

City of Huntington Beach

FY 2019/20 Year-End Audit Results & FY 2020/21 Mid-Year Budget Update

*Huntington Beach City Council
February 16, 2021*



Overview

- **FY 2019/20 Audit and Year-End Results**
- **FY 2020/21 Mid-Year Budget Update**
- **FY 2021/22 Budget Development Calendar**

SUPPLEMENTAL COMMUNICATION

Meeting Date: 2/16/2021

Agenda Item No.: 18 (21-124)

FY 2019/20 Audit & Year-End Results



FY 2019/20 Audit Results

- Auditing firm of Davis Farr LLP audited the City's financial statements and internal controls
- FY 2019/20 Comprehensive Annual Financial Report (CAFR) received an Unmodified (Clean) Audit Opinion
- The City's CAFR is award winning – received the Government Finance Officers Association's (GFOA) Excellence in Financial Award for 34 years



Government Finance Officers Association

Certificate of
Achievement
for Excellence
in Financial
Reporting

Presented to

City of Huntington Beach
California

For its Comprehensive Annual
Financial Report
For the Fiscal Year Ended

June 30, 2019

Christopher P. Morill
Executive Director/CEO

FY 2019/20 Audit Reports Issued

- **Comprehensive Annual Financial Report**
 - Issued “unmodified” opinion on December 16, 2020
 - This is the highest opinion possible
- **AU-C 260 Letter: Communications**
- **Appropriations Limit Agreed-Upon Procedures**
- **AQMD Report**
- **Single Audit Report (in progress, to be completed by March 31, 2021)**

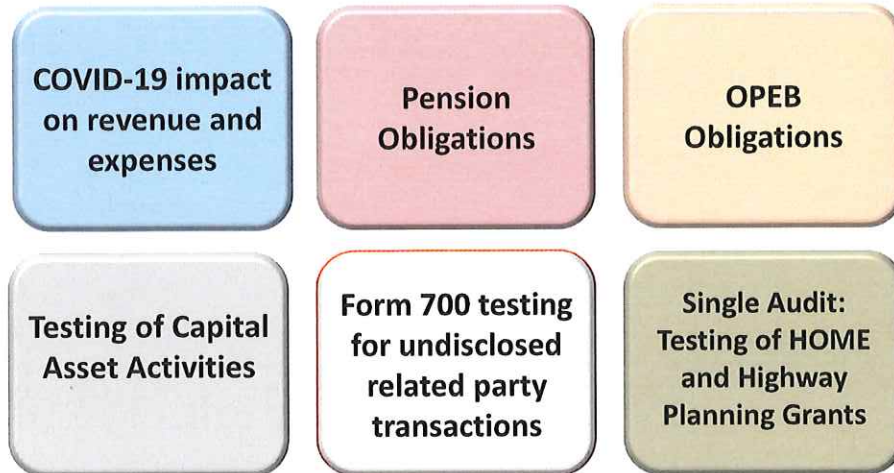
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Internal Controls

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

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Areas of Audit Focus in FY 2019/20



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FY 2019/20 Performance (Audited)

Government-Wide Highlights (All Funds):

Description	In Thousands
ASSETS	
Current and Other Assets	\$352,633
Capital Assets	857,544
Total Assets	1,210,177
Deferred Outflows – Pensions & OPEB	57,761
LIABILITIES	
Current and Other Liabilities	33,152
Long-Term Obligations*	538,081
Total Liabilities	571,233
Deferred Inflows – Pensions & OPEB	14,289
TOTAL NET POSITION	\$682,416

* Reflects GASB 68 recording of Net Pension Liability of \$434.8 million and GASB 75 recording of Net OPEB Liability \$3.7 million

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FY 2019/20 General Fund (Audited)

Description	In Thousands
Total Revenues*	\$225,487
Total Expenditures	215,636
Excess of Revenues Over Expenditures	9,851
Transfers In	172
Transfers Out	(8,948)
Net Change in General Fund Balance	\$1,075

- * Includes one-time revenues totaling \$4.5M comprised of the following:
- Sales Tax Back Payments totaling \$2.3M
 - Property Sales of \$989K
 - Fire Strike Team Revenues of \$458K
 - Cable TV Franchise additional quarter of \$730K

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General Fund Balance

Fund Balance Category (In Thousands)	FY 17/18 Audited	FY 18/19 Audited	FY 19/20 Audited
Total Nonspendable, Restricted, Committed, and Assigned Fund Balances	\$61,004	\$72,763	\$72,585*
Unassigned	2,734	-	-
Total Fund Balance	63,738	72,763	72,585
Section 115 Trust Bank Balance	4,896	6,250	7,503
Total with Section 115 Trust	\$68,634	\$79,013	\$80,088

- * Includes \$16.5 million Strategic Planning Initiative Assignment

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FY 2020/21 Mid-Year Budget Update



FY 2020/21 Mid-Year Budget Update

- **Current budgetary performance continues to project that the FY 2020/21 budget is balanced**
 - Major Citywide restructuring plan that was instituted reduced ongoing General Fund expenditures by ~\$6M / year
 - General Fund is projected to end the FY 2020/21 with a \$549K surplus

