



Financial Update & FY 2022/23 Mid-Year Budget Adjustments

City Council Meeting
February 21, 2023

Presentation Overview

- **City FY 2022/23 Budget Update**
- **FY 2022/23 Mid-Year Budget Adjustment Requests**
- **Staffing Levels and Vacancies**
- **Financial Health Indicators**



City FY 2022/23 Budget Update



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 originally anticipated
- Recent economic indicators in 2022 signal caution

Interest Rates	Inflation	GDP	Market Index
<ul style="list-style-type: none">• Fed raised rates 7 times in 2022 to 4.25-4.50%• Inverted yield curve	<ul style="list-style-type: none">• 9.1% June 2022• 8.2% Sept 2022• 6.5% Dec 2022	<ul style="list-style-type: none">• 1Q2022: -1.6%• 2Q2022: -0.6%• 3Q2022: +3.2%• 4Q2022: +2.9%	<ul style="list-style-type: none">• 2022• Bond: -12.3%• US Stock: -19.4%• Int'l Stock: -14.79%

- 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 Long-Term Financial Plan

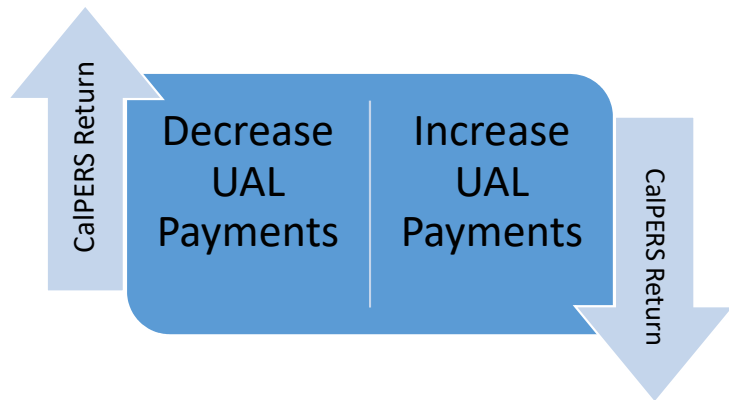
6.8% CalPERS Return FY22/23

(in thousands)	Actual FY21/22	Adopted FY22/23	Projected FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27
Revenue (Recurring)	\$256,246	\$253,552	\$273,293	\$276,763	\$282,097	\$287,695	\$293,546
Revenue (One-Time)	-	29,607	29,607	-	-	-	-
Total Revenues	\$256,246	\$283,159	\$302,900	\$276,763	\$282,097	\$287,695	\$294,546
Expenditures less UAL	234,277	234,415	251,031	256,408	262,956	269,158	274,718
CalPERS UAL	4,891	4,891	4,891	5,000	5,000	8,270	12,380
POB Payment	13,688	13,556	13,556	13,276	12,989	12,687	12,537
One-Time Expenditures	-	16,135	16,135	-	-	-	-
Total Expenditures	252,856	268,997	285,613	274,684	280,945	290,115	299,635
HB Recovery Reserves	-	(13,472)	(13,472)	-	-	-	-
Surplus/(Deficit)	\$3,390	\$690	\$3,815	\$2,078	\$1,153	(\$2,421)	(\$6,089)

- Requires use of Section 115 Trust reserves (per UAL Policy) starting in FY25/26
- **Insufficient funds** projected to be available in Section 115 Trust and Pension Stabilization Reserve to structurally balance the budget starting FY28/29

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

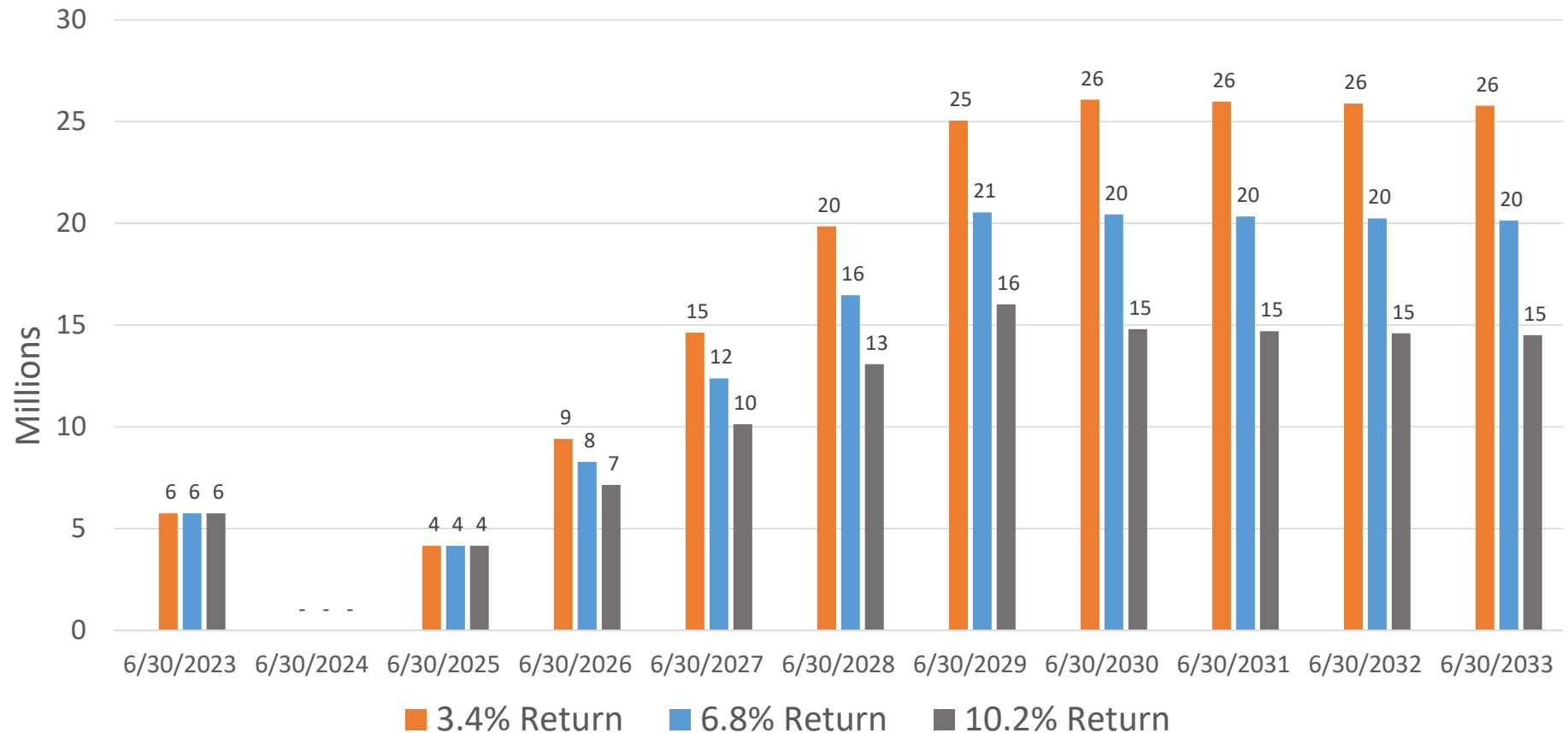


- CalPERS' investment policy focuses on long-term plan returns
- POB is financially advantageous as long as CalPERS long-term return is > 2.925%

