



Overview of Financial Forecast Model and Fiscal Outlook

February 4, 2025



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UFI – Financial Advisors & Consultants



Financial Forecast Modeling

- - Forecast modeling for California municipalities since 2012.
- - UFI currently provides active forecasting services to fifteen municipalities in California, including the following:
 - - City of Alameda
 - - City of Corona
 - - City of Culver City
 - - City of El Segundo
 - - City of Ontario
 - - City of Pomona

Financial Advisory Services

- UFI is a full-service financial advisory firm that has served California municipalities since 1972.
- The leading municipal advisor since 2011 based on number financings

Top Municipal Advisors for CA Municipal Bonds 2018 - 2022

Rank	Firm	No. of Issues	Par (\$MM)
1	Urban Futures Inc	687	\$15,632.3
2	Fieldman Rolapp & Associates	454	16,621.9
3	KNN Public Finance	348	37,123.4
4	PFM Financial Advisors LLC	309	31,395.9
5	Public Resources Advisory Group	208	64,907.3



UNDERSTANDING CITY'S FORECAST MODEL

Developing a Forecast Model

- ✓ **Standardized Revenue & Expense Categories.** Model uses standardized revenue and expense categories that correlate with available economic data, projections, and variables appropriate for driving municipal forecasts.
- ✓ **Integration of City's Historical Financial Data.** Model integrates 10 years of annual financial data from the City's general ledger.
- ✓ **Baseline Forecast with Fund Balance Allocation.** Model produces a 10-year baseline forecast of revenues, expenses, cash flows and fund balance for purposes of analysis and comparison with "what-if" scenario forecasts.
- ✓ **"What-if" Scenario Forecasts, Including Built-in Modules.** Model enables the City to create "what-if" scenario forecasts to compare against the baseline, allowing the City to make more informed and fiscally sustainable financial decisions.

Tailored Forecasting Algorithms

UFI uses econometric data from Moody's Analytics, U.S. Précis® Metro forecast service, combined with a variety of city, regional and state financial projections and indicators to create forecasting algorithms that drive each revenue and expense category in the City's baseline forecast.

The econometric data is statistically correlated with outputs from the City's historical financial data to create four custom forecast trendlines (aggressive, average, conservative and pessimistic).

Huntington Beach Forecast – General Assumptions

- **City’s baseline forecast built around FY 2025 General Fund budget adopted by the City Council.**
- **Base Salaries.** Includes current MOUs with long-term assumption that average annual growth aligns with CalPERS growth assumption (2.85% per annum).
- **CalPERS UAL.** Incorporates amortized loss basis from FY22 (-6.2% return) and gain basis from FY23 (+9.5%).
- **Homeless Program.** Assumes General Fund will pickup program costs beginning FY26.
- **ROPS Waterfront Revenues.** Treated as one-time revenues used for one-time expenses.

What is a “Baseline” Forecast?

Neutral, fiscal assessment and decision-making tool that establishes a common understanding of the City’s status quo fiscal outlook:

“If the City makes no changes to its organization, operations or service levels, and there are no significant external economic impacts to the City (other than what’s known today), what is the predicted condition of the City’s finances over the next ten years?”

Huntington Beach Forecast – Fiscal Issues Not In Model

- **Underfunding of Equip. Replacement.** City’s projected schedule for equipment replacement is currently underfunded by approximately \$_____ annually.
- **Underfunding of Critical Infrastructure.** City’s recent Infrastructure Report Card identified critical infrastructure projects requiring at least \$_____ annually.
- **Restoration of Departmental Cuts.** In prior years, operating cuts have been made to various departments affecting service delivery and/or quality.
- **EMS Revenue Risks.** Revenues from the Voluntary Rate Range Intergovt. Transfer Program (VRRP IGT) that helps offset EMS service costs to Medi-Cal patients is vulnerable to changes in federal appropriations and addtl. participants.

What-If Forecasting Enhances Prioritization & Accountability

California cities operate within a highly-constrained revenue environment. With no rate-making authority and no taxing authority without voter approval, cities must largely operate within an existing revenue structure. This makes revenue forecasting essential for good fiscal management.

However, revenue forecasting alone is insufficient. Forecast modeling with “what-if” scenario capacity enables cities to evaluate and align competing community priorities with constrained revenue capacity, enhancing accountability based on transparent and deliverable outcomes.

Huntington Beach Forecast - Major Drivers & Indexes

Key Categories & % of Total	Historical AAGR	Forecast Trendline	Forecast AAGR
Revenues	4.18%		3.03%
<i>Property Taxes (35%)</i>	<i>5.41%</i>	<i>average</i>	<i>3.96%</i>
<i>Sales & Use Tax (17%)</i>	<i>3.72%</i>	<i>average</i>	<i>3.10%</i>
<i>Cost Recovery & Earnings (12%)</i>	<i>2.74%</i>	<i>average</i>	<i>2.62%</i>
<i>Permits, Fees & Charges (11%)</i>	<i>2.84%</i>	<i>average/consv.</i>	<i>1.26%</i>
<i>Utility User Tax (7%)</i>	<i>1.76%</i>	<i>average</i>	<i>1.74%</i>
Expenses	4.34%		2.70%
<i>Salaries & Wages (40%)</i>	<i>2.83%</i>	<i>MOU or 2.85%</i>	<i>2.95%</i>
<i>Transfers Out* (17%)</i>	<i>27.77%</i>	<i>--</i>	<i>2.43%</i>
<i>Pension (Normal & UAL) (12%)</i>	<i>0.87%</i>	<i>average</i>	<i>3.26%</i>
<i>Benefits (excl. pension) (11%)</i>	<i>4.71%</i>	<i>2 x CPI</i>	<i>4.11%</i>
<i>Supplies & Equipment (8%)</i>	<i>2.00%</i>	<i>average</i>	<i>2.61%</i>

* Transfers Out include Equipment Fund, Infrastructure Fund, Self-Insurance Fund and Homeless Program



