

City of Huntington Beach

FISCAL YEAR 2019/20 PROPOSED BUDGET

“Shaping the Future”



May 6, 2019

Presented by the Finance Department

FY 2019/20 Proposed Budget Overview

- ❑ FY 2019/20 Proposed Budget Highlights
- ❑ General Fund Overview
- ❑ CIP and Infrastructure Budget Summary
- ❑ Long-Term Financial Outlook
- ❑ FY 2019/20 Budget Calendar



"Shaping the Future"

The FY 2019/20 Proposed Budget Highlights:

- ❑ Minor General Fund Budget Changes
- ❑ Flat Citywide Head Count from FY 2018/19 Revised
- ❑ Committing 55% of Budget to Public Safety
- ❑ Dedicating 15% of the General Fund to Infrastructure
- ❑ Being Proactive by Preparing for Rising Pension Costs

FY 2019/20 Proposed Budget

- ❑ The FY 2019/20 Proposed All Funds Budget totals \$381.2 million, a \$8.1 million, or 2.2% increase from the FY 2018/19 Adopted Budget
 - ✓ \$3.0 million increase Park Development Impact Fee Fund
 - ✓ \$1.3 million increase Sewer Service Fund
 - ✓ \$605,000 increase in newly established restricted Surf City “3” Cable Channel Fund
- ❑ The FY 2019/20 Proposed General Fund Budget totals \$231.8 million, a \$3.5 million, or 1.5% increase from the FY 2018/19 Adopted Budget

FY 2019/20 General Fund Highlights

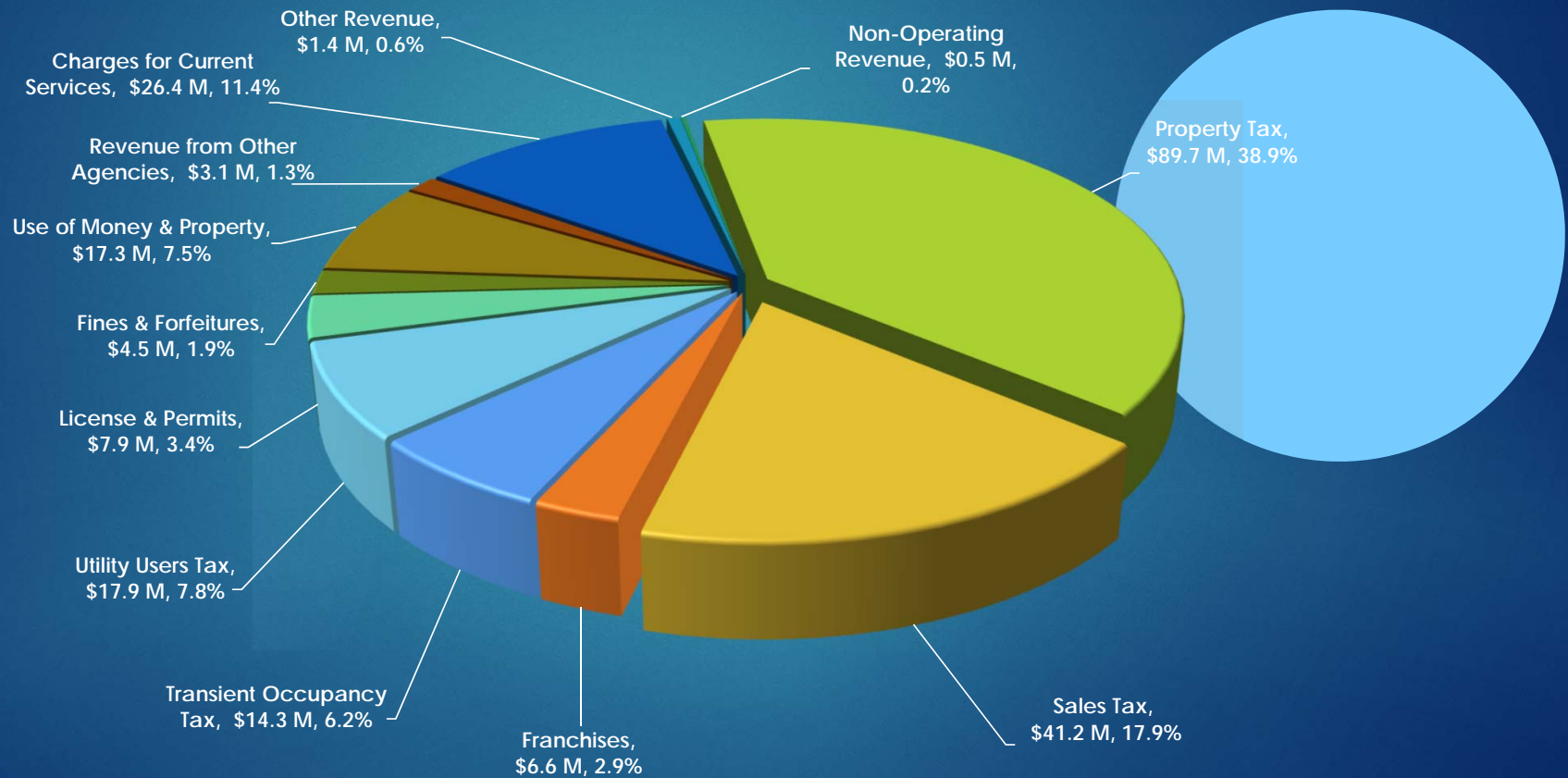
Description	FY 2018/19 Adopted Budget (in millions)	FY 2019/20 Proposed Budget (in millions)	% Change
Recurring Revenues	\$226.2	\$230.8	2.1%
Use of Reserves	2.2	1.0	
Total Budget	228.4	231.8	1.5%
General Fund Expenses	228.4	231.8	1.5%
Surplus/(Deficit)	\$0.0	\$0.0	0.0%

