	(17.2)	(45.7)

- Inclusive of Uplands Oil proceeds and Oil Production taxes including Prop H & Measure US in the General Fund
- Any oil revenue actually received above budgeted levels will be available for one-time uses and/or future oil well abandonment

Shortfall Projections Pose Significant Risk of Service Cuts

*Service Reduction Equivalents	Structural Cost
All Parks Teen Programs	\$265,000
All Youth Sports	\$613,000
3 Branch Libraries	\$3,600,000
All Street Tree Trimming	\$5,100,000
3 pot-hole trucks	\$2,200,000
All Central Accounting & Budgeting Operations	\$5,200,000
1 Fire Engine Operation	\$3,400,000
1 Paramedic Rescue	\$1,700,000
3 Quality of Life Units (6 FTE)	\$1,400,000
TOTAL	\$23,478,000

*general estimates to illustrate scale of shortfall

Grow Long Beach: Report on Key Economic Development Strategies

- On January 10, 2023, in his inaugural State of the City address, Mayor Rex Richardson outlined key strategies to grow the local economy and identify pathways to sustainably transition from oil production.
- On March 7, 2023, City Council moved to request city staff to develop strategies, policies, and benchmarks to:
 - Propel the growth of key sectors in Long Beach
 - Secure Long Beach's financial future
 - Support the recruitment, growth, retention and successes in the City's economy
 - Expand City's tax base and good paying jobs to offset oil production revenues, and
 - Bolster and grow key industry sectors in Long Beach.
- On May 14, 2024, staff provided an update on the Grow Long Beach Initiative, outlining 52 economic development strategies to advance revenues in key industry sectors.

Grow Long Beach: Economic Opportunity, Equity, & Resiliency

- The Grow Long Beach Initiative propels economic development and explores alternative revenue streams for the City to move away from reliance on oil revenue.
- The FY 24 Budget included significant one-time and structural investments to support the Grow Long Beach Initiative including:
 - Development of a proposed downtown advertising district
 - Increase promotion for convention, tourism, and special events through the Visit Long Beach advertising campaign
 - Marketing and branding strategy centered on business attraction, expansion, and retention activities
 - Queen Mary development and management

Grow Long Beach: Diversifying the City's Economy and Revenue Streams

The Grow Long Beach Initiative is an opportunity to:

- Advance economic development by diversifying and building an economy where everyone thrives
- Explore alternative revenue streams for the City to move away from reliance on oil revenue

Focus on 6 Industry Sectors:

- Fueling our Aerospace and Aviation
- Building the Transportation, Logistics, and Supply Chain
- Unleashing the Creative Economy through Music, Athletics, Tourism and Hospitality
- Economic Development through Healthcare and Education
- Building a Climate-Forward Economy
- Other Citywide Initiatives: Grow Long Beach Together

November 2024 Ballot Context

- The Grow Long Beach Initiative alone, however, will not be sufficient to address the City's forecasted shortfall.
- In addition to the strategies proposed in the Grow Long Beach Initiative, there is an important voter-led initiative on the ballot that could lead to significant direct revenues to Long Beach.
- United Way of Greater Los Angeles and a broad coalition of advocacy groups sponsored an initiative that would repeal and replace Measure H, the current quarter-cent sales tax approved by voters in 2017 for homelessness services and prevention.

Dedicated Regional Sales Tax Measure for Housing and Homelessness

- The proposal would institute a half-cent sales tax estimated to produce \$1.2 billion annually to fund homeless services, affordable housing, and other support like rental assistance countywide.
 - 60 percent would go to homelessness services, 35.75 percent to the Los Angeles County Affordable Housing Solutions Agency (LACAHS), a countywide agency to advance affordable housing investment in the region.
- Long Beach would receive significant direct allocations for affordable housing and homelessness programs.
- Long Beach has a dedicated seat on the LACAHS Board, and next year Mayor Richardson will be the Chair of the Board.

Long Beach Impacts of the Regional Sales Tax Measure

- If approved by LA County voters, the measure would provide a new and stable revenue source for housing and homelessness to Long Beach and jurisdictions across the region.
- Long Beach’s new sales tax would be 10.75 percent total.
- Furthermore, it would allow the City’s Measure A to return to the full one percent ahead of schedule, generating \$12 million in FY 25 and the full \$24 million in FY 26 for public safety or infrastructure.

Measure A (\$ in millions)	FY 25*	FY 26	FY 27
Total New Revenue	\$ 12.00	\$ 24.00	\$ 24.75

*FY 25 reflects additional revenue for half of the fiscal year.

Measure A - Structural Investment in Public Safety



Public Safety FTE's Restored & Enhanced
48 Sworn, 5 Civilian

Sworn FTE's Maintained
151



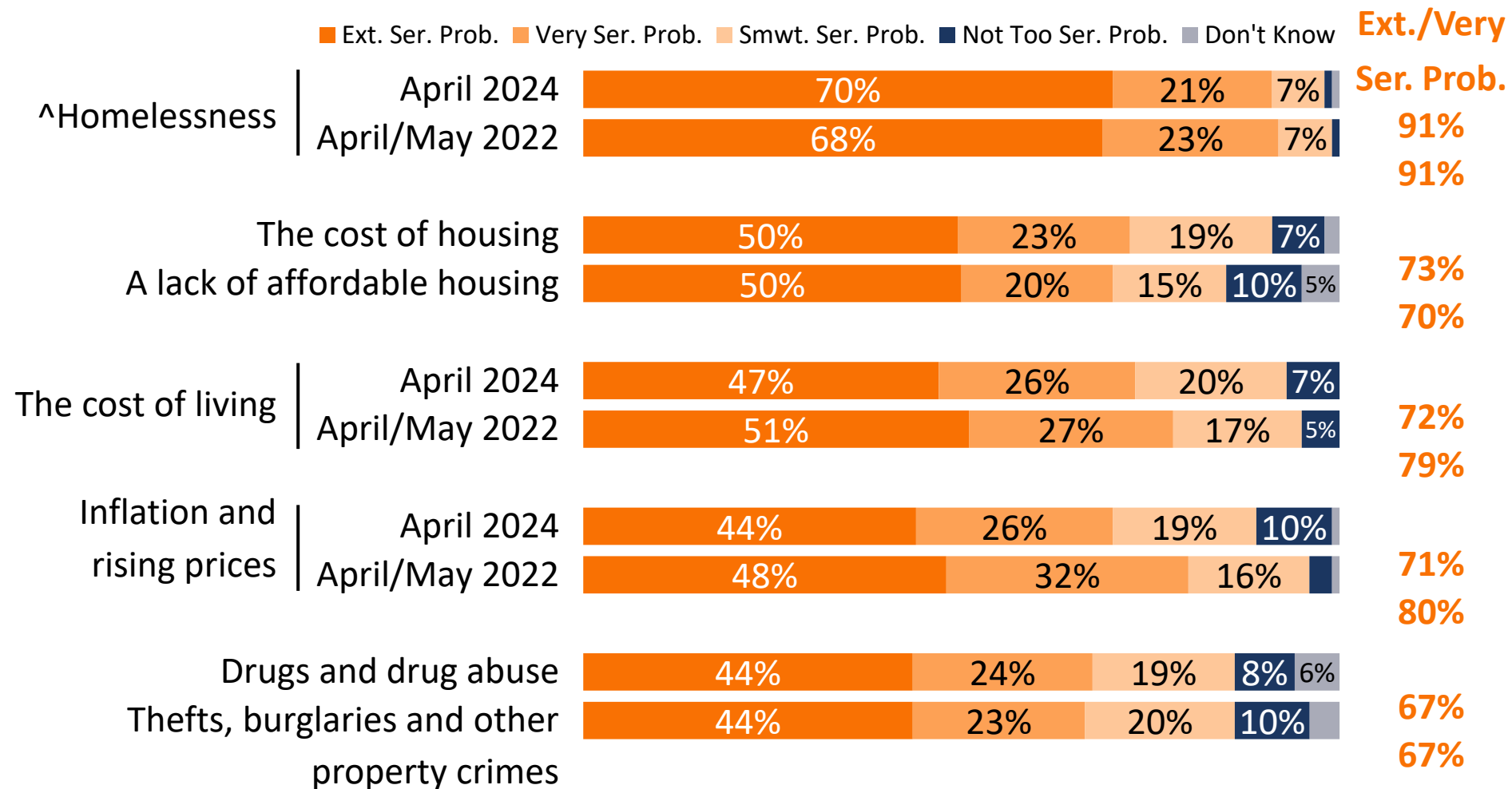
\$ in Millions	FY 2017 Actuals	FY 2018 Actuals	FY 2019 Actuals	FY 2020 Actuals	FY 2021 Actuals	FY 2022 Actuals	FY 2023 Actuals	FY 2024 Estimate	ITD TOTAL
Maintain Public Safety Services	3.16	8.29	19.34	21.90	26.43	26.43	29.38	31.38	166.32
Restorations & Enhancements	5.34	6.35	7.16	7.16	6.73	6.73	9.54	10.84	59.84
<i>Fire Engine 8</i>	<i>2.30</i>	<i>2.30</i>	<i>2.30</i>	<i>2.30</i>	<i>2.30</i>	<i>2.30</i>	<i>2.30</i>	<i>2.30</i>	
<i>Paramedic Rescue 12</i>	<i>0.65</i>	<i>1.11</i>	<i>1.11</i>	<i>1.11</i>	<i>1.11</i>	<i>1.11</i>	<i>1.11</i>	<i>1.11</i>	
<i>HEART Team</i>	-	-	<i>0.44</i>	<i>0.44</i>	-	-	-	-	
<i>SAFER Engine 17 Match funds</i>	-	-	-	-	-	-	<i>0.61</i>	<i>1.51</i>	
<i>Police South Division</i>	<i>1.54</i>	<i>1.54</i>	<i>1.54</i>	<i>1.54</i>	<i>1.54</i>	<i>1.54</i>	<i>1.54</i>	<i>1.54</i>	
<i>Police Academy Staffing</i>	<i>0.85</i>	<i>1.41</i>	<i>1.41</i>	<i>1.41</i>	<i>1.41</i>	<i>1.41</i>	<i>1.41</i>	<i>1.41</i>	
<i>Quality of Life Unit</i>	-	-	<i>0.37</i>	<i>0.37</i>	<i>0.37</i>	<i>0.37</i>	<i>0.37</i>	<i>0.37</i>	
<i>Neighborhood Safety Bike Team</i>	-	-	-	-	-	-	<i>2.20</i>	<i>2.20</i>	
<i>Jail Clinician Program</i>	-	-	-	-	-	-	-	<i>0.16</i>	
<i>Public Safety Dispatchers</i>	-	-	-	-	-	-	-	<i>0.24</i>	

