



City of Huntington Beach FY 2023/24 Budget Adoption

City Council Public Hearing
June 6, 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**
- **FY 2023/24 Budget Approval and Key Considerations**





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 10th 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**

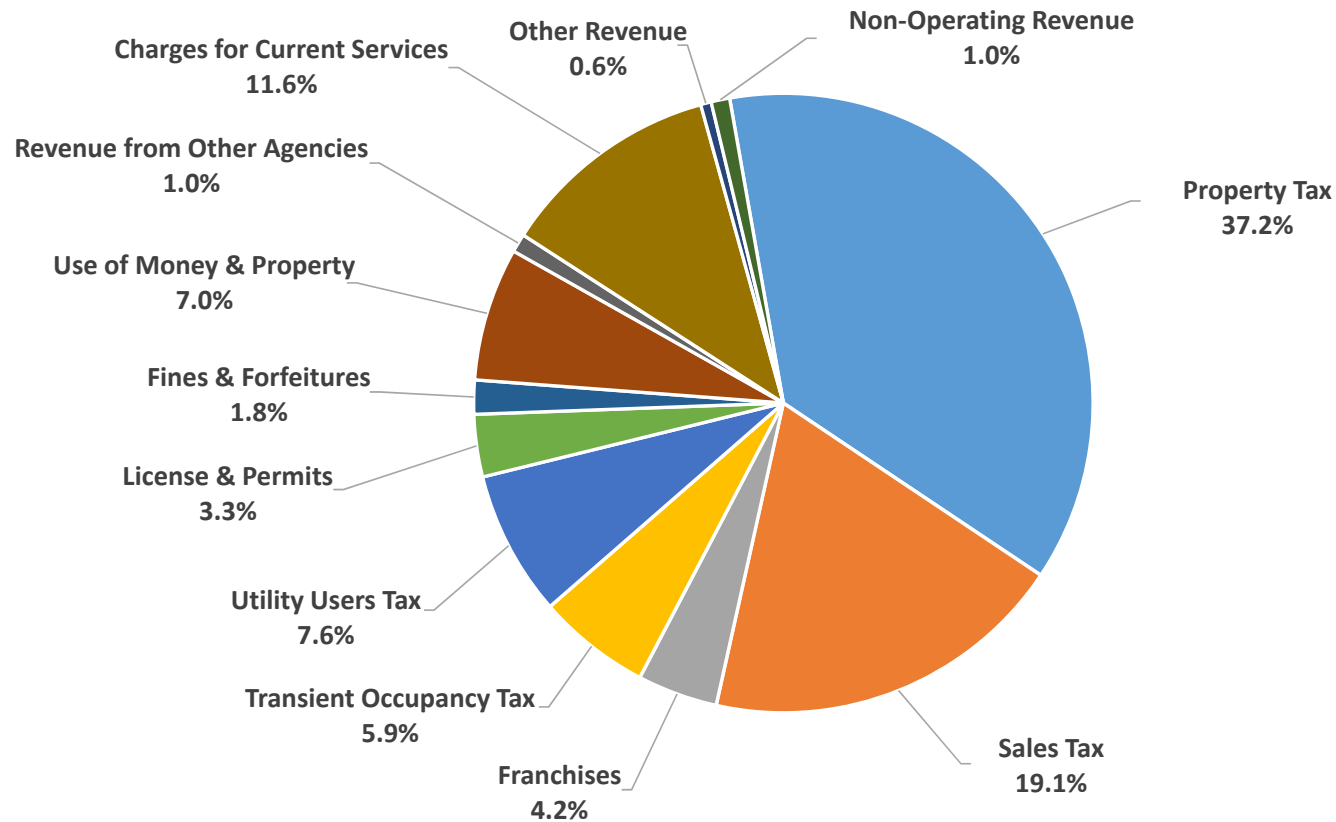
| General Fund (Fund 100) (in thousands) | Proposed FY 23/24 |
|---|------------------------------|
| Revenues (recurring) | \$278,120 |
| Revenues (one-time) * | 2,276 |
| Planned Use of Reserves (one-time) | 8,804 |
| Total Sources of Funds | 289,200 |
| Personnel Costs | 181,585 |
| Operating Costs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