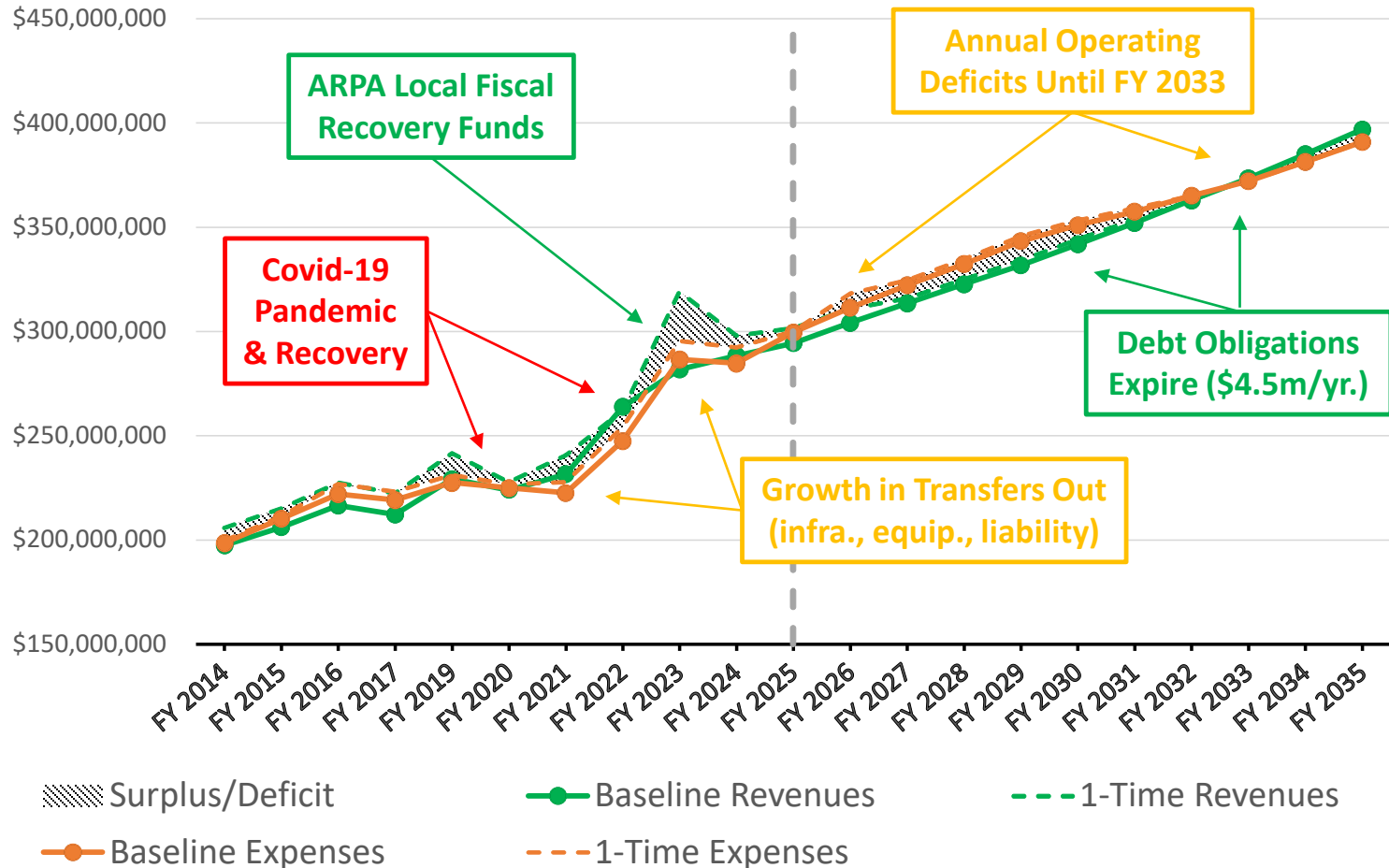
10-YEAR BASELINE FORECAST

Baseline Forecast – 10-Year Projections (2025-35)

BASELINE FORECAST			CURRENT FISCAL YEAR		FORECAST FISCAL YEARS										
Category/Type	Trendline (expand columns to include prior fiscal years)	Forecast AAGR	-1	0	1	2	3	4	5	6	7	8	9	10	
			FY 2024	FY 2025	FY 2026	FY 2027	FY 2028	FY 2029	FY 2030	FY 2031	FY 2032	FY 2033	FY 2034	FY 2035	
REVENUES															
1	Property Taxes (incl. VLF In-Lieu)	4.05%	\$ 105,665,647	\$ 108,087,472	\$ 112,722,110	\$ 117,364,341	\$ 121,975,344	\$ 126,428,753	\$ 131,721,180	\$ 137,128,896	\$ 142,826,281	\$ 148,434,943	\$ 154,411,518	\$ 160,732,255	
2	Sales & Use Taxes	3.10%	51,421,440	53,488,453	55,254,756	56,976,501	58,694,841	60,431,265	62,306,990	64,208,970	66,230,964	68,192,651	70,309,115	72,569,839	
3	Utility User Tax (UUT)	1.74%	23,282,648	23,000,000	23,398,448	23,794,717	24,176,558	24,579,680	25,001,564	25,433,717	25,894,028	26,338,928	26,819,904	27,327,435	
4	Transient Occupancy Tax (TOT)	3.26%	17,398,883	16,780,000	17,457,781	18,099,547	18,870,220	19,406,309	19,998,012	20,593,036	21,218,239	21,814,570	22,452,142	23,126,022	
5	Business License/Operations Tax	0.19%	2,900,681	2,705,000	2,719,048	2,728,596	2,735,984	2,741,342	2,744,957	2,748,130	2,750,131	2,752,420	2,755,160	2,756,604	
6	Other Taxes or Assessments	2.91%	1,654,805	1,565,000	1,649,427	1,739,911	1,792,289	1,845,765	1,889,400	1,930,259	1,968,109	2,005,663	2,043,432	2,082,250	
7	Franchise Fees	3.02%	9,704,587	10,620,000	10,872,577	11,123,269	11,370,031	11,712,073	12,081,321	12,469,652	12,896,936	13,321,183	13,794,242	14,301,678	
8	Permits, Fees & Chrgs. for Service	1.26%	30,539,144	33,225,232	33,928,676	34,389,501	34,755,859	35,179,270	35,592,669	35,977,072	36,348,360	36,760,364	37,221,596	37,670,772	
9	Cost Recovery, Earnings & Misc.	2.62%	39,667,092	37,936,706	39,055,162	40,205,118	41,233,217	42,289,827	43,375,279	44,473,319	45,605,566	46,737,922	47,912,222	49,124,852	
10	Annual Transfers In & Variable Revenues	0.31%	6,068,195	7,012,816	7,033,891	7,054,939	7,075,125	7,095,549	7,116,887	7,138,564	7,161,752	7,183,854	7,207,932	7,233,749	
11	One-Time Revenues, Transfers & Adjustments <i>(Less One-Time Revenues, Transfers & Adjustments)</i>		9,779,076 <i>(9,779,076)</i>	7,274,566 <i>(7,274,566)</i>	6,742,718 <i>(6,742,718)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(1,689,515)</i>	-	-	-	-	
TOTAL BASELINE REVENUES			3.03%	\$ 288,303,122	\$ 294,420,679	\$ 304,091,877	\$ 313,476,440	\$ 322,679,467	\$ 331,709,834	\$ 341,828,260	\$ 352,101,614	\$ 362,900,365	\$ 373,542,498	\$ 384,927,266	\$ 396,925,456
EXPENSES															
20	Salaries & Wages	2.95%	\$ 115,193,719	\$ 120,490,673	\$ 125,241,976	\$ 128,723,998	\$ 132,392,632	\$ 136,165,822	\$ 140,046,548	\$ 144,037,875	\$ 148,142,954	\$ 152,365,028	\$ 156,707,432	\$ 161,173,593	
21	Benefits	4.11%	30,376,698	33,257,010	35,186,312	36,642,481	38,144,932	39,679,403	41,244,027	42,835,513	44,462,506	46,153,865	47,915,295	49,749,505	
22	Pension & OPEB	3.26%	36,741,128	36,043,034	41,913,930	44,818,873	47,753,102	50,685,006	50,117,471	49,398,883	49,285,604	49,206,695	49,115,200	49,008,392	
23	Contractual Services (labor)	3.29%	20,875,786	22,834,822	23,589,990	24,418,848	25,214,529	26,010,106	26,874,847	27,756,162	28,676,597	29,587,428	30,547,368	31,553,611	
24	Operating Supp. & Equip. (non-labor)	2.61%	23,142,438	23,504,181	24,160,509	24,869,936	25,560,955	26,232,960	26,888,754	27,555,869	28,247,910	28,935,424	29,653,717	30,400,501	
25	Insurance & Liability	2.45%	75	500,000	513,070	526,123	538,642	551,309	564,542	577,985	592,366	606,073	621,005	637,016	
26	Debt Service	-13.44%	7,250,503	6,503,248	6,152,681	6,148,446	5,470,406	5,468,885	5,325,921	3,920,794	2,961,644	1,072,844	1,066,900	1,065,900	
27	Capital Asset Investments (non-CIP)		118,466	-	-	-	-	-	-	-	-	-	-	-	
28	General Admin, Overhead & Cost Allocation	1.55%	3,343,454	5,220,920	5,309,492	5,397,557	5,483,732	5,569,554	5,655,870	5,741,622	5,828,325	5,914,425	6,001,275	6,089,019	
29	Annual Transfers Out & Variable Expenses	1.79%	47,629,102	51,416,393	49,367,371	50,602,165	51,796,400	52,990,857	54,272,449	55,574,094	56,957,103	58,292,539	59,737,092	61,275,680	
30	One-Time Expenses, Transfers & Adjustments <i>(Less One-Time Expenses & Adjustments)</i>		7,597,695 <i>(7,601,245)</i>	225,000 <i>(525,000)</i>	6,742,718 <i>(6,742,718)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(2,400,000)</i>	2,400,000 <i>(1,689,515)</i>	-	-	-	-	
TOTAL BASELINE EXPENSES			2.70%	\$ 284,667,818	\$ 299,470,281	\$ 311,435,332	\$ 322,148,426	\$ 332,355,330	\$ 343,353,902	\$ 350,990,429	\$ 357,398,796	\$ 365,155,008	\$ 372,134,319	\$ 381,365,284	\$ 390,952,668
FUND(S) BALANCE - END OF FY				\$ 132,319,000	\$ 134,018,964	\$ 126,675,509	\$ 118,003,523	\$ 108,327,659	\$ 96,683,592	\$ 87,521,423	\$ 82,224,240	\$ 79,969,597	\$ 81,377,776	\$ 84,939,757	\$ 90,912,545
Non-spendable				148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000	148,000
Restricted				21,670,000	21,670,000	21,670,000	21,670,000	21,670,000	21,670,000	21,670,000	21,670,000	21,670,000	21,670,000	21,670,000	21,670,000
Committed				52,023,000	52,844,714	54,838,889	56,624,404	58,325,555	60,158,650	61,431,405	60,406,240	58,151,597	59,559,776	63,121,757	68,091,778
Assigned				58,478,000	58,478,000	50,018,620	39,561,118	28,184,104	14,706,941	4,272,018	-	-	-	-	1,002,767
Other Fiscal Policies (% of Total Expenses) [reserved] (% of Total Expenses)				-	-	-	-	-	-	-	-	-	-	-	-
UNDESIGNATED FUND BALANCE				\$ -	\$ 878,251	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