FY 2019/20 General Fund Overview

- ❑ Structurally Balanced General Fund Budget for FY 2019/20
- ❑ Proposed Budget includes targeted budget reductions
- ❑ A vacancy factor is built into department budgets for the first time, historically in Non-Departmental budget
- ❑ A modest General Fund revenue increase of 2.1% is projected
- ❑ Essentially flat Citywide headcount from FY 2018/19
- ❑ Equipment replacement funding totals \$4.7 million
- ❑ The 15% Charter requirement for Infrastructure is met
- ❑ Strong financial and emergency reserves
- ❑ Proposed Budget includes \$1 million contribution to Section 115 Trust from prior year

FY 2019/20 General Fund Revenue

\$230.8 Million



General Fund Revenue Highlights



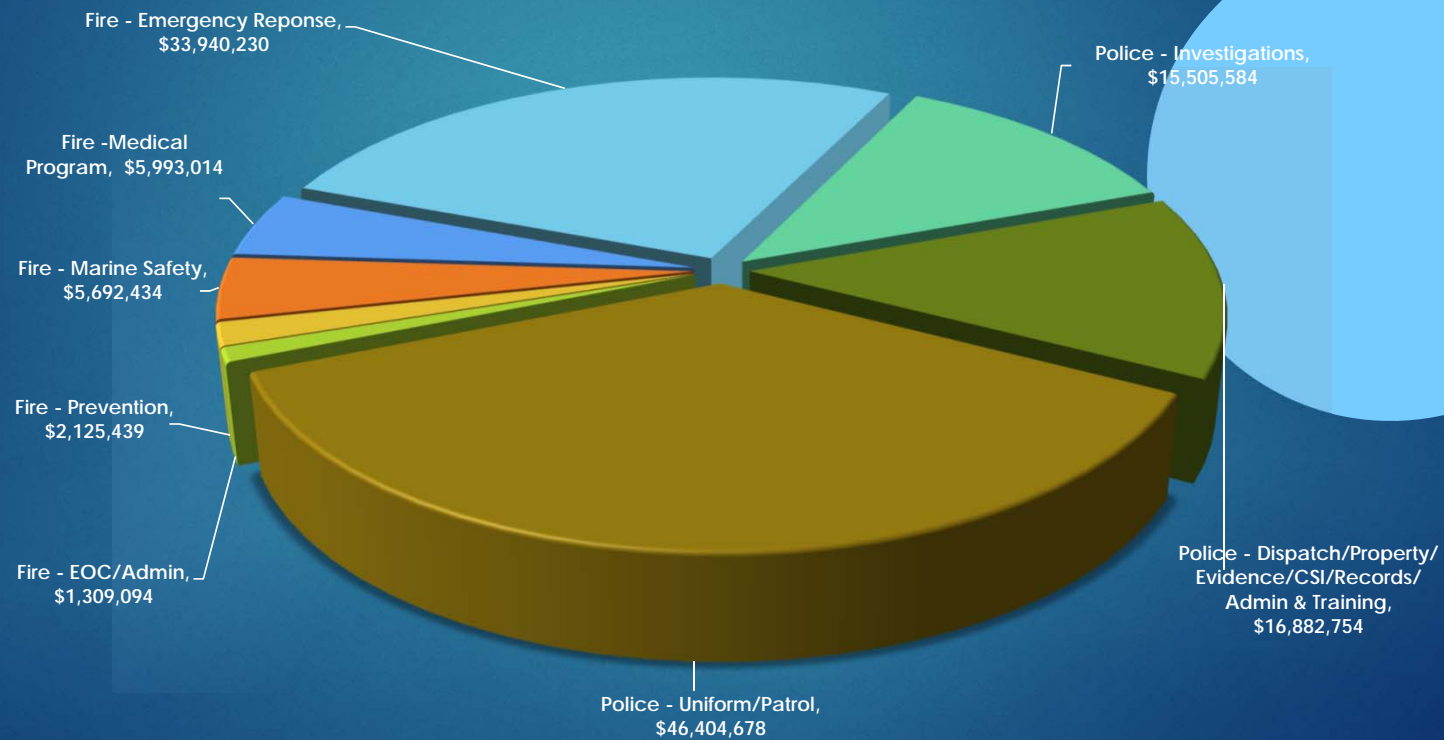
- ❑ Total General Fund projected revenue is \$230.8 million, reflecting a 2.1% increase from the current year
- ❑ Property Tax growth is projected increase \$3.8 million
- ❑ Transient Occupancy Tax is projected to grow by \$856,000
- ❑ Sales Tax is estimated to decrease by \$1.8 million
- ❑ Licenses and permits are estimated to increase by \$264,000
- ❑ Utility Users' Tax revenue is projected to decrease by \$454,000

Enhance & Modernize Public Safety Service Delivery



Public Safety

Police and Fire = 55% of General Fund



Public Safety – Police

Police Department	Amount
PD Staffing Reorganization	432,830
New: False Alarm Contract	60,000
Equipment Replacement – Aircraft Upgrade and 26 Fleet Vehicles*	1,397,477
PD Building Renovation (possible bond financing)	TBD
Total	\$1,890,307

