Jeremiah Dobruck <jeremiah@lbpost.com>

Fwd: FY 26 Budget

1 message

John Donegan <john@lbpost.com> Wed, Jul 15, 2026 at 11:35 AM
To: Jeremiah Dobruck <jeremiah@lbpost.com>

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From: **Tom Modica** <Tom.Modica@longbeach.gov>
Date: Wed, Jul 15, 2026 at 11:18 AM
Subject: FY 26 Budget
To: John Donegan - LBPost <john@lbpost.com>
Cc: Kevin Riper <Kevin.Riper@longbeach.gov>, Kevin Lee <Kevin.Lee@longbeach.gov>

Hi John, heard you reached out with some questions about Tuesday's agenda item. Kevin Riper and I will both call you at noon. Thought you might want to see what I sent our City Employees this week to help describe what is happening and what we are doing about it. You can use anything from this in addition to what we talk about.

City Team:

Back in February, I shared some news about our City's budget when the FY 25 Yearend Performance Report was published. I'd like to give you an update, as we will be discussing this year's (FY 26) current budget status and fiscal performance with the City Council next Tuesday, before the Proposed FY 27 Budget is released on July 30.

Summary

As you know, economic conditions continue to affect us, primarily in revenue. Revenues continue to underperform, especially in the areas of utility taxes, interest earnings, and now to a lesser degree property and sales tax. Costs to support current operations continue to outpace revenues available. This is not because of new spending, but rather the cost to support existing City operations. We instituted a 3% savings target for all departments back in December 2025, and nearly every department was able to hit it or exceed it to help generate savings. This has not been without sacrifice. We recognize that cost savings today and moving forward have a real impact on the programs we provide, staff resources and the community we serve, and that fact is not taken lightly. I'm thankful to everyone for participating and supporting the savings target. However, even with the cost saving efforts, we are expected to close FY 26 with a $27.1 million shortfall that will require solutions.

Major Causes

The following three areas capture most of the major causes of the shortfall:

1. **Revenue Drop:** As outlined above, revenue is down approximately $21.1 million compared to budget. Revenues continue to underperform, especially in the areas of utility taxes, interest earnings, and now to a lesser degree property and sales tax. These are factors outside of the City's control and are tied to national, state and regional economic uncertainty.

2. **Cost of Existing Services and Public Safety Hiring:** We have also been making real progress in reducing vacancies and hiring into existing positions. Particularly in Police and Fire, we have made major progress with our sworn officer ranks for PD moving from a 26% vacancy rate to now just 13%. While those are not all fully-deployable officers, as we just graduated from the Academy 85 new recruits in the largest Academy in our history and they are still training, this marks a great step towards filling our vacant police officer positions. In our Fire Department, the Fire sworn vacancy rate is 3.2%. The bargaining agreements we entered into earlier this year have been successful in retaining and growing our public safety force and filling vacancies, but they do come at a cost of $38.3 million over the next three years.
3. **Health Fund**: The steep reductions at the federal level, combined with little revenue growth at the State and County level to cover Health services has generated a large imbalance in the Health Fund. What used to be fairly sustaining from grants and State support, now requires $11 million in unbudgeted General Fund support to continue Health Services at existing levels.

How We Will Solve It This Year

To close out the year, before taking action in the FY 27 budget to propose permanent solutions and changes to service levels, it will require use of reserves to address the shortfall. Use of reserves to address fiscal shortfalls must be limited, otherwise the problem will continue year after year. Also, by using reserves, we will need to establish a plan to replenish them so they are available in the future again. This year's reserve use will be:

1. $4.6 million representing the remaining balance of the City Operating Reserve
2. $3.5 million (or 50% of anticipated FY 26 year-end balance) release from the City Measure B stabilization fund which was established by voter approval in 2016
3. $2.8 million balance from the City's Unfunded Liability reserve to support approved labor Public Safety MOUs
4. $16.5 million from Emergency Reserves which currently has a $50.1 million balance

How We Address This Going Forward

Having to utilize reserves, including the Emergency Reserve, is concerning and must be addressed going forward. On July 30, I will be presenting a proposed structurally balanced budget for FY 27 that will address the fiscal shortfalls through a number of different actions. That day, the Mayor will also release his additional budget recommendations. My goal with the Proposed Budget, which will include very difficult changes for both the community and our organization, will be to outline a path to fiscal sustainability and create a plan to replenish our reserves. We will be communicating more details on July 30 when the budget is released, and the City Council will deliberate and take input in August before taking action and approving the budget before September 15. We will be sharing more information with you on July 30, and for a list of meetings the City has planned to discuss the budget, please visit here.

Thank You

Thank you for your continued service during these difficult financial times and for sacrificing to help us meet our 3% savings target this year. We knew that even with those savings we would require difficult solutions such as those outlined, but without that shared sacrifice it could have been much worse. We will navigate through this together and while a lot of outside factors are affecting us negatively, we continue to be an organization that can and will endure and make the necessary decisions to restore fiscal balance while continuing to provide core services to the community.

More Information

If you'd like more information, please review the City Council agenda item for Tuesday. We will also be giving a presentation to the Mayor and Council that night.

Tom Modica

City Manager