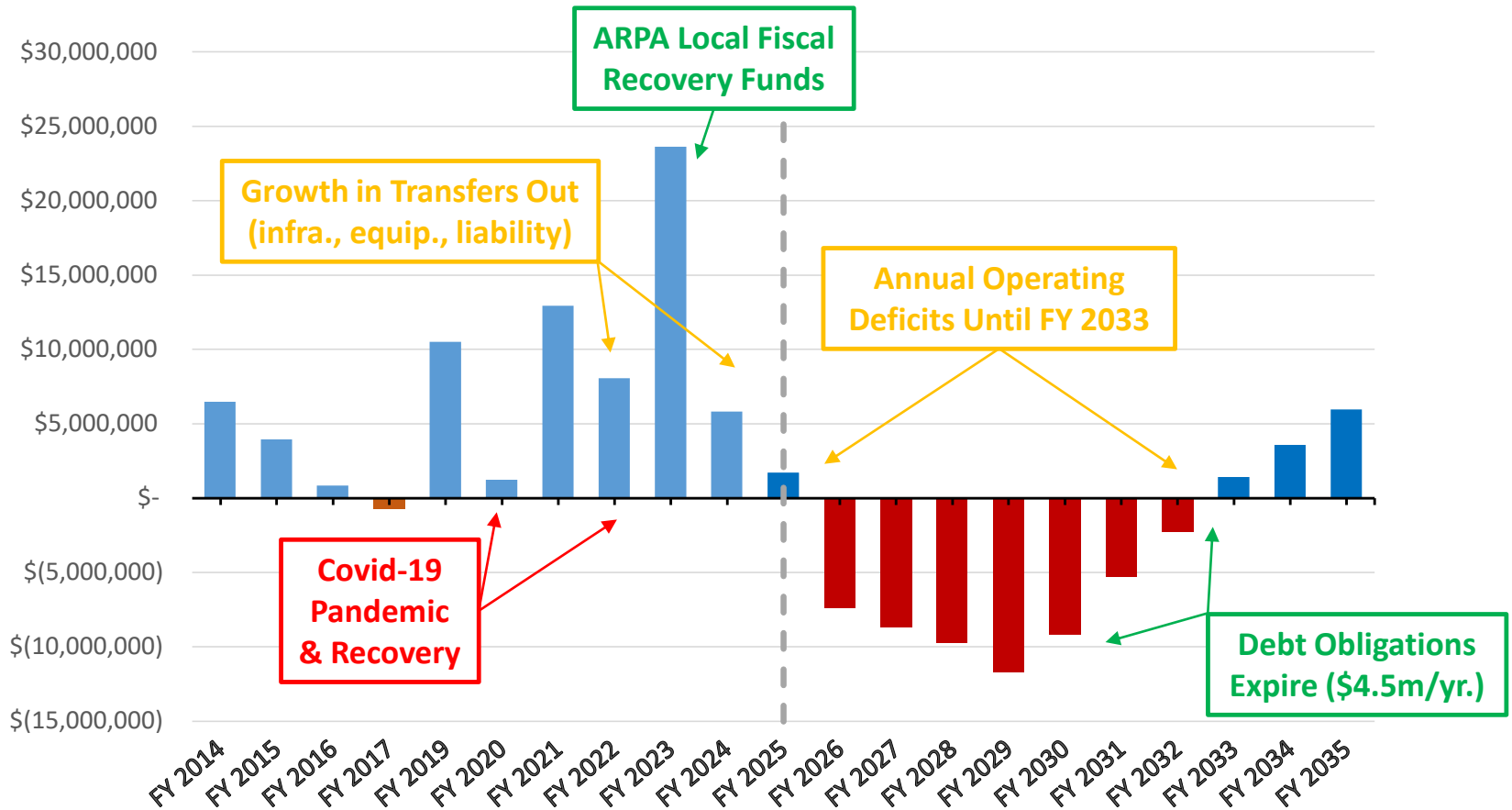
Baseline Forecast – Revenue & Expenses Trends