Potential Local Revenue Options

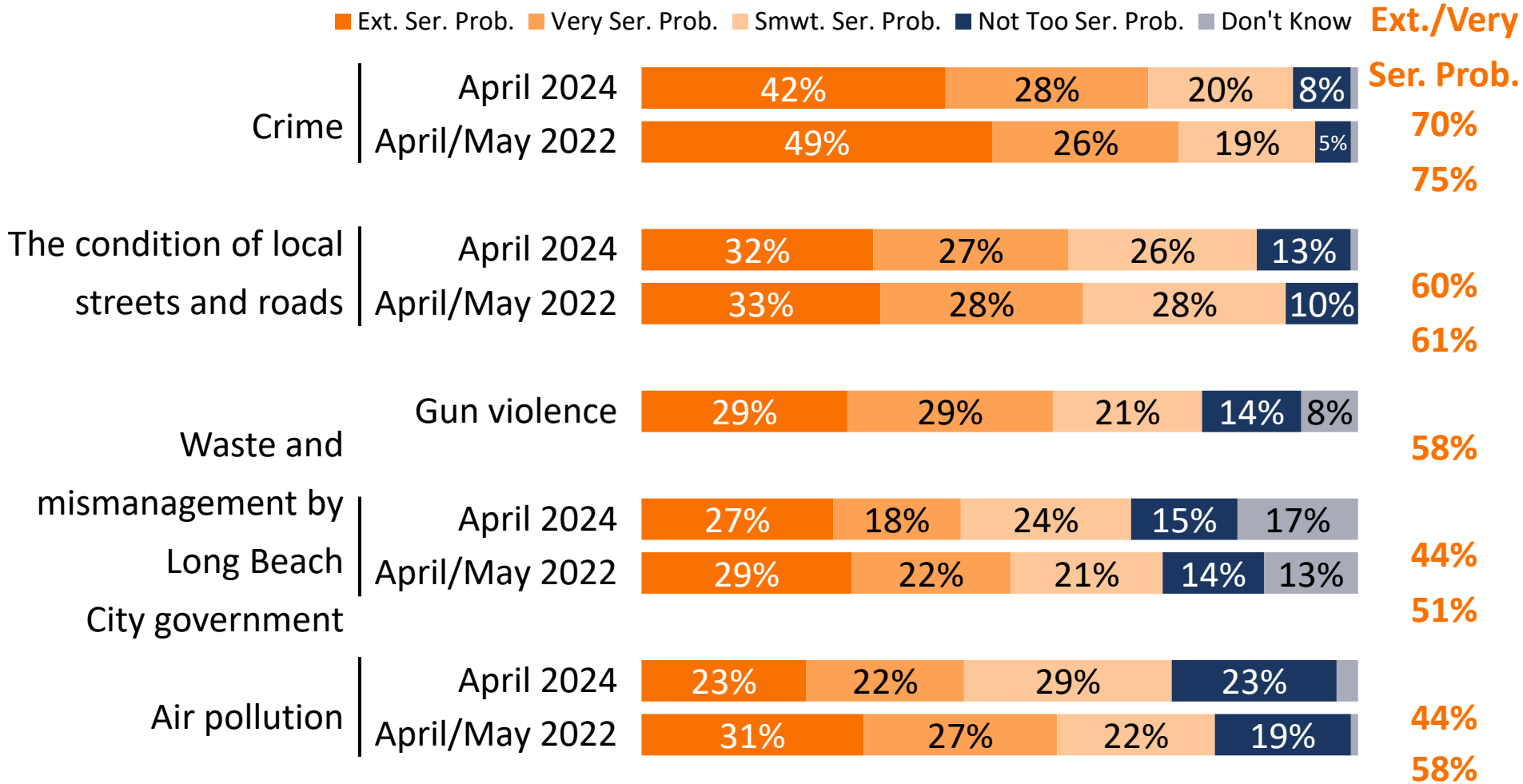
- In March of 2023, the City Council directed staff to identify a menu of alternative revenue-generating strategies.
- In addition to the County measure, staff has researched alternative local revenue options that could be placed on the November 2024 ballot.
- City making a strong and focused effort on action steps to identify new revenues with direct investments in the FY 24 Budget.
- Potential local ballot measures could mitigate shortfall and allow for opportunity to enhance critical service priorities.
- FY 25 budget process will start to identify potential enhancements that strengthen high-priority core services if additional revenue is made available.

Homelessness, housing costs and the cost of living remain voters' top concerns and two-thirds identify drug abuse and property crimes as highly serious problems.