*Included in annual Equipment Replacement in Non-Departmental; not an increase to Department's Budget.

Public Safety – Fire

Fire Department	Amount
Metro Cities JPA	140,000
Junior Lifeguard: All-Day Jr Lifeguard Option & Sand Crab Program	55,000
Equipment Replacement – Ambulance and Fire Engine lease, Lifeguard Tower Replacement, 2 All-Terrain Vehicles (ATVs), and 3 Fleet Vehicles*	669,940
Lake Fire Station Renovation*	1,500,000
Total	\$2,364,940

*Included in annual Equipment Replacement and CIP Budgets in Non-Departmental; not an increase to Department's Budget.

Strengthen Long-Term Financial and Economic Sustainability



General Fund Balance

(In Thousands)

Fund Balance Category	FY 16/17 Audited	FY 17/18 Audited	FY 18/19 Estimate	FY 19/20 Estimate
Economic Uncertainties	25,011	25,011	25,011	25,011
Equipment Replacement	8,295	8,295	8,295	8,295
Redevelopment Dissolution	1,080	1,080	0	0
General Plan Maintenance	380	439	439	439
General Liability Plan Mitigation		2,801	2,801	2,801
Capital Improvement Reserve (CIR)	8,046	8,046	8,046	8,046
Senior Center Debt Service	2,000	2,000	2,000	2,000
CalPERS Rate Increase	1,637	1,637	1,637	1,637
Cityview Replacement	1,028	1,028	1,028	1,028
Sand Replenishment and Park Improvement	200	200	200	200
Strategic Planning Initiatives	558	558	558	558
Section 115 Trust	500	1,500	1,500	1,500
Triple Flip	2,118	1,759	1,759	1,759
Police Facility Enhancements	2,000	2,000		
Other Fund Balance	8,327	3,121	4,650	4,650
Unassigned		2,734	2,734	1,734
Total Fund Balance	61,180	62,209	60,658	59,658
Section 115 Trust Bank Balance		4,896	6,000	7,000
Total, with GASB Statement 73 Implementation		67,105	66,658	66,658

