



# HB Sustainable Budget Balancing Update

January 2025

# Executive Summary

- *The City continues to face challenges related to matching ongoing revenues which are needed to fund prioritized City services and programs.*
- For FY 2025/26 the GF structural deficit is projected to be approximately \$8.8M and growing annually.

*There is no magic wand . . . . available to solve for this challenge*

**Difficult funding decisions need to be made based on agreed upon HB community service priorities & city goals and strategic initiatives.**



# Agenda

- High Level Policy Overview
- Long Term Projections
- Overview of Cost and Revenue Drivers
- Reserves / Cash Balances
- Recurring and Non-recurring Expenditures and Revenues
- Revenue and Expenditure Options
- Next Steps



# Balanced vs Sustainable Budget

- A balanced budget isn't always a healthy one.
- A sustainable operating budget is one where ***“normally occurring revenues are equal to your normally occurring expenditures.”***
- Steps to identify key items related to structural balance include evaluating recurring and non-recurring revenues, recurring and non-recurring expenditures, and reserves.



# HB Strategic Plan Objectives

## City Priority: **FISCAL STABILITY**

- “Available funding to support a high-quality level of programs, services and capital investments and to build a structural surplus.”

## **Fiscal Stability Strategy**

- “Consider new revenue sources and opportunities to support the City’s priority initiatives and projects.”



# HB Adopted Budget Policies

- The City will maintain a balanced budget for all funds with estimated revenues being equal to, or greater than, estimated expenditures.
- On-going revenues will support on-going expenditures.
- ***Revenues from one-time or limited duration sources will not be used to balance the annual operating budget.***



# Long-Term Budget Projections

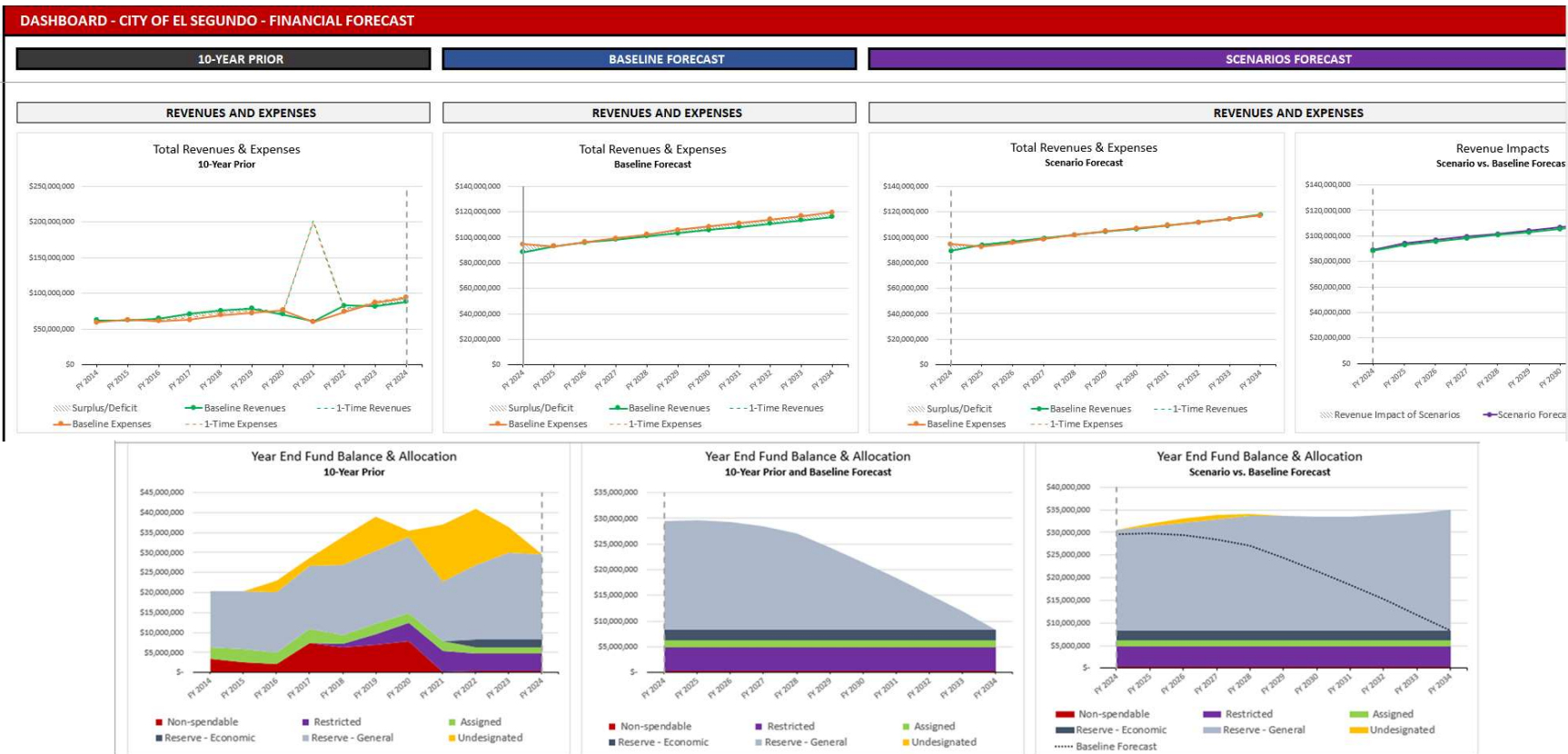
