



**City of Huntington Beach**  
**FY 2022/23 Mid-Year Budget Review and**  
**FY 2023/24 Budget Kickoff**

*Finance Commission*  
*January 25, 2023*

# Presentation Overview

- **FY 2022/23 Mid-Year Budget Review**
- **FY 2023/24 Budget Kickoff**



# 2022/23 Mid-Year Budget Review



# Financial Update

- The City ended FY 2021/22 with a \$3.4 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  |
|---|---|---|---|
| <ul style="list-style-type: none"><li>• Fed raised rates 7 times in 2022 to 4.25-4.50%</li><li>• Inverted yield curve</li></ul> | <ul style="list-style-type: none"><li>• 9.1% June 2022</li><li>• 8.2% Sept 2022</li><li>• 6.5% Dec 2022</li></ul> | <ul style="list-style-type: none"><li>• 1Q2022: -1.6%</li><li>• 2Q2022: -0.6%</li><li>• 3Q2022: +3.2%</li></ul> | <ul style="list-style-type: none"><li>• 2022</li><li>• Bond: -12.3%</li><li>• US Stock: -19.4%</li><li>• Int'l Stock: -14.79%</li></ul> |

- 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 December 2022 is 4.1% after 16.1% COVID peak (May 2020) although ratio of job openings to job seekers is starting to decline

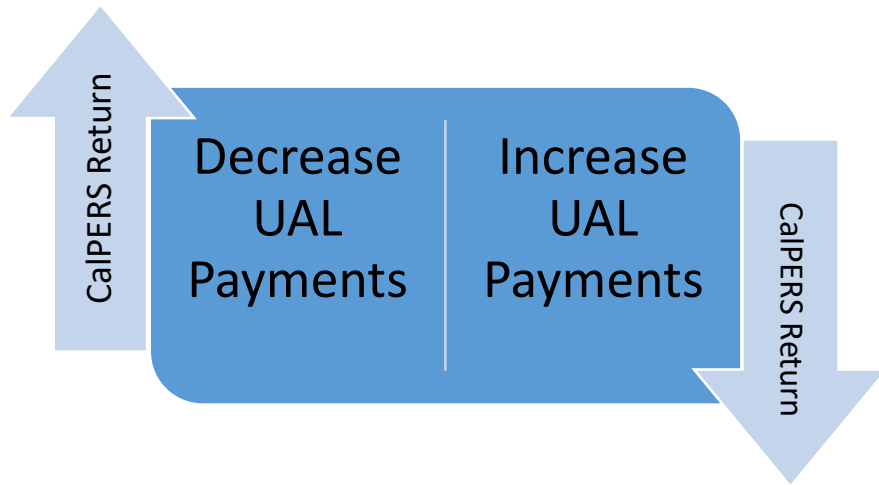
# General Fund (Fund 100) Projections

| (in thousands)            | Actual<br>FY20/21 | Actual<br>FY21/22 | Projected<br>FY22/23 |
|---------------------------|-------------------|-------------------|----------------------|
| <b>Revenues</b>           | <b>\$236,970</b>  | <b>\$256,246</b>  | <b>\$293,257</b>     |
| Expenditures less UAL     | 198,533           | 234,277           | 259,292              |
| CalPERS UAL               | 28,302            | 4,891             | 4,891                |
| POB Payment               | -                 | 13,688            | 13,556               |
| <b>Total Expenditures</b> | <b>226,834</b>    | <b>252,856</b>    | <b>277,739</b>       |
| Restricted AES            | (4,900)           |                   |                      |
| HB Recovery Reserves      |                   |                   | (13,472)             |
| <b>Surplus</b>            | <b>\$5,235</b>    | <b>\$3,390</b>    | <b>\$2,045</b>       |