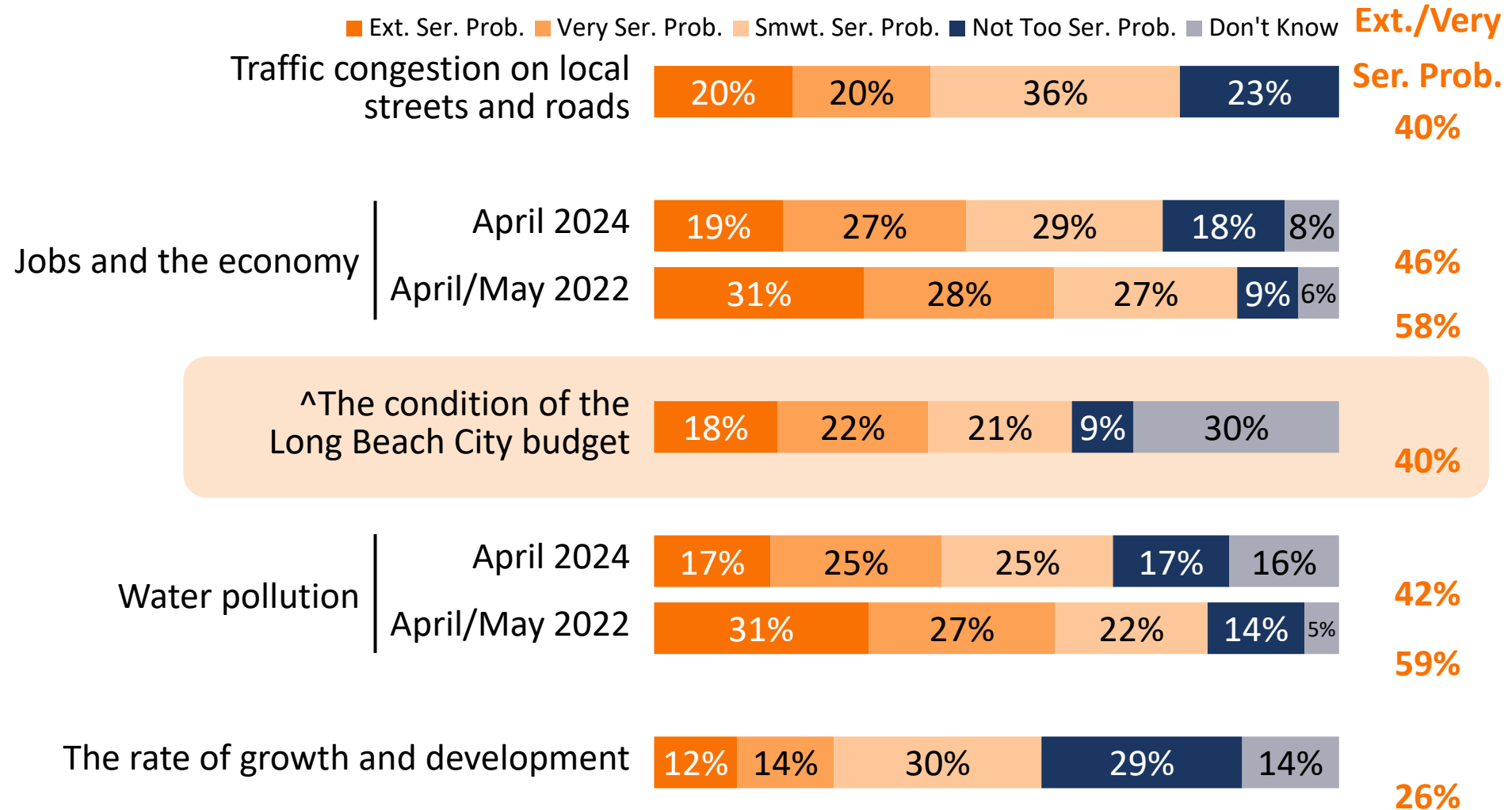
Please tell me whether you feel it is an extremely, very, somewhat, or not too serious problem in Long Beach.



Six in ten rate road and street conditions and gun violence as a major problems; today, fewer express as high of a concern about government waste and air pollution.

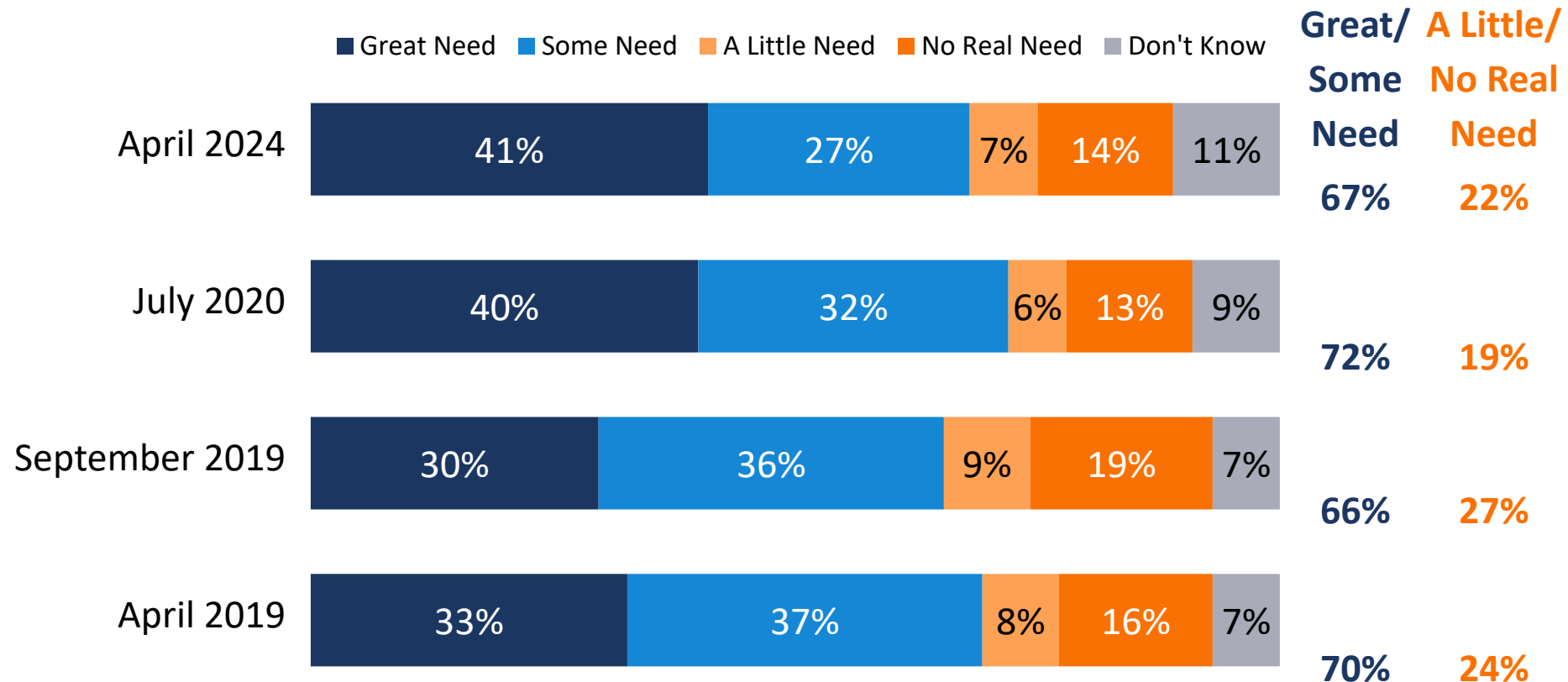


Four in ten think the city's budget is a highly serious problem, but a significant number lack an opinion.



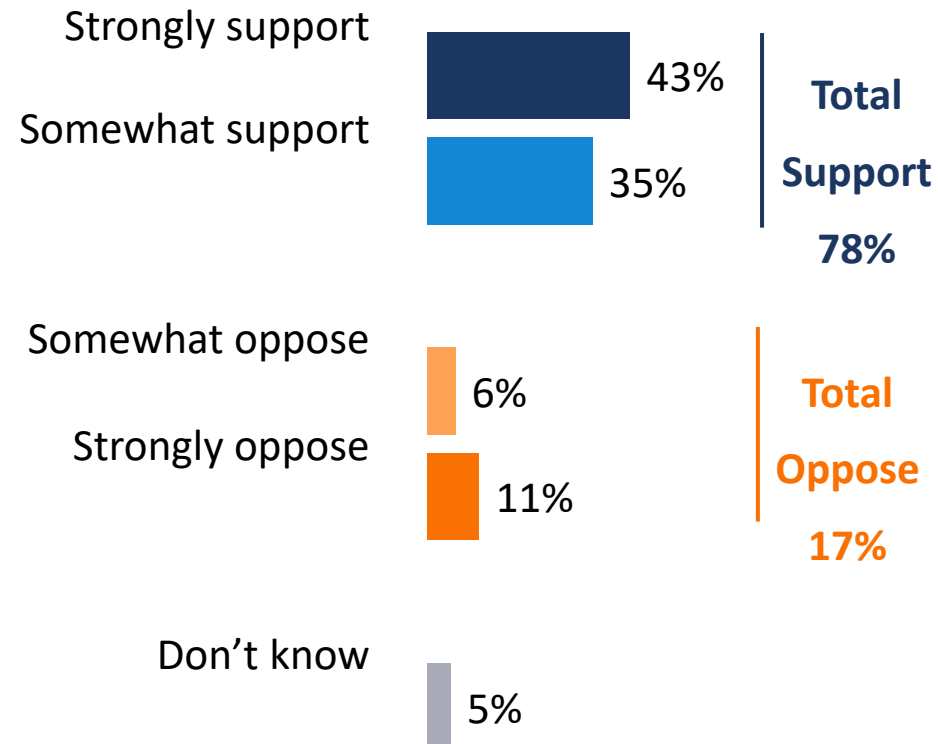
Nevertheless, voters consistently believe the city has a significant need for additional funds to provide the services that residents need and want.

In your personal opinion, do you think there is a great need, some need, a little need, or no real need for additional funds to provide the level of City services that Long Beach residents need and want?



