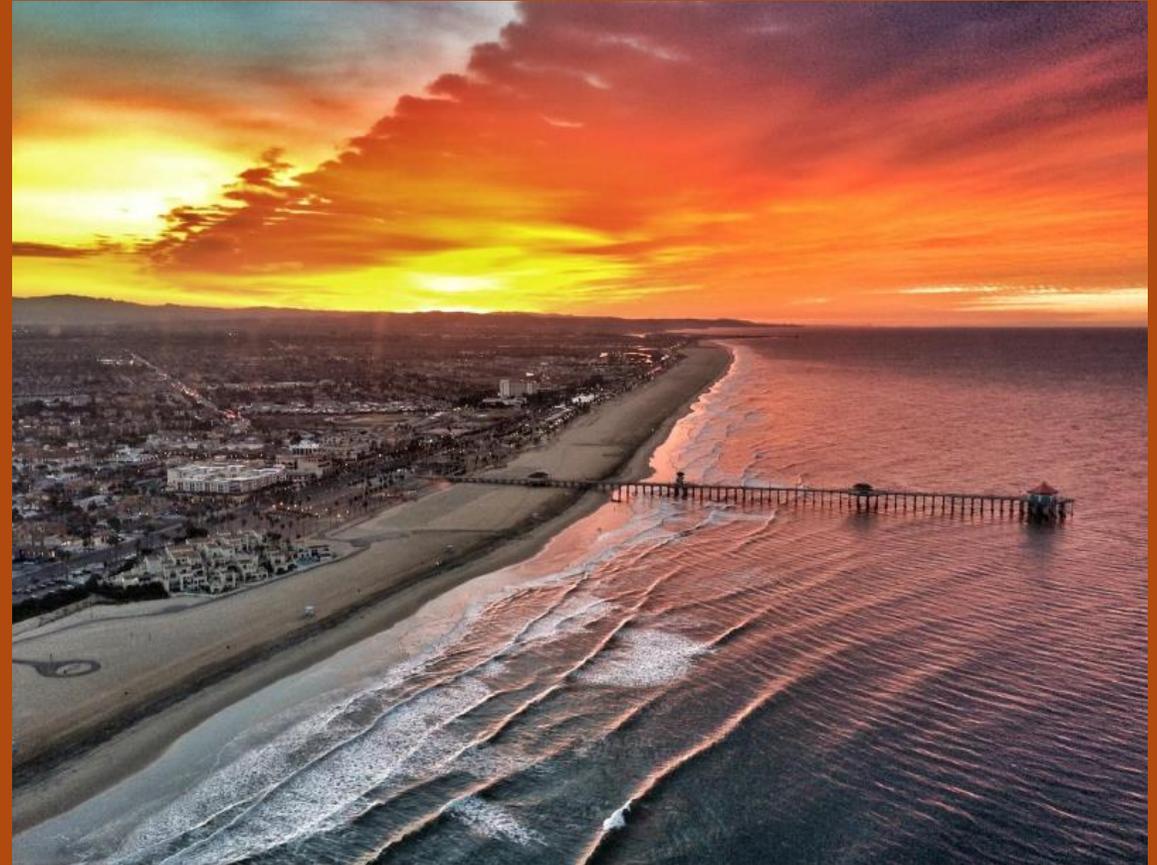


Year End Audit Results and Mid-Year Budget Update



February 18, 2020

Presented by
the Finance Department

Overview

- ▶ **FY 2018/19 Audit and Year-End Results**
- ▶ **FY 2019/20 Mid Year Budget Update**
- ▶ **FY 2020/21 Budget Outlook**
- ▶ **Pensions and Unfunded Liabilities**
- ▶ **FY 2020/21 Budget Development Calendar**

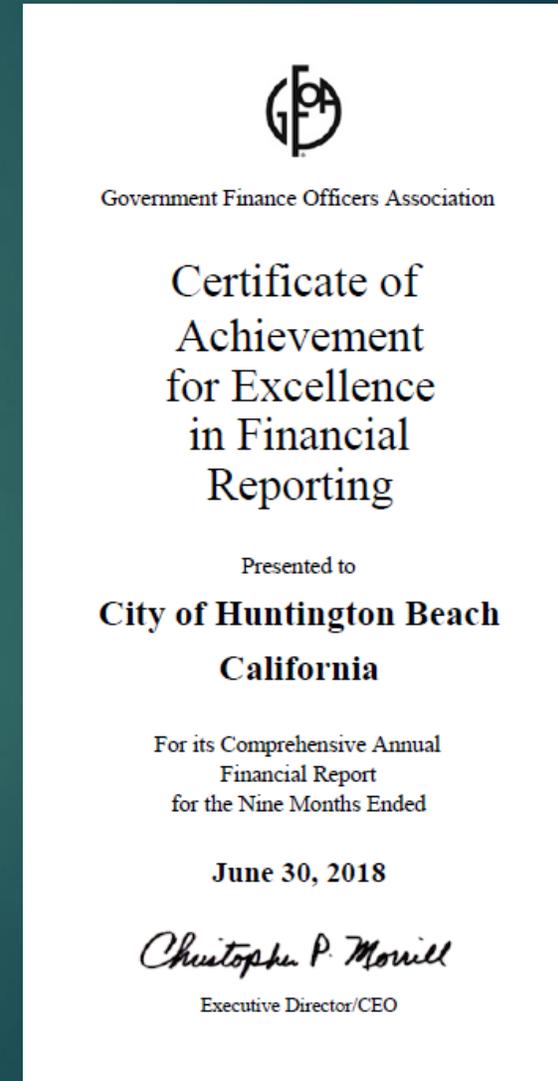
FY 2018/19 Financial Results Audit and Year-End Overview