| (in thousands)                | Actual<br>FY22/23 | Projected<br>FY23/24 | Proposed<br>FY24/25 | Projected<br>FY25/26 | Projected<br>FY26/27 |
|-------------------------------|-------------------|----------------------|---------------------|----------------------|----------------------|
| Revenue (Recurring)           | 277,069           | 282,969              | 294,818             | 296,455              | 303,967              |
| Revenue (One-Time)*           | 35,648            | 2,276                | 6,877*              | -                    | -                    |
| Planned Use of Reserves       | -                 | 8,804                | -                   | -                    | -                    |
| <b>Total Sources of Funds</b> | <b>312,717</b>    | <b>294,049</b>       | <b>301,695</b>      | <b>296,455</b>       | <b>303,967</b>       |
| Expenditures less UAL         | 254,720           | 264,960              | 274,797             | 282,175              | 290,563              |
| CalPERS UAL **                | 4,891             | 5,000                | 5,215               | 10,305               | 13,290               |
| POB Payment                   | 13,663            | 13,276               | 13,106              | 12,750               | 12,537               |
| One-Time Expenditures         | 18,721            | 8,804                | 6,877*              | -                    | -                    |
| <b>Total Expenditures</b>     | <b>291,995</b>    | <b>292,040</b>       | <b>299,995</b>      | <b>305,230</b>       | <b>316,390</b>       |
| Restricted Reserves           | 16,978            | -                    | -                   | -                    | -                    |
| <b>Surplus/(Deficit)</b>      | <b>\$3,744</b>    | <b>\$2,009</b>       | <b>\$1,700</b>      | <b>(\$8,775)</b>     | <b>(\$12,423)</b>    |