Without a funding mechanism attached, three in four voters support creating a new revenue source to fund city services.

Regardless of how the funds may be raised, having heard these statements, would you support or oppose creating a new source of funding for Long Beach city services?



Demographic Group	Total Supp.	Total Opp.	DK
Gender			
Men	75%	20%	5%
Women	80%	14%	5%
Party			
Democrats	85%	11%	4%
Independents	77%	18%	6%
Republicans	58%	32%	9%
Age			
18-49	81%	15%	4%
50-64	79%	15%	6%
65+	70%	23%	7%
Race/Ethnicity			
Whites	78%	16%	6%
Latinos	76%	19%	5%
African Americans	81%	15%	5%
Asians/Pacific Islanders	85%	11%	4%
City Council District			
1	74%	18%	7%
2	85%	10%	5%
3	76%	19%	5%
4	73%	22%	5%
5	76%	20%	5%
6	83%	13%	4%
7	83%	14%	4%
8	77%	17%	6%
9	78%	16%	7%

Tax Options

Impact on Residents	Tax Option
Residents do not pay	Option 1: Removing Exemptions for UUT – Gas
Residents often do not pay	Option 2: Increasing Real Property Transfer Tax
Residents would likely pay regularly	Option 3: Increase Business License Tax Option 4: Increase Electric Franchise Fee

Option 1: Removing Exemptions for UUT - Gas

- One option could be to expand the Utility Users Tax (UUT) to remove exemptions for powerplants in the City with virtually no impact on ratepayers.
- For decades, Long Beach residents have borne the burden of the two plants' existence and operations, but have not benefited financially.
- The Long Beach Municipal Code Chapter 3.68 imposes a UUT for users of electricity, telecommunications, water, and gas, but carves out exceptions for certain uses, including charges made for gas to be used in the generation of electrical energy by an electrical corporation or governmental agency.

Option 1: Removing Exemptions for UUT - Gas

- By removing this exemption, the proposal would tax just two taxpayers at 5 percent of the value of their Long Beach Utilities gas consumption:
 - Los Angeles Department of Water and Power (Haynes Plant)
 - AES (Alamitos Energy Center)
- Tax burden would generally fall on LADWP and Southern Cal Edison customers, as these producers do not provide direct power to Long Beach residents.

<u>(\$ in millions)</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>	<u>FY 29</u>	<u>FY 30</u>	<u>Total</u>
User Utilities Tax - Gas	\$7.5	\$15.0	\$15.8	\$16.5	\$17.4	\$18.2	\$90.4

Option 2: Increasing Real Property Transfer Tax

- In recent years, cities have considered and passed increased real property transfer taxes applied on the sale of real property.
- Unlike property taxes that are paid by voters every single year, Real Property Transfer Taxes are only paid upon sale of the property by the seller.
- The majority of Long Beach residents are renters, and this would not be paid by renters.
- This tax would primarily be paid by:
 - Investors who purchase and then sell property, with the tax coming from the proceeds of the sale;
 - Property owners who are selling their property to leave Long Beach, with the tax coming from proceeds of the sale; and,
 - Long Beach property owners who are selling their property and investing in another property in Long Beach, which would be paid from the growth in property value.

Option 2: Increasing Real Property Transfer Tax - City Comparisons

Neighboring Cities

<u>City (population in 2022)</u>	<u>Total =</u>	<u>City</u>	<u>+ County</u>
Carson (92,388)	\$1.10	\$0.55	\$0.55
Compton (91,988)	\$1.10	\$0.55	\$0.55
Paramount (51,653)	\$1.10	\$0.55	\$0.55
Cerritos (47,475)	\$1.10	\$0.55	\$0.55
Hawaiian Gardens (13,593)	\$1.10	\$0.55	\$0.55
Cypress (49,243)	\$1.10	\$0.55	\$0.55
Signal Hill (11,381)	\$1.10	\$0.55	\$0.55
Seal Beach (24,627)	\$1.10	\$0.55	\$0.55
Huntington Beach (194,310)	\$1.10	\$0.55	\$0.55
Los Angeles (3,822,238)	\$5.60	\$4.50	\$1.10

Comparable Cities

<u>City (population in 2022)</u>	<u>Total =</u>	<u>City</u>	<u>+ County</u>
Fresno (546,567)	\$1.10	\$0.55	\$0.55
Bakersfield (410,647)	\$1.10	\$0.55	\$0.55
Anaheim (344,461)	\$1.10	\$0.55	\$0.55
Sacramento (528,001)	\$3.85	\$2.75	\$1.10
Oakland (430,553)			
	1% up to \$300K	\$11.10	\$10.00
	1.5% \$300K to \$2M	\$16.10	\$15.00
	1.75% \$2M to \$5M	\$18.60	\$17.50
	2.5% over \$5M	\$26.10	\$25.00

Option 2: Increasing Real Property Transfer Tax - Two Concepts

- One concept would be to adopt a two-tiered system applying a tax of \$3.30 per \$1,000 of value transferred for the first \$1 million in property value and \$5.60 per \$1,000 of value above \$1 million.
- A second approach would be to align with the City of Los Angeles rate and increase the real property transfer tax assessed against sellers to \$5.60 per \$1,000 of property value, generating approximately \$16 million annually.

Option 2: Increasing Real Property Transfer Tax - Concept #1

- Would raise Real Property Transfer Tax rate in two tiers:
 - \$3.30 per \$1,000 value of transaction, up to the first \$1,000,000
 - \$5.60 per \$1,000 value of transaction, after the first \$1,000,000
- Both tiers up from \$1.10 per \$1,000 transaction value currently
- Tax burden would remain on seller of the property, as it is now
- Staff would explore a rebate program for residents who transfer their property to immediate family, which would exempt the tax.
- Tax increase on sale of 2023 median-priced, detached, single-family residence in Long Beach would have been \$1,889

<u>(\$ in millions)</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>	<u>FY 29</u>	<u>FY 30</u>	<u>Total</u>
Real Property Transfer Tax - #1	\$6.0	\$12.1	\$13.3	\$14.6	\$16.1	\$17.7	\$79.8

Option 2: Increasing Real Property Transfer Tax - Concept #2

- Would raise Real Property Transfer Tax rate to City of Los Angeles' level: \$5.60 per \$1,000 value of entire transaction – up from \$1.10 currently
- Tax burden would remain on seller of the property, as it is now
- Tax increase on sale of 2023 median-priced, detached, single-family residence in Long Beach would have been \$3,864

<u>(\$ in millions)</u>	<u>FY 25</u>	<u>FY 26</u>	<u>FY 27</u>	<u>FY 28</u>	<u>FY 29</u>	<u>FY 30</u>	<u>Total</u>
Real Property Transfer Tax - #2	\$8.0	\$16.0	\$17.6	\$19.4	\$21.3	\$23.4	\$105.7

Option 3: Increase Business License Tax

- Currently Long Beach has a lower Business License Tax (BLT) than several cities in the region. Several cities charge a gross receipts tax which is a percentage of total gross receipts.
- Long Beach assesses a flat fee, and then a per employee charge. The tax varies based on the type of industry.
- The average business license tax paid by all Long Beach businesses is \$321 a year.
- If doubled, this would bring in about \$15 million per year in new revenue.
- This has the potential to be passed on to customers both within and outside Long Beach, as the business would likely try to recoup the cost of the business license tax.

Option 4: Increase Electric Franchise Fee

- Long Beach currently has a 1.66 percent franchise fee for electric power that is paid by Edison to the City.
- Several cities charge between 2 percent and 5 percent for this fee.
- If Long Beach were to increase the fee up to 5 percent, that could generate significant revenues estimated at \$21.5 million per year.
- This would be paid for by all rate payers, with the franchise fee typically being included and passed along in the bill.
- For Long Beach residents, if the fee were increased to 5 percent, this would result in an average bill increase of \$29.60 over the course of a year, or \$2.47 a month.