Audit and Year-End Overview



FY 2018/19 Audit Results

- ▶ Auditing firm of Davis Farr LLP audited the City's financial statements and internal controls
- ▶ FY 2018/19 Comprehensive Annual Financial Report (CAFR) received an Unmodified (Clean) Audit Opinion
- ▶ The City's CAFR is award winning – received the Government Finance Officers Association's (GFOA) Excellence in Financial Reporting Award for 33 years



Audit Results

Reports issued:

- ▶ Comprehensive Annual Financial Report
 - ▶ Issued “unmodified” opinion on December 17, 2019
 - ▶ This is the highest opinion possible
- ▶ AU-C 260 Letter: Auditor Communications
- ▶ Appropriations Limit Agreed-Upon Procedures
- ▶ AQMD Report
- ▶ Single Audit Report

Internal Controls

- ▶ Evaluated controls over key accounting cycles:
 - ▶ Billing and Cash Receipting
 - ▶ Purchasing and Cash Disbursements
 - ▶ Payroll
 - ▶ Banking and Investing
 - ▶ Grant Management
 - ▶ Information Systems
- ▶ No material weaknesses or significant deficiencies in internal controls were reported
- ▶ No instances of noncompliance of laws and regulations that auditors believe are direct and material to the financial statements



Areas of Audit Focus in FY 18/19

**Pension
Obligations**

**OPEB
Obligations**

**Testing of offsite
cash receipting
at Police
Department**

**Tested
calculation of
claims payable**

**Testing of Capital
Asset activities**

**Single Audit:
Testing of CDBG
Grant**

FY 2018/19 Performance (Audited)

Government-Wide Highlights:

All Funds

Description	In Thousands
<u>ASSETS</u>	
Current and Other Assets	\$323,714
Capital Assets	854,165
Total Assets	1,177,879
Deferred Outflows - Pensions	70,705
<u>LIABILITIES</u>	
Current and Other Liabilities	24,739
Long-Term Obligations*	527,500
Total Liabilities	552,239
Deferred Inflows - Pensions	13,401
TOTAL NET POSITION	\$682,944

* Reflects GASB 68 recording of Net Pension Liability of \$421.0 million and GASB 75 recording of Net OPEB Liability \$6.6 million

FY 2018/19 General Fund

(Audited)

Description	Amount (in Thousands)
Total Revenues*	\$ 236,631
Total Expenditures	215,469
Excess of Revenue Over Expenditures	\$21,162
Transfers In	13
Transfers Out	(10,796)
Net Change in General Fund Balance	\$ 10,379

- * Includes one-time revenues totaling \$4.5M comprised of the following:
- Sales Tax Back Payments from 2018 totaling \$2.23M
 - Settlements of \$616k
 - Fire Strike Team Revenues of \$1.12M
 - Other State, County, and Developer revenues totaling \$534k

General Fund Balance

FY 2018/19 Audited (In Thousands)

Fund Balance Category	FY 16/17 Audited	FY 17/18 Audited	FY 18/19 Audited
Total Nonspendable, Restricted, Committed, and Assigned Fund Balances	61,180	61,004	72,763*
Unassigned	-	2,734	-
Total Fund Balance	61,180	63,738	72,763
Section 115 Trust Bank Balance	-	4,896	6,250
Total with Section 115 Trust	\$61,180	\$68,634	\$79,013

* Includes \$16 million Strategic Planning Initiative Assignment

FY 2019/20 General Fund Budget Overview



FY 2019/20 Budget Update

- ▶ Fiscal Prudence

- ▶ Active monitoring and control to ensure balanced budget
- ▶ Includes 1% target reductions (does not include personnel costs)

- ▶ General Fund Year-End Projection

- ▶ Estimated Revenue \$236.9 M
- ▶ Estimated Expenses \$232.2 M
- ▶ Estimated Surplus \$ 4.7 M

Potential Uses of One-Time Funds

- ▶ Strategic Planning Initiative Reserve – \$16 million as of 6/30/2019
- ▶ Estimated Excess Surplus FY 19/20 – \$4.7 million
- ▶ Potential uses of one-time funds:
 - Save For A Rainy Day
 - Fund Pension Liabilities (Section 115 Trust + Pension Stabilization Reserve)
 - One-Time Infrastructure (Facilities / Parks)
 - Future Homeless Shelter Capital Costs
 - One Time Equipment Needs

FY 2020/21

Budget Development



Economic Indicators

- ▶ The Dow Jones is up 22.3%, S&P up 28.9%, and NASDAQ is up 35.2% - annual increase as of December 2019
- ▶ GDP increased 2.3% from December 2018 to December 2019
- ▶ The CPI for the Los Angeles and Orange County in December 2019 increased 3.0% over the last 12 months
- ▶ Orange County Unemployment 2.4% December 2019
- ▶ HB Median Single Family Residential Sales Price increased by 3.4% from \$775,000 in 2018 to \$801,000 in 2019
- ▶ HB Single Family Residential home sales decreased by 5.9% from 1,982 home sales in 2018 to 1,866 home sales in 2019
- ▶ Current Economic Expansion Longest on Record over 10.5 years as of January 2020. Prudent to plan for possible recession.