Total Revenues & Expenses
10-Year Prior and Baseline Forecast

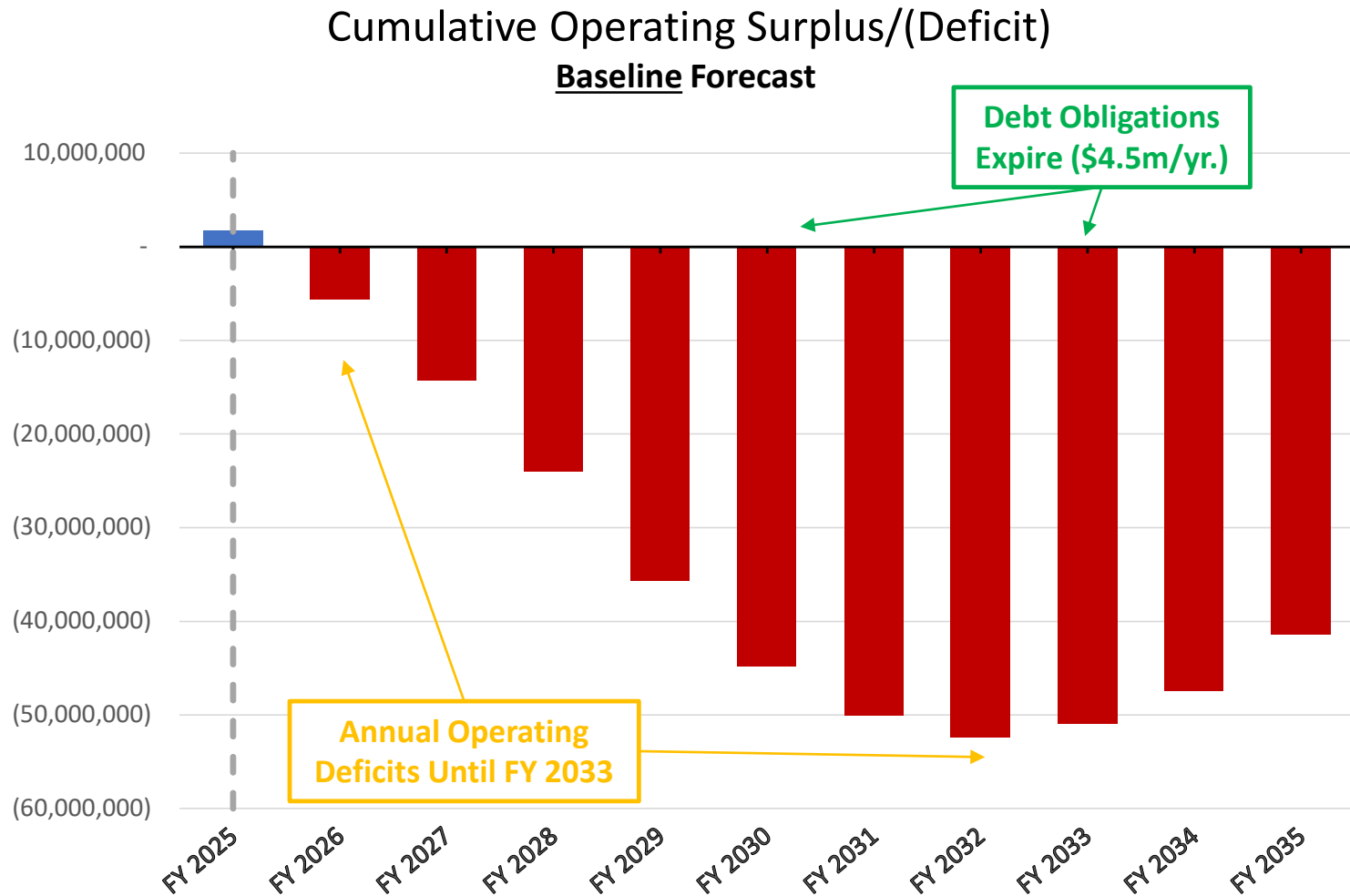


Baseline Forecast – Annual Surplus/(Deficit)

Annual Operating Surplus/(Deficit)
10-Year Prior and Baseline Forecast

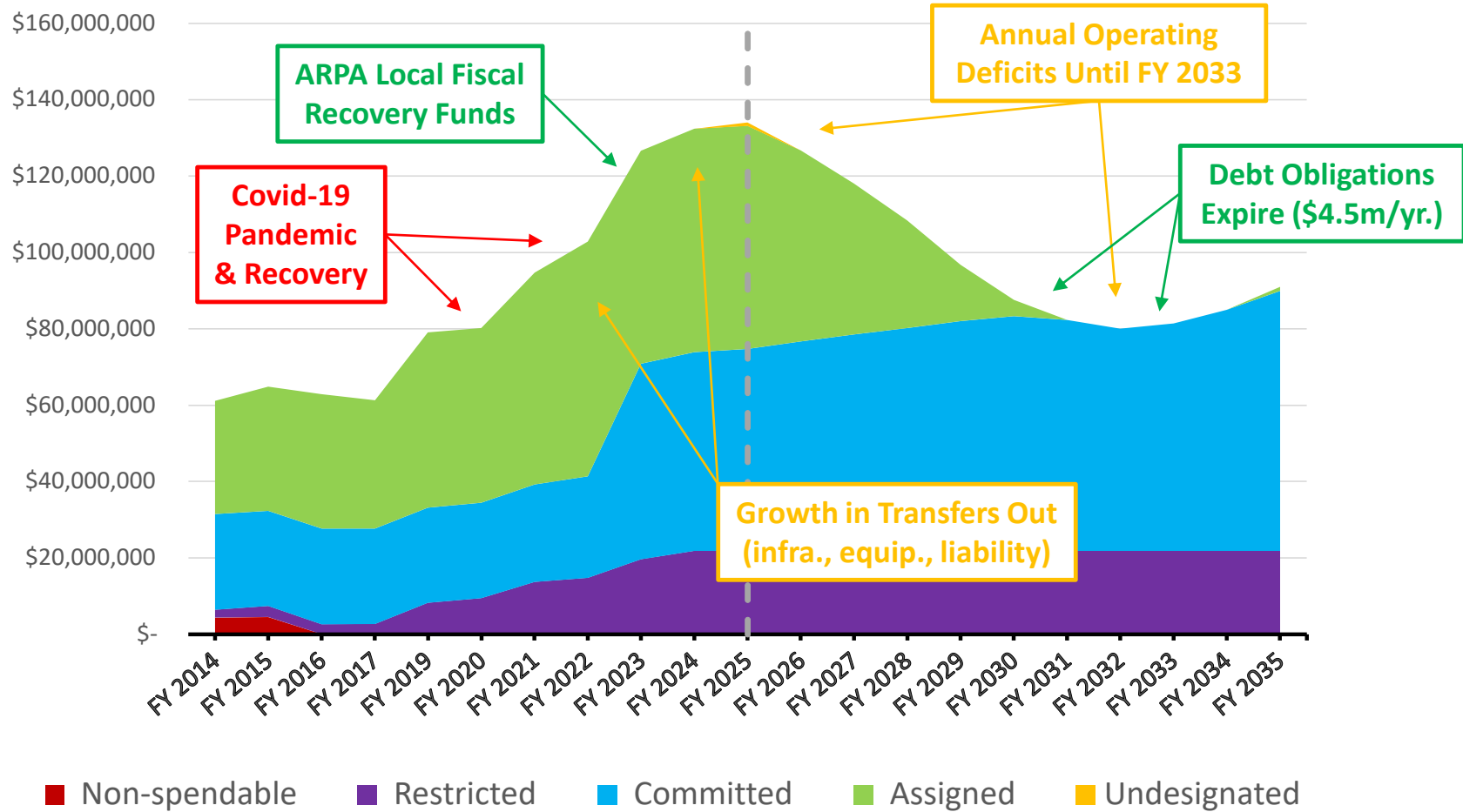


Baseline Forecast – Cumulative Surplus/(Deficit)



