



## **City of Huntington Beach Proposed FY 2023/24 Budget Review**

City Council Study Session  
May 16, 2023

# Presentation Overview

- **FY 2022/23 General Fund Budget Update**
- **Proposed FY 2023/24 General Fund Budget Review**
- **Proposed FY 2023/24 Capital Improvement Budget Review**
- **Key Budget Considerations for FY 2023/24**
- **Next Steps – FY 2023/24 Budget Approval**





# **FY 2022/23 General Fund Budget Update**

# Economic Overview & Local Budgetary Impacts

- **Economic trends indicate a continued economic recovery from the financial impacts of COVID-19, however, the collapse of Silicon Valley Bank and other regional banks are likely to restrict the availability of credit and economists largely expect some form of recession by the end of 2023.**
  - **U.S. Real GDP** increased 3.2% in Q3 2022, 2.6% in Q4 2022 and is expected to slow in Q1 2023 to 1.1%
    - Consumer spending accelerated but was offset by weakness in housing, a decline in inventories, and a contraction in business equipment spending.
  - **Federal Reserve increased rates for the 10<sup>th</sup> time in just over one year**
    - Federal Funds Rate currently at 5-5.25%
    - Chairman Powell has softened language to potentially allow for a pause in rate hikes
    - Yield curve remains significantly inverted
- **As we emerge from the economic impacts of the pandemic, the City is monitoring recent developments in the economy:**
  - Russia/Ukraine Crisis
  - Inflation & Prices
  - Supply Chain Challenges
  - Rising Interest Rates
  - Labor Shortages
- **City is projected to conclude FY 2022/23 with a \$3.8M surplus (subject to change)**



## **Proposed FY 2023/24 General Fund Budget Review**

# FY 2023/24 General Fund Proposed Budget Review

- Proposed FY 2023/24 General Fund Budget is structurally balanced, with a projected \$3.6M surplus

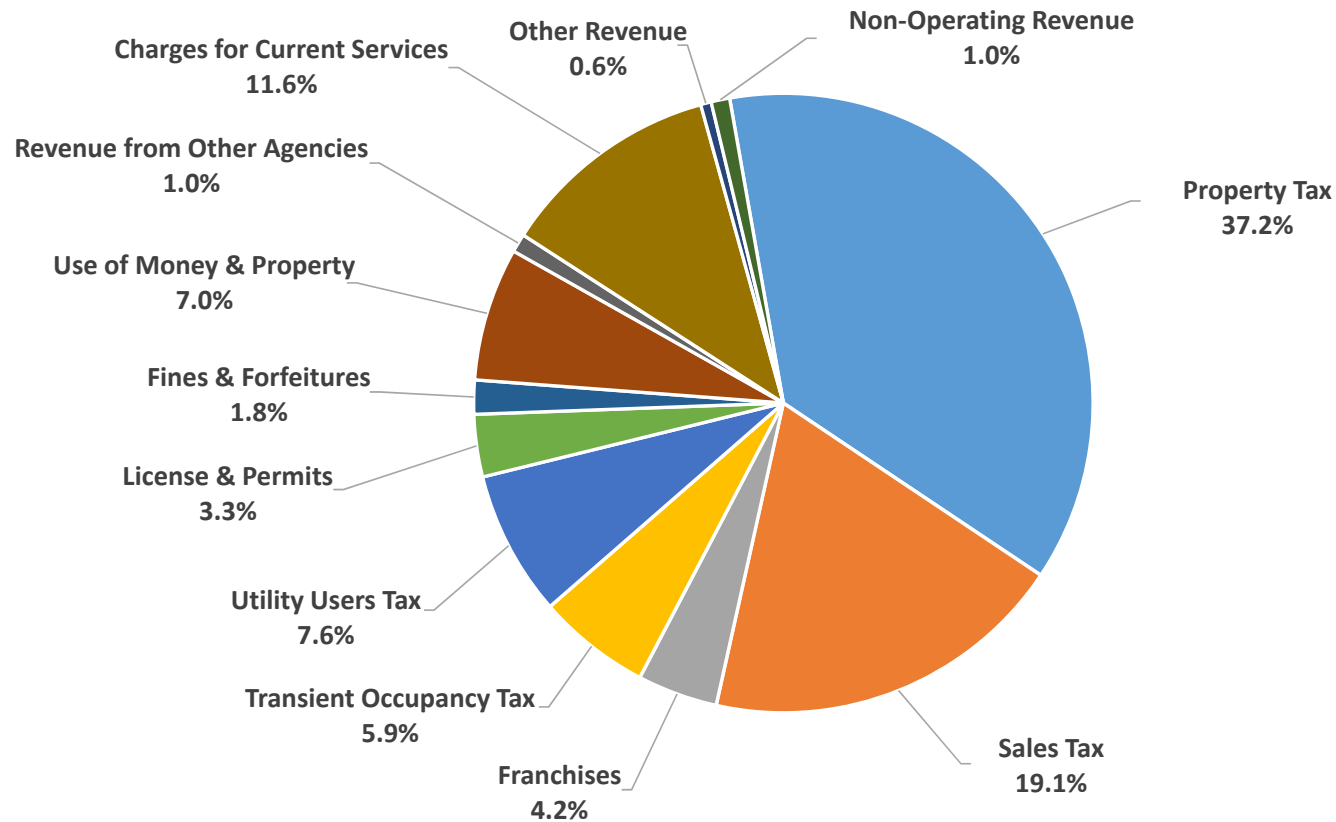
General Fund (Fund 100) (in thousands)	Proposed FY 23/24
Revenues (recurring)	\$278,120
Revenues (one-time) *	2,276
Planned Use of Reserves (one-time)	8,804
<b>Total Sources of Funds</b>	<b>289,200</b>
Personnel Costs	181,585
Operating Costs	55,315
Non-Operating Costs **	48,664
<b>Total Expenditures</b>	<b>285,564</b>
<b>Surplus / (Deficit)</b>	<b>\$3,636</b>