\*24/25 – One Time is Waterfront ROPS Payment



# Long Range Financial Plan

Updated LRFP platform – Improved decision-making tool using key economic data and analytics for future year projections





# Overview – Costs / Revenues

The increased cost drivers are:

- Personnel and benefits costs related to retaining quality staff
- Inflationary increases in construction and material costs
- Unfunded and ongoing normal pension costs
- Costs related to workers comp / general liability exposure
- Not fully funding equipment / vehicle replacement
- ROPS Admin & Navigation Center costs reverted to GF

Revenue challenges:

- Prop 13 caps property tax / State take-away for ERAF
- Sales tax subject to economic conditions
- Voter approval required for most tax revenue opportunities

# Overview – Reserves / Other

- City has prudent reserve levels – allowing for AAA bond rating
- City has made wise choices related to funding the ISF and vehicle and equipment replacement funds and other related funds
- City has approved MOUs for both public safety groups which has allowed for the hiring and retention of key staff
- City master user fees have been reviewed and adjusted to cover costs
- Water and Sewer rates have been approved to cover operational costs –
  - Need funds to fully cover all infrastructure cost



# General Fund Reserves

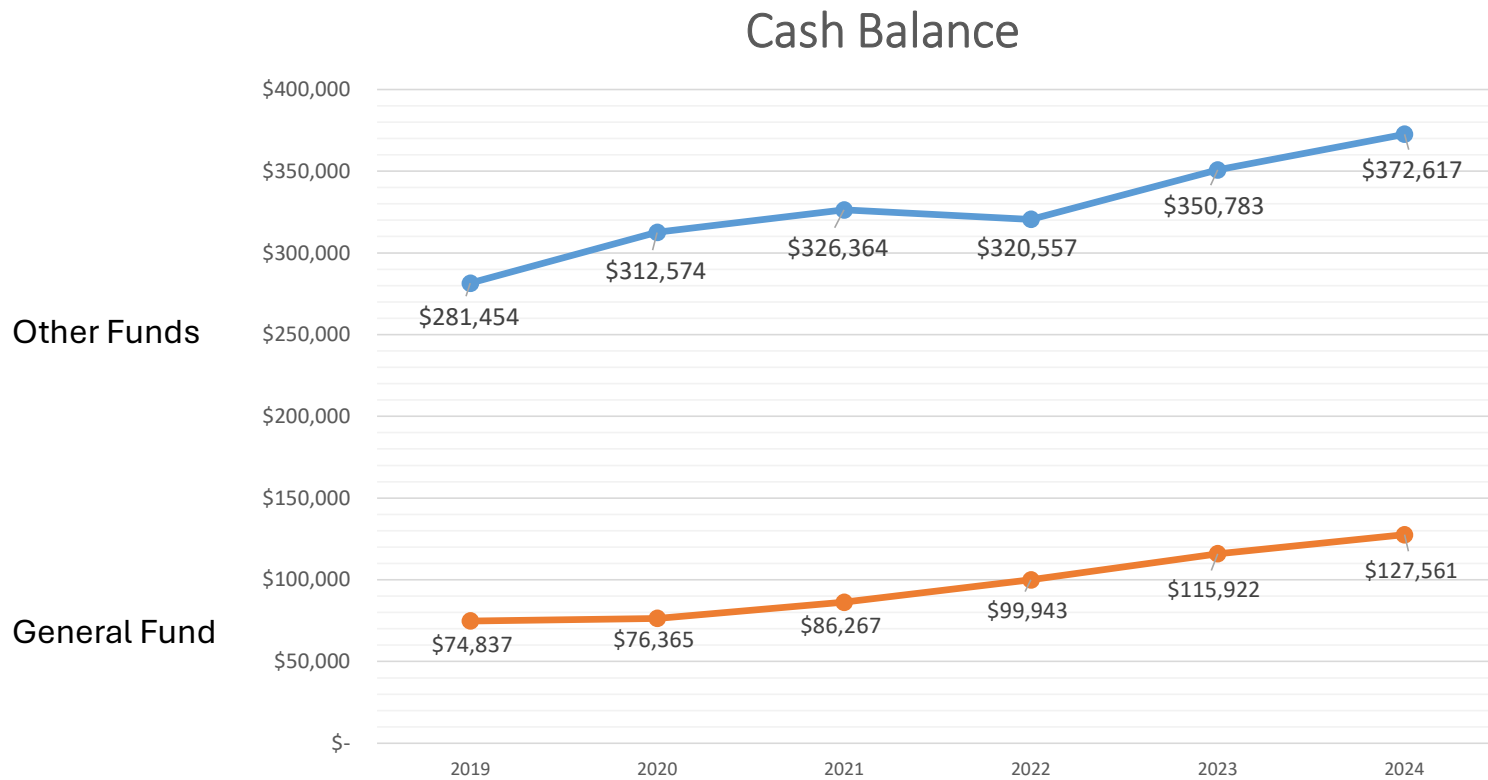
| Type                | Description     | Amount<br>Thousands | Sub Total |
|---------------------|-----------------|---------------------|-----------|
| GF Fund<br>Reserves | As of 6/30/2024 | (Thousands)         | Sub Total |

|                     |                          |          |          |
|---------------------|--------------------------|----------|----------|
| <b>Nonspendable</b> |                          |          |          |
|                     | Prepays                  | \$148    | \$148    |
| <b>Restricted</b>   |                          |          |          |
|                     | Underground              | \$364    |          |
|                     | Restitution              | \$317    |          |
|                     | Donations                | \$777    |          |
|                     | Section 115 Trust Funded | \$20,212 | \$21,670 |
| <b>Committed</b>    |                          |          |          |
|                     | Economic Uncertainties   | \$49,090 |          |
|                     | Other Capital Projects   | \$1,379  |          |
|                     | Other Purposes           | \$1,554  | \$52,023 |

| Type                | Description     | Amount<br>Thousands | Sub Total |
|---------------------|-----------------|---------------------|-----------|
| GF Fund<br>Reserves | As of 6/30/2024 | (Thousands)         | Sub Total |

|                 |                                     |          |                  |
|-----------------|-------------------------------------|----------|------------------|
| <b>Assigned</b> |                                     |          |                  |
|                 | Litigation Reserves                 | \$3,650  |                  |
|                 | Capital Improvement<br>Reserve      | \$9,425  |                  |
|                 | Equipment Replacement               | \$8,295  |                  |
|                 | General Plan Maintenance            | \$1,651  |                  |
|                 | HB Recovery Fund                    | \$10,886 |                  |
|                 | Oceanview Estates                   | \$641    |                  |
|                 | General Liability Plan<br>Migration | \$2,801  |                  |
|                 | Pension Rate Stabilization          | \$5,517  |                  |
|                 | Section 115 Trust Reserves          | \$4,211  |                  |
|                 | Year-end Fair Value                 | \$3,025  |                  |
|                 | Other Purposes                      | \$8,376  | \$58,478         |
| <b>Total</b>    |                                     |          | <b>\$132,319</b> |

