



Financial Update & FY 2021/22 Year-End Budget Adjustments

City Council Meeting
November 15, 2022

Presentation Overview

- Financial Update
- FY 2021/22 Year-End Budget Adjustments
- What's on the Budget Horizon?



Financial Update

- The City is estimated to end FY2021/22 with a \$5.5 million surplus primarily due to a stronger recovery in sales tax and transient occupancy tax than anticipated
- Recent economic indicators in 2022 signal caution

Interest Rates	Inflation	GDP	Market Index
• Fed raised rates 6 times in 2022 to 3.75%-4.00% • Inverted yield curve	• 9.1% June 2022 • 8.2% Sept 2022	• 1Q2022: -1.6% • 2Q2022: -0.6% • 3Q2022: +2.6%	• YTD to 3Q2022 • Bond: -14.6% • US Stock: -23.9% • Int'l Stock: -26.5%

- These economic factors are creating headwinds for expansion, investment, and consumer demand
- Consumers are saving less, drawing from savings, and increasing credit usage
- State unemployment September 2022 is 3.9% after 16.1% COVID peak (May 2020) although ratio of job openings to job seekers starting to decline (July 2.0 to Aug 1.87)

General Fund (Fund 100) Projections

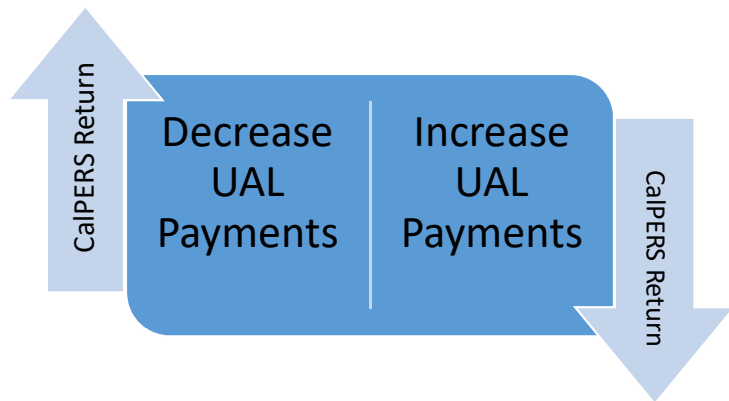
(in thousands)	Actual FY20/21	Projected* FY21/22	Projected FY22/23
Revenues	\$236,970	\$256,246	\$293,257
Expenditures less UAL	198,533	232,135	259,292
CalPERS UAL	28,302	4,891	4,891
POB Payment	-	13,688	13,556
Total Expenditures	226,834	250,714	277,739
Restricted AES	(4,900)		
HB Recovery Reserves			(13,472)
Surplus	\$5,235	\$5,532	\$2,045

** FY 2021/22 projected numbers are subject to change as the annual audit is currently in process.*



CalPERS Update

- FY2021/22 CalPERS return of -7.5% (original estimate -6.1%) requiring escalating UAL payments by the City
- October 18 – City Council approved \$3 million to fund the Section 115 Trust to address CalPERS' unfavorable return
- Section 115 Trust balance as of June 30, 2022: \$15.4M
- CalPERS Gains & Losses amortized over 20 years with a 5 year ramp-up
- Projections assumes CalPERS earns 6.8% in FY23/24 going forward which is CalPERS' discount rate