Baseline Forecast – Fund Balance Impact

Year End Fund Balance & Allocation
10-Year Prior and Baseline Forecast





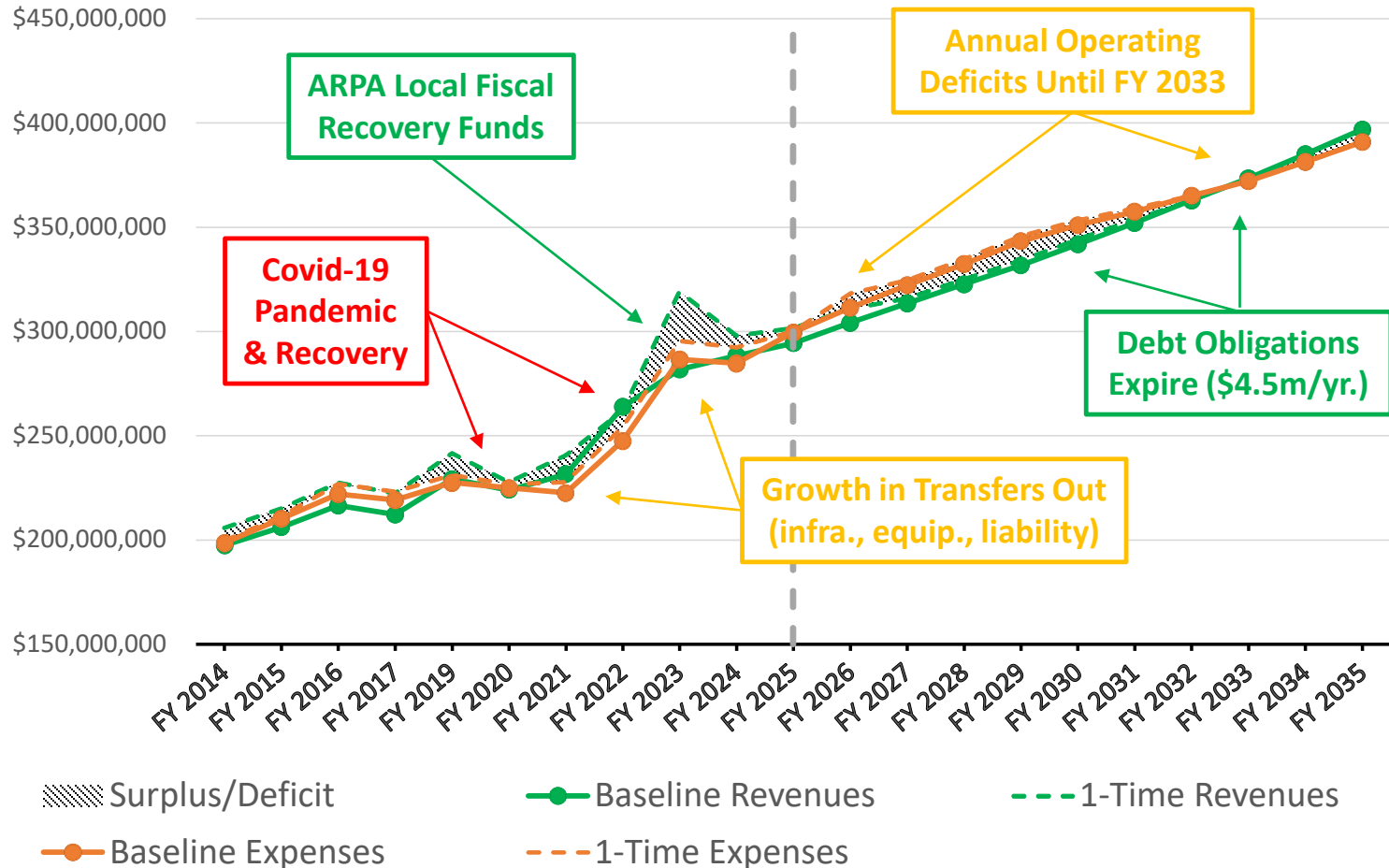
SCENARIO FORECAST

Scenario Forecast – Changed Assumptions

1. **ROPS Waterfront Revenues**. Assumes remaining one-time ROPS Waterfront Revenues of \$18 million are used to pay ongoing General Fund operating expenses between FY 2026 and FY 2031 (instead of being used for one-time expenses).
2. **Pension (UAL) Management**. Assumes two additional payments to CalPERS to prepay/reduce City's increased UAL. \$5 million at end of FY 2025 and \$5 million at end of FY 2026. Saves General Fund \$15 million over the forecast period.

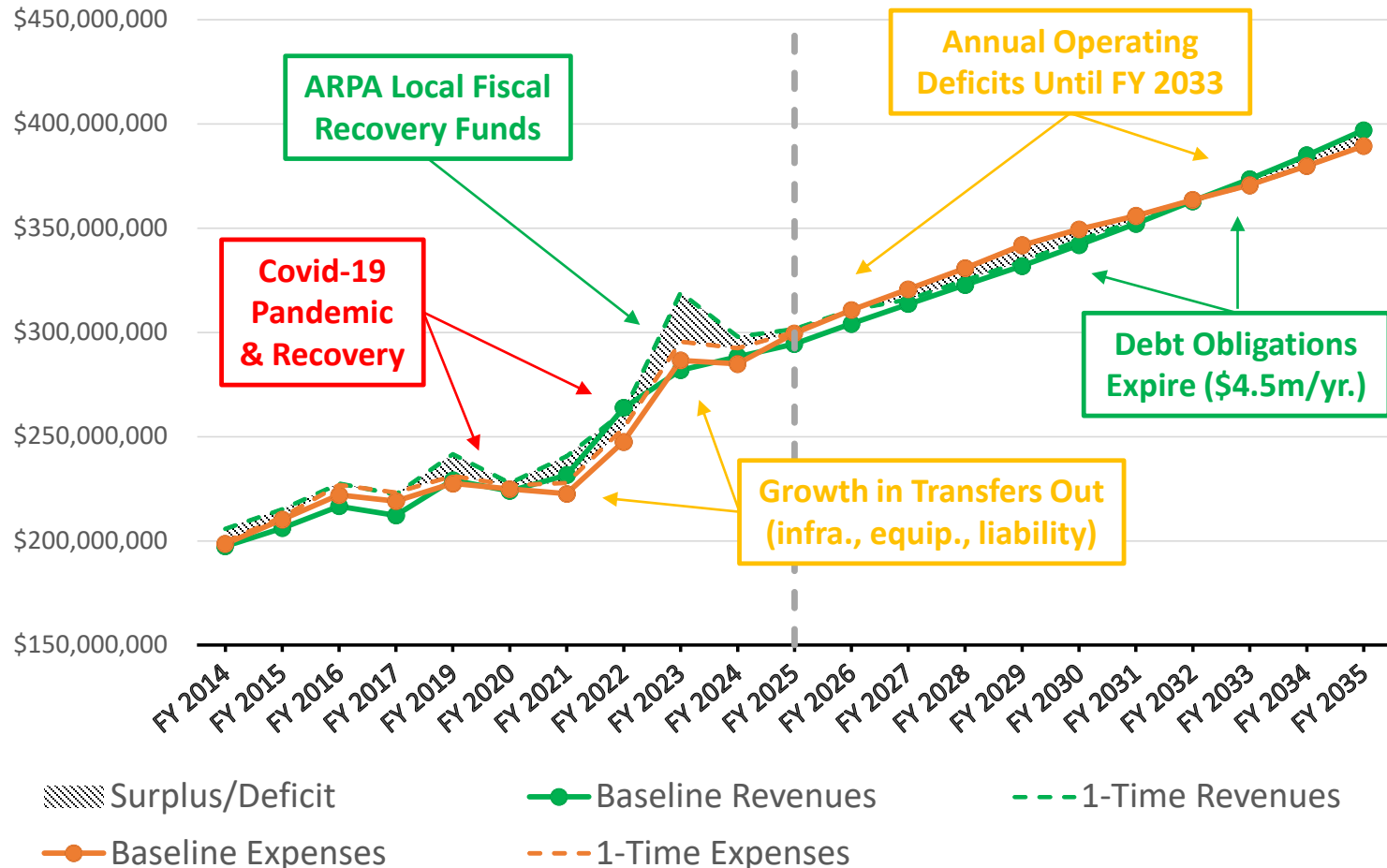
Baseline Forecast – Revenue & Expenses Trends