Rising Pension Costs and What We Are Doing About It

- ✓ The “25 to 10” Plan implemented in FY 2013/14 will payoff the unfunded liability for the Retiree Medical Plan in 10 years and save taxpayers \$7 million
- ✓ The “16 to 10” Plan was implemented in FY 2013/14 to payoff the unfunded liability for the Supplemental Retirement Plan in 10 years saving taxpayers \$9 million
- ✓ The “One Equals Five” plan added in FY 2014/15 contributes \$1 million extra per year to reduce pension liabilities, potentially saving taxpayers \$54 million
- ✓ The “One Equals Five” is funded in the 2019/20 Proposed Budget through a one-time deposit in the Section 115 Trust

Active Management of Long-Term Liabilities

(as of 6/30/18)

Type of Liability	Amount* (000)	% Funded	Plan to Eliminate Liability	Timeline
CalPERS (Safety)	256,807	64.8 %	"1=5" Plan	20 years
CalPERS (Misc)	<u>163,278</u>	<u>70.7%</u>	Standard PERS Plan	24 years
Subtotal	420,085	67.3%		
Retiree Medical (Safety)	8,803	63.0%	"25 to 10" Plan	4 years
Retiree Medical (Misc)	-	100.0%	COMPLETE	DONE
Retiree Supplemental	3,660	94.4%	"16 to 10" Plan	2 years
TOTAL	432,548			

**Net Pension and/or Unfunded Liability amounts are not constant and are subject to annual change for market conditions, demographics and actuarial methodology. The Net Pension Liability is based on CalPERS' GASB 68 actuarial valuations as of June 30, 2017.*