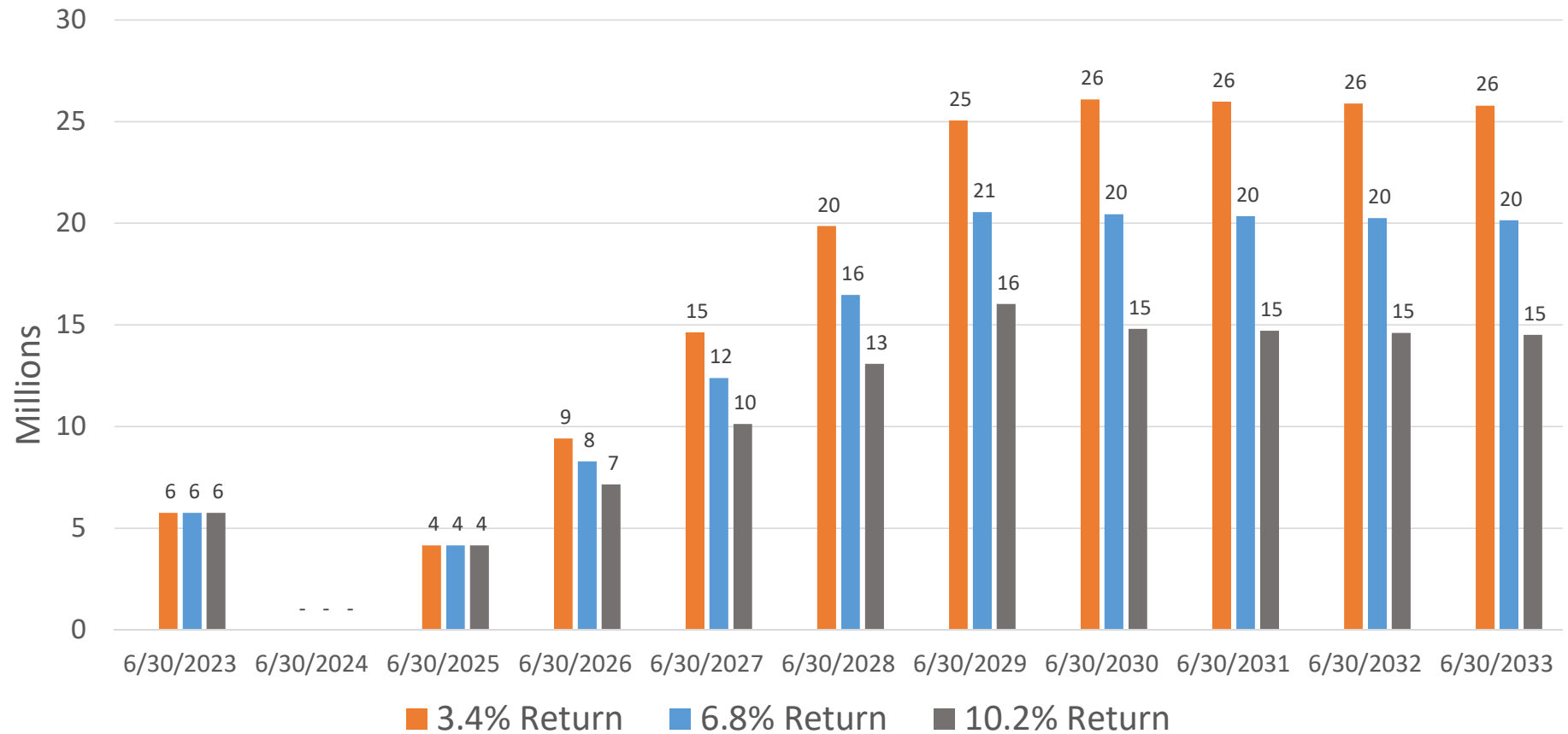


- CalPERS' investment policy focuses on long-term plan returns
- POB is financially advantageous as long as CalPERS long-term return is > 2.925%

Years	CalPERS Plan Return
1 Year	-7.5%
5 Years*	6.7%
10 Years*	7.7%
20 Years*	6.9%
30 Years*	7.7%