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

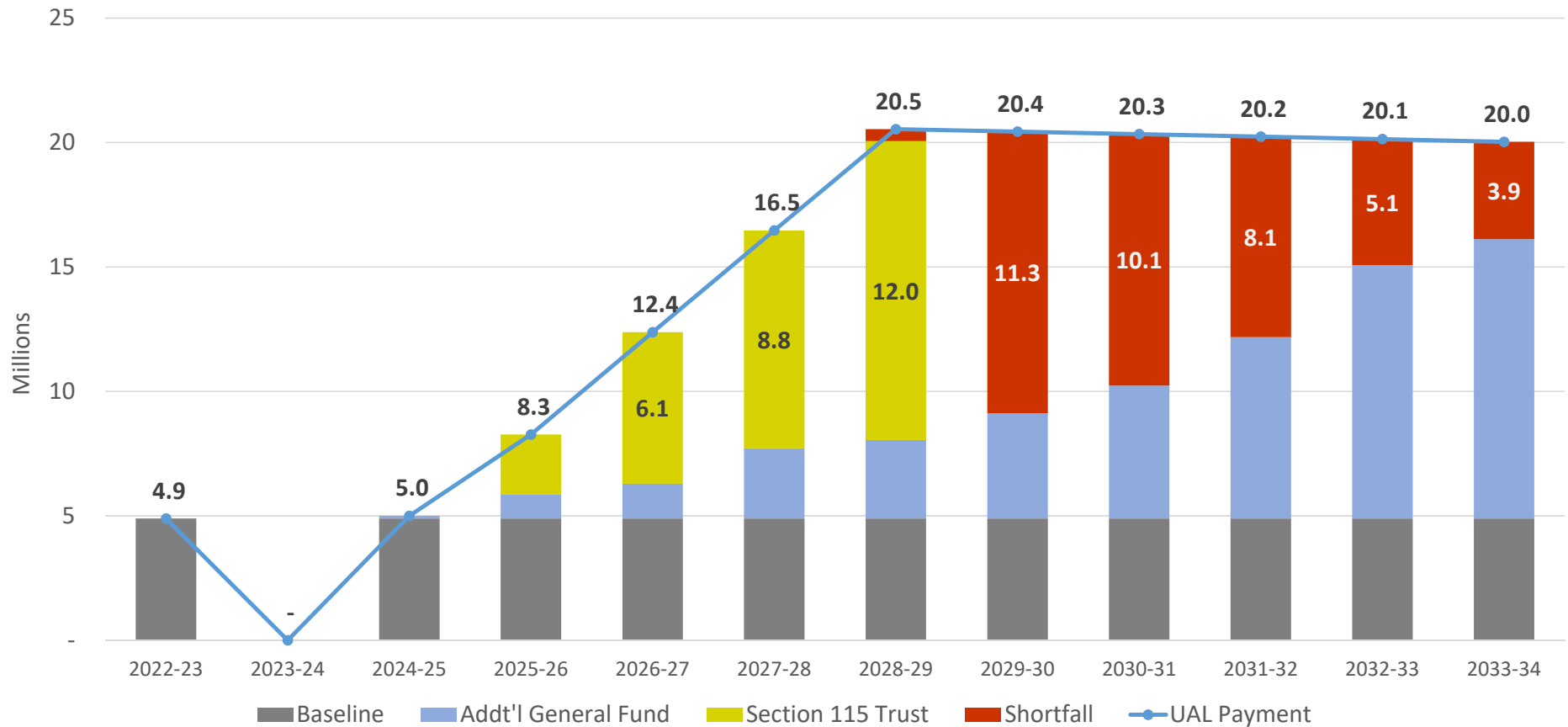
* Based on original est. -6.1% return

CalPERS UAL Payment Projection



CalPERS UAL Payments based on projected FY22/23 CalPERS Returns scenarios, with 6.8% return from FY 2023/24 onward.

CalPERS UAL Payment Projection



CalPERS UAL Payments based on projected CalPERS 6.8% Return in FY22/23 and moving forward

FY 2022/23 Mid-Year Budget Adjustments



Mid-Year Budget Adjustment Requests

Mid-year budget adjustments are requested in 6 separate funds:

1. General Fund (100)
2. Asset Forfeiture (212)
3. Equipment Replacement (324)
4. Workers' Compensation (551)
5. Supplemental Law Enforcement Services Fund (SLESF) (984)
6. New grant fund (TBD)

Adequate funding is available for all requested budget adjustments

General Fund Adjustments

Community & Library Services Department

- **\$537K** – increased demand for contract class instructors and increased printing costs for Spring & Summer SANDS offset with recreational and art class revenues for a **net zero impact**

Community Development Department

- **\$700K** – increased building plan check services offset with plan check permit revenues for a **net zero impact**

Finance Department

- **\$115K** – increase in credit card processing fees for payments made through the City's Enterprise Land Management (ELM) system

General Fund Adjustments

Fire Department

- **\$525K** – Fire strike team reimbursement costs offset with strike team reimbursement revenues for a **net zero impact**
- **\$175K** – Medical & safety supplies for City ambulances offset with emergency medical response revenues for a **net zero impact**

Police Department

- **\$189K** increased payment to County for 800MHz cost sharing

Public Works Department

- **\$752K** – increased citywide fuel costs
- **\$590K** – increased vehicle maintenance and accident repair costs

General Fund Adjustments

Non-Departmental

- **\$250K** – increased utility costs for natural gas
- **\$500K** transfer to the Equipment Fund to ensure adequate funding for essential capital equipment needs and address rising equipment costs
- **\$4.3M** transfer to the Workers' Compensation Fund to ensure adequate funding for workers' compensation claims
- **\$2.0M** transfer to the Section 115 Trust to protect the City from future pension cost increases

General Fund Adjustment Summary

Department	Appropriation	Revenue Offset	Net Increase
Community & Library	\$537,000	\$537,000	-
Community Development	700,000	700,000	-
Finance	115,000	-	115,000
Fire	700,000	700,000	-
Police	189,000	-	189,000
Public Works	1,342,000	-	1,342,000
Non-Departmental	7,050,000	-	7,050,000
General Fund Total	\$8,633,000	\$1,937,000	\$8,696,000

Other Fund Adjustments

- **Other Fund Adjustments requested in the following funds:**
 - Narcotics Forfeiture - Federal (212)
 - Equipment Replacement (324)
 - Refuse Collection Service (504)
 - Workers' Compensation (551)
 - Supplemental Law Enforcement Services Fund (SLESF) (984)
 - CalAPP Grant Fund (new)

Other Fund Adjustments

Workers' Compensation (Fund 551) – Human Resources

- **\$4.3M** for increased costs of claims due to 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. Appropriation is funded by requested \$4.3M transfer in from the General Fund.

Supplemental Law Enforcement Services Fund (SLESF) (Fund 984) – Police

- **\$750K** appropriation for temporary relocation of the dispatch center to Central Net and for the purchase and implementation of a new software to facilitate efficient real-time, fact-based decision making.

CalAPP Grant (new Fund) - Community Development

- **\$80K** CalAPP Grant for solar permit platform. Offsetting grant revenues and expenditures for **net zero impact**.

Other Fund Adjustments

Narcotics Forfeiture - Federal (Fund 212) – Police

- **\$60K** for overtime costs arising from participation in the Orange County Regional Narcotics Suppression Program.

Equipment Replacement (Fund 324) – Non-Departmental

- **\$500K** appropriation in the Equipment Replacement Fund to ensure adequate funding for essential capital equipment needs and address rising equipment costs. Appropriation is funded by requested \$500K transfer in from the General Fund.

Refuse Collection Service (Fund 504) – Public Works

- **\$531K** to fund pass-thru costs associated with the Refuse Collection and Disposal Services contract. Based on current revenue collection amounts, these adjustments will have a **net zero impact**.