\* GF portion of Emerald Cove settlement, of which 50% is being transferred to the Section 115 Trust and 50% is being transferred to the General Liabilities Fund

\*\* Includes Debt Service, Capital Expenditures, and Transfers

- Continued Infrastructure Investments in FY2023/24**
  - General Fund transfer to the Infrastructure Fund increased by 11% to \$15.0M
  - CIP budget totals \$41.2M (decrease from prior year due to \$12.9M of HB Recovery projects and a \$6.6M grant for Heil Pump Station in FY 2022/23)

## FY 2023/24 General Fund Proposed Revenues - \$280.4M



**General Fund recurring revenues anticipated to increase by \$4.8 million from FY 2022/23**

## **FY 2023/24 General Fund Proposed Revenues - \$280.4M**

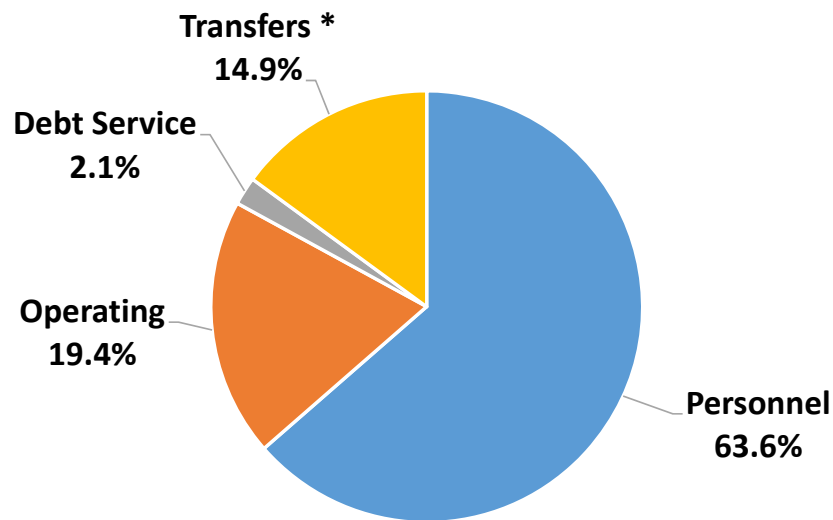
- **Major revenue variances include:**

- **Property Tax:** \$104.2 million (4.3% or \$4.3 million increase)
  - Higher assessed valuations as of January 1, 2023 versus prior fiscal year
- **Transient Occupancy Tax:** \$16.6 million (-5% or \$0.9 million decrease)
  - Expected decrease from current year high, still \$2.6 million higher than pre-COVID revenues
- **Use of Money & Property:** \$19.5 million (11.9% or \$2.1 million increase)
  - Increased parking and lease/concession revenues
- **Non-Operating Revenue:** \$2.7 million (-90.9% or \$27.3 million decrease)
  - FY 22/23 includes one-time transfer of \$29.6 million American Rescue Plan Act funds
  - Partially offset by FY 23/24 one-time revenues of \$2.3 million for Emerald Cove settlement