Option 4: Increase Electric Franchise Fee - City Comparisons

Neighboring Cities

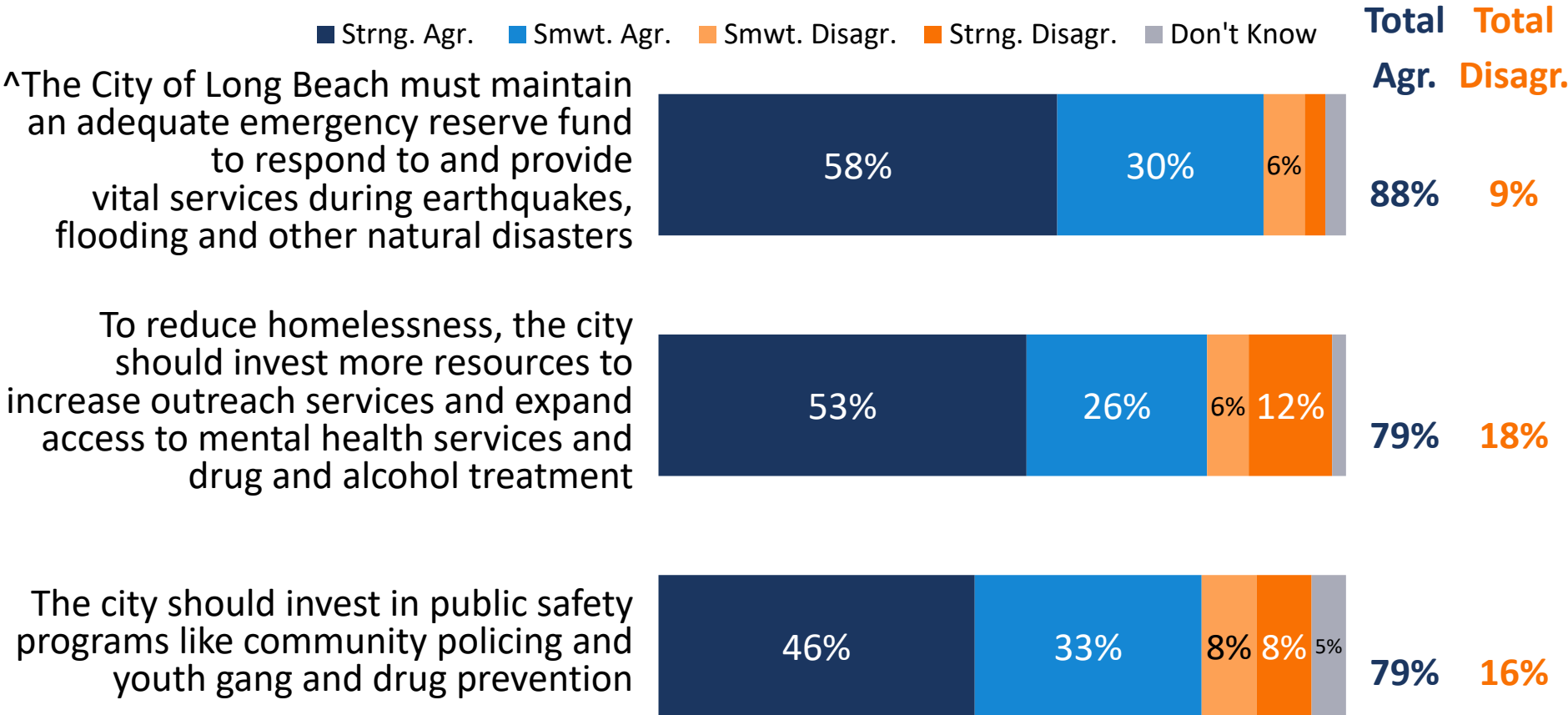
<u>City (population in 2022)</u>	<u>Total =</u>	<u>2% Franchise</u>	<u>+ Surcharge</u>
Carson (92,388)	3%	2%	1%
Cypress (49,243)	3%	2%	1%
Signal Hill (11,381)	3%	2%	1%
Seal Beach (24,627)	3%	2%	1%
Huntington Beach (194,310)	3%	2%	1%
Los Angeles (3,822,238)	5.5%	2%	3.5%

Comparable Cities

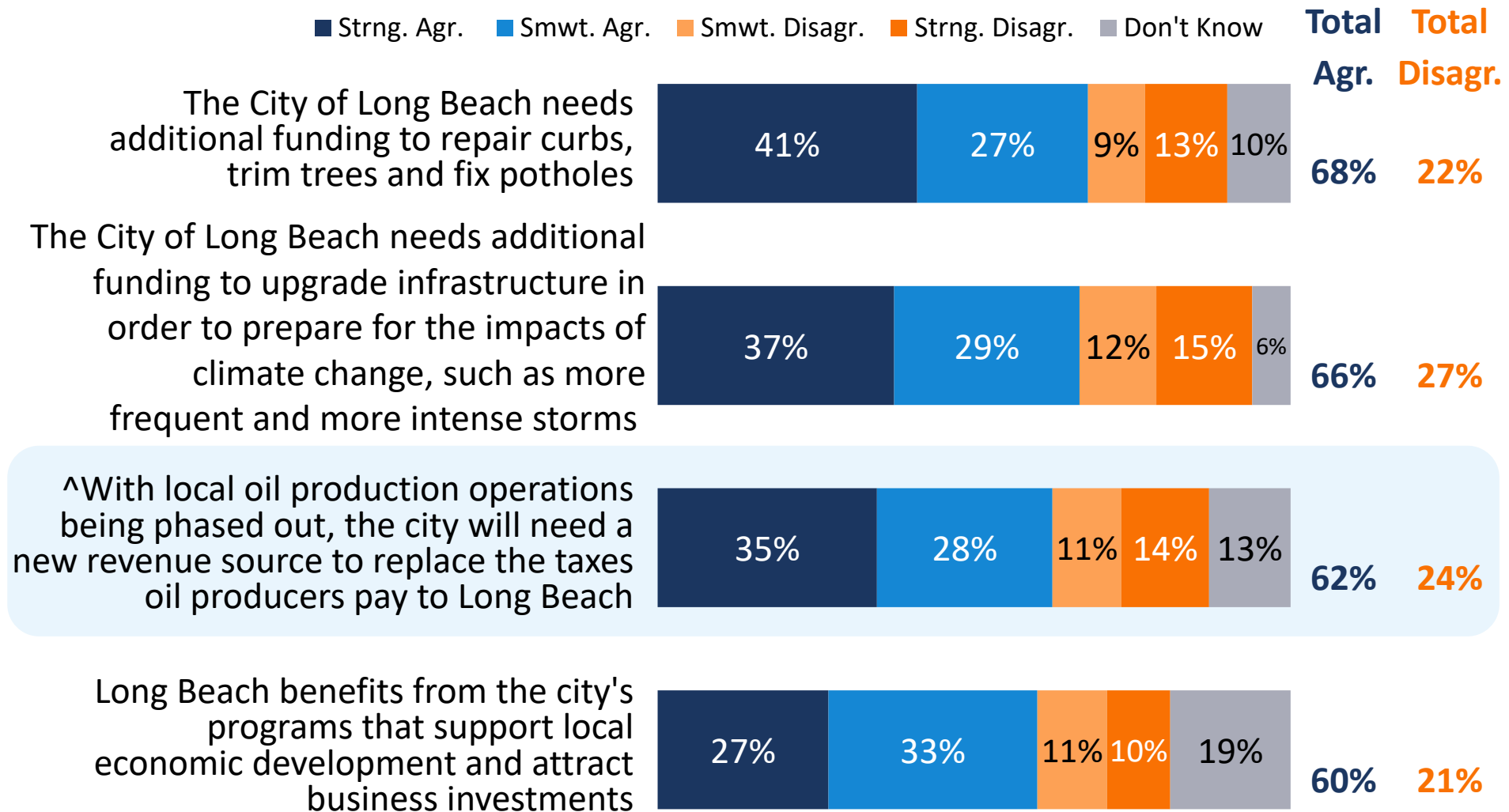
<u>City (population in 2022)</u>	<u>Total =</u>	<u>2% Franchise</u>	<u>+ Surcharge</u>	
Anaheim (344,461)	2%	2%	n.a.	SoCal Gas
Fresno (546,567)	3%	2%	1%	PG&E
Bakersfield (410,647)	3%	2%	1%	PG&E

Voters also agree the city's reserve fund must be maintained and further investments are needed to address the affordable housing crisis and improve public safety.

I am going to read you some different statements. Please tell me whether you generally agree or disagree with that statement.