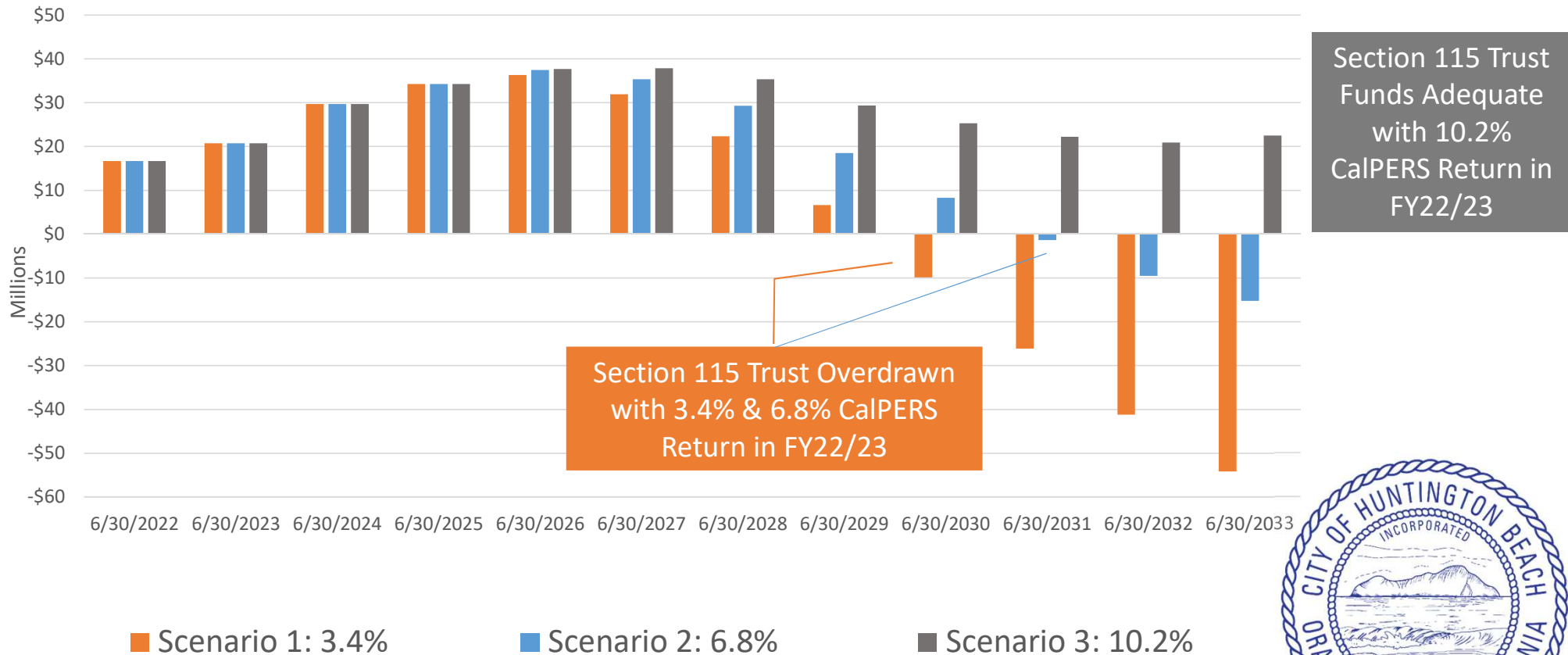
* Based on original est. -6.1% return

CalPERS UAL Payment Projection



CalPERS UAL Payments based on projected FY22/23 CalPERS Returns scenarios

Section 115 Trust Projected Balance Scenarios



Note: Assumes CalPERS hits their 6.8% target return in FY23/24 going forward



General Fund Long-Term Financial Plan

Scenario 1: 3.4% CalPERS Return FY22/23

(in thousands)	Projected FY21/22	Projected FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27
Revenues	\$256,246	\$293,257	\$267,829	\$272,742	\$277,760	\$282,885
Expenditures less UAL	232,135	259,292	247,848	253,062	257,025	263,136
CalPERS UAL	4,891	4,891	5,000	5,000	9,400	14,630
POB Payment	13,688	13,556	13,276	12,989	12,687	12,537
Total Expenditures	250,714	277,739	266,124	271,050	279,112	290,304
HB Recovery Reserves		(13,472)				
Surplus	\$5,532	\$2,045	\$1,705	\$1,691	(\$1,352)	(\$7,419)