Total Revenues & Expenses
10-Year Prior and Baseline Forecast



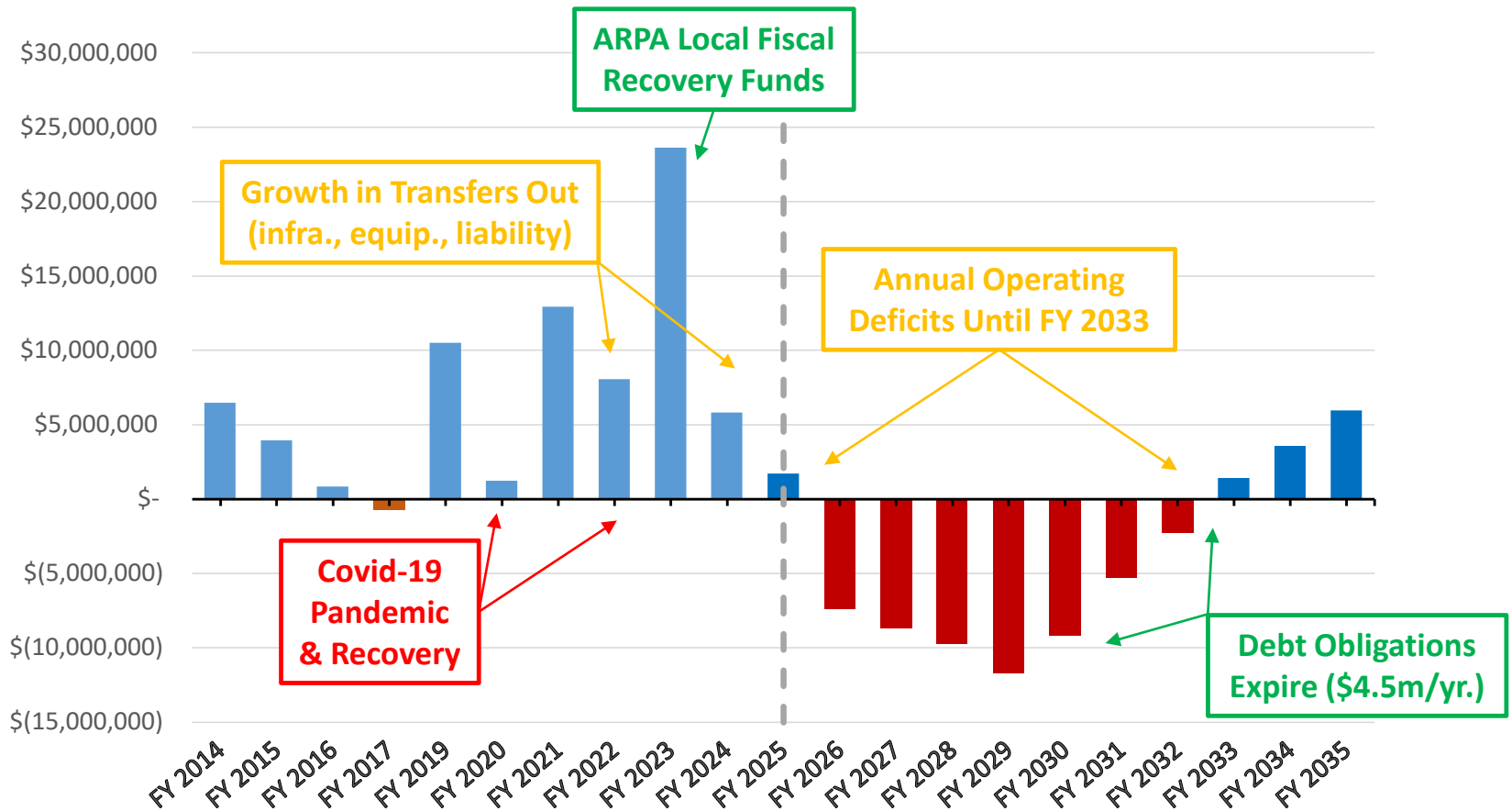
Scenario Forecast – Fund Balance Impact

Total Revenues & Expenses
10-Year Prior and Scenario Forecast



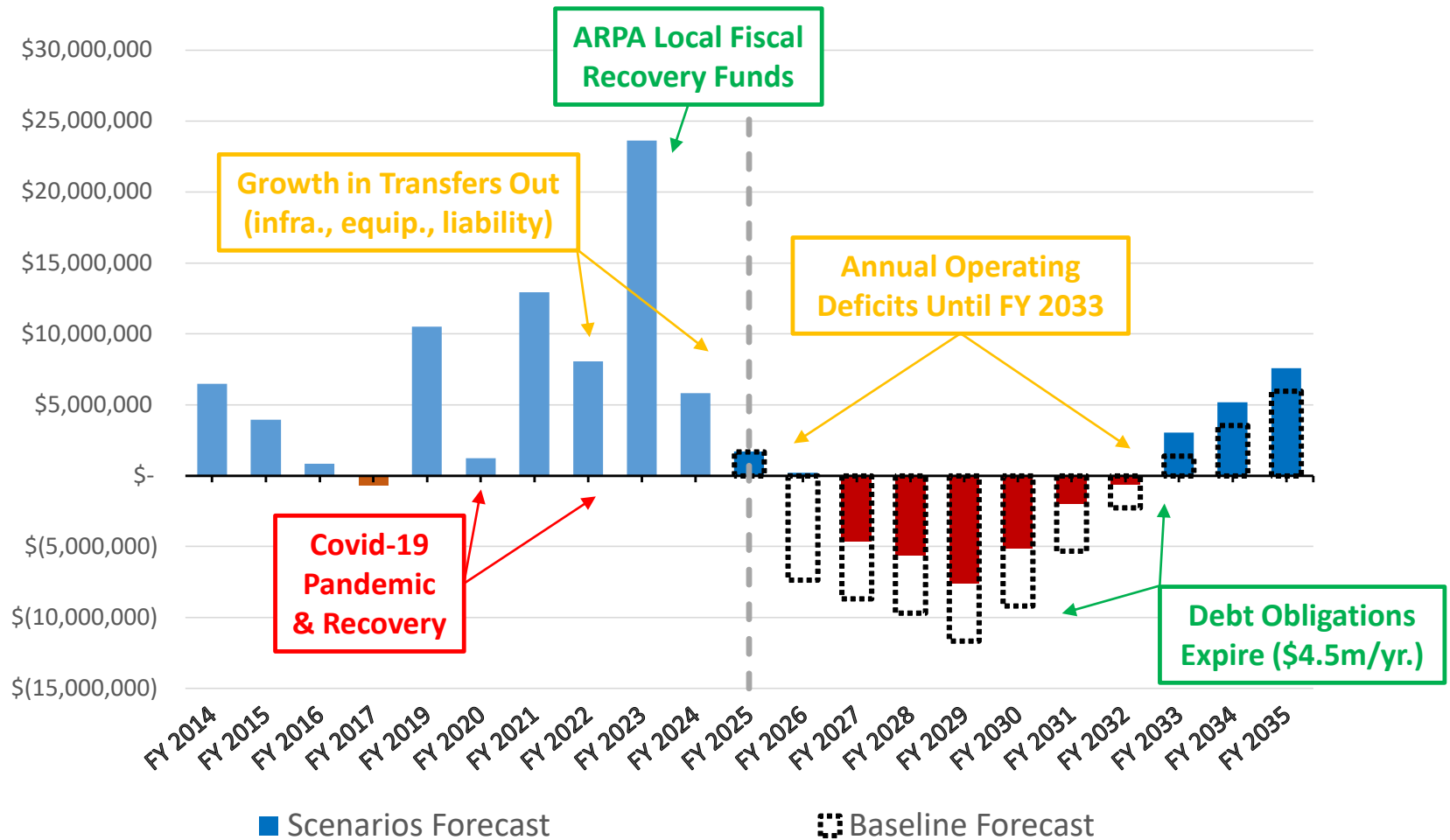
Baseline Forecast – Annual Surplus/(Deficit)