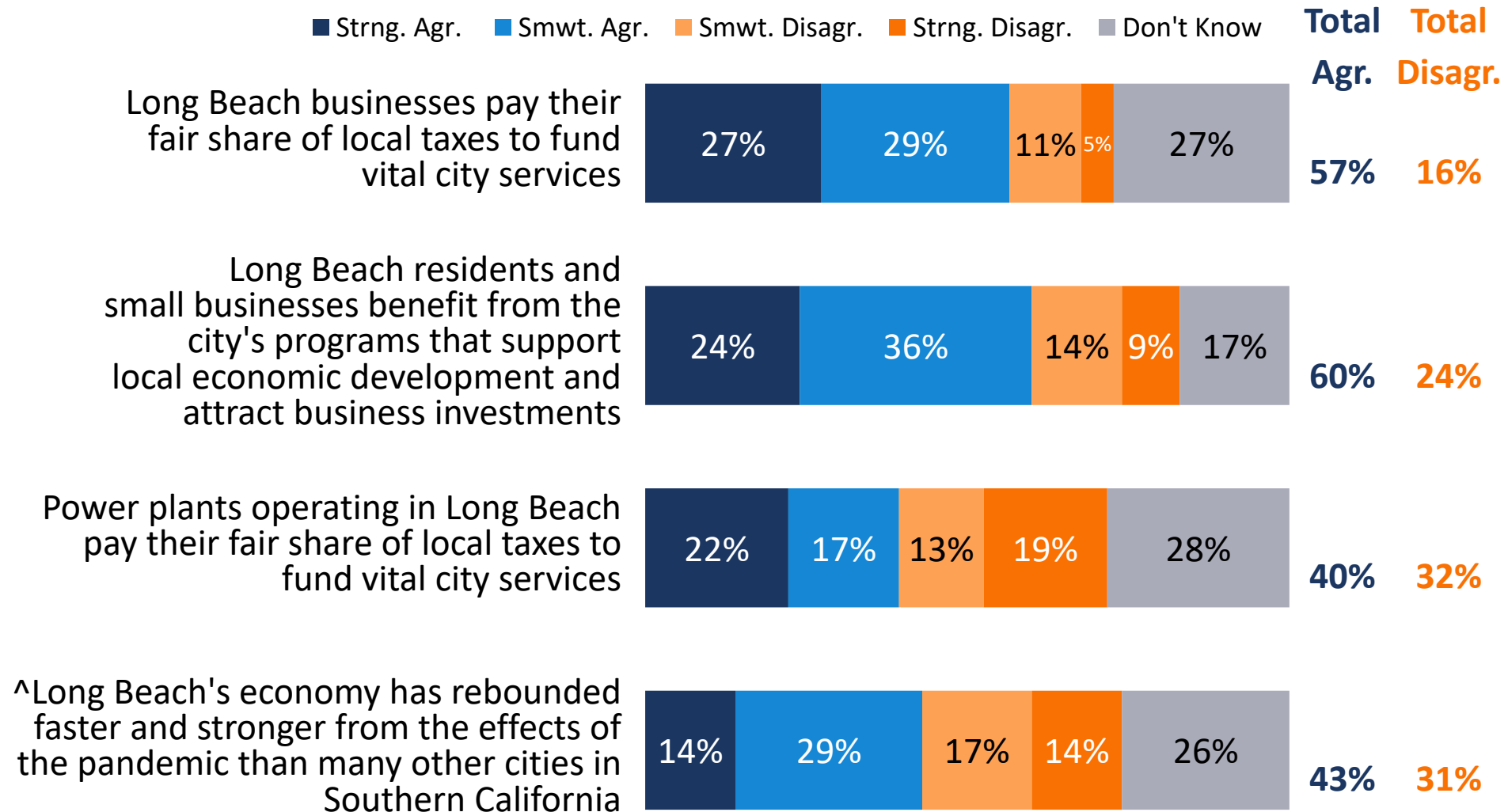


Two-thirds see a need for additional funds for community services and to upgrade infrastructure; six in ten also recognize the city will have to replace oil producer revenue.



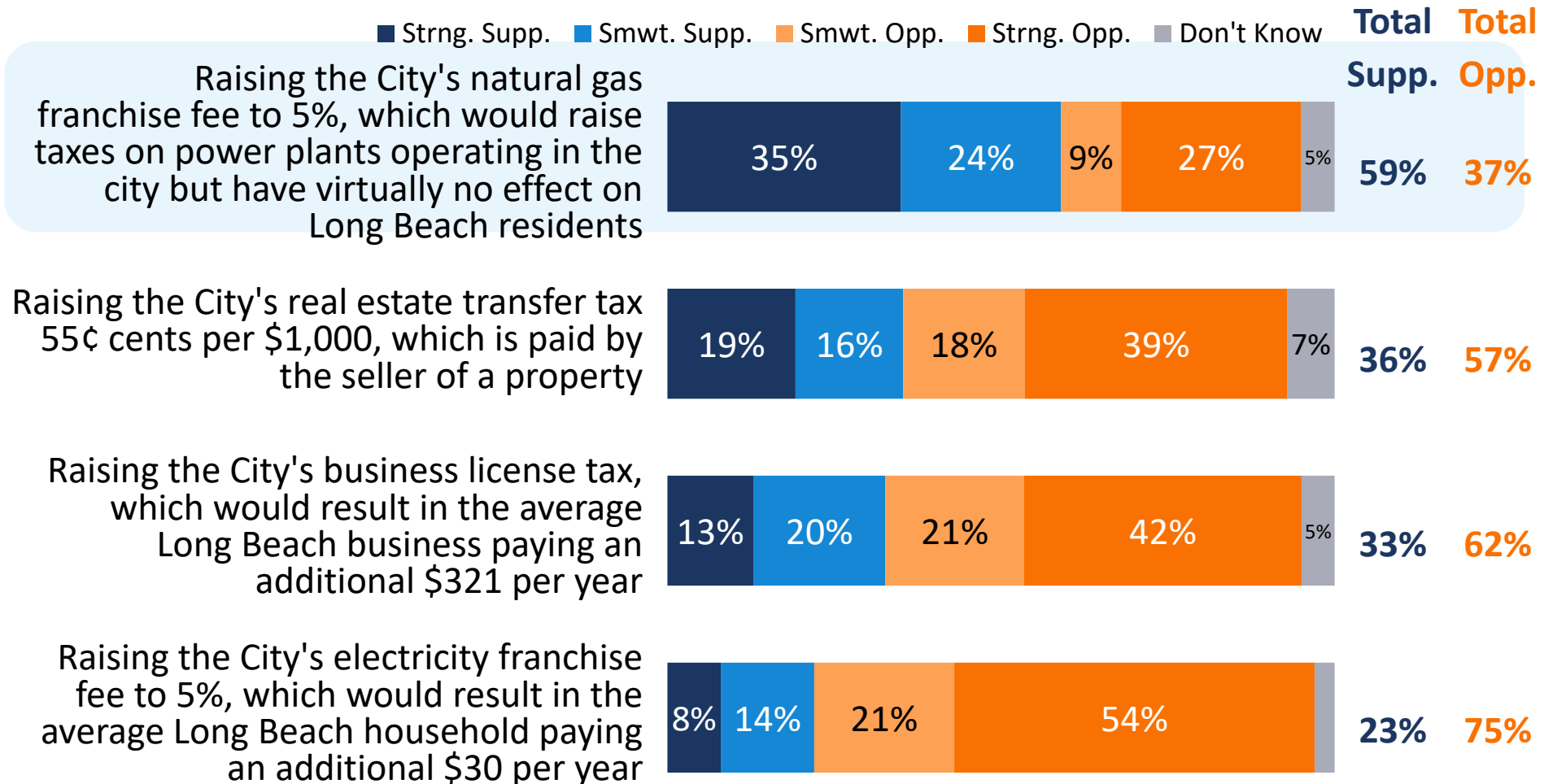
Q7b-1. I am going to read you some different statements. Please tell me whether you generally agree or disagree with that statement. ^Not Part of Split Sample

Nearly six in ten agree that Long Beach businesses pay their fair share to fund city services but are less certain about local power plants.



Voters were presented with four ways to raise city revenues — the 5% natural gas franchise fee was the only option that a majority supports.