# Cash Balances For All Funds



# Cash Balance – Fund Type

| FUNDS                  | 2024             |
|------------------------|------------------|
| General Fund           | \$132,319        |
| Infrastructure Funds   | \$33,015         |
| Enterprise Total       | \$82,380         |
| ISF Total              | \$52,707         |
| Restricted Funds Total | \$85,339         |
| Fiduciary Funds Total* | \$119,176        |
|                        |                  |
| <b>TOTAL CASH</b>      | <b>\$504,936</b> |

\*Include Pension (Supplemental & 115 / OPEB Funds



# Non-recurring Revenues and Expenditures

- One-time funds from HB Recovery - \$8.2M not budgeted
- ROPS - Waterfront Recovery - \$31.1M – less 20% to LM housing
- Amplify - \$5.25M – less attorney fees for net of \$4M – recommend funds be placed in Liability Fund
  
- GF operating expense reductions of \$1.8M for FY 24/25 from FY 23/24 levels
- Continued funding of pension Section 115 Trust, ISF activities
- One-time costs for decommission of oil well sites - \$1.9M to date
- Funding for capital and infrastructure needs (Report Card)



# Operational Activities

## Operational Implementations:

- Managed Hiring Program - \$6.2M – 40 vacant positions
- Re-established annual audits of TOT. (UUT, Business License revenues – TBA)
- Improved collections of outstanding AR / Reimplemented late fees and interest charges on late payments this FY
- Evaluating new business license platform to improve customer service experience and improved collections / Streamline Surf City
- Procure America - Utility cost savings review (SCE/SCG) – \$500k annually



# Recurring Revenues and Expenditures

- GF revenue increases of \$9.7M from FY 23/24 to FY 24/25 for user fee adjustments and EMS transport fees / Cal Optima Agreement
- Master User Fees updated along with annual CPI adjustments
- Revised EMS Fees based on updated fee study
- Proactive parking enforcement – Data Ticket for timely collections
  
- Public Safety MOU Costs - \$11.8M over three years
- Negotiations with remaining employee groups ongoing (5) – TBD
- CalPERS UAL Increases – based on annual actuarial reports
- Ongoing Vacancy offset - \$6.2M (40) – Managed Hiring





# Expenditure Reduction Options

- Across the board cuts vs Strategic reductions to City services and programs
- Staff hiring freezes vs Deliberate workforce reductions
- Overtime reductions – Limited in Public Safety due to 24/7
- Personnel benefit cost reductions or increased cost sharing
- Intentional cuts with priority on eliminating non-priority programs and services
- Reductions or suspension of payments to ISF / 115 Trust / Other reserve accounts