Other Funds Adjustment Summary

- Sufficient revenues, cash, and/or fund balances are available to support the requested other funds adjustments

Fund	Fund Name	Appropriation	Revenue Offset	Net Increase
212	Narcotics Forfeiture - Federal	\$60,000	-	\$60,000
324	Equipment Replacement	500,000	500,000	-
504	Refuse Collection Services	531,000	531,000	-
551	Workers' Compensation	4,300,000	4,300,000	-
984	Supplemental Law Enforcement Services	750,000	-	750,000
New	CalAPP Grant	80,000	80,000	-
	Other Funds Total	\$6,221,000	\$5,411,000	\$810,000

Summary of Mid-Year Budget Requests

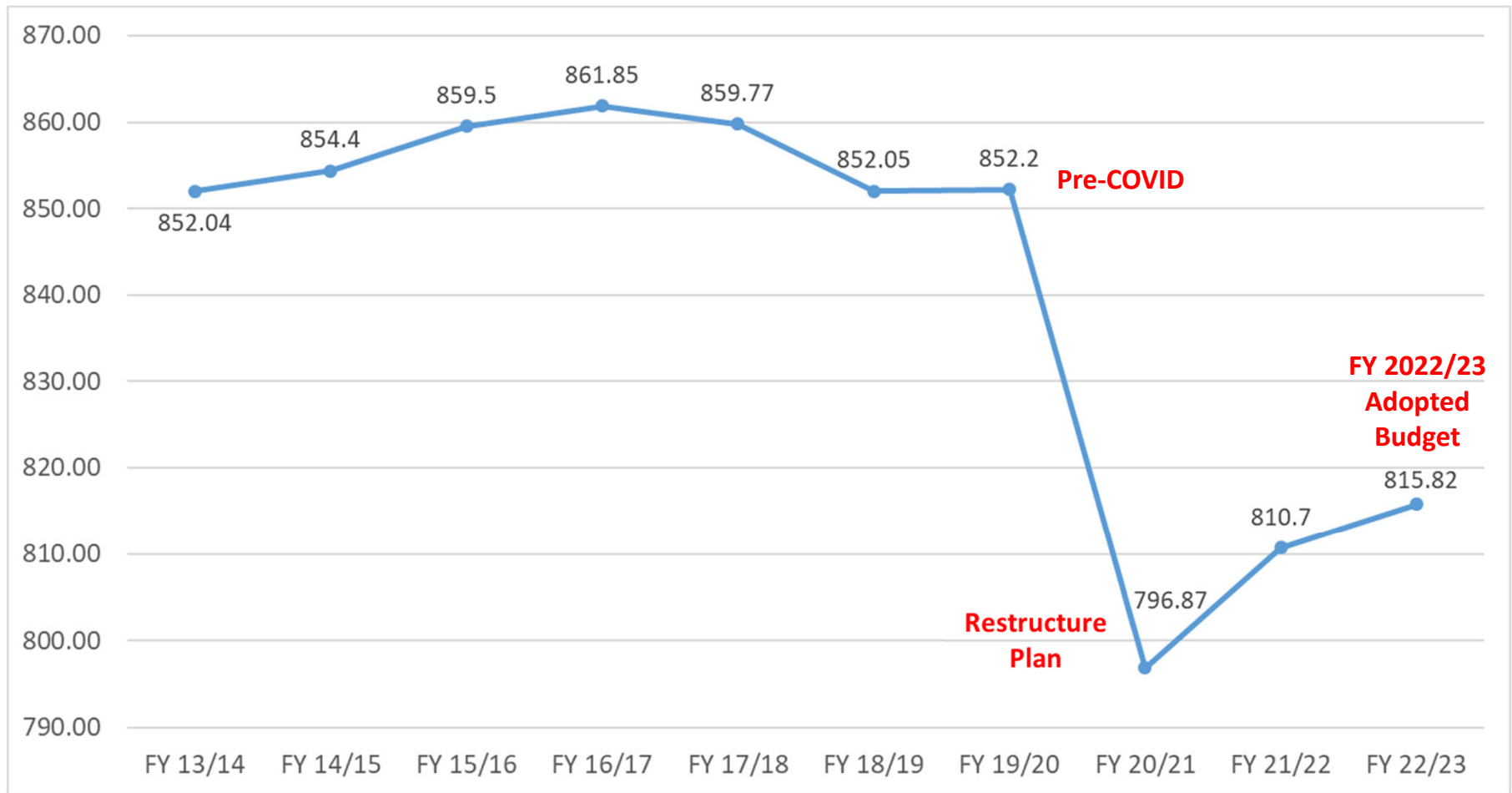
- Approve appropriations and/or transfers of **\$16.8M**
- Projected General Fund FY22/23 surplus after appropriation: **\$3.8M**
- Approve professional service contract increases
- Approve CalAPP Solar Permit Grant

Fund	Description	Amount	Total
General Fund	Department appropriation requests	\$3,833,000	\$10,633,000
	Equipment Transfer	500,000	
	Workers' Compensation Transfer	4,300,000	
	Section 115 Trust Transfer	2,000,000	
Other Funds	Narcotics Forfeiture - Federal	60,000	\$6,221,000
	Equipment Fund Appropriation	500,000	
	Refuse Collection Services	531,000	
	Workers' Compensation Appropriation	4,300,000	
	Supplemental Law Enforcement	750,000	
	CalAPP Grant	80,000	
Total			\$16,854,000
Less: Offsetting revenues			(\$7,348,000)
Net Increase			\$9,506,000

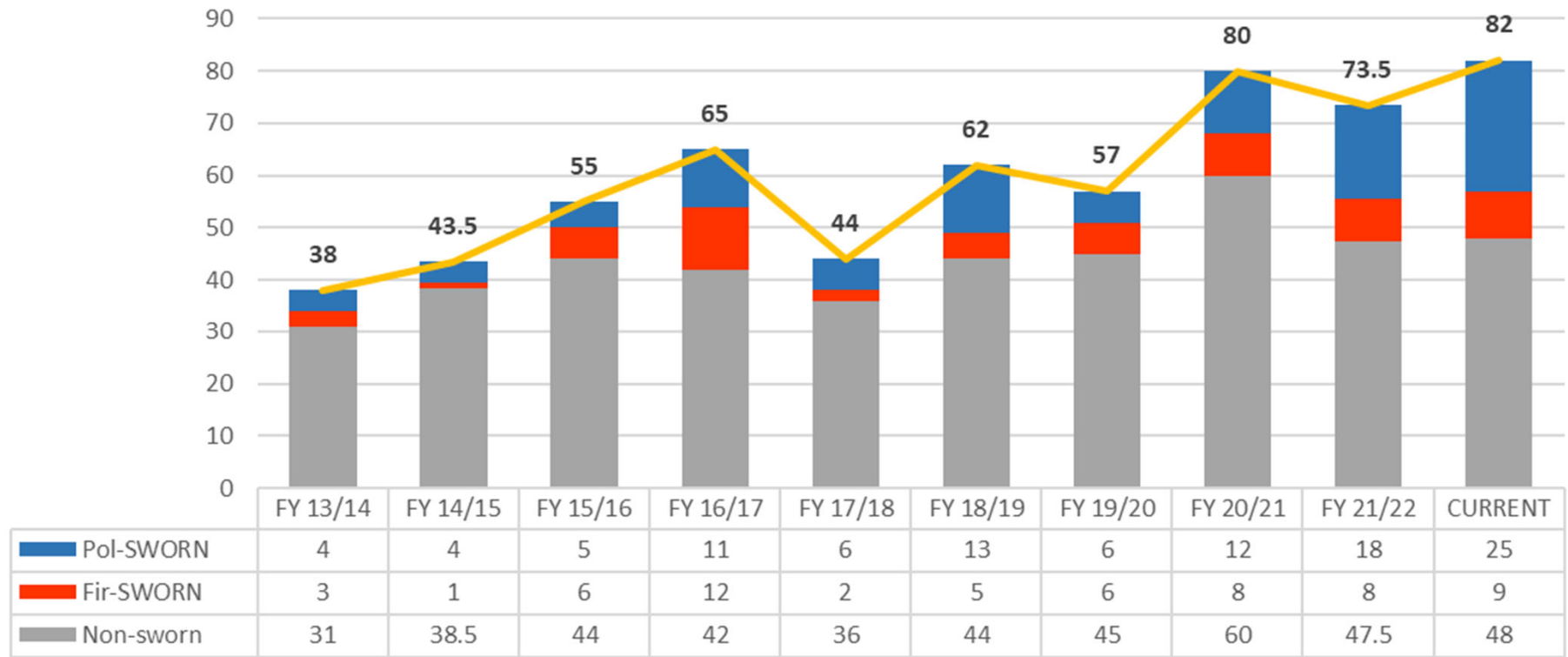
Staffing Levels and Vacancies



FY 2022/23 Full Time Equivalent – General Fund



Historical Vacancies – General Fund



	Average Salary	+ Benefits	= Fully Burdened
Non-Sworn:	\$90,876	31,405	\$122,281
Sworn:	\$139,124	65,649	\$204,773