* 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

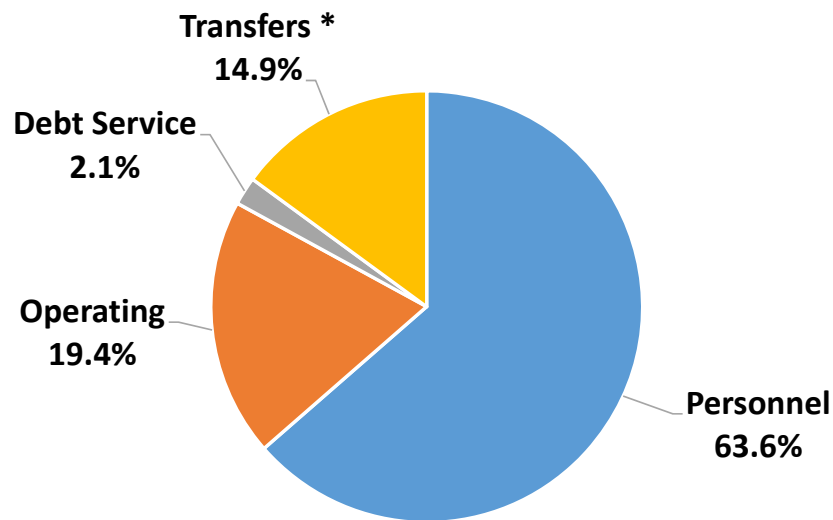
FY 2023/24 General Fund Proposed Revenues - \$280.4M

- **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

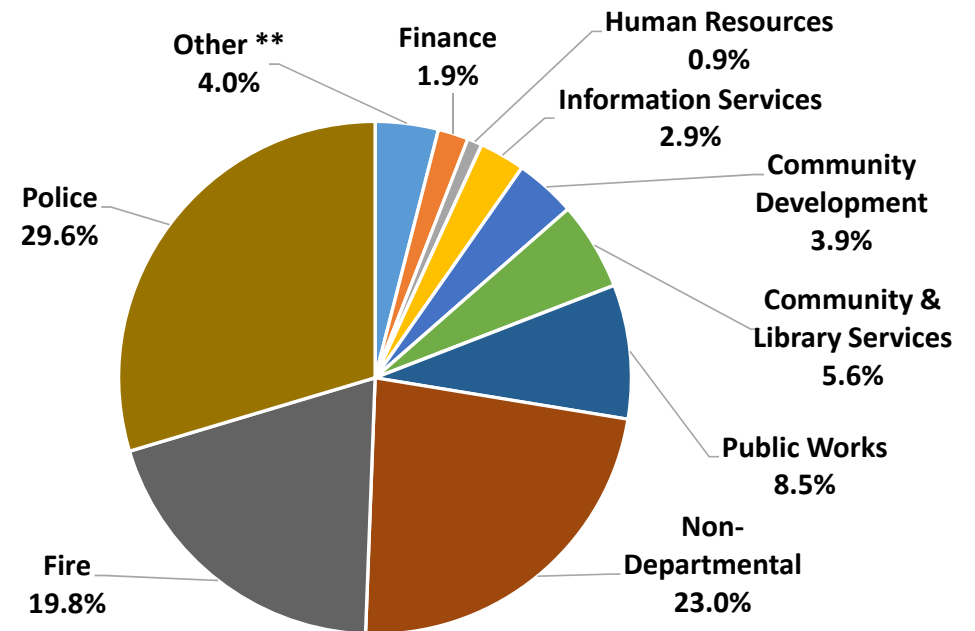
FY 2023/24 General Fund Proposed Expenditures - \$285.6M

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

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

- **Major expenditure variances include:**

- **Planned Use of Reserves (one-time):** \$8.8 million

- Appropriation and transfer of the full balance of the AES Reserve (\$4.9 million) to the AES Mitigation Fund for various Capital Improvement Projects as outlined in the Memorandum of Understanding between the City and AES Southland Development LLC
- Appropriation and transfer of \$3.9 million from the Equipment Replacement Reserve to the Equipment Replacement Fund for the purchase of critical infrastructure and public safety vehicles and equipment



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 (**\$162K**)
- (2) Senior Deputy City Attorneys (Advisory and Litigation) to assist with increased caseload and demand for services (**\$408K**)
- (1) Senior Legal Assistant to provide additional support for the City Attorney's Office (**\$117K**)

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 (**\$149K**)