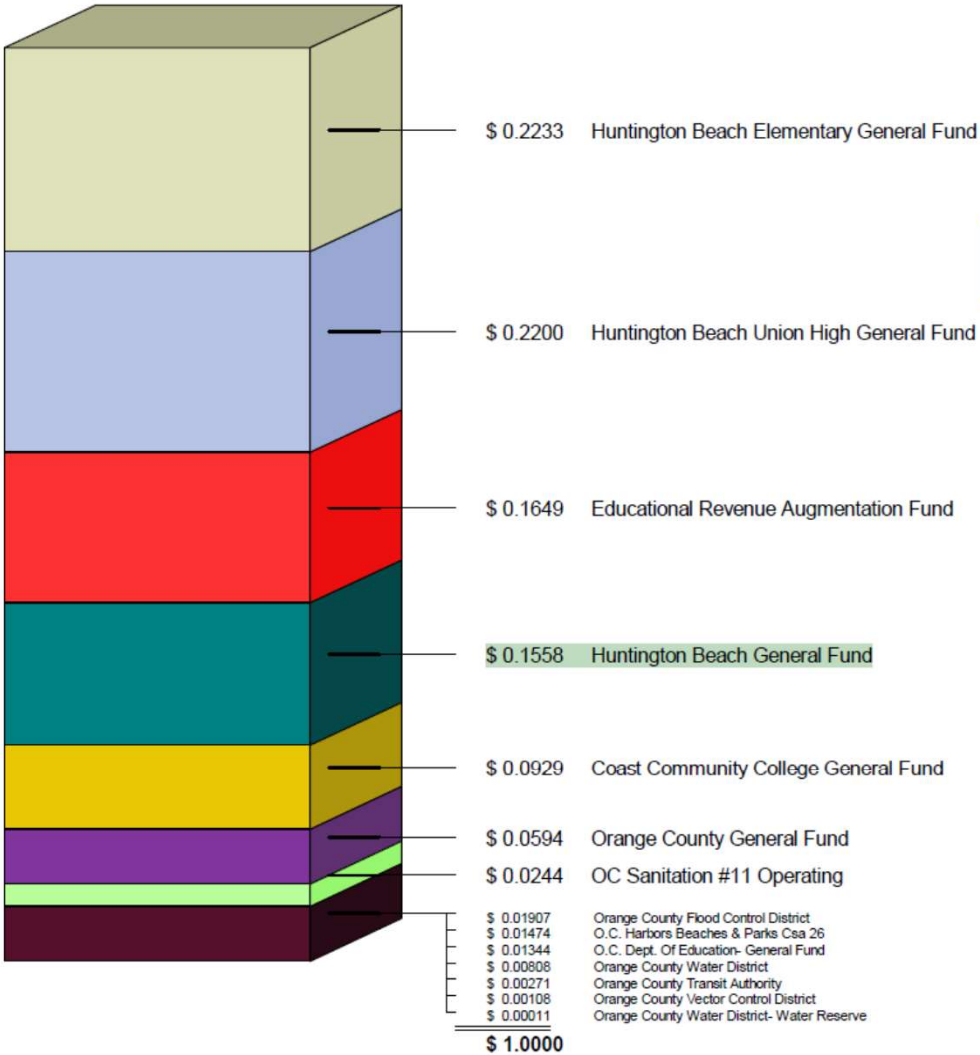


# Revenue Enhancement Opportunities

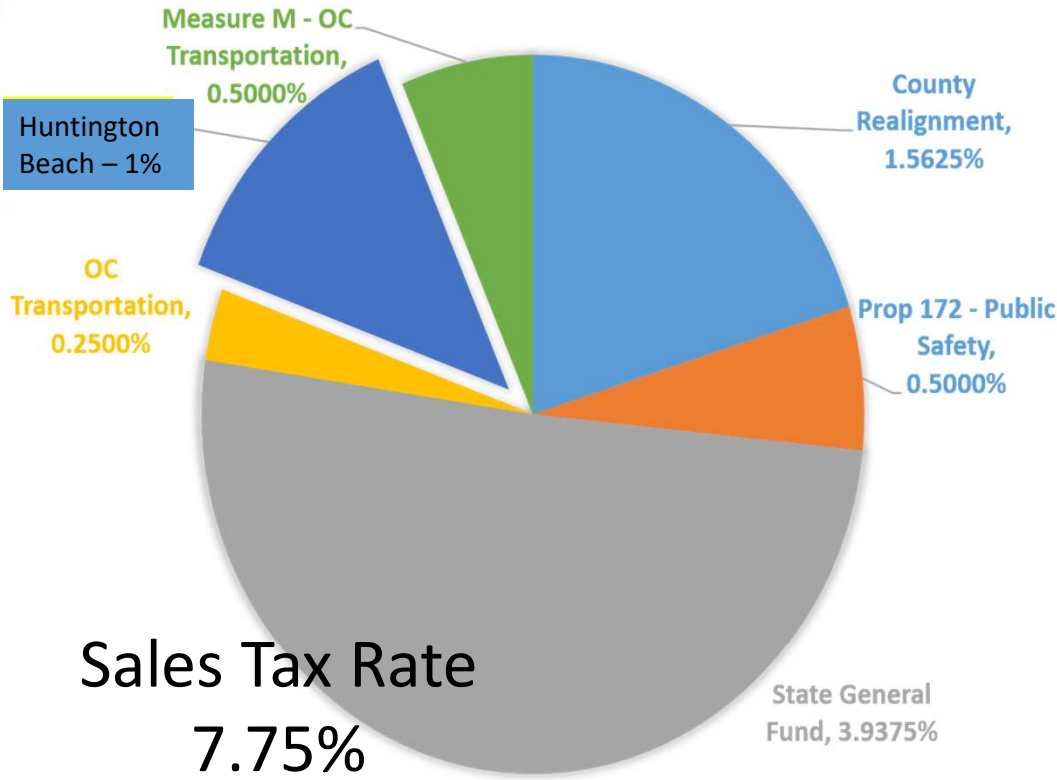
- Cannabis tax – approved by voters Nov. 2022
- Pension Tax Override  
Assessment rate adjustment
- Short-term rentals program
- Property Parcel Tax
- Property Transfer Tax
- Adjustment to existing UUT rate
- Economic Development
- TOT adjustment
- Parking Fee structure
- Business License Tax
- FireMed fee program
- Freeway signs
- Lifeguard tower advertising