- Scenario 1 requires use of Section 115 Trust reserves (per UAL Policy) starting in FY25/26
- **Insufficient funds** projected to be available in Section 115 Trust to structurally balance the budget starting FY29/30
 - ✓ Assumes CalPERS earns 6.8% in FY23/24 going forward

General Fund Long-Term Financial Plan

Scenario 2: 6.8% CalPERS Return FY22/23

(in thousands)	Projected FY21/22	Projected FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27
Revenues	\$256,246	\$293,257	\$267,829	\$272,742	\$277,760	\$282,885
Expenditures less UAL	232,135	259,292	247,848	253,062	257,025	263,136
CalPERS UAL	4,891	4,891	5,000	5,000	8,270	12,380
POB Payment	13,688	13,556	13,276	12,989	12,687	12,537
Total Expenditures	250,714	277,739	266,124	271,050	277,982	288,054
HB Recovery Reserves		(13,472)				
Surplus	\$5,532	\$2,045	\$1,705	\$1,691	(\$222)	(\$5,169)

- Scenario 2 requires use of Section 115 Trust reserves (per UAL Policy) starting in FY25/26
- **Insufficient funds** projected to be available in Section 115 Trust to structurally balance the budget starting FY30/31
 - ✓ Assumes CalPERS earns 6.8% in FY23/24 going forward

General Fund Long-Term Financial Plan

Scenario 3: 10.2% CalPERS Return FY22/23

(in thousands)	Projected FY21/22	Projected FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27
Revenues	\$256,246	\$293,257	\$267,829	\$272,742	\$277,760	\$282,885
Expenditures less UAL	232,135	259,292	247,848	253,062	257,025	263,136
CalPERS UAL	4,891	4,891	5,000	5,000	7,140	10,120
POB Payment	13,688	13,556	13,276	12,989	12,687	12,537
Total Expenditures	250,714	277,739	266,124	271,050	276,852	285,794
HB Recovery Reserves		(13,472)				
Surplus	\$5,532	\$2,045	\$1,705	\$1,691	\$908	(\$2,909)

- Scenario 3 requires use of Section 115 Trust reserves (per UAL Policy) in FY26/27 to FY32/33 (7 years)
- **Sufficient funds** projected to be available in Section 115 Trust to structurally balance the budget
 - ✓ Assumes CalPERS earns 6.8% in FY23/24 going forward

FY 2021/22 Year-End Budget Adjustments



Year-End Budget Adjustment Requests

Year-end budget adjustments are requested in 12 separate funds:

1. General Fund (100)
2. Traffic Impact (206)
3. Gas Tax (207)
4. Measure M (213)
5. Revolving Loan Fund (215)
6. Infrastructure (314)
7. Equipment Replacement (324)
8. Workers' Compensation (551)
9. Hotel/Motel BID (709)
10. HOME Program (854)
11. Highway Safety Improvement Program (995)
12. EPIC Challenge (1240)

Adequate funding is available for all requested budget adjustments

General Fund Adjustments

Infrastructure Fund Transfer

- **\$2M** transfer to the Infrastructure Fund (314) to comply with Section 617 of the City Charter that requires the City to spend 15% of General Fund revenue on infrastructure and address rising labor and material costs

Equipment Replacement Fund Transfer

- **\$2M** transfer to the Equipment Fund (324) to ensure adequate funding for essential capital equipment needs and address rising equipment costs

HOME Fund Transfer

- **\$6K** transfer to the HOME Fund (240) to reimburse the HOME Fund for prior year administrative expenditures that were ineligible under the grant program

General Fund Surplus with Year End Adjustments

(in thousands)	Projected* FY21/22
Revenues	\$256,246
Expenditures less UAL	232,135
CalPERS UAL	4,891
POB Payment	13,688
Total Expenditures	250,714
Surplus	5,532
Infrastructure Transfer	(2,000)
Equipment Transfer	(2,000)
HOME Fund Transfer	(6)
Surplus with Recommended Actions	\$1,526