Recommended FY 2023/24 Authorized Positions

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

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 (**\$94K**)
- (1) Multi-Media Officer to oversee operations of the City's Cable "3" Channel, YouTube Channel, livestreaming, and all digital content (**\$175K**)
- Adding the two positions and bringing a portion of the contracted services in-house results in a cost increase of \$43,870, while allowing for a more nimble and responsive Office that is more capable of meeting the City's goals of keeping our community informed.

| | FY 2022/23 | FY 2023/24 | FY 2023/24 <i>(\$100K - Expanded SOW including the Mayor's Initiatives)</i> |
|--------------------------------------|------------------|------------------|--|
| Prof Contract Services - PIO | \$85,000 | \$101,750 | \$201,750 |
| Prof Contract Services - HBTv | 370,000 | 128,250 | 128,250 |
| Personnel Cost - Graphic Designer | | 93,805 | 93,805 |
| Personnel Cost - Multi-Media Officer | | 175,065 | 175,065 |
| Total | \$455,000 | \$498,870 | \$598,870 |

Recommended FY 2023/24 Authorized Positions

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

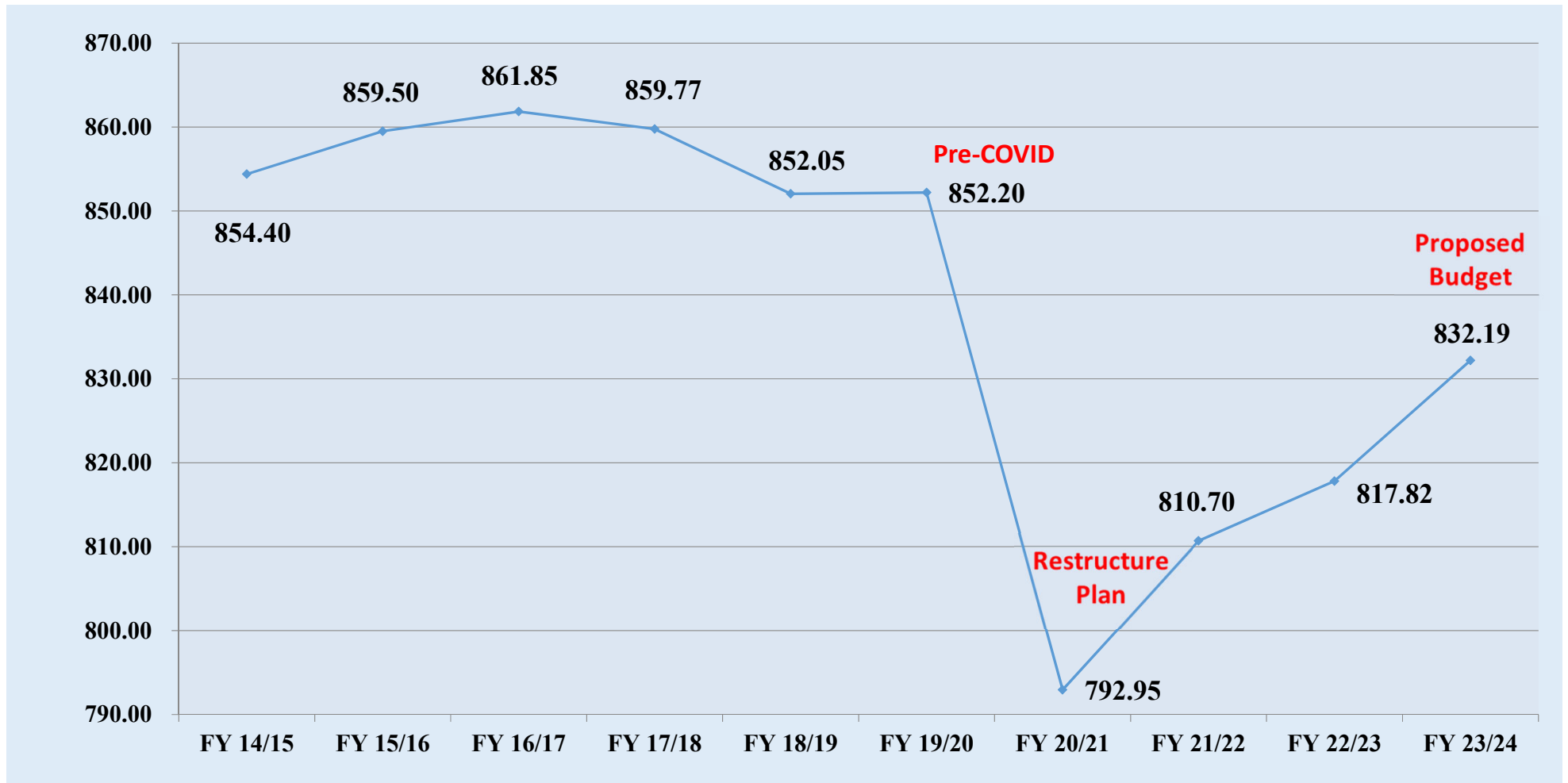
Community Development Department

- (2) Combination Inspectors (**\$231K**) to mitigate backlog, provide more timely inspections, and bring part of contracted consulting work in-house, resulting in annual savings of \$132,978
- (1) Plan Check Engineer (**\$158K**) to meet demand for plan check services and bring part of contracted consulting work in-house, resulting in annual savings of \$79,424
- Requested positions will minimize reliance on consultants to meet base level demand for services, while saving a total of \$212,402 annually
- Consultants will still be utilized to meet requests for services above base levels and maintain service levels during cyclical peaks

Human Resources

- (1) Human Resources Analyst in the Risk Management Division to support increased workload, mitigate risk and ensure compliance with regulatory requirements (**\$118K**)

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 |
|-------------------------------|-------------------|----------------------|---------------------|----------------------|----------------------|----------------------|
| Revenue (Recurring) | \$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 | - | - | - |
| Total Sources of Funds | \$256,246 | \$302,900 | \$289,200 | \$283,950 | \$289,547 | \$295,399 |
| 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 | - | - | - | - |
| Total Expenditures | 252,856 | 287,613 | 285,564 | 283,373 | 290,412 | 297,545 |
| HB Recovery Reserves | - | (11,472) | - | - | - | - |
| Surplus/(Deficit) | \$3,390 | \$3,815 | \$3,636 | \$577 | (\$865) | (\$2,146) |