**THE CITY OF HUNTINGTON BEACH  
PROPERTY TAX DOLLAR BREAKDOWN**



**Sales Tax Breakdown**



# Revenue Options

| Type               | Current Revenues | Additional Revenues                  | Notes   |
|--------------------|------------------|--------------------------------------|---|
| Transactions Tax   | \$53,488,453*    | Approximately \$48,400,000           | Additional % - Requires Voter Approval<br>Currently 1% goes to City of the 7.75%    |
| UUT                | \$23,000,000     | Approximately \$4,600,000            | Additional 1% - Requires Voter Approval<br>Currently 5%                             |
| TOT                | \$16,000,000     | Approximately \$1,600,000            | Additional 1% - Requires Voter Approval<br>Currently City Rate 10% - 6% to Visit HB |
| Cannabis Tax       | \$0              | Approximately \$300,000 to \$600,000 | Voters authorized up to 6% on retailers and 1% on all other businesses – Nov 2022   |
| Short-term Rentals | \$0              | TBD                                  | Increased collection of fees related to short-term rentals – expand program         |

\* Bradley Burns Sales Tax

# Revenue Options

| Type                   | Current Revenues | Additional Revenues                          | Notes  |
|------------------------|------------------|--|--|
| Business Licenses Fees | \$2,250,000      | TBD  | Current Base Business Fee is \$75<br>Increase base fees and/or expand business categories                          |
| Property Parcel Tax    | \$0              | TBD  | Tax levied on a basis other than value – required 2/3 voter approval   |
| Property Transfer Tax  | \$0              | TBD  | Tax imposed when ownership of property changes hands   |
| Pension Tax Override   | \$7,412,662      | Approximately \$7.4 per .015 rate adjustment | HB 1966 Tax Override – Provides ability to adjust rate / <b>Capped in 2012 – Requires voter approval to adjust</b> |
| Parking Fees           | \$14,950,000     | Depends on revised rate structure            | City is currently authorized to adjust fees for special events   |