Pension Costs and Unfunded Liabilities

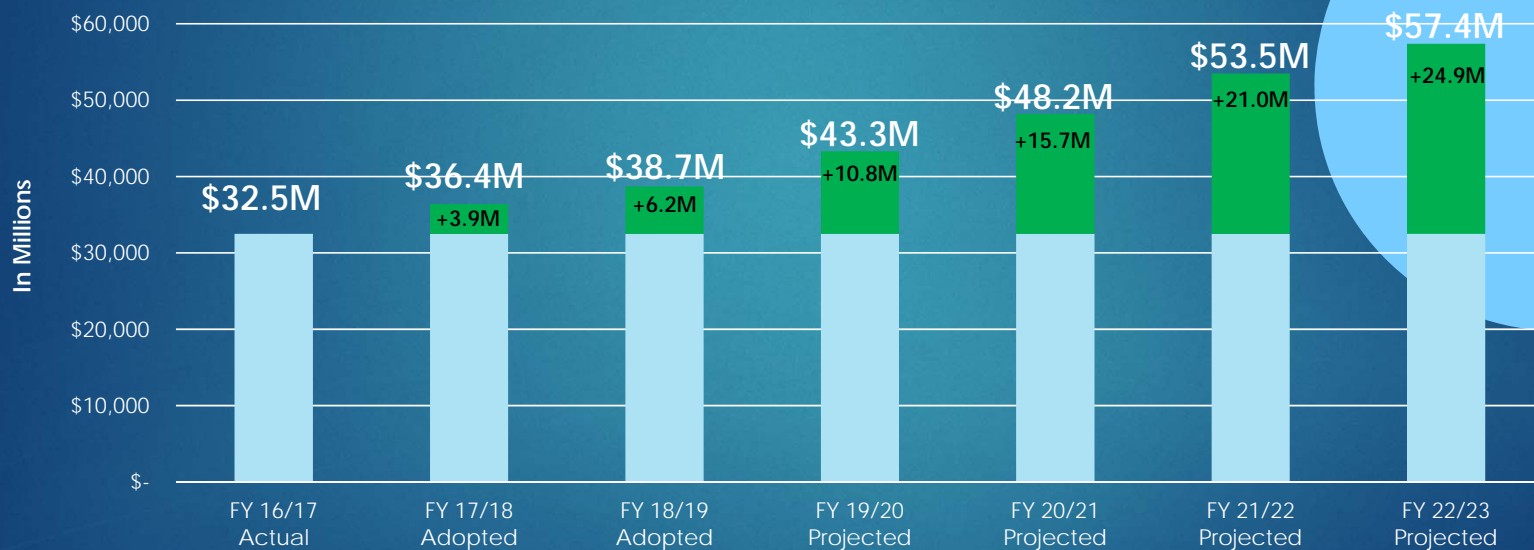


CalPERS Discount Rate Change

- ❑ The CalPERS discount rate phase in
 - FY 2017/2018: 7.375%
 - FY 2018/2019: 7.25%
 - FY 2019/2020: 7.00%
- ❑ Results in higher retirement costs
- ❑ CalPERS investment earnings through Dec. 31 = -3.5%
- ❑ The City has taken fiscally responsible measures to help manage these costs:
 - ❑ Changing fiscal year to a July-June period to participate in the CalPERS pre-payment option, saving an estimated \$1 million in UL costs per year
 - ❑ Section 115 Trust

Rising Pension Costs (All Funds)

CalPERS Discount Rate Fiscal Impact Cumulative Estimated Increase thru FY 2022/23



*Reflect Prepayment Discount \$1 million/year

■ Cumulative \$ Increase from FY 16/17

Being Proactive Pays Off

- ❑ The City began pre-paying its unfunded liabilities in some of its plans as early as five years ago (FY 2012/13).
- ❑ Four years ago, in FY 2013/14, the City created formal plans.
- ❑ Those plans have improved the funded status of two of the City's three retiree benefit plans considerably.
- ❑ As a result, the unfunded liability for the Retiree Medical-Miscellaneous Plan has been paid off.
- ❑ In FY 2015/16 the City created a new Section 115 Trust, total contributions to date = \$5.5 million.
- ❑ The City's long-term planning placed Huntington Beach in a much better position than many other cities to manage rising pensions costs.

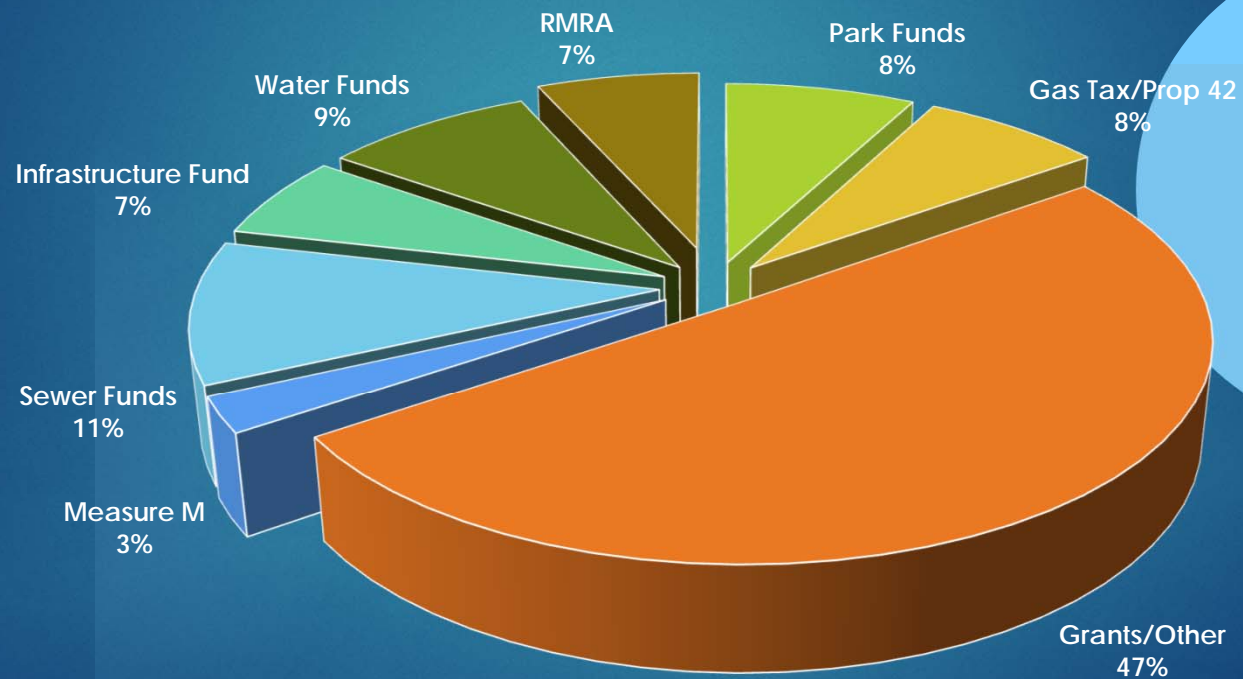
Enhance and Maintain Infrastructure



Capital Improvement Program

(All Funds)