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

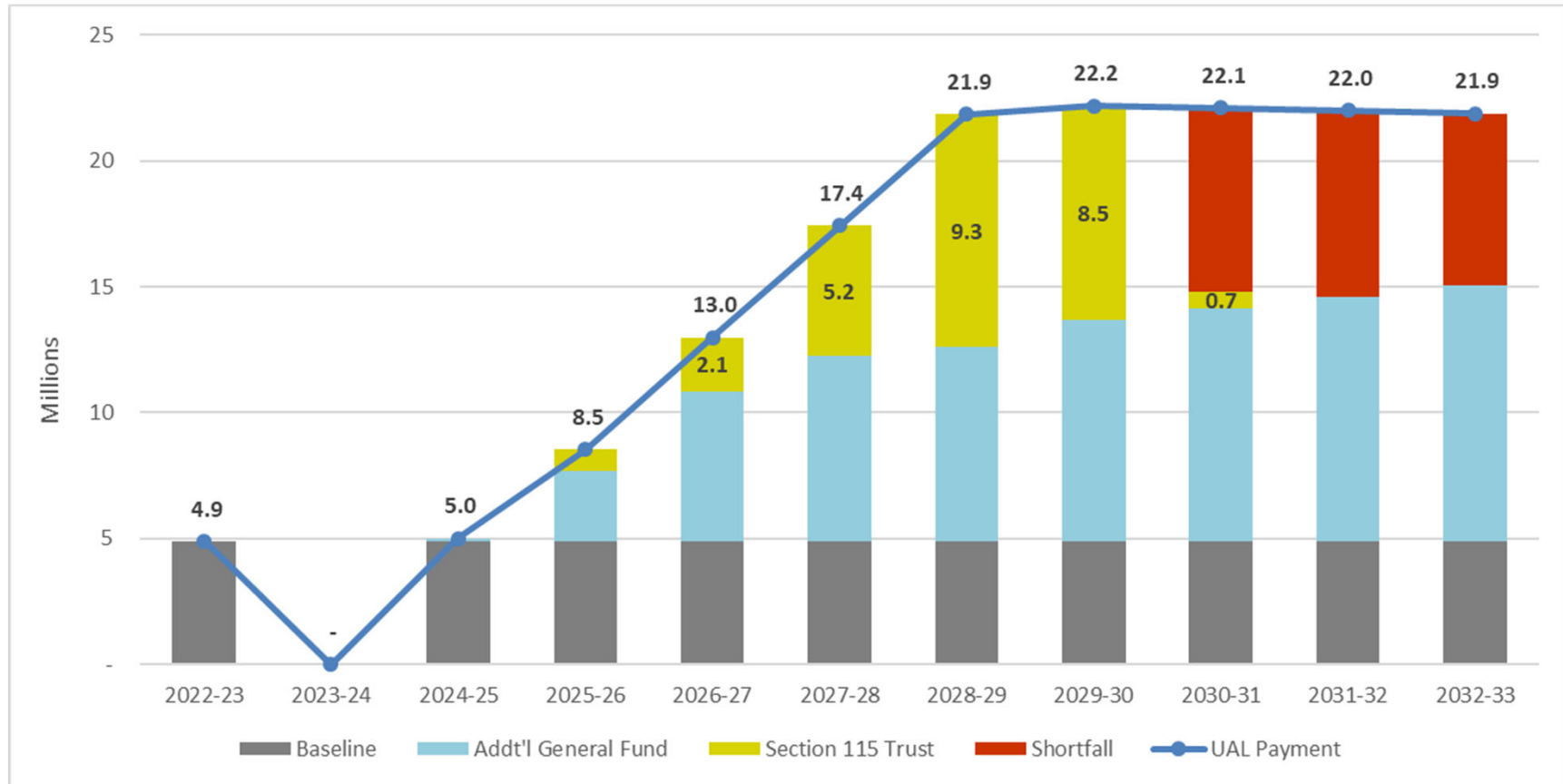
Pension Update

- 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 17

CalPERS UAL Payment Projection



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

General Fund Reserve 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.

| Balance as of June 30, 2022 (in thousands) | |
|---|------------------|
| Cityview Replacement | \$ 1,028 |
| Triple Flip | 109 |
| Strategic Initiatives | 16,536 |
| Housing Agreement | 1,657 |
| Year-End Fair Value | 1,983 |
| Total Recommended for Consolidation | 21,313 |
| Economic Uncertainties Reserve | 26,114 |
| Economic Uncertainties Reserve (revised) | \$ 47,427 |
| Two-Month Reserve Requirement | \$ 47,215 |

General Fund Reserve Policy (continued)

- Additional adjustments to the General Fund Reserve Policy are listed as follows:
 - A minimum of 25% of unrestricted one-time revenues to 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 6/7th 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 2023/24 CIP BUDGET

- **CIP Budget Totals \$41.2 M (\$25M 3 years ago)**

- Drainage \$1.8M
- Facilities \$4.0M
- Neighborhood \$7.4M
- Parks and Beaches \$2.9M
- Sewer \$8.3M
- Streets and Transportation \$11.8M
- Water \$5.0M

- **Residential Paving Cycle (9-year vs. 12-year)**

- To achieve a balanced budget staff reviewed the cost/benefit of the two cycles
- Staff recommends a 12-year cycle for the following reasons:
 - 9-year cycle costs an additional \$2.5 million annually, or \$22.5M (current pricing) over the 9 years