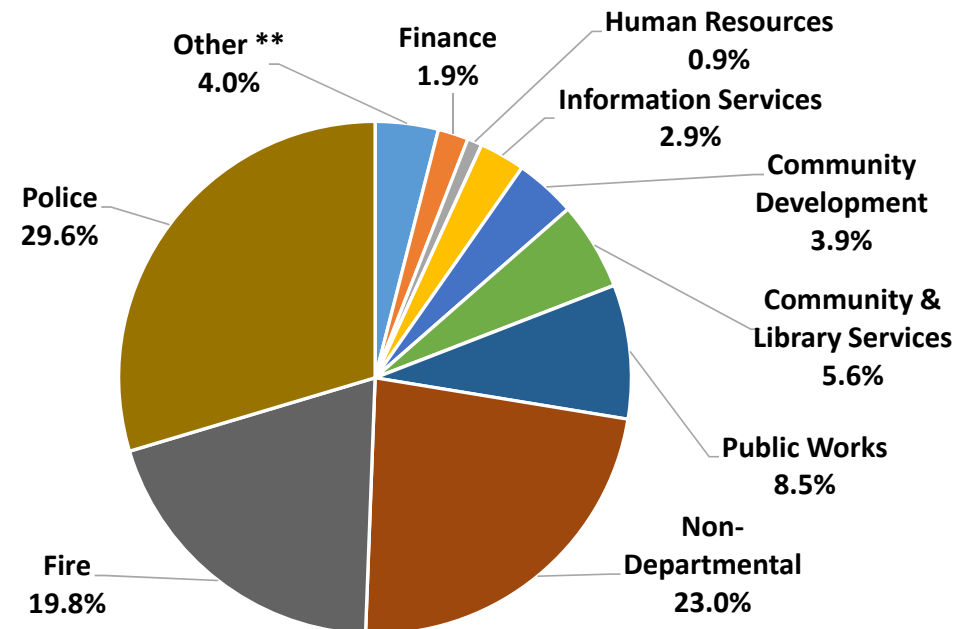
# FY 2023/24 General Fund Proposed Expenditures - \$285.6M

## BY CATEGORY



\* Transfers include Infrastructure, Equipment, General Liability & Section 115 Trust Transfers

## BY DEPARTMENT



\*\* Other includes City Council, City Manager, City Attorney, City Clerk, and City Treasurer

## FY 2023/24 General Fund Proposed Expenditures - \$285.6M

- **Major expenditure variances include:**

- **Personnel:** \$181.6 million (6.2% or \$10.6 million increase)

- Increased Workers' Compensation costs
- Increase to PERS Normal Cost
- Continuing impacts from FY 21/22 MOU updates
- Addition of 11 FTEs (more details on following slide)

- **Transfers Out:** \$42.7 million (-22.7% or \$12.5 million decrease)

- FY 22/23 included transfers of \$18.1 million for authorized HB Recovery Projects
- Partially offset by FY 23/24 transfer of \$2.3 million Emerald Cove settlement and additional Infrastructure and General Liability Fund transfers

# Recommended FY 2023/24 Authorized Positions

- Staff is proposing 11 new General Fund positions in the FY 2023/24 Budget:

## City Attorney's Office

- (1) Deputy Community Prosecutor to support increased caseload
- (2) Senior Deputy City Attorneys (Advisory and Litigation) to assist with increased caseload and demand for services
- (1) Senior Legal Assistant to provide additional support for the City Attorney's Office

## City Clerk Department

- (1) Municipal Records Manager to facilitate centralization of record keeping, including oversight of the Records Division within the City Clerk's Office

## City Manager Department

- (1) Graphic Designer to assist with citywide public information materials in the Office of Communications and the City's Cable "3" Channel
- (1) Multi-Media Officer to oversee operations of the City's Cable "3" Channel, YouTube Channel, and online digital content

# Recommended FY 2023/24 Authorized Positions

- Staff is proposing 11 new General Fund positions in the FY 2023/24 Budget:

## Community Development Department

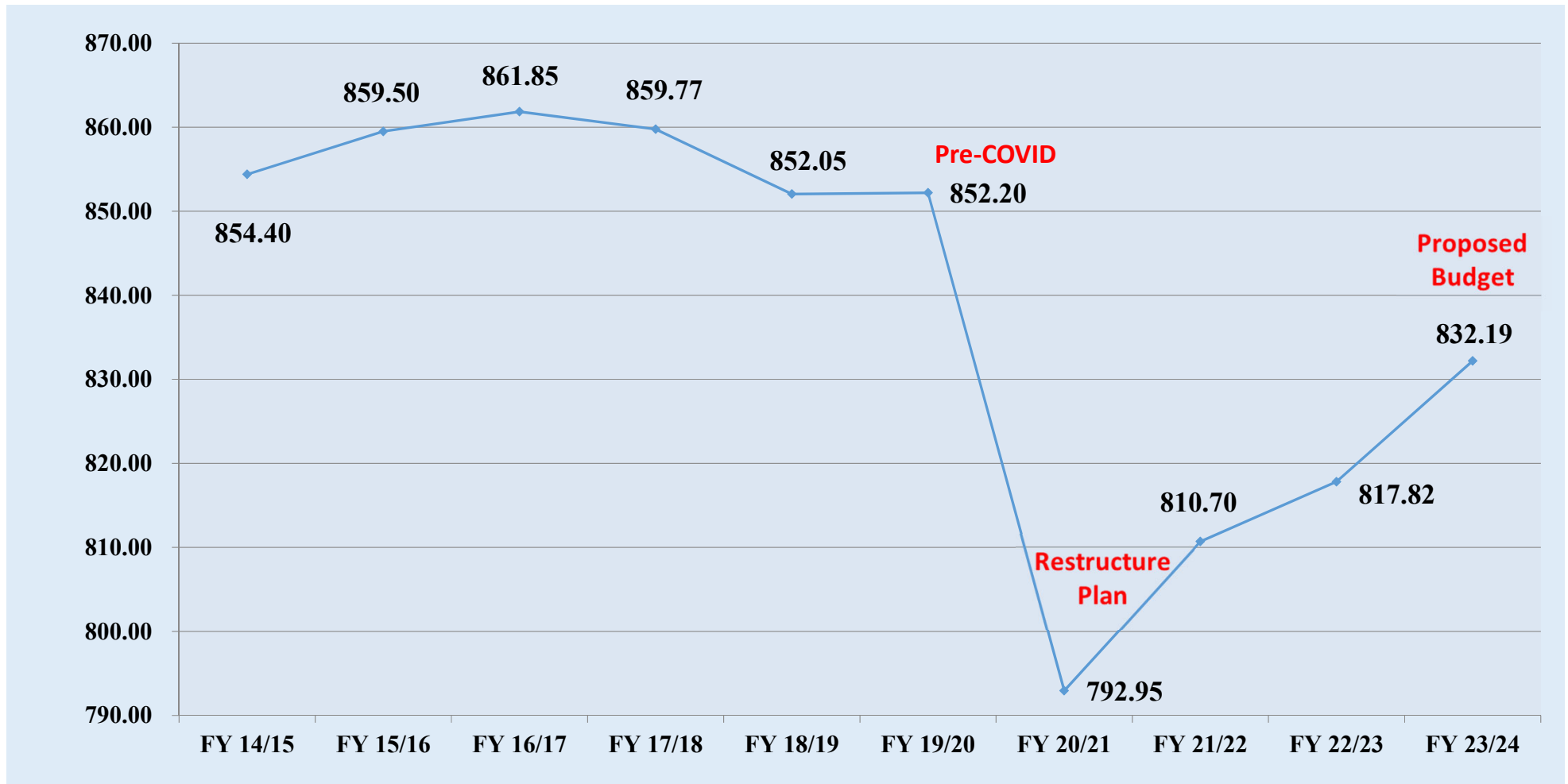
- (2) Combination Inspectors to mitigate backlog and provide more timely inspections
- (1) Plan Check Engineer to meet demand for plan check services and bring part of contracted consulting work in-house – restore eliminated position

## Human Resources

- (1) Human Resources Analyst in the Risk Management Division to support increased workload, mitigate risk and ensure compliance with regulatory requirements