Financial Health Indicators



Financial Position

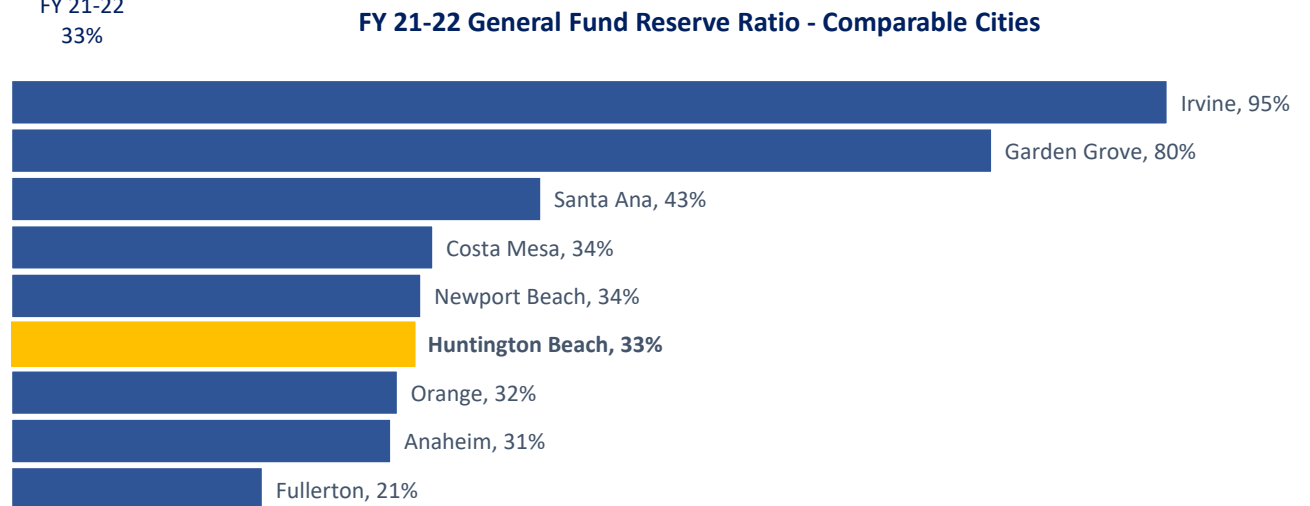
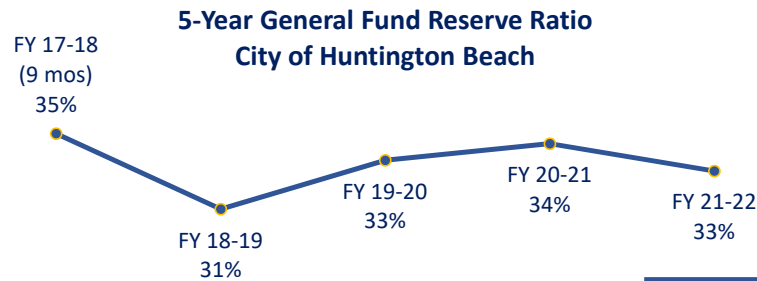
Can the City Pay Its Bills Now?

- **FHI # 1 General Fund Reserve Ratio** – Building up reserves which is useful in identifying deteriorating fund balance reserves.
- **FHI #2 General Fund Liquidity Ratio** – Ability to pay expenses which is useful in identifying the City's ability to pay bills on time.



FHI #1 General Fund Reserve Ratio

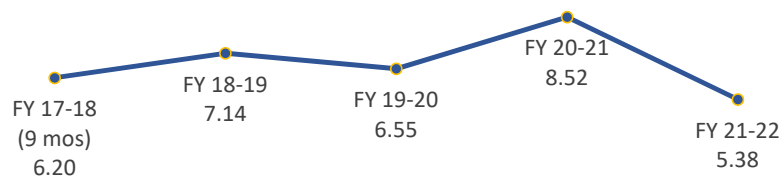
A declining fund balance reserve can be a sign of fiscal stress. This indicator is important in identifying a trend of a deteriorating fund balance reserves as well as how rapidly it is deteriorating. A **higher ratio** suggests larger reserves for dealing with unexpected resource needs in the long run.



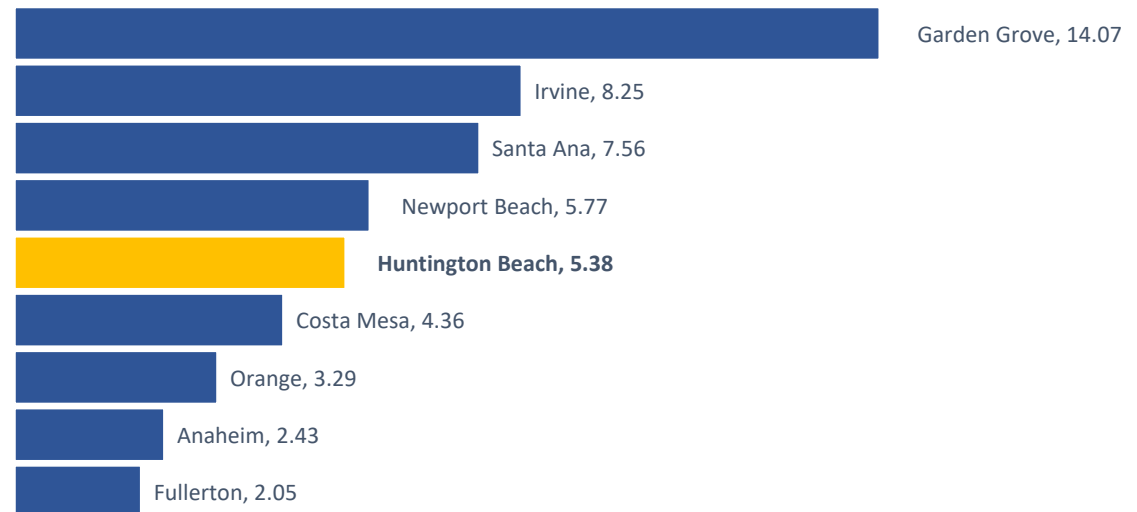
FHI #2 General Fund Liquidity Ratio

A declining ratio indicates a city does not have sufficient cash available to meet its current obligations as they come due. This indicator is important in identifying a trend of deteriorating cash as well as how rapidly it is deteriorating. Ideally, a **higher ratio** suggests a greater capacity for paying off short-term obligations.

5-Year General Fund Liquidity Ratio -
City of Huntington Beach



FY 21-22 General Fund Liquidity Ratio - Comparable Cities



Financial Performance

Can the City's Revenues Cover Its Expenses?