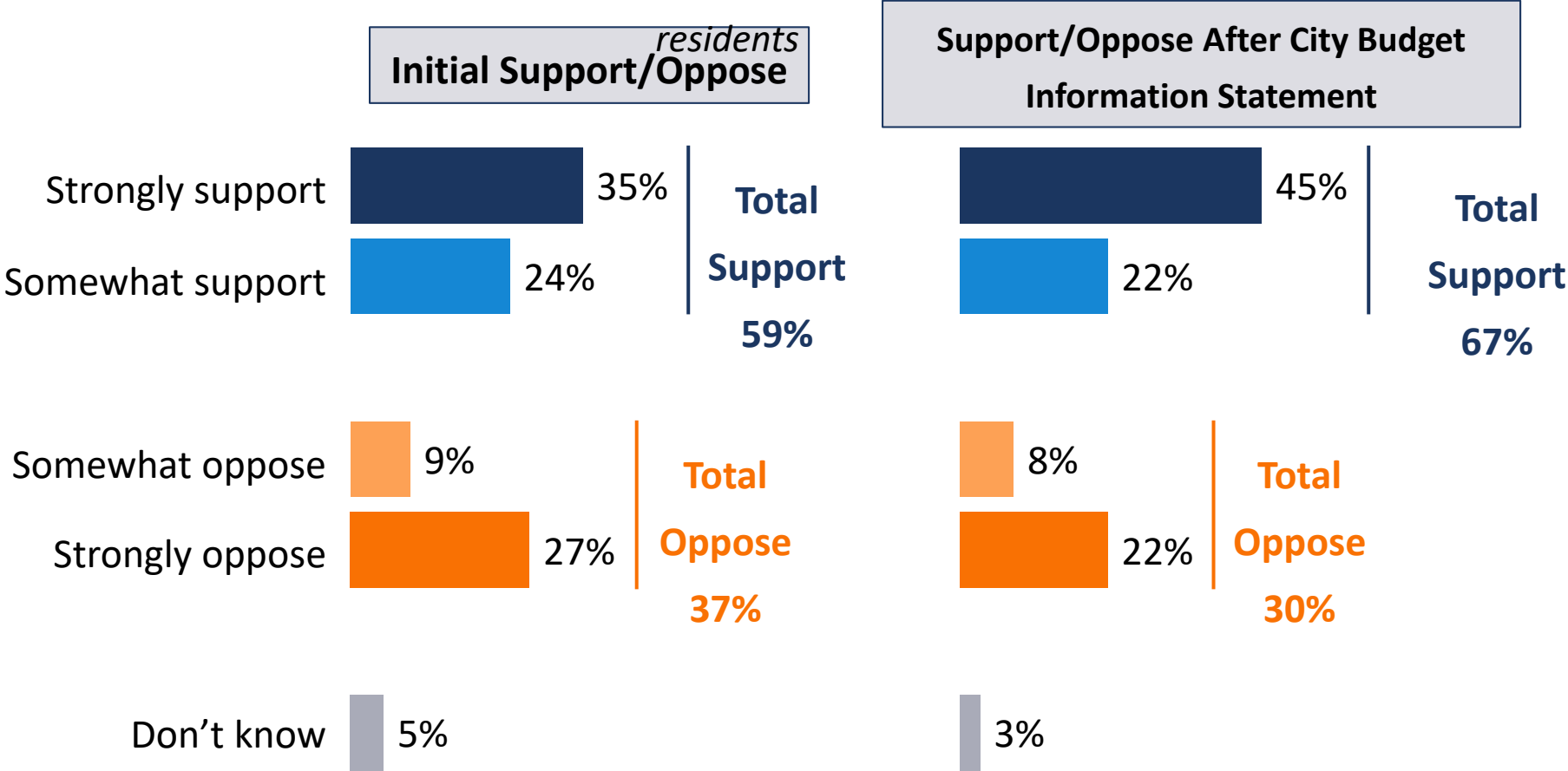
I am now going to mention different ways people have proposed raising additional revenue to fund Long Beach city services. Please tell me whether you support or oppose it.



Q6.

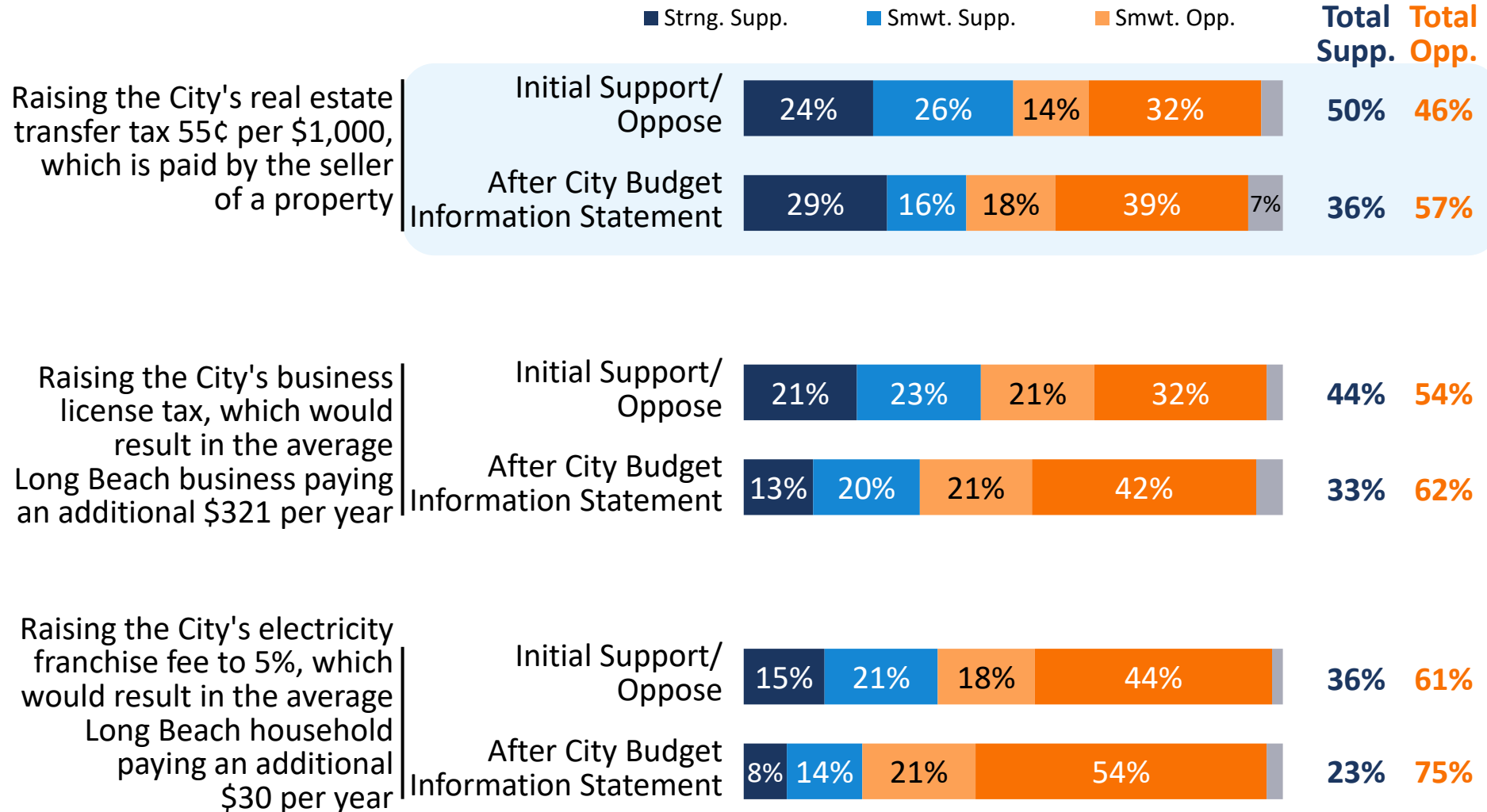
After this information, two-thirds support raising the city's natural gas franchise fee 5%.

Raising the City's natural gas franchise fee to 5%, which would raise taxes on power plants operating in the city but have virtually no effect on Long Beach



Q6c. I am now going to mention different ways people have proposed raising additional revenue to fund Long Beach city services. Please tell me whether you support or oppose it.
Q9c. Now that you have more information about the city's fiscal situation, I am going to ask you one more time about several ways to raise additional revenue to fund Long Beach city services. Please tell me whether you support or oppose it.