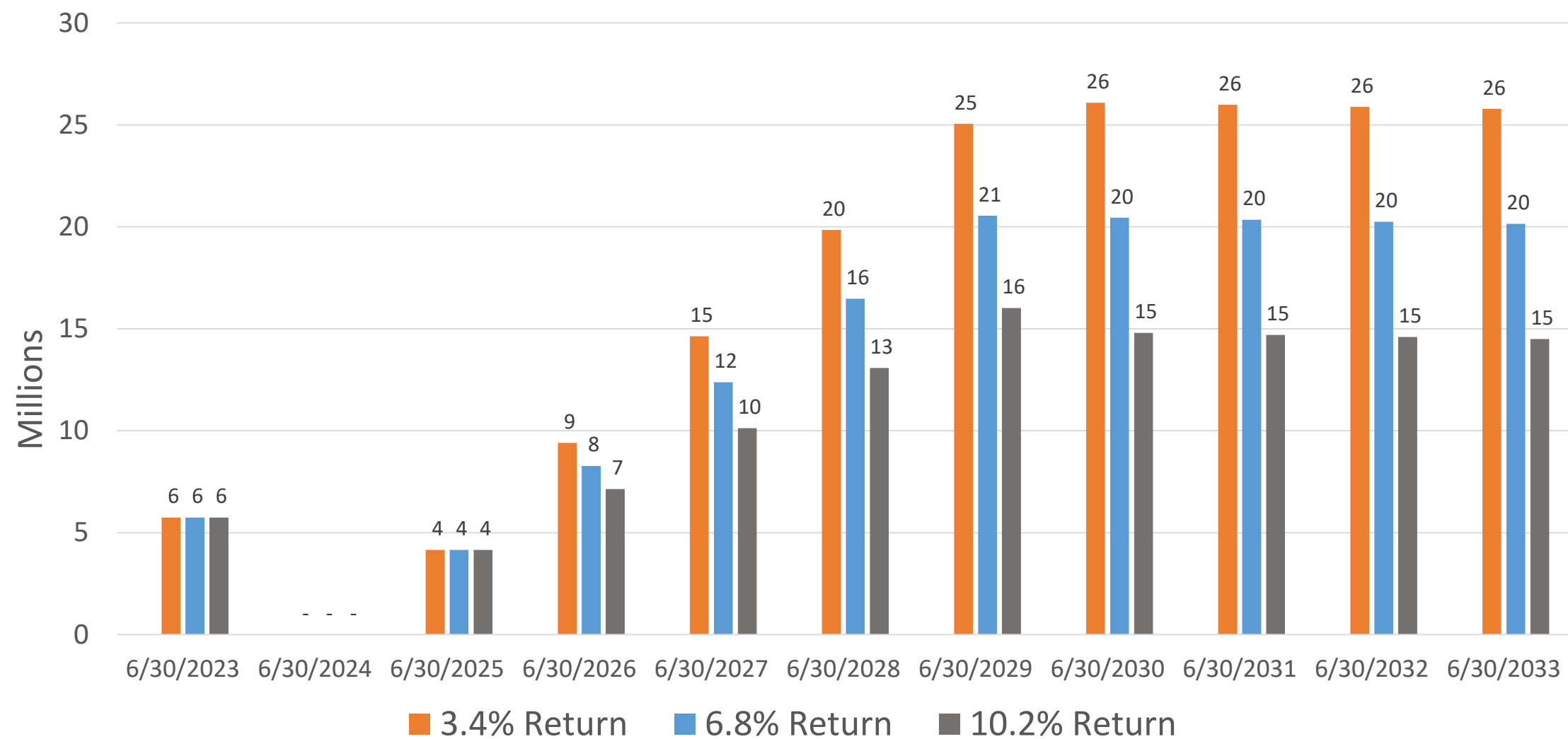
# CalPERS Update

- FY2021/22 CalPERS return of -7.5% requires 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 assume CalPERS earns 6.8% going forward which is CalPERS' discount rate