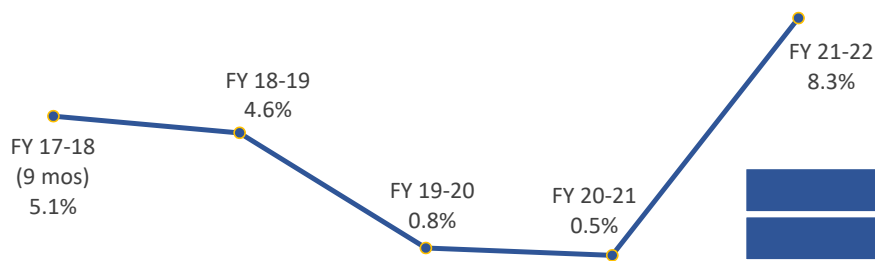
- **FHI # 3 General Government Growth in Net Position Ratio** – Change in Net Assets where growth in net position indicates City can pay its expenses with ongoing revenue and establish appropriate reserves for future allocation.
- **FHI # 4 General Government Operating Margin Ratio** – City services are more self-sufficient through charges, fees, and grants.
- **FHI #5 General Government Own Source Revenue Ratio** – Reliance on tax dollars versus the City's reliance on federal and state grants.



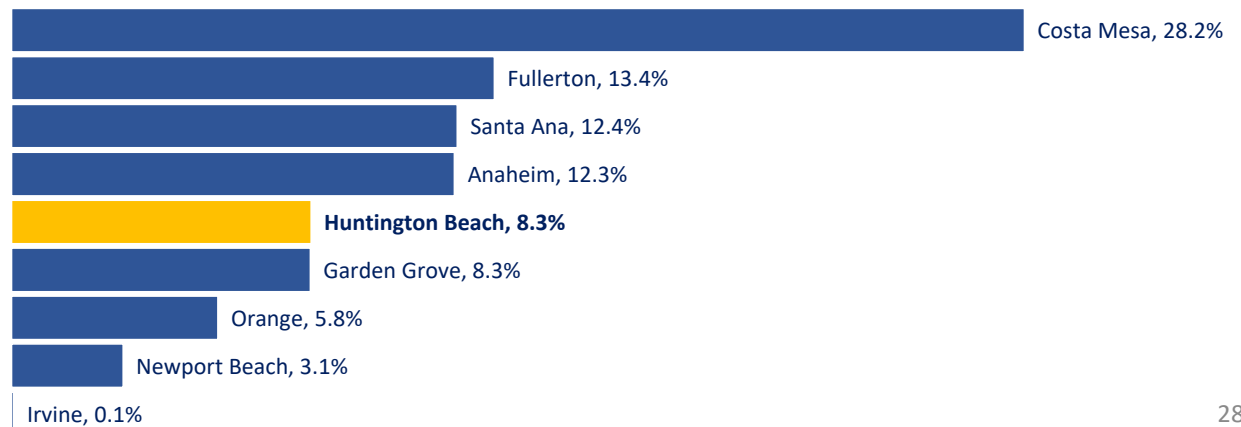
FHI #3 General Government Growth in Net Position Ratio

Revenues from programs ideally should cover the expenses that are incurred for those programs, otherwise reserves may need to be used to meet the needs. A **higher ratio** suggests that annual costs are adequately funded, and the financial condition is improving.

5-Year General Government Growth in Net Position - City of Huntington Beach



FY 21-22 General Government Growth in Net Position - Comparable Cities



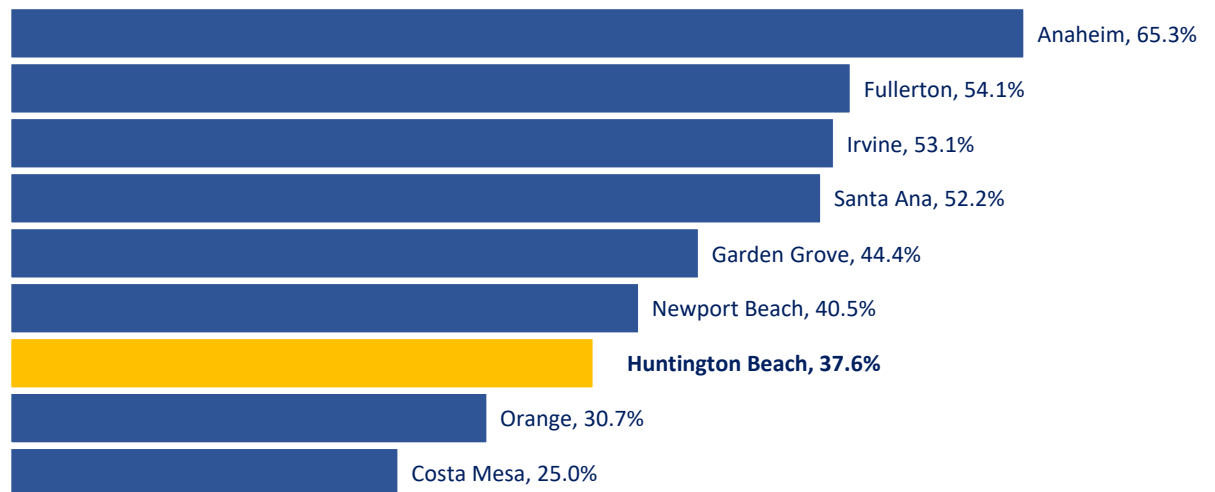
FHI #4 General Government Operating Margin Ratio

A city charges for services and may receive grants and aid from other governments (e.g., Federal and State). For this ratio, a **higher ratio** suggests basic government services are more self-sufficient through charges, fees, and grants and less reliant on general tax dollars to fund program expenditures.

5-Year General Government Operating Margin Ratio -
City of Huntington Beach



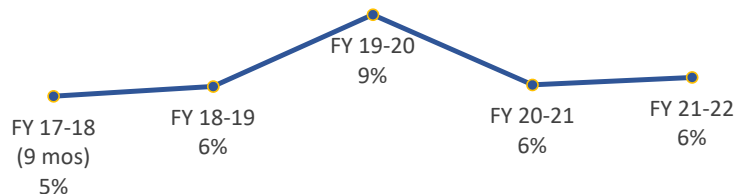
FY 21-22 General Government Operating Margin Ratio - Comparable Cities



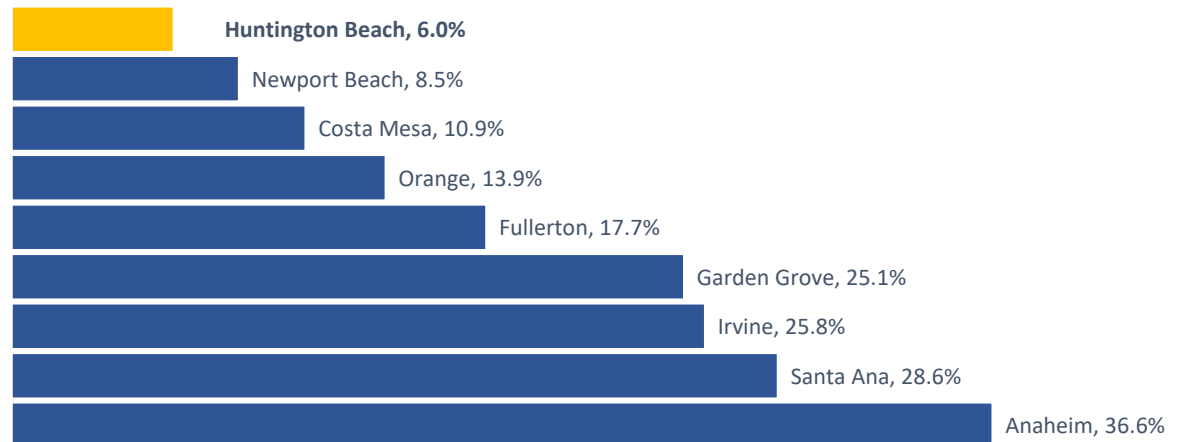
FHI #5 General Government Own Source Revenue Ratio

Revenues from grants are used to support some City functions. Other functions, such as public safety, are mainly funded by general tax dollars. This ratio illustrates the extent to which government revenues were supported by grants. A **lower ratio** suggests that the City is not heavily reliant on grants and more reliant on general tax dollars and charges for services.