## FY 2023/24 Full Time Equivalent – General Fund



# General Fund Long-Term Financial Plan

## 5.5% CalPERS Return FY22/23

(in thousands)	Actual FY21/22	Projected FY22/23	Proposed FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27
<b>Revenue (Recurring)</b>	\$256,246	\$273,293	\$278,120	\$283,950	\$289,547	\$295,399
Revenue (One-Time)	-	29,607	2,276	-	-	-
Planned Use of Reserves	-	-	8,804	-	-	-
<b>Total Sources of Funds</b>	<b>\$256,246</b>	<b>\$302,900</b>	<b>\$289,200</b>	<b>\$283,950</b>	<b>\$289,547</b>	<b>\$295,399</b>
Expenditures less UAL	234,277	251,031	267,288	265,363	269,122	272,018
CalPERS UAL	4,891	4,891	5,000	5,000	8,540	12,990
POB Payment	13,688	13,556	13,276	13,010	12,750	12,537
One-Time Expenditures	-	18,135	-	-	-	-
<b>Total Expenditures</b>	<b>252,856</b>	<b>287,613</b>	<b>285,564</b>	<b>283,373</b>	<b>290,412</b>	<b>297,545</b>
HB Recovery Reserves	-	(11,472)	-	-	-	-
<b>Surplus/(Deficit)</b>	<b>\$3,390</b>	<b>\$3,815</b>	<b>\$3,636</b>	<b>\$577</b>	<b>(\$865)</b>	<b>(\$2,146)</b>

