



## **FY 2022/23 Audit Results and FY 2023/24 Mid-Year Budget Update**

Finance Commission  
March 27, 2024

# FY 2022/23 Audit Results

- Auditing firm of Davis Farr LLP audited the City's financial statements which included an evaluation of the internal control structure of the City
- FY 2022/23 Annual Comprehensive Financial Report (ACFR) received an Unmodified (Clean) Audit Opinion
- The City's ACFR is award winning – received the Government Finance Officers Association's (GFOA) Excellence in Financial Reporting Award for 37 years



Government Finance Officers Association

Certificate of  
Achievement  
for Excellence  
in Financial  
Reporting

Presented to

**City of Huntington Beach  
California**

For its Annual Comprehensive  
Financial Report  
For the Fiscal Year Ended

June 30, 2022

*Christopher P. Morrill*

Executive Director/CEO

# Audit Results

- Reports issued:
  - Annual Comprehensive Financial Report
    - Issued “unmodified” opinion on December 21, 2023
    - This is the highest opinion possible
  - AU-C 260 Letter: Auditor Communications
  - Appropriations Limit Agreed-Upon Procedures
  - AQMD Report



# Internal Controls

- Evaluated controls over key accounting cycles:
  - Billing and Cash Receipting
  - Purchasing and Cash Disbursements
  - Payroll
  - Banking and Investing
  - Grant Management
  - Information Systems
- No deficiencies in internal controls were reported
- No instances of noncompliance of laws and regulations that auditors believe are direct and material to the financial statements reported

# Areas of Audit Focus in FY 2022/23

Pension Obligations

OPEB Obligations

Conflict of Interest  
testing over Form  
700's

Testing of Capital  
Asset Activities

GASB 96 SBITA's

Single Audit: Testing  
of Coronavirus State  
and Local Recovery  
Fund

# Upcoming Auditing Standards

- FY 2023/24 – GASB Statement No. 100, *Accounting Changes and Error Corrections*
- FY 2024/25 – GASB Statement No. 101, *Compensated Absences*
- FY 2024/25 – GASB Statement No. 102, *Certain Risk Disclosures*

# FY 2022/23 Performance (Audited)

## Government-Wide Highlights:

Description	In Thousands
<u>ASSETS</u>	
Current and Other Assets	\$451,448
Non-Current Assets	2,024
Capital Assets	913,621
<b>Total Assets</b>	<b>1,367,093</b>
Deferred Outflows – Pensions & OPEB	154,594
<u>LIABILITIES</u>	
Current and Other Liabilities	73,570
Long-Term Obligations*	590,950
<b>Total Liabilities</b>	<b>664,520</b>
Deferred Inflows – Pension & OPEB	21,108
<b>TOTAL NET POSITION</b>	<b>\$836,059</b>

\* Reflects GASB 68 recording of Net Pension Liability of \$160.8 million

# General Fund Long-Term Financial Plan

## 6.1% CalPERS Return FY22/23

(in thousands)	Actual FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27	Projected FY27/28
Revenue (Recurring)	281,337	282,969	287,221	294,366	301,718	309,310
Revenue (One-Time)*	31,380	2,276	-	-	-	-
Planned Use of Reserves	-	8,804	-	-	-	-
<b>Total Sources of Funds</b>	<b>312,717</b>	<b>294,049</b>	<b>287,221</b>	<b>294,366</b>	<b>301,718</b>	<b>309,310</b>
Expenditures less UAL	254,720	264,960	269,807	281,813	290,201	297,443
CalPERS UAL	4,891	5,000	5,223	8,981	12,727	16,458
POB Payment	13,663	13,276	13,010	12,750	12,537	12,537
One-Time Expenditures	18,721	8,804	-	-	-	-
<b>Total Expenditures</b>	<b>291,995</b>	<b>292,040</b>	<b>288,040</b>	<b>303,544</b>	<b>315,465</b>	<b>326,438</b>
Restricted Reserves	16,978	-	-	-	-	-
<b>Surplus/(Deficit)</b>	<b>\$3,744</b>	<b>\$2,009</b>	<b>(\$819)</b>	<b>(\$9,178)</b>	<b>(\$13,747)</b>	<b>(\$17,128)</b>

\* FY 22/23 one-time revenue consists of \$29.6M in American Rescue Plan Act funding and \$1.8M in transfers from the Housing Agreement and Triple Flip fund. FY 23/24 one-time consists of General Fund portion of Emerald Cove settlement.