5-Year General Government Own Source Revenue Ratio - City of Huntington Beach



FY 21-22 General Government Own Source Revenue Ratio - Comparable Cities



Long-Term Solvency

Can the City Pay Its Bills in the Future?

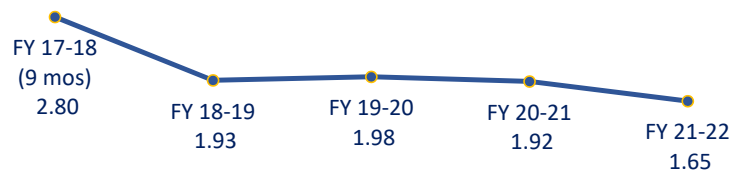
- **FHI # 6 General Government Near-Term Solvency Ratio** – Ability to pay obligations with annual revenues where fewer number of years of annual revenue needed to pay City obligations the stronger its financial condition.
- **FHI # 7 General Government Debt, Pension Liability & Other Post-Employment Benefits (OPEB) Burden per Resident** – Amount of liability per resident where lower liability per capita results in smaller debt, pension, and OPEB burden on taxpayers.
- **FHI # 8 Governmental Funds Coverage Ratio** – A larger portion of expenses used for debt means the City is less able to spend money on services and capital improvements.
- **FHI # 9 Enterprise Funds Coverage Ratio** – Availability of resources for Enterprise Funds to make bond payments.



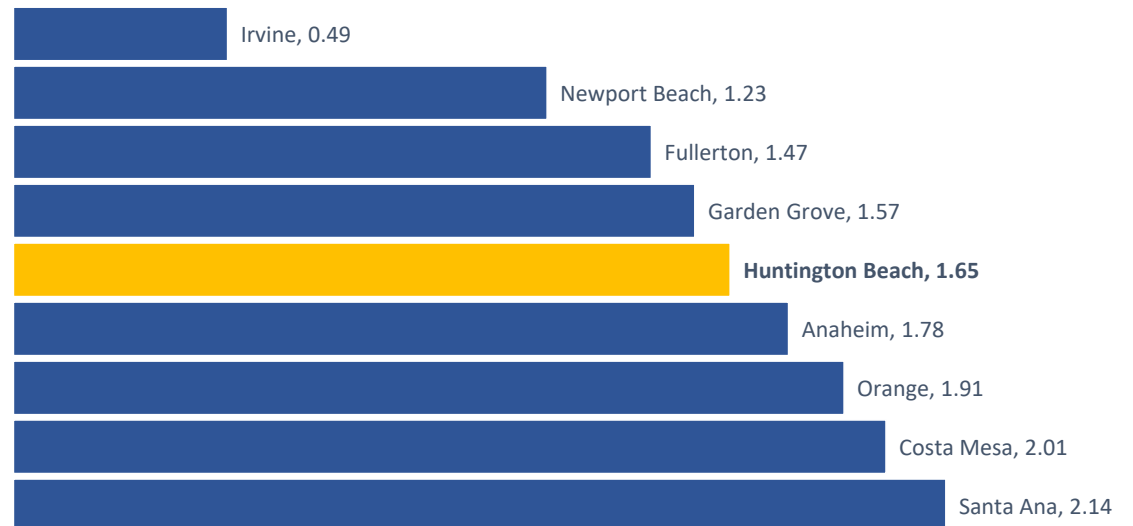
FHI #6 General Government Near-Term Solvency Ratio

This ratio demonstrates a City's ability to pay a larger portion of its debts with annual revenues. For this measure, a **lower ratio** indicates a stronger financial condition.

5-Year General Government Near-Term Solvency Ratio
- City of Huntington Beach



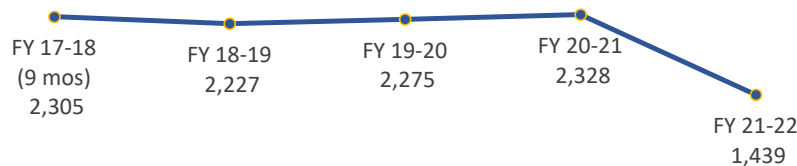
FY 21-22 General Government Near-Term Solvency Ratio - Comparable Cities



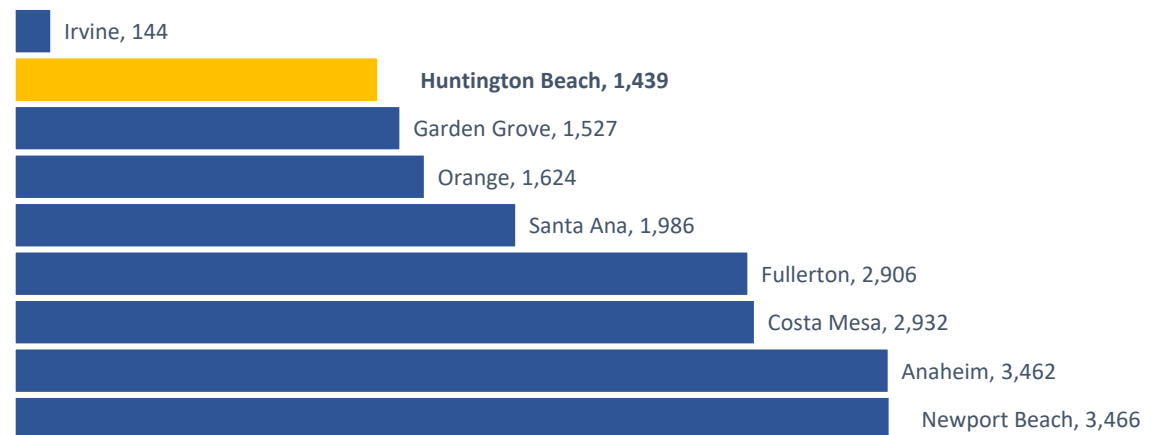
FHI #7 General Government Debt, Pension Liability, & OPEB Burden per Resident Ratio

Lower bonded debts, pension liability, and other post-employment benefits (OPEB) per capita result in a smaller debt burden on taxpayers. For this measure, a lower ratio indicates a stronger financial condition.

5-Year General Government Bonded Debt, Pension Liability
& OPEB Burden per Resident - City of Huntington Beach



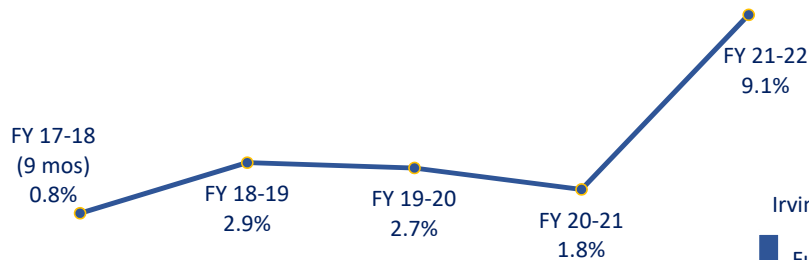
FY 21-22 General Government Bonded Debt, Pension Liability & OPEB Burden
per Resident - Comparable Cities