- Requires use of Section 115 Trust reserves starting in FY 2025/26

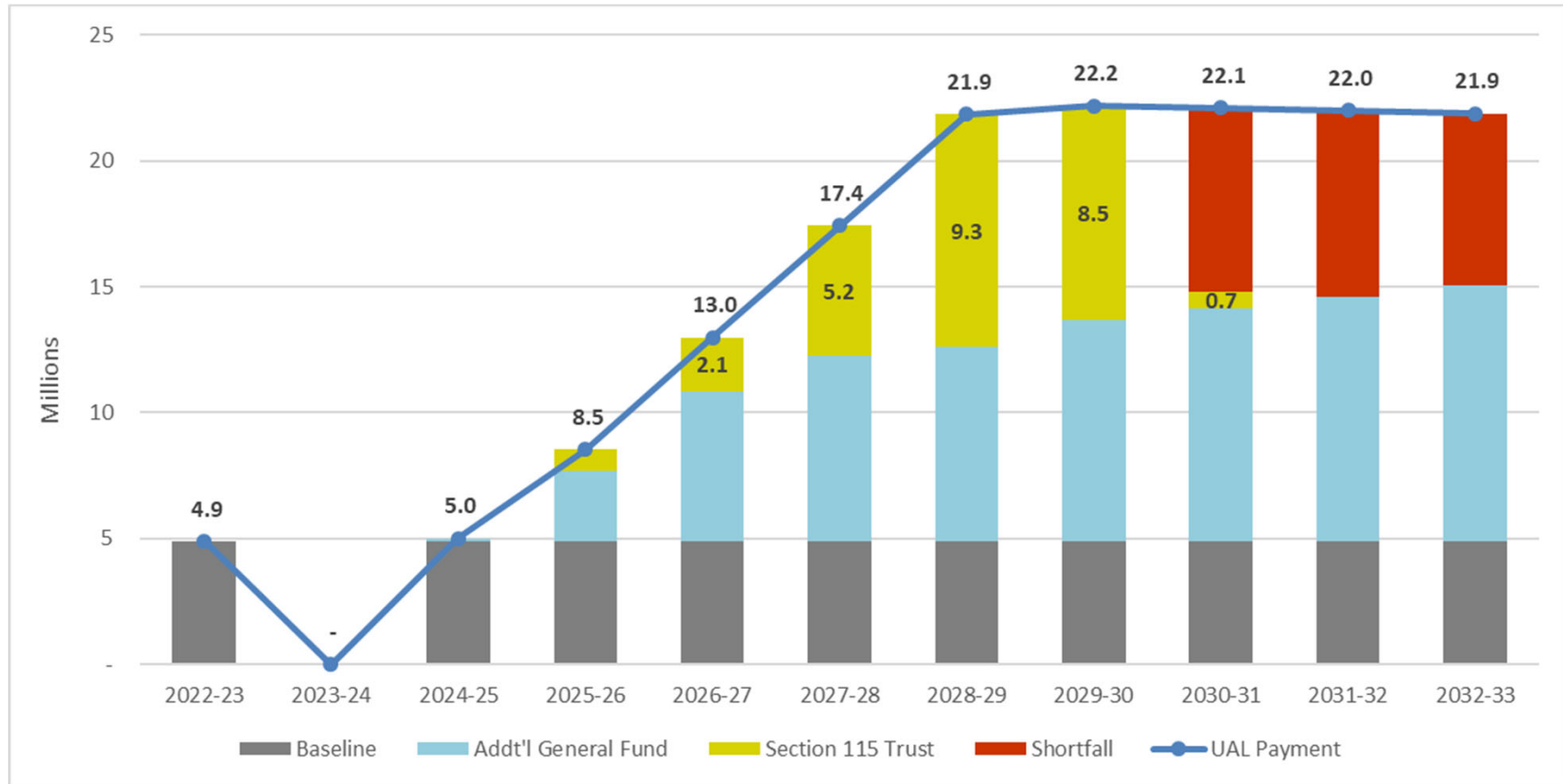
## Pension Update

- CalPERS return in FY 20/21 was 21.3%:
  - ✓ CalPERS Funding level 102.8% vs. 76.7% funded
- CalPERS return in FY 21/22 was -7.5%:
  - ✓ Estimated CalPERS Funding level is 87.9%
- As part of our pension plan, the City also adopted an *Unfunded Accrued Liability Pension Funding Policy*, which mandates that we set-aside additional funds to payoff any new future pension debt
  - A **\$2.6 million** transfer is included in the proposed FY 2023/24 budget to prefund pension liabilities via our 115 Trust
- Projections assume CalPERS earns 5.5% in FY22/23 and 6.8% going forward (CalPERS discount rate)

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 15

# CalPERS UAL Payment Projection



CalPERS UAL Payments based on projected CalPERS 5.5% Return in FY22/23 and 6.8% moving forward



# Fund Balance Policy

- The City desires to maintain a prudent level of reserves based on the revenue impacts described above and the City's desire to maintain strong bond ratings to minimize borrowing costs.
- The Government Finance Officers Association (GFOA) recommends a minimum of two months of operating expenditures be set aside for unforeseen events.
  - Staff is recommending consolidating certain General Fund Assignments into the Economic Uncertainties Reserve in order to meet the two-month reserve requirement.
  - A minimum of 25% of unrestricted one-time revenues would be transferred to the Section 115 Trust.
  - Additionally, staff is recommending strengthening the City's Reserve policy to ensure that funds are set aside systematically and used only when truly necessary and approved by a 6/7<sup>th</sup> vote of City Council.
  - If Economic Uncertainties Funds are utilized and the level falls below the two-month reserve requirement, the Chief Financial Officer will bring forward a proposed plan to City Council to replenish the fund within three fiscal years.
- Cities with robust fiscal reserve policies are more likely to receive improved bond ratings based on higher scores related to financial management policies and improved fund balance reserves.



## **FY 2023/2024 Capital Improvement Program (CIP)**



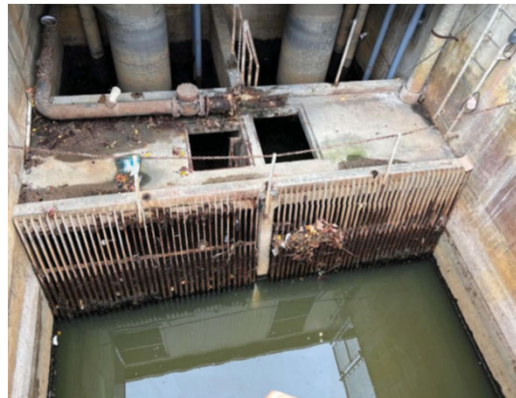
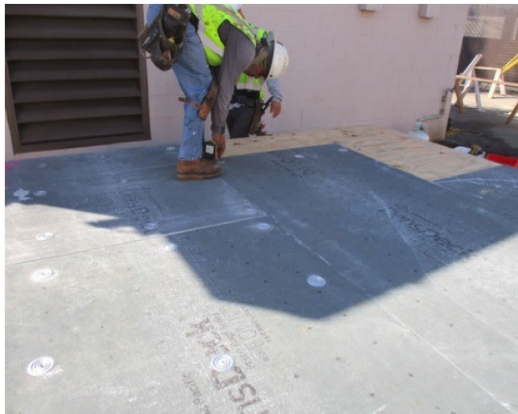
# **FY 2022/23 ACCOMPLISHMENTS**