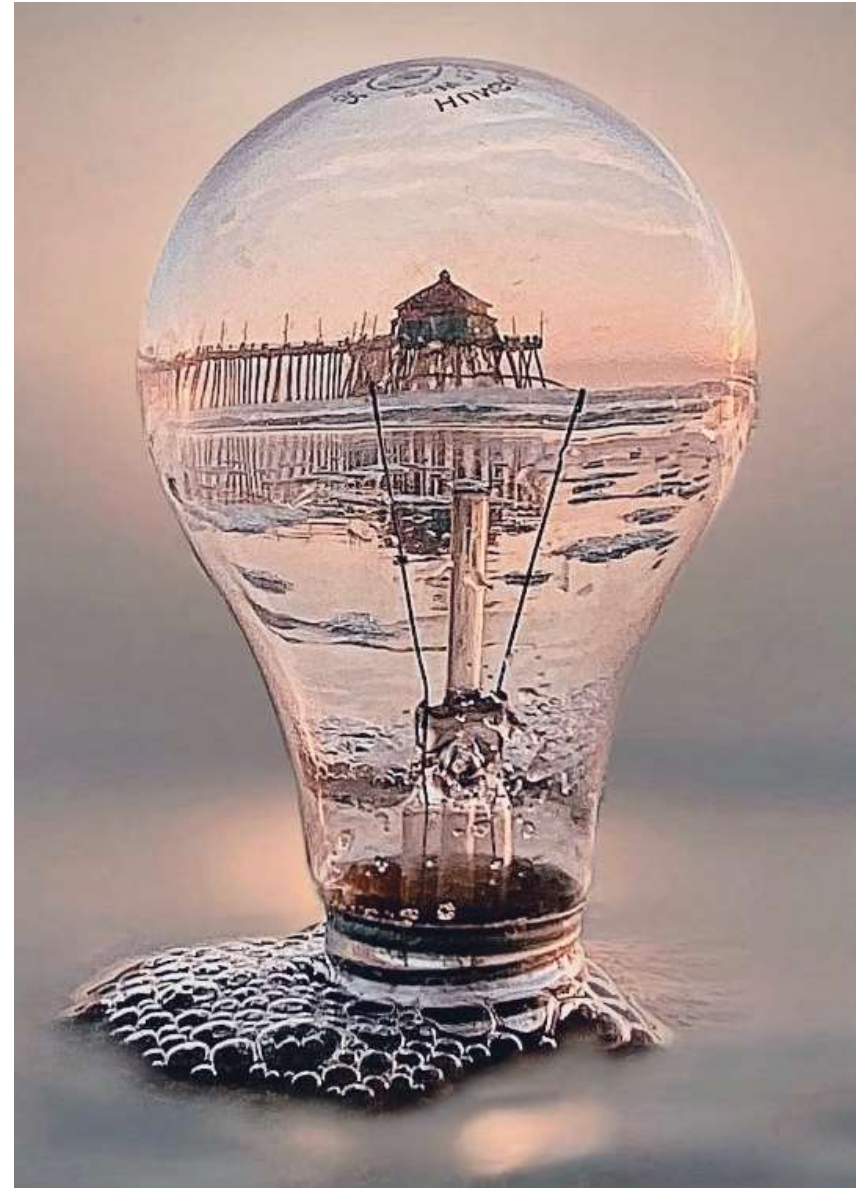
# Next Steps

- Staff has completed the new LRFP and will be presenting to Finance Commission and City Council in February
- LRFP tool will be used to evaluate various revenue enhancement options and cost reduction opportunities
- Communicate with internal and external stakeholders the importance of a structurally balanced budget
- Incorporate City Council feedback into LRFP and 2025-26 budget process
- The 2025-26 budget process with staff and City Council will be used identify further operational efficiencies and budget balancing opportunities – Kickoff Dec. 3
- Review of reserve policies and other financial policies including the recommendation to adopt a more comprehensive one-time revenue policy that complements a structurally balanced budget policy



**Questions?**

**Feedback**



# Adopted Reserves

## **Economic Uncertainties Reserve (EUR)**

- Funding to equal to two months GF Expenditures
- Appropriations require 6/7 vote limited to emergency situations
- Cannot fund new programs or personnel

## **Equipment Reserve (ER)**

- Used for rolling stock, equipment, and equipment to sustain city infrastructure

## **CIP Reserve (CIR)**

- Construction or improvements of city infrastructure

## **Litigation Reserve (LR)**

- Cover unforeseen litigation losses exceeding the budgeted amount

## **Unfunded Accrued Liability Pension Reserve (UALPR)**

- Cover the costs to reduce volatility and offset unexpected pension rate changes





# Reserve Level Funding

- Initial allocation of unassigned fund balance will go to Unfunded Accrued Liability Pension per adopted policy, long term debt, and improving City infrastructure.
- Remaining allocation if EUR is not fully funded:
  - 50% to EUR / 25% Infrastructure / 25% to CIR
- Remaining allocation if EUR is fully funded:
  - 50% Infrastructure / 25% to CIR / 25% Equipment Replacement
- A minimum of 25% of unrestricted one-time GF revenues transferred to Section 115 Trust



# Sample One-Time Revenue Policy

## Purpose of Policy

The City of HB (hereinafter “City”) strives to attain and maintain a structurally sound, thoughtful, and sustainable balanced budget within statutory and local government requirements. The purpose of this policy is to specify the uses of one-time revenues to help the City spend within its means and preserve its long-term fiscal health.

## Policy – One Time Revenue

The City shall not use one-time revenues to finance ongoing programs. To the extent feasible, one-time revenues shall be applied only towards one-time expenditures. Furthermore, one-time revenues shall not be used for non-recurring expenses that may result in future year obligations such as debt service payments, staffing, and other anticipated operating cost expenditures.