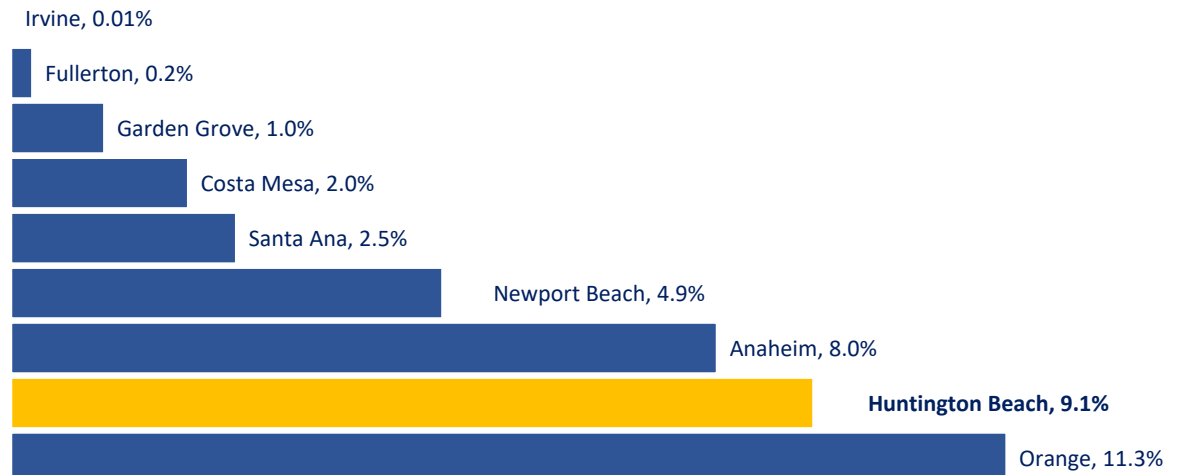
FHI #8 Governmental Funds Coverage Ratio

A City has principal and interest payments on debts. The lower the amount of these payments compared to all the other expenditures it has, the stronger its financial condition. For this measure, a lower ratio indicates a stronger financial condition.

5-Year Governmental Funds Coverage Ratio -
City of Huntington Beach



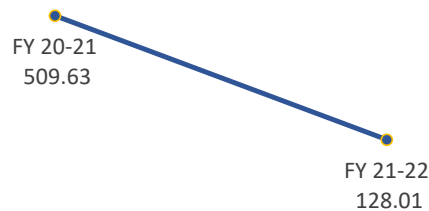
FY 21-22 Governmental Funds Coverage Ratio - Comparable Cities



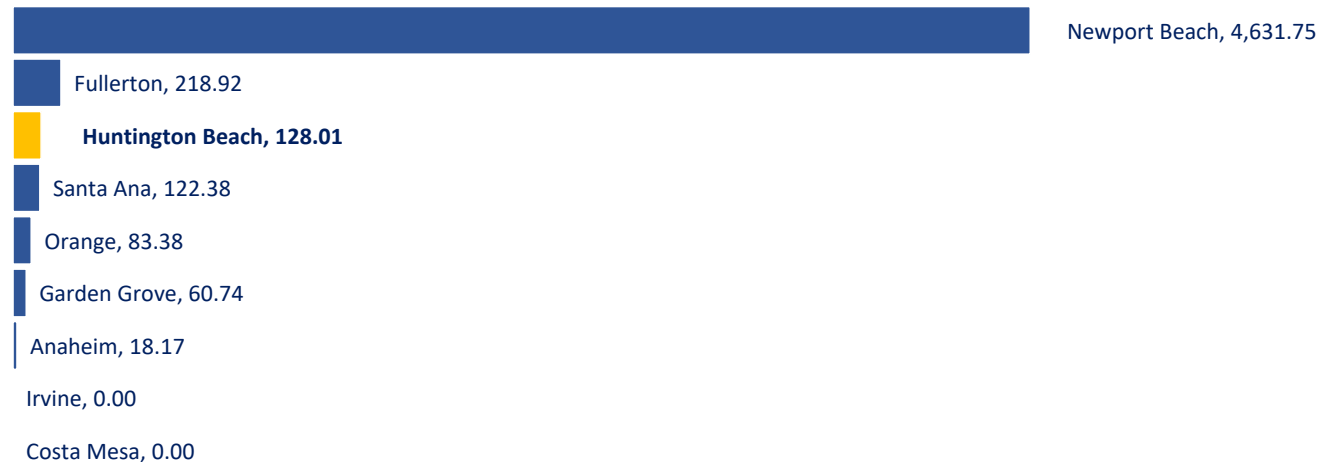
FHI #9 Enterprise Funds Coverage Ratio

Just like a City's governmental services need to pay their debts (i.e., bonds) in the long-term, a city's enterprise funds need to do so as well. The City's Enterprise Funds include Electric, Water, Sewer, Refuse, and Hazmat Service Funds. For this measure, a **higher ratio** indicates a stronger financial condition.

5-Year Enterprise Funds Coverage Ratio - City of Huntington Beach



FY 21-22 Enterprise Funds Coverage Ratio - Comparable Cities



Note: No Enterprise Funds in the cities of Costa Mesa and Irvine.

Long-Term Solvency - Continued

Can the City Pay Its Bills in the Future?

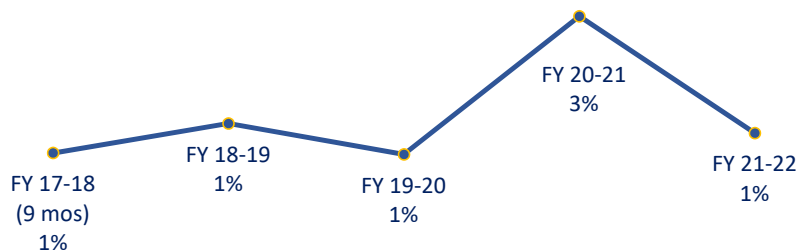
- **FHI # 10 General Government Capital Asset Value Ratio** – Change in value of capital assets where if City doesn't replace or renovate its capital assets, value over time decreases.
- **FHI # 11 Enterprise Funds Capital Asset Age Ratio** – Percentage of Enterprise Funds capital assets that have been depreciated.
- **FHI #12 Public Safety Costs Ratio** – Compares and determines the funding level of the General Fund public safety costs.



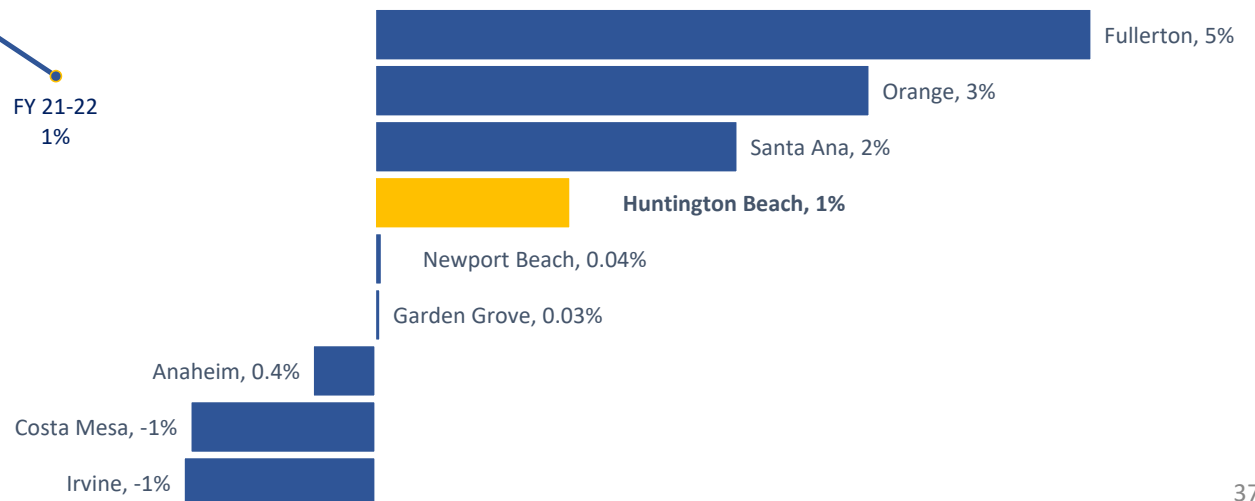
FHI #10 General Government Capital Asset Value Ratio

Capital assets include land, buildings, vehicles, and public infrastructure. Most of the City's capital assets decrease in value over time due to depreciation. A negative ratio means that the overall value of a city's assets decreased over the year indicating some assets may need to be renovated or replaced. For this measure, a **higher ratio** indicates a stronger financial condition.