Annual Operating Surplus/(Deficit)
10-Year Prior and Baseline Forecast

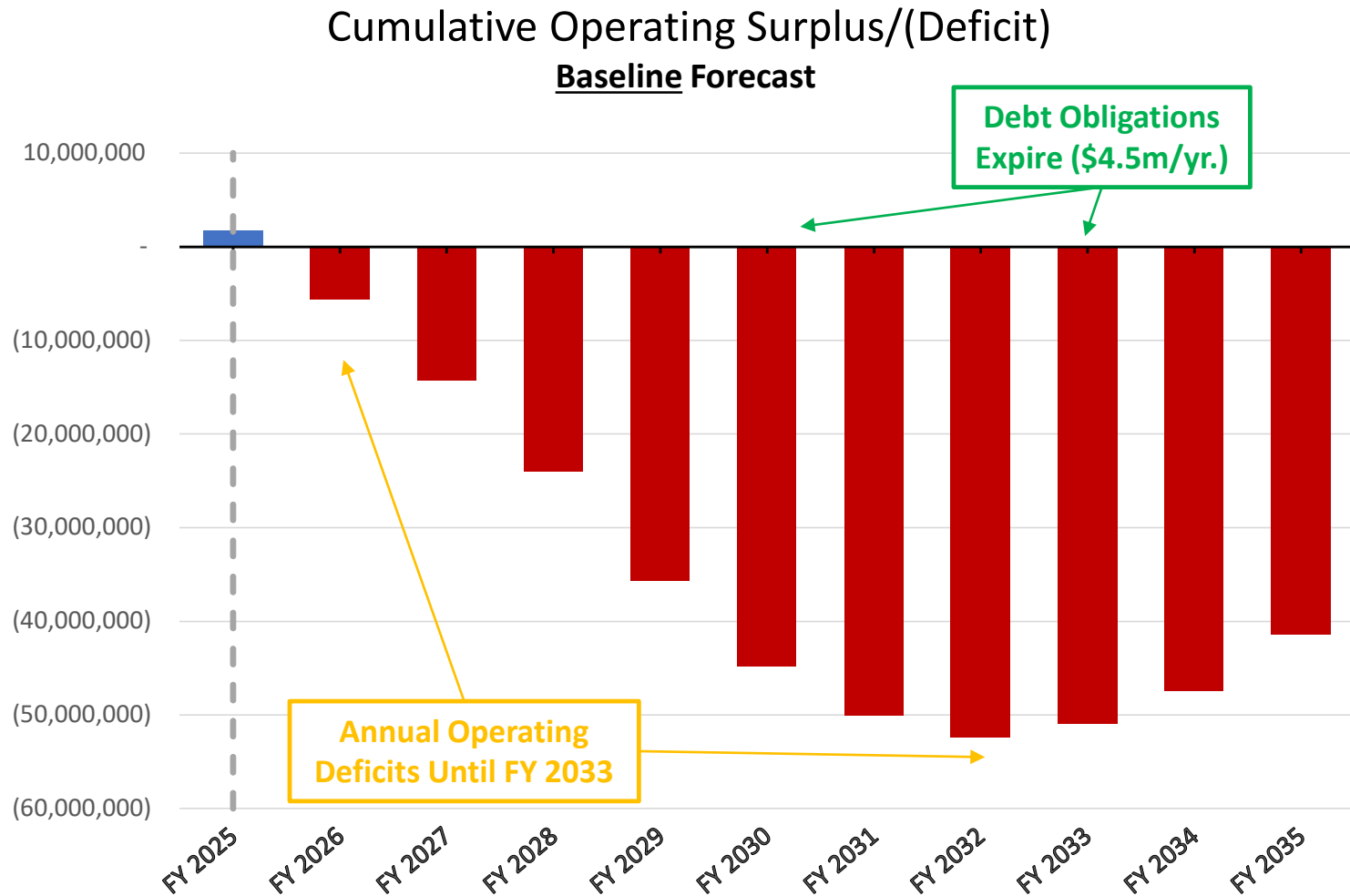


Scenario Forecast – Annual Surplus/(Deficit)

Annual Operating Surplus/(Deficit)
10-Year Prior with Scenario vs. Baseline Forecast

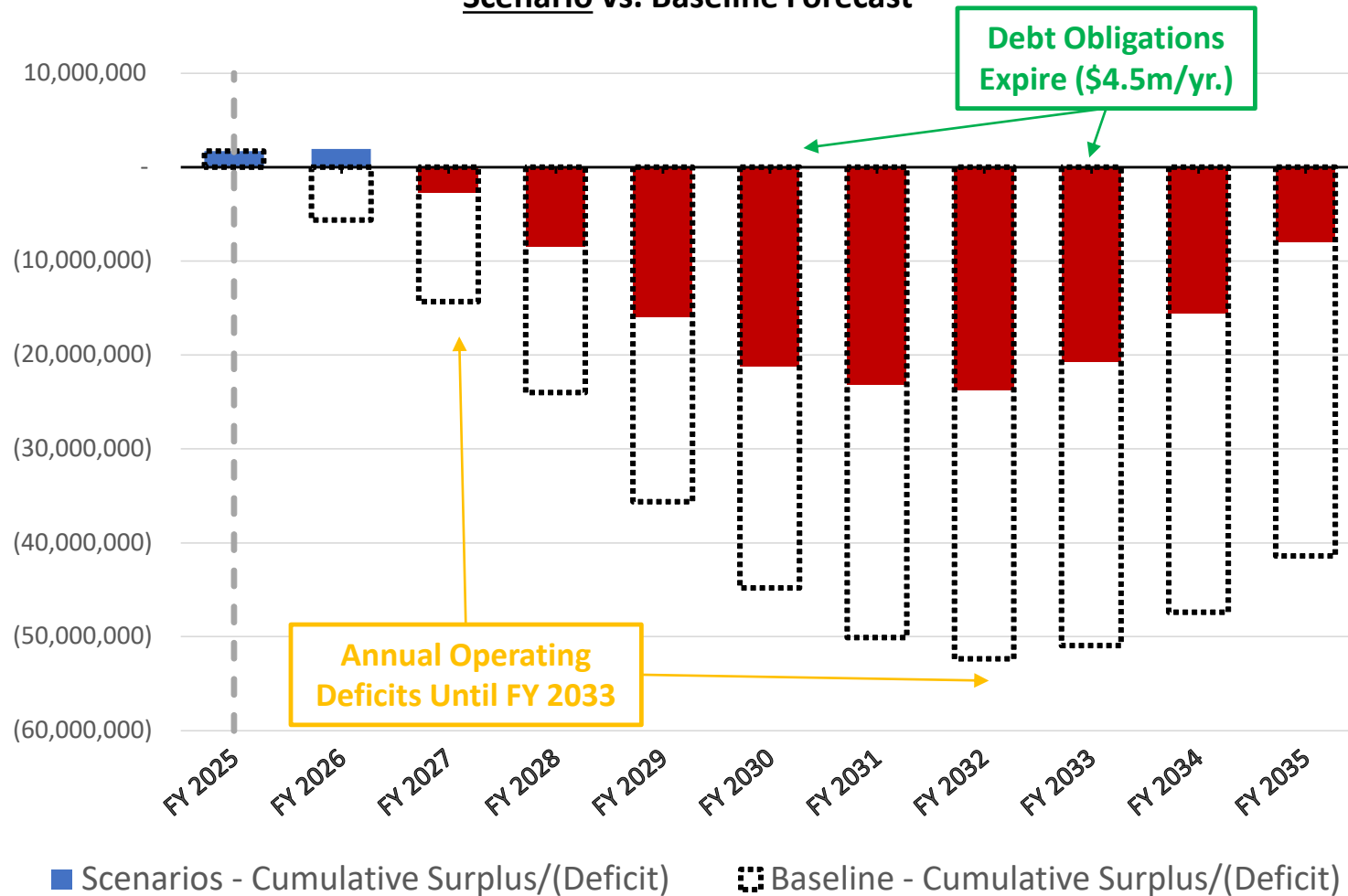


Baseline Forecast – Cumulative Surplus/(Deficit)