\$46,651,156



CIP Budget Highlights

- ❑ Street and Neighborhood Rehabilitation Projects
 - Arterial Rehabilitation (\$5,054,156)
 - Neighborhood Street Improvements (\$3,900,000)
 - Concrete Replacement (\$250,000)
- ❑ Park Improvements
 - Murdy & Edison Community Centers (\$2,000,000)
 - Central Park Restrooms & Park Improvements (\$840,000)
 - Bartlett Park and Lake Park Improvements (\$950,000)
 - Playground Equipment Improvements (\$580,000)
- ❑ Facilities Improvements
 - Fiber Expansion Program (\$765,000)
 - Central Library, City Hall, and Plants, Trees & Landscape Maintenance Yard (\$535,000)

Infrastructure

- ❑ Section 617 of the Charter requires that the City spend 15 percent of General Fund revenue on infrastructure
- ❑ This calculation is based on a 5-year rolling average
- ❑ The FY 2019/20 Capital Improvement Project (CIP) Budget exceeds the 15% Infrastructure requirement
- ❑ The Infrastructure Fund contains \$3.1 in spending for infrastructure improvements and maintenance
- ❑ Included in this amount is \$1.6 million in new capital projects for concrete, arterial rehabilitation, and various park improvements projects
- ❑ Roadway projects help maintain/reach a PCI of 80 or “Good”

Other Budget Matters



Enhance and Maintain High Quality City Services – Succession Planning

- ▶ Goals:
- ▶ Create a proactive plan
- ▶ Utilize 'best practices'
- ▶ Streamline organizational functions
- ▶ Optimize department structures through attrition
- ▶ Net neutral budget costs
- ▶ No increases in Table of Organization
- ▶ Multi-phased approach
- ▶ Limited Departmental Impact for FY 19/20:
- ▶ City Attorney
- ▶ City Manager
- ▶ Community Development
- ▶ Finance
- ▶ Public Works

Enhance and Maintain High Quality City Services – Succession Planning



- ▶ Steps:
- ▶ Update and Finalize Department Re-Organization Plans
- ▶ Meet and Confer with Impacted Association(s)
- ▶ Finalize New and Updated Classifications
- ▶ Validate Net Neutral Department Financial Impacts
- ▶ Update Tables of Organization & Confirm Net Zero Position Budget Exchanges
- ▶ Present to Personnel Commission and/or City Council
- ▶ Implement Following City Council Approval

Navigation Center



Estimated ongoing costs = \$1,300,000

❑ Recommended Sources of Funds 2019/20

- Police Facility Improvements – delay first debt service payment to beginning of FY 2020/21
- Residual Receipts Fund

❑ Potential Ongoing Sources of Funds 2020/21

- Homeless Emergency Aid Program (HEAP)
- SB 2 Funds
- Other Grants

Labor Agreements

- ❑ No base wage increases since 2016
- ❑ Cities that have implemented wage increases of 2% or more in 2018 or 2019:
 - Anaheim, Brea, Costa Mesa, Fountain Valley, Fullerton, Irvine, Laguna Beach, Newport Beach, Santa Ana, Tustin, Westminster

FY 2019/20 Proposed Budget Recap

- ❑ The FY 2019/20 Proposed Budget theme “Shaping the Future” wherein we need to align our resources to meet future challenges
- ❑ FY 2019/20 Proposed Budget provides majority of funding for public safety
- ❑ Funds infrastructure improvements to roadways, parks, facilities and other capital assets
- ❑ Rising CalPERS costs will continue to strain annual budgets
- ❑ The City will continue to take a fiscally conservative, long-range approach to budgeting

FY 2019/20 Proposed Budget Calendar



FY 2018/19 PROPOSED BUDGET