5-Year Governmental Capital Assets Value Ratio - City of Huntington Beach



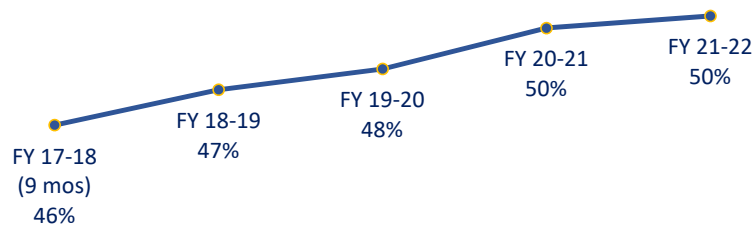
FY 21-22 Governmental Capital Assets Value Ratio - Comparable Cities



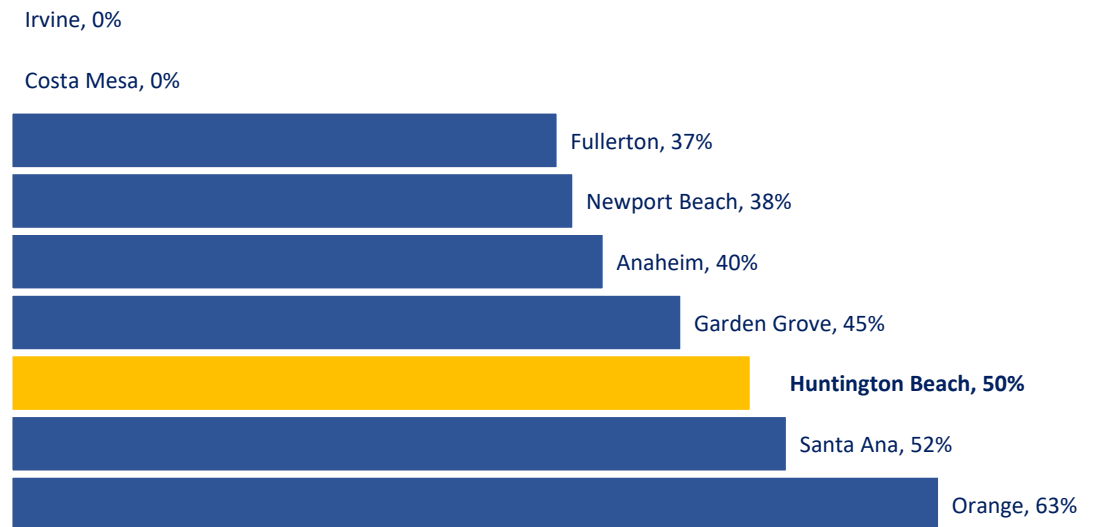
FHI #11 Enterprise Funds Capital Asset Value Ratio

Depreciable capital assets include buildings, vehicles, and public infrastructure. Assets are depreciated over their useful life as they age, and their value is reduced. A **lower ratio** indicates Enterprise Funds capital assets are newer and may not require as much replacement and/or maintenance costs compared to older capital assets.

5-Year Enterprise Funds Capital Asset Ratio - City of Huntington Beach



FY 21-22 Enterprise Funds Coverage Ratio - Comparable Cities



Note: No Enterprise Funds in the cities of Costa Mesa and Irvine.

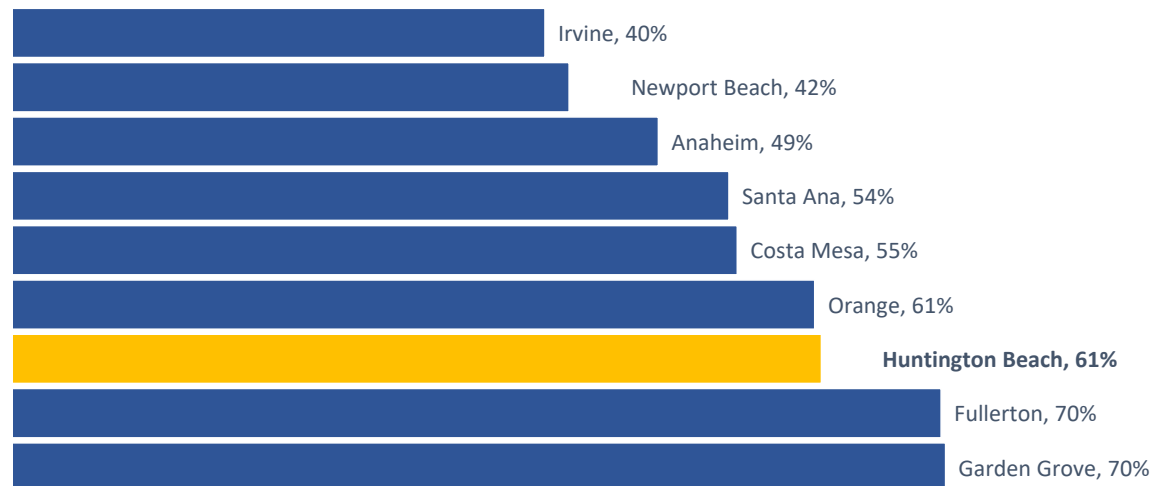
FHI #12 General Fund Public Safety Costs Ratio

This ratio compares the total costs of the General Fund public safety, which includes police and fire, to the total General Fund expenditures. A higher ratio indicates more funds are dedicated to public safety.

5-Year General Fund Public Safety Costs Ratio -
City of Huntington Beach



FY 21-22 General Fund Public Safety Costs Ratio - Comparable Cities



ONGOING CHALLENGES

- Inflationary Costs
- Increased CalPERS Costs
- Increased Workers' Compensation Costs
- Increased General Liability Costs
- Increasing General Fund Reserves
- Capital and Infrastructure Needs



Fiscal Health Summary

- Healthy available General Fund reserves and liquidity maintained at very strong levels during the past several years, including during the COVID-19 pandemic.
- General Fund fund balance equivalent to 34% of FY 2021/22 revenues
- Property tax base provides a stable revenue source with significant amount of untapped assessed valuation
- Diverse sales tax base (no single dominant industry or business)
- AAA Fitch rating maintained since first received in 2014
- Credit rating could lower if City's available General Fund reserves are reduced to weaker levels in the future without a plan to restore balance within two fiscal years.
- Addressing upcoming challenges proactively will determine the future of the City's continued financial health.

Recommended Actions

- Receive and File the FY 2021/22 Annual Comprehensive Financial Report and other auditor issued reports
- Receive and File the Fiscal Health Report
- Approve mid-year budget adjustments to the FY 2022/23 Revised Budget
- Authorize additional Professional Services authority in the Fiscal Year 2022/23 Revised Budget
- Approve and authorize the Mayor and City Clerk to execute “Amendment No. 1 to Agreement between the City of Huntington Beach and CSG Consultants, Inc. for On-Call Building Division Plan Review Services”
- Approve and authorize the Mayor and City Clerk to execute “Amendment No. 1 to Agreement between the City of Huntington Beach and True North Compliance Services, Inc. for On-Call Building Division Plan Review Services”
- Accept, approve and authorize the City Manager to execute the grant agreement with the State of California Energy Commission in the amount of \$80,000

Questions?