- Current forecast requires use of Section 115 Trust reserves (per UAL Policy) starting in FY 25/26.

# City Budget and Financial Position – FY 2022/23

The City ended FY 2022/23 with a \$3.7 million General Fund surplus, after year-end transfers of \$12.62M to partially fund unfunded liabilities (Workers' Compensation, General Liability, Retirement Supplemental) and Infrastructure needs.

- Revenues were available for transfers primarily due to one-time spikes in natural gas prices during Winter 2022-23, as well as increased natural gas and electricity rates, resulting in additional utility tax and franchise fee revenue above the adopted budget.
- Additionally, Transient Occupancy Tax (TOT) remained strong, mainly due to higher average daily rates and a full fiscal year of TOT from the City's Short-Term Vacation Rentals.
- Demand for emergency medical services (EMS) continues to increase.

# City Budget and Financial Position – FY 2023/24

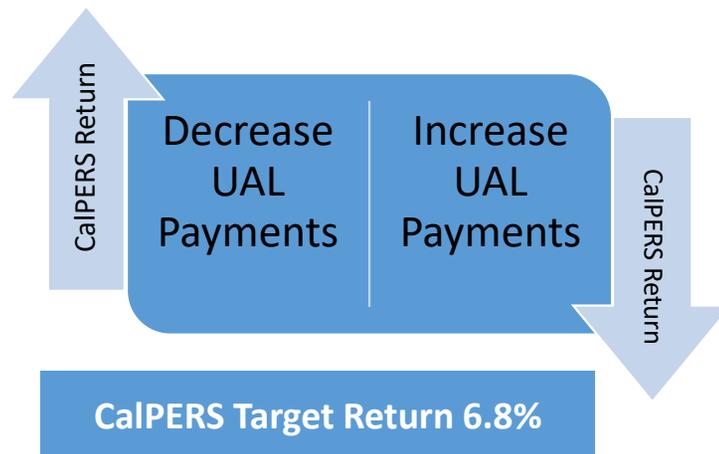
After 29 months of post-pandemic jobs growth in California, employment growth was flat in September 2023 and declined in October 2023. California consumers and businesses are spending less, and shifting from taxable goods to nontaxable items.

- Property tax revenues, the City's largest General Fund revenue source (36.7%), remains strong, with revenue projected to be slightly above the adopted budget due to increased supplemental property taxes.
- Sales tax revenues, the City's second largest General Fund revenue source (18.9%), is projected to decline by approximately \$1.3M due to a shift in consumer spending from taxable goods, such as new car sales, to nontaxable items, such as travel, leisure, and entertainment.
- Utility tax and franchise fee revenues are lower than prior year due to lower gas commodity prices.

The City is currently projecting to end FY 2023/24 with a \$2M General Fund surplus (subject to change).

# CalPERS Update

- CalPERS FY 21/22 return of -7.5% and FY 22/23 return of 6.1% requires escalating UAL payments by the City
- June 26 – City Council approved updates to the General Fund Reserve Policy requiring a minimum of 25% of unrestricted one-time revenues to be transferred to the City’s Section 115 Trust to address CalPERS’ unfavorable returns
- Section 115 Trust balance as of June 30, 2023: \$20.6M



- CalPERS’ investment policy focuses on long-term plan returns
- POB is financially advantageous as long as CalPERS long-term return is  $> 2.925\%$

# Unfunded Liabilities

- Insurance premiums are anticipated to increase due to rising medical costs and an expanded list of injuries that are presumed to be work related under California law, such as post-traumatic stress.
- General Liability insurance premiums are also expected to increase as additional markets withdraw from California and from writing public entity liability. The City is currently self-insured up to \$1 million per claim with \$25M in excess coverage per claim/occurrence.
- Staff is closely monitoring the City’s unfunded liabilities to identify cost saving opportunities on an ongoing basis.

Description	Unfunded Liabilities as of 6/30/2022	Increase/(Decrease) in Unfunded Liabilities	Unfunded Liabilities as of 6/30/2023
Workers’ Compensation	\$25.0M	(\$2.1M)	\$22.9M
General Liability	\$0.2M	\$4.5M	\$4.7M
Retiree Supplemental	\$15.2M	(\$6.4M)	\$8.8M
CalPERS UAL	(\$41.6M)	\$232.2M	\$190.6M

**Questions?**