 - Over 7 years the Pavement Classification Index (PCI) would only increase by 1 point (83.4 to 84.4), and both scores are in the “good” condition rating



FY 2023/24 Key Budget Components and Approval Requested

City Council Approval Requested

- **City Council approval of the Proposed FY 2023/24 Budget is requested**
- **Key budget components include:**
 - 1) Structurally balanced spending plan, with a projected \$3.6 million surplus
 - 2) Transfer of \$4.9 million AES Reserve to Fund 1284 for AES CIP Projects
 - 3) Use of \$3.9 million Equipment Replacement Reserve
 - 4) General Fund portion of Emerald Cove Settlement (\$2.3 million) split 50/50 between Section 115 Trust and General Liabilities Fund
 - 5) Addition of 11 FTEs across various departments



City Council Approval Requested

- **City Council approval of the Proposed FY 2023/24 Budget is requested**
- **Key budget components include:**
 - 6) Continued investment in infrastructure
 - General Fund transfer to the Infrastructure Fund increased by 11% to \$15 million
 - CIP budget totals \$41.2 million
 - 7) Revert back to a 12-year paving cycle to achieve a balanced budget
 - 8) Recommended update to the General Fund Reserve Policy and consolidation of certain General Fund assignments to the Economic Uncertainties Reserve
 - 9) Approve Amendment No. 2 to the professional services contract with Mind OC for the Be Well HB mobile crisis response program
 - 10) Approve the professional services contract with National Council for Community Development (NDC) for technical assistance services

Questions?