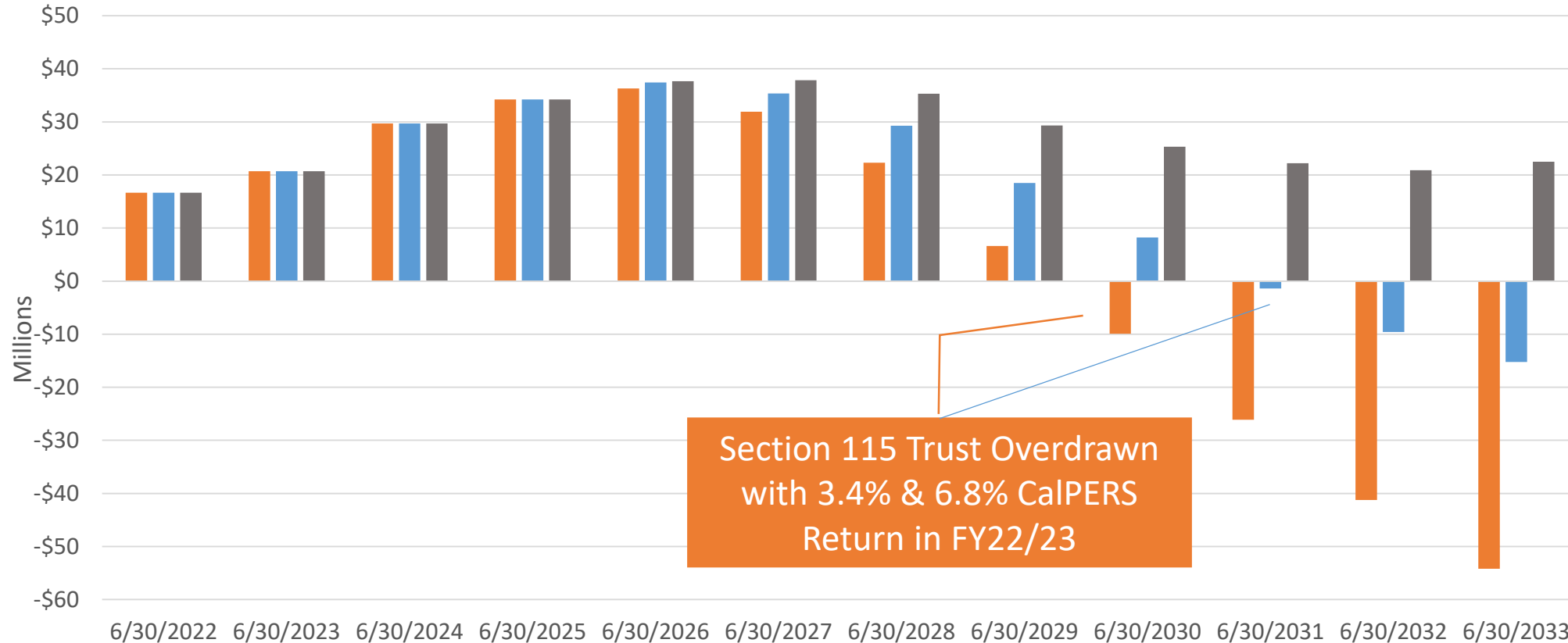
- CalPERS' investment policy focuses on long-term plan returns
- POB is financially advantageous as long as CalPERS long-term return is  $> 2.925\%$

# CalPERS UAL Payment Projection



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

# Section 115 Trust Projected Balance Scenarios



Section 115 Trust  
Funds Adequate  
with 10.2%  
CalPERS Return in  
FY22/23

Section 115 Trust Overdrawn  
with 3.4% & 6.8% CalPERS  
Return in FY22/23

Scenario 1: 3.4%

Scenario 2: 6.8%

Scenario 3: 10.2%

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)        | Actual<br>FY21/22 | Projected<br>FY22/23 | Projected<br>FY23/24 | Projected<br>FY24/25 | Projected<br>FY25/26 | Projected<br>FY26/27 |
|-----------------------|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenues              | \$256,246         | \$293,257            | \$267,829            | \$272,742            | \$277,760            | \$282,885            |
| Expenditures less UAL | 234,277           | 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    | 252,856           | 277,739              | 266,124              | 271,050              | 279,112              | 290,304              |
| HB Recovery Reserves  |                   | (13,472)             |                      |                      |                      |                      |
| Surplus               | \$3,390           | \$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)        | Actual<br>FY21/22 | Projected<br>FY22/23 | Projected<br>FY23/24 | Projected<br>FY24/25 | Projected<br>FY25/26 | Projected<br>FY26/27 |
|-----------------------|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenues              | \$256,246         | \$293,257            | \$267,829            | \$272,742            | \$277,760            | \$282,885            |
| Expenditures less UAL | 234,277           | 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    | 252,856           | 277,739              | 266,124              | 271,050              | 277,982              | 288,054              |
| HB Recovery Reserves  |                   | (13,472)             |                      |                      |                      |                      |
| Surplus               | \$3,390           | \$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)        | Actual<br>FY21/22 | Projected<br>FY22/23 | Projected<br>FY23/24 | Projected<br>FY24/25 | Projected<br>FY25/26 | Projected<br>FY26/27 |
|-----------------------|-------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenues              | \$256,246         | \$293,257            | \$267,829            | \$272,742            | \$277,760            | \$282,885            |
| Expenditures less UAL | 234,277           | 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    | 252,856           | 277,739              | 266,124              | 271,050              | 276,852              | 285,794              |
| HB Recovery Reserves  |                   | (13,472)             |                      |                      |                      |                      |
| Surplus               | \$3,390           | \$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 2023/24 Budget Kickoff