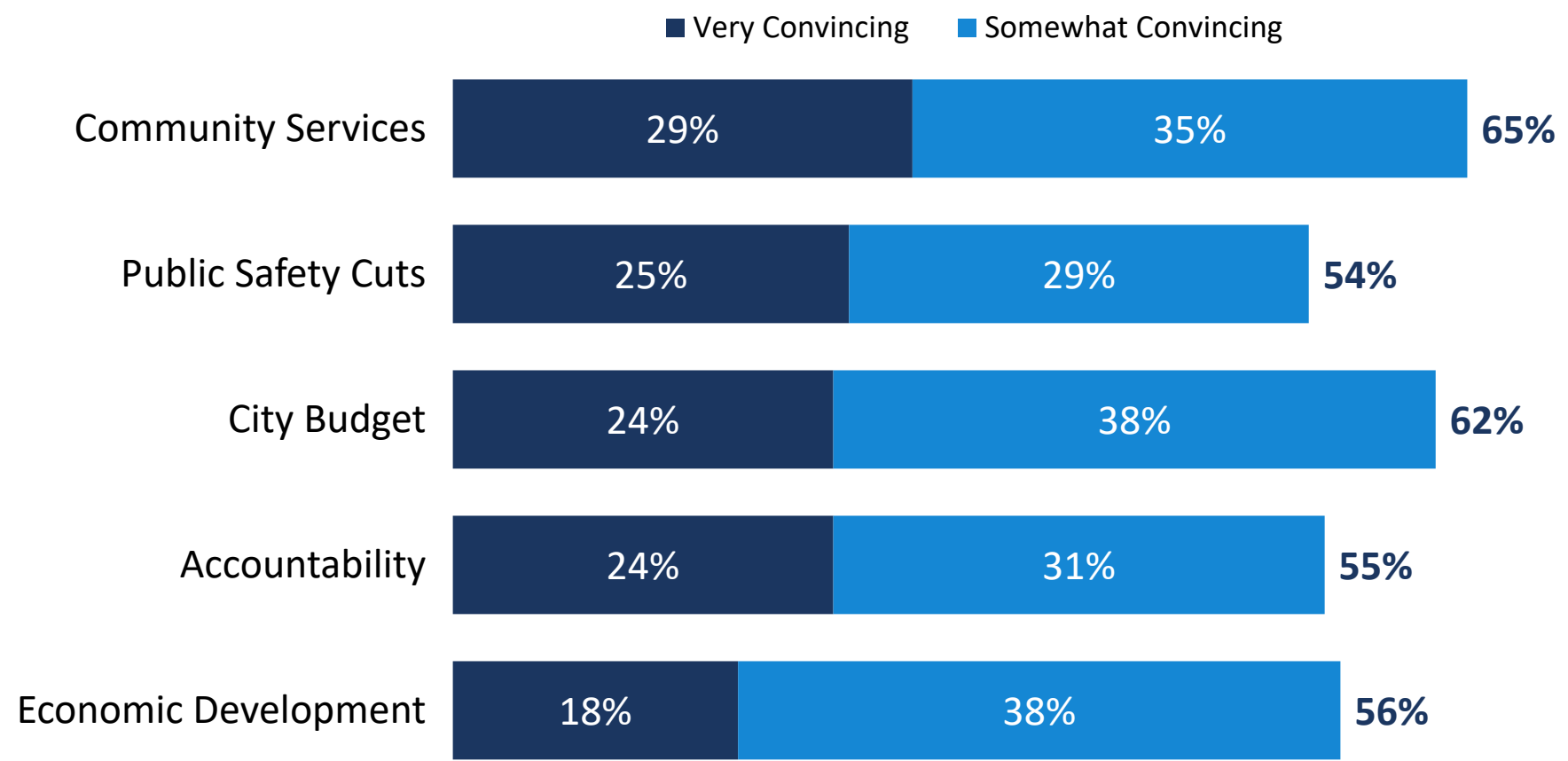
Among the other funding options, half support a real estate transfer tax fee paid by the property seller.



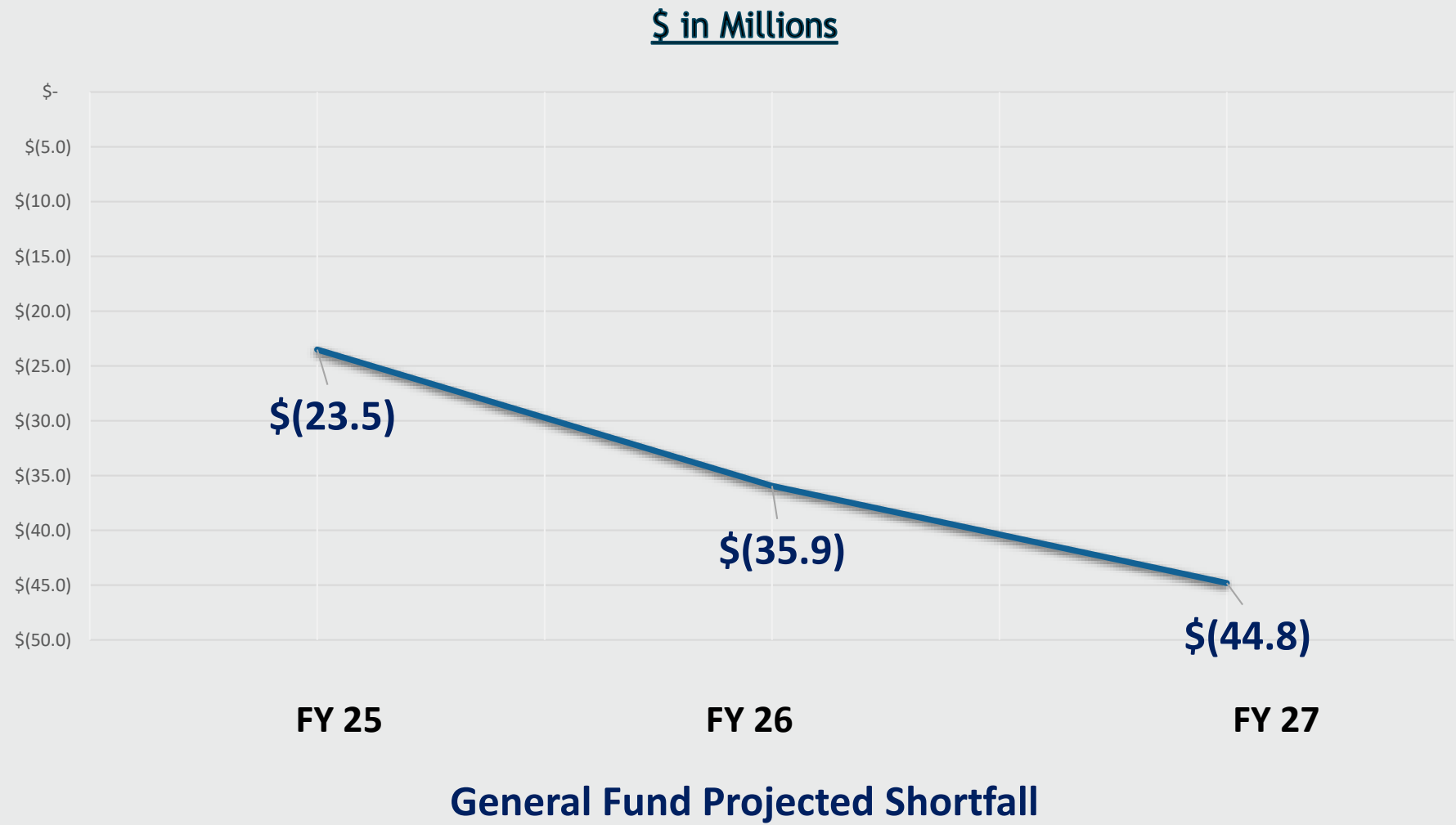
Q6 & Q9 a, b & d. I am now going to mention different ways people have proposed raising additional revenue to fund Long Beach city services. Please tell me whether you support or oppose it.

Voters identify the themes of maintaining community services and stabilizing the city budget to ensure long-term fiscal stability as the most persuasive.

(Ranked by Percentage Saying Statement Is a VERY Convincing Reason to Support New Source of Funding)



Projected Outlook



Navigating our Financial Future

Financial question before us:

- What type of City do we want to be?

Solutions before us:

- **Resolve through cuts:** Would have deep lasting impacts and result in significant service cuts, including public safety.
- **Grow Economic Development:** Unleashing the creative economy through music, athletics, tourism and hospitality.
- **Revenue measures:** Could be an important part of the solution. Mitigate cuts, transition away from oil, and address some of our most pressing needs.

Next Steps

- Research continues on the specific wording of the various revenue measures.
- Second round of polling commissioned - will have analysis complete on sample language over the next few weeks.
 - Specific wording of the measures matters, and different wording will generate different results.
- Listen to feedback from various stakeholders and residents.
- Implementation of the Grow Long Beach Plan to generate revenue through Economic Development.
- Prepare and release the FY 24 Budget and further contemplate reductions potentially necessary to solve a \$45 million deficit over three years if new revenues are not available.
- Bring back a specific recommendation on August 6 for Council consideration.



Thank you

Tom Modica
City Manager