** FY 2021/22 projected numbers are subject to change as the annual audit is currently in process.*

Other Fund Adjustments

Workers' Compensation Fund (551)

- **\$1.22M** to fund the cost of claims paid during FY 2021/22 due rising medical costs and an expanded list of injuries that are presumed to be work related under California law, including cancer, post-traumatic stress, and long-term impacts of COVID. \$3M General Fund transfer approved on Oct 18. Appropriations is need in the Workers' Comp Fund 551.

Hotel/Motel Business Improvement District Fund (709)

- **\$1.96M** to align budget with actual FY 2021/22 revenues and expenditures. The Hotel/Motel BID Fund is a pass-thru fund in which the City collects self-assessed revenues of 4% from the participating hotels and motels and submits them to Visit Huntington Beach per the BID's agreement.

Other Fund Adjustments

Community Development

- **\$45K** Revolving Loan Fund transfer to CDBG Fund to properly code funding & **\$822K** HOME Fund transfer to the proper grant year

Public Works

- **\$371K** transfers to close out grants in Highway Safety Improvement Program Fund. Grants include Bolsa Chica/Pearce Traffic Signals, Goldenwest/Heil Signal Modifications, Gothard/Center Signal Modifications, Gothard/Slater Signal Modifications, Newland/Ellis Signal Modifications, Signal Interconnect – Newland, and Newland/Slater Signal Modifications.

Non-Departmental

- **\$3K** Epic Challenge Grant Fund transfer to Surf City “3” Cable Channel Fund to correct miscoding of charges and close out EPIC Challenge Grant Fund

Other Recommendations

Public Works - Oak View Neighborhood Cleanup and Beautification Project

- **\$5M** FY22/23 appropriation for Caltrans grant funding to be received under the Clean California Local Grant Program.

Police – Professional Services Contract Extension

- Request for approval of Amendment No. 3 to Agreement between the City of Huntington Beach and Winbourne Consulting, LLC for Consulting Services for the Police Department's Computer Aided Dispatch and Records Management System (CAD/RMS) to extend the contract a fifth year to January 10, 2024. No additional funding is required for this contract.

What's on the Budget Horizon?

- In February 2023, we will return to Council with a Mid-Year FY2022/23 Update and Final Year-End Audit Results for FY2021/22
- The following details the Budget Development Calendar for FY2023/24:

Proposed Date	Item
December 2022 – May 2023	FY 2023/24 Budget Development Process
May 16, 2023	FY 2023/24 Proposed Budget Study Session with City Council
June 6, 2023	FY 2023/24 Budget Adoption: City Council Public Hearing
June 20, 2023	FY 2023/24 Budget Adoption: Alternate Date
July 1, 2023	Fiscal Year 2023/24 Begins

Summary of Recommended Actions

- Approve appropriations and/or transfers of **\$12.4M** to complete the year-end closing process for FY2021/22

- Estimated General Fund FY21/22 surplus after appropriation: **\$1.5M** (subject to change)

A – Appropriations \$7.2M
T – Transfers \$5.2M

Fund	A/T	Description	Amount	Total
General Fund	T	Infrastructure Transfer	\$2,000,000	\$4,006,411
	T	Equipment Transfer	2,000,000	
	T	HOME Fund Transfer	6,411	
Other Funds	A	Infrastructure Fund Appropriation	2,000,000	\$8,416,727
	A	Equipment Fund Appropriation	2,000,000	
	A	Workers' Compensation	1,215,774	
	A	Hotel/Motel BID	1,959,378	
	T	Community Development	867,110	
	T	Public Works	371,345	
	T	Non-Departmental	\$3,120	
Total				\$12,423,138

- Approve **\$5M** appropriation for Oak View grant and Police CAD/RMS contract extension

Questions?