• Drainage and Stormwater	10 projects	\$15M
• Facilities	20 projects	\$10M
• Neighborhood	5 projects	\$10M
• Parks and Beaches	9 projects	\$6M
• Sewer	7 projects	\$13M
• Streets and Transportation	32 projects	\$26M
• Water	4 projects	\$5M

**STARTED OR COMPLETED 87 OF 94 PROJECTS  
VALUED AT \$85M!**

# DRAINAGE \$1.8M

- Fueling Station Canopies \$500k (INFR FUND)
- Storm Drain PS Building Improvements \$187k (DRAINAGE FUND)
- Storm Drain PS Forebay Improvements \$187k (DRAINAGE FUND)
- Atlanta Storm Drain Trash Removal \$884k (INFR FUND and Grant)



# FACILITIES \$4M

- ADA Improvement Program – Citywide \$250k (INFR FUND)
- Civic Center Hot Water System Replacement (Design) \$50k (INFR FUND)
- Ocean View Estates Roadways and Driveways \$346k (INFR FUND)
- Civic Center – City Treasurer’s and City Clerk’s Office Remodel \$200k (INFR FUND)
- Banning Branch Library Master Plan \$335k (DONATIONS)
- Police Women’s Locker Room \$1.9M (INFR FUND)
- PD Communications Center Remodel \$600k (INFR FUND and SLESF)
- Central Library Lower Level ADA Restrooms \$300k (CDBG)





# NEIGHBORHOOD \$7.4M

- Residential Curb Ramps \$700k (Measure M, INFR FUND, and CDBG)
- Residential Overlay \$6.7M (GAS TAX, INFR FUND, Sewer and Water Fund)



# PARKS AND BEACHES \$2.8M

- Seely Park Playground Improvements \$389k (Park DIF, Donations)
- Trinidad Park Playground Improvements \$197k (Park DIF)
- Softball Field Improvements \$554k (Quimby)
- Surfside-Sunset Beach Nourishment \$410k (INFR FUND)
- Eader Park Parking Lot Resurfacing \$100k (AES)
- Edison Park Reconfiguration \$1.2M (AES)



# **SEWER IMPROVEMENTS \$8.3M**

- Sewer Lift Station Improvements \$5.1M
- Sewer Lining – Various Locations \$1.4M
- Edinger Sewer Murdy Channel to Beach Blvd. \$1.8M





# **STREETS & TRANSPORTATION \$11.8M**

- Arterial Rehabilitation \$5.6M (RMRA, MEAS M)
- AES Complete Street Improvements \$2.6M (AES Funds)
- Oak View Streetscape \$1.2M (INFR FUND)
- Goldenwest Median Turf Replacement \$125k (INFR FUND)
- Bella Terra PD Substation Fiber Optic \$140k (INFR FUND)
- Murdy Fire Station Signal \$345k (TIF)
- Bridge Preventive Maintenance Program \$1M (Prop 42)
- Edinger and Heil Corridors Traffic and Ped Safety Imp. \$826K (HSIP, TIF)



# WATER IMPROVEMENTS \$5M

- Utilities Yard Parking Lot Paving \$200k
- Water Production Building Rehab \$355k
- On Site Gas Generation Wells 5 and 9 \$1M
- WOCWB CP Retrofit of OC-9 \$300k
- Hartlund Water Main Replacement Project \$1.25M
- Well 3A Treatment System for Dissolved Manganese \$1.9M





## **Key Budget Considerations for FY 2023/24**

# City Council Direction and Feedback Requested

- **City Council feedback of the proposed FY 2023/24 Budget is requested, especially as it relates to:**
  - 1) Transfer of \$4.9 million AES Reserve to Fund 1284 for AES CIP Projects
  - 2) Use of \$3.9 million Equipment Replacement Reserve
  - 3) General Fund portion of Emerald Cove Settlement totals \$2.3 million
    - Split 50/50 between Section 115 Trust and General Liabilities Fund
  - 4) Addition of 11 FTEs across various departments
  - 5) Recommended update to the General Fund Fund Balance Policy







## **FY 2023/24 Budget – Next Steps**

# **FY 2023/24 Budget Next Steps**

- **Based on City Council feedback tonight, staff will make requisite adjustments to the proposed FY 2023/24 Budget**
- **Revised budget will be brought back for formal City Council consideration / adoption on June 6th**



# Questions?