<i>(in thousands)</i>	Projected FY20/21
Revenues	\$223,041
Expenditures less UAL	194,026
CalPERS UAL	28,466
Total Expenditures	222,492
Surplus	\$549

Mid-Year Budget Adjustment Requests

- **Mid-year budget adjustments are requested in 10 separate funds**

1. General Fund (100)
2. PD Facilities Development Impact Fund (227)
3. Narcotics Forfeiture Fund (242)
4. Refuse Collection Services Fund (504)
5. Water Master Plan Fund (507)
6. Self-Insurance GL Fund (552)
7. Retiree Insurance Fund (702)
8. Retirement Supplement Fund (703)
9. AB 109 Fund (979)
10. Pedestrian & Bicycle Safety Program Grant Fund (1266)

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General Fund Adjustments

- **Adjustments requested include the following:**

- **Community Development Department** is requesting a **net-neutral** appropriations adjustment **\$44,060** for preparation of a **Mitigated Negative Declaration** for the Seacliff Senior Living & Memory Care Facility
- **Fire Department** is requesting a **net-neutral** appropriations adjustment of **\$1.105 million** to fund **Strike Team** deployment costs
- **Fire Department** is requesting a **net-neutral** appropriations adjustment of **\$312,240** to cover **QAF payments**, given increased Medi-Cal ambulance transports experienced this year
- **Fire Department** is requesting an **appropriations increase** of **\$30,250** to fund **Metro Cities JPA dispatch costs**, to cover higher than anticipated call volumes

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Other Fund Adjustments

- **Funding is available for all other budgetary requests, most of which are previously planned administrative adjustments**
- **Unplanned new appropriation requests relate to recommended adjustments for the Police Department**
 - \$90K purchase of new van for crisis negotiation team (PD Facilities DIF)
 - \$70K to fund new technology to perform AB 109 compliance checks (AB 109 Fund)
 - \$50K in traffic / pedestrian safety funding (Ped. / Bike Safety Grant Fund)
 - \$12K in law enforcement equipment and supplies (Narcotics Forfeiture Fund)

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Other Fund Adjustments

- **Retirement Supplement Fund, Retiree Insurance Fund, and Self-Insurance GL Fund adjustments were contemplated as part of the current budget year, and are administrative changes being requested based on updated actuarial valuations / costs**
 - \$4.9M retirement supplement request is to fund a legacy program that provides enhanced retirement benefits for employees hired prior to 1998
 - o Fund has an account balance of ~\$56.9M, and funding request is in line with most recent actuarial valuation
 - \$1.3M retiree insurance is for another legacy program that provides post-employment medical insurance to those hired prior to 2014
 - o Fund has an account balance of ~\$30.7M, and funding request is in line with most recent actuarial valuation
 - Insurance premium cost adjustments of \$935K is for planned insurance premium costs
- **Refuse Collection Fund adjustment (\$190K) is intended to reflect the recent trash rate increase**
- **Water Master Plan Fund changes (\$340K) are intended to correct an administrative oversight in the current year budget related to the City's approved cost allocation plan**

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FY 2021/22 Budget Development Calendar



Budget Development Calendar

Proposed Date	Item
February – May 2021	FY 2021/22 Internal Budget Development Process
May 17, 2021	FY 2021/22 Proposed Budget Study Session with City Council
June 7, 2021	FY 2021/22 Budget Adoption: City Council Public Hearing
June 21, 2021	FY 2021/22 Budget Adoption: Alternate Date
July 1, 2021	Fiscal Year 2021/22 Begins

Long-Term Budget Strategy Being Developed

- **FY 2020/21 Budget has a projected \$6.3M deficit, driven by increasing UAL costs**
 - Within the next 5-year period, UAL payments are projected to increase by ~\$10 million
- **UAL cost increases are driving significant future year projected General Fund budget deficits**

<i>(in thousands)</i>	Projected FY20/21	Projected FY21/22	Projected FY22/23	Projected FY23/24	Projected FY24/25
Revenues	\$223,041	\$228,439	\$233,277	\$237,529	\$241,260
Expenditures less UAL	194,026	202,278	207,098	211,327	214,960
CalPERS UAL	28,466	32,501	34,948	36,465	38,149
Total Expenditures	222,492	234,780	242,046	247,792	252,109
Surplus (Deficit)	\$549	-\$6,341	-\$8,769	-\$10,263	-\$11,849

UAL Refinance, Other Budget Adjustments Being Considered

- **In March, staff will present a possible UAL refinance plan and UAL funding policy for City Council consideration**
 - Staff has been assessing strategies to address UAL cost increases since late 2019
 - With the City in position to achieve rates in the 2-3% range, refinancing UAL costs would stabilize the City's existing budget situation
- **Additionally, as part of the FY 2021/22 budget development process, staff is currently working to assess other budget adjustment / stabilization strategies**
 - These efforts are being made through the lens of maintaining all existing service delivery levels, while reigning in other controllable costs

Recommended Actions

1. Receive and File FY 2019/20 Comprehensive Annual Financial Report (CAFR)
2. Approve mid-year budget adjustments to the FY 2020/21 Revised Budget

Questions?