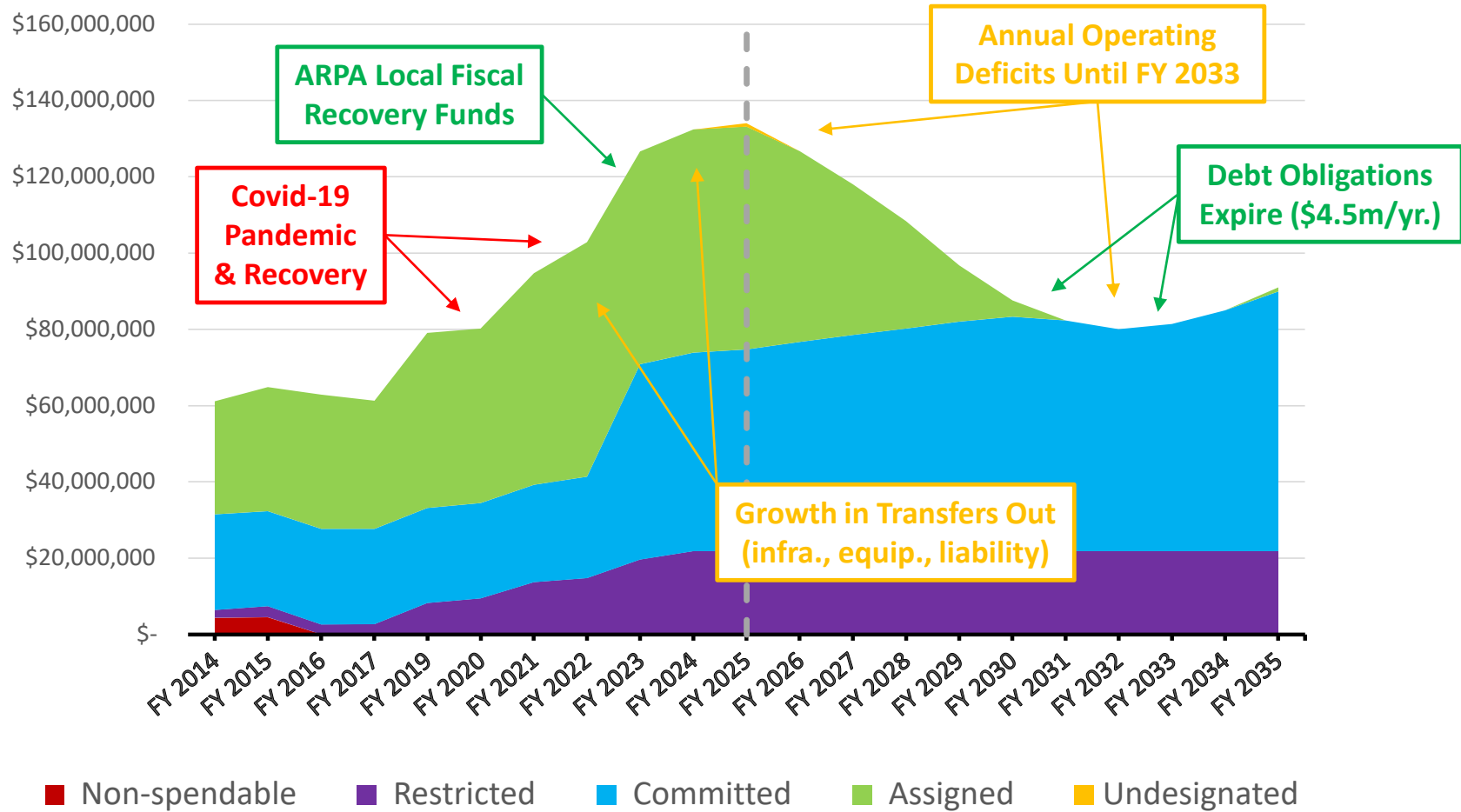
Scenario Forecast – Cumulative Surplus/(Deficit)

Cumulative Operating Surplus/(Deficit)
Scenario vs. Baseline Forecast



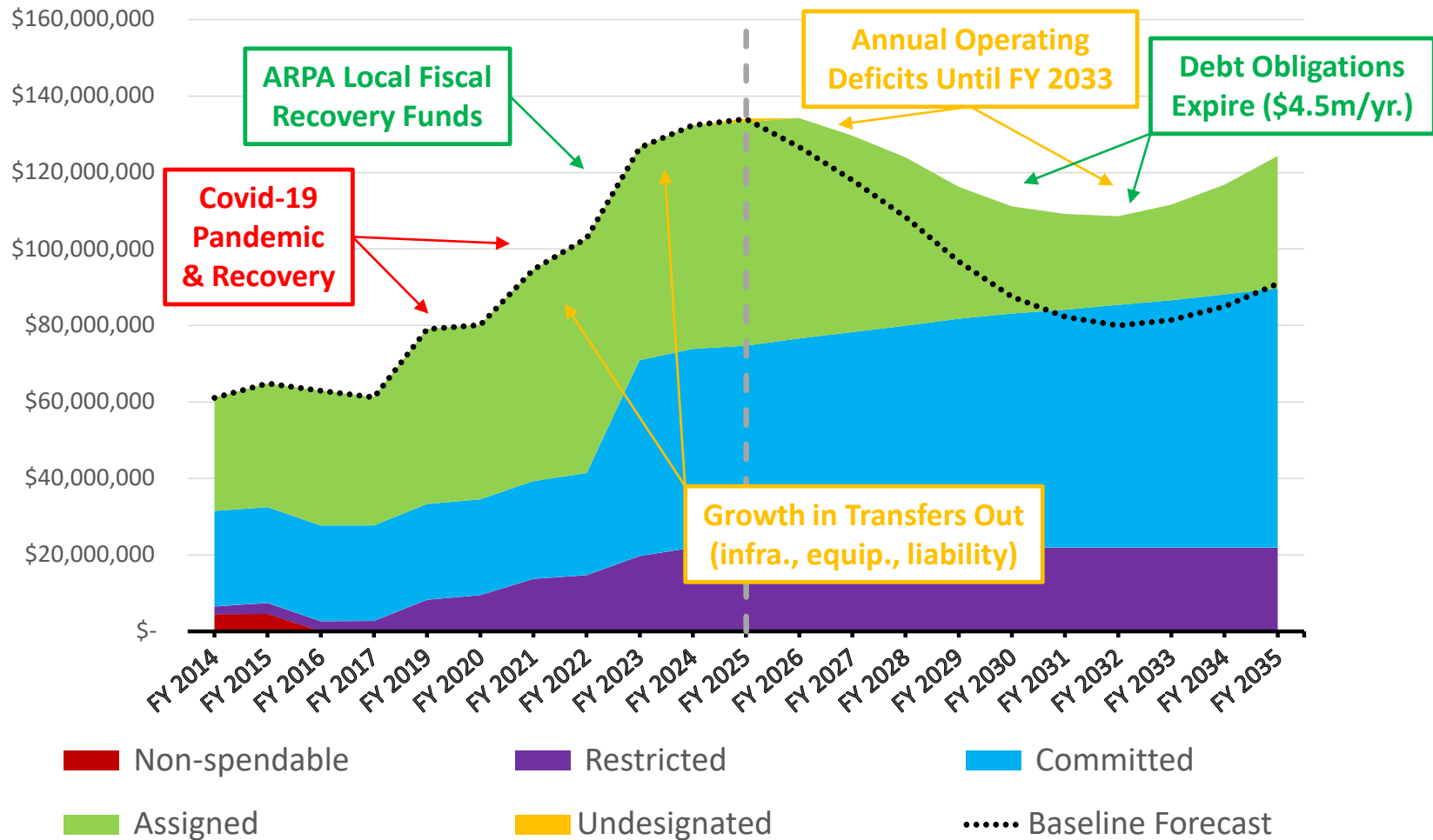
Baseline Forecast – Fund Balance Impact

Year End Fund Balance & Allocation
10-Year Prior and Baseline Forecast



Scenario Forecast – Fund Balance Impact

Year End Fund Balance & Allocation
10-Year Prior with Scenario vs. Baseline Forecast





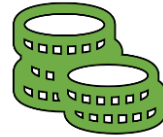
FISCAL OUTLOOK

Fiscal Outlook – Strengths & Opportunities



Revenue Diversity

- Good diversity of tax base and not overly reliant on any single-source of revenue.
- Still unused local sales tax capacity.
- **Baseline revenues projected to grow slightly faster than baseline expenses. Fitch rated City is 72nd percentile for economic metrics.**



Debt Service

- Current debt service primarily for equipment and facility related leases (except for POB).
- **Expiring annual debt service creates fiscal capacity in later years of forecast for strategic investment. Fitch put City mid-range for long-term liability burden.**



Reserves

- Total General Fund reserves at 37% of baseline expenses. Contributed to “AAA” financial resiliency rating by Fitch.
- Baseline forecast projects dip to 20%.
- **Mitigation of annual deficits during first half of forecast is important to reserve maintenance.**

Fiscal Outlook – Challenges & Concerns



Annual Operating Deficits/Fund Balance

- Annual operating deficits through FY33 caused by current gap between revenues/expenses + new UAL.
- **Opportunities to reduce annual transfer for equip. & infra.; spread costs through financing.**



Pension Management

- Rising UAL converted to level debt service with POB in FY21.
- CalPERS -6.2% FY22 returns created significant new unfunded liability.
- **Use of City's pension reserves to proactively manage UAL is opportunity for solid savings.**



Labor Costs

- City's historical labor cost growth has been moderate.
 - Salaries & Wages 2.83% prior and forecasted at 2.95%.
- **Continued good management of labor/benefit costs critical to sustain fiscal health (over 50% of expenses).**



QUESTIONS?