# Budget Development Calendar

| 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                                 |

# Questions?



# Annual Topics for Review

- **January** – Mid-Year Budget Review and Budget Kickoff
- **March** – Year End Audit, Single Audit, and new GASB Standards Review
- **May** – CIP and Infrastructure Calculation Review
- **July** – Adopted Budget Review
- **September** – Investment Update, Debt and Refinancing Opportunities
- **November/December** – Year End Review

# Budget Directive

- FY 2023/24 Budget is balanced with a modest surplus to address CPI increases and strategic additions to the City's base budget.
- FY 2023/24 is based on FY 2022/23 Budget (minus any one-time increases)
- Base Budget includes fixed cost items such as:
  - Refinancing CalPERS UAL with the POBs
  - Previously negotiated labor contracts
  - \$6.5 million for Equipment Replacement
  - \$10 million for Infrastructure related Capital Improvement Projects
  - Annual bond debt service and other lease financing costs



# American Rescue Plan Act

- The \$1.9 trillion American Rescue Plan Act (ARPA) delivered \$350 billion to state, local, territorial, and tribal governments in response to COVID-19.
- Huntington Beach will be receiving \$29.6 million, split into two equal payments:
  - \$14.8 million was received in May 2021
  - \$14.8 million allocation payment was received in May 2022
- On September 7, 2021, City Council approved an ARPA spending plan.
- Under ARPA guidelines, the City has identified \$52.7 million in lost revenue allowing the City broad latitude to deploy the funds for governmental services.
- Recent efforts on the Federal level have been made to claw back unspent ARPA payments. Those efforts were unsuccessful.
- To minimize the risk of future claw back efforts, ARPA funds were fully expended for eligible police and fire personnel costs in FY 2022/23.
- The resulting General Fund budget savings funded a newly established Huntington Beach Recovery Reserve to accomplish City Council's priorities approved on September 7, 2021.

# Huntington Beach Recovery Projects

| Description  | Project Type          | Amount<br>(in thousands) |
|--|-----------------------|--------------------------|
| Downtown Revitalization Improvements                   | Planning              | \$1,750                  |
| Joint Youth Training Center for Fire and Police        | Capital               | 2,000                    |
| Oak View Library/Community Center Rehabilitation       | Planning +<br>Capital | 2,000                    |
| World Skatepark Development                            | Planning              | 750                      |
| Carr Park Improvements                                 | Planning              | 355                      |
| Arterial Beautification                                | Capital               | 1,000                    |
| Citywide Mobility & Corridor Improvements              | Planning +<br>Capital | 2,000                    |
| Garfield and Gothard Avenues Fiber Optics              | Capital               | 1,000                    |
| Police Technology Infrastructure Improvement           | Capital               | 3,000                    |
| Public Safety Equipment (USAR Truck, Rescue Boat)      | Capital               | 2,000                    |
| Seniors-on-the-Go Transportation Improvement           | Capital               | 280                      |
| <b>HB Recovery Projects - FY2022/23 Adopted Budget</b> |                       | <b>16,135</b>            |

# Huntington Beach Recovery Projects

| Description  | Project Type       | Amount<br>(in thousands) |
|--|--------------------|--------------------------|
| Comprehensive Homeless Response Plan Implementation  | Planning + Capital | 2,500                    |
| Major City Facility Upgrade Project  | Planning           | 3,200                    |
| Permanent Supportive Housing   | Capital            | 2,500                    |
| Grow HB Fund   | Capital            | 2,000                    |
| HB Community Impact Loan Fund  | Capital            | 1,000                    |
| Economic Development Fund  | Capital            | 2,000                    |
| Unallocated (Talbert Channel Multi-Use Recreation Trail Project)   | Unallocated        | 272                      |
| <b>HB Recovery Reserves – City Council approval to appropriate funds will be requested at a later date</b> |                    | <b>13,472</b>            |
| <b>Total HB Recovery Projects</b>  |                    | <b>\$29,607</b>          |