# Economic Development Focus

RETAIN AND GROW LOCAL BUSINESSES



ATTRACT NEW BUSINESSES



MARKET BUSINESS OPPORTUNITIES



PROMOTE A YEAR-ROUND ECONOMY



CONDUCT RESEARCH AND MAKE RECOMMENDATIONS



# Updated LRF Version November 2024

| (in thousands)                | Actual<br>FY22/23 | Projected<br>FY23/24 | Proposed<br>FY24/25 | Projected<br>FY25/26 | Projected<br>FY26/27 | Projected<br>FY27/28 | Projected<br>FY28/29 | Projected<br>FY29/30 |
|-------------------------------|-------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| Revenue (Recurring)           | 277,069           | 282,969              | 294,818             | 296,455              | 303,967              | 311,720              | 320,019              | 328,389              |
| Revenue (One-Time)*           | 35,648            | 2,276                | 6,877               | -                    | -                    | -                    | -                    | -                    |
| Planned Use of Reserves       | -                 | 8,804                | -                   | -                    | -                    | -                    | -                    | -                    |
| <b>Total Sources of Funds</b> | <b>312,717</b>    | <b>294,049</b>       | <b>301,695</b>      | <b>296,455</b>       | <b>303,967</b>       | <b>311,720</b>       | <b>320,019</b>       | <b>328,389</b>       |
| Expenditures less UAL         | 254,720           | 264,960              | 274,797             | 282,175              | 290,563              | 297,958              | 304,813              | 310,065              |
| CalPERS UAL **                | 4,891             | 5,000                | 5,215               | 10,305               | 13,290               | 16,262               | 19,222               | 18,592               |
| POB Payment                   | 13,663            | 13,276               | 13,106              | 12,750               | 12,537               | 12,384               | 12,229               | 12,229               |
| One-Time Expenditures         | 18,721            | 8,804                | 6,877               | -                    | -                    | -                    | -                    | -                    |
| <b>Total Expenditures</b>     | <b>291,995</b>    | <b>292,040</b>       | <b>299,995</b>      | <b>305,230</b>       | <b>316,390</b>       | <b>326,604</b>       | <b>336,264</b>       | <b>340,886</b>       |
| Restricted Reserves           | 16,978            | -                    | -                   | -                    | -                    | -                    | -                    | -                    |
| <b>Surplus/(Deficit)</b>      | <b>\$3,744</b>    | <b>\$2,009</b>       | <b>\$1,700</b>      | <b>(\$8,775)</b>     | <b>(\$12,423)</b>    | <b>(\$14,884)</b>    | <b>(\$16,245)</b>    | <b>(\$12,497)</b>    |

# LRFP Version Shared with CC June 2024

| General Fund Long-Term Financial Plan        |                   |                      |                     |                      |                      |                      |                      |                      |
|--|-------------------|----------------------|---------------------|----------------------|----------------------|----------------------|----------------------|----------------------|
| with Proposed Master Fee and EMS Fee Changes |                   |                      |                     |                      |                      |                      |                      |                      |
| (in thousands)                               | Actual<br>FY22/23 | Projected<br>FY23/24 | Proposed<br>FY24/25 | Projected<br>FY25/26 | Projected<br>FY26/27 | Projected<br>FY27/28 | Projected<br>FY28/29 | Projected<br>FY29/30 |
| Revenue (Recurring)                          | 277,069           | 279,775              | 294,818             | 296,455              | 303,967              | 311,720              | 320,019              | 328,389              |
| Revenue (One-Time)*                          | 35,648            | 5,470                | 6,877               | -                    | -                    | -                    | -                    | -                    |
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| Expenditures less UAL                        | 254,720           | 264,960              | 274,797             | 282,175              | 290,563              | 297,805              | 304,812              | 310,064              |
| CalPERS UAL **                               | 4,891             | 5,000                | 5,215               | 8,981                | 12,727               | 16,458               | 20,171               | 20,291               |
| POB Payment                                  | 13,663            | 13,276               | 13,106              | 12,750               | 12,537               | 12,537               | 12,229               | 12,229               |
| One-Time Expenditures                        | 18,721            | 8,804                | 6,877               | -                    | -                    | -                    | -                    | -                    |
| <b>Total Expenditures</b>                    | <b>291,995</b>    | <b>292,040</b>       | <b>299,995</b>      | <b>303,906</b>       | <b>315,827</b>       | <b>326,800</b>       | <b>337,212</b>       | <b>342,584</b>       |
| Restricted Reserves                          | 16,978            | -                    | -                   | -                    | -                    | -                    | -                    | -                    |
| <b>Surplus/(Deficit)</b>                     | <b>\$3,744</b>    | <b>\$2,009</b>       | <b>\$1,700</b>      | <b>(\$7,451)</b>     | <b>(\$11,860)</b>    | <b>(\$15,080)</b>    | <b>(\$17,193)</b>    | <b>(\$14,195)</b>    |

# Recommendations

- Engage in long-term financial planning knowing that there is no single option to get to a structurally balanced budget
- Use the 2025-26 budget process to work through and identify further operational efficiencies and budget balancing strategies
- Communicate with internal and external stakeholders about the importance of a structural balanced budget
- Commitment to long-term financial sustainability by adhering to the City's **structurally** balanced budget policy
- Adopt a one-time revenue policy that complements a structurally balanced budget policy