Pensions and Unfunded Liabilities



Net Pension Liabilities Overview

as of 6/30/19

Type of Liability	Amount* (000)	% Funded
CalPERS (Safety)	270,107	64.8%
CalPERS (Misc)	<u>166,066</u>	<u>71.5%</u>
Subtotal	436,173	67.7%
Retiree Medical (Safety)	3,332	90.0%**
Retiree Medical (Misc)	-	100%
Retiree Supplemental (w/Section 115)	6,523	90.9%**
TOTAL	446,028	

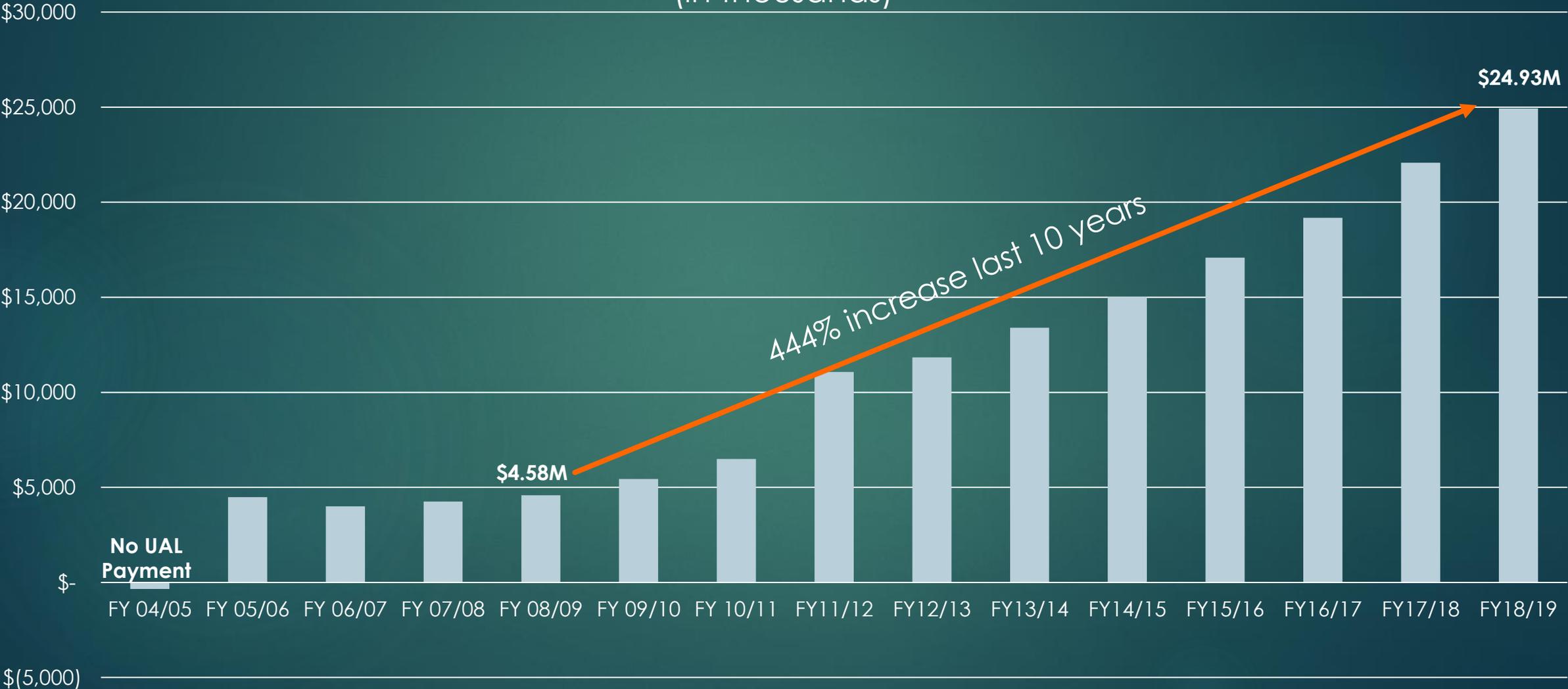
* Net Pension and/or Unfunded Liability amounts are not constant and are subject to annual change for market conditions, demographics and actuarial methodology. CalPERS Liability is based on actuarial valuations as of June 30, 2018.

** Projected to be ~100% funded as of 6/30/2020 with additional contributions being made in current FY 2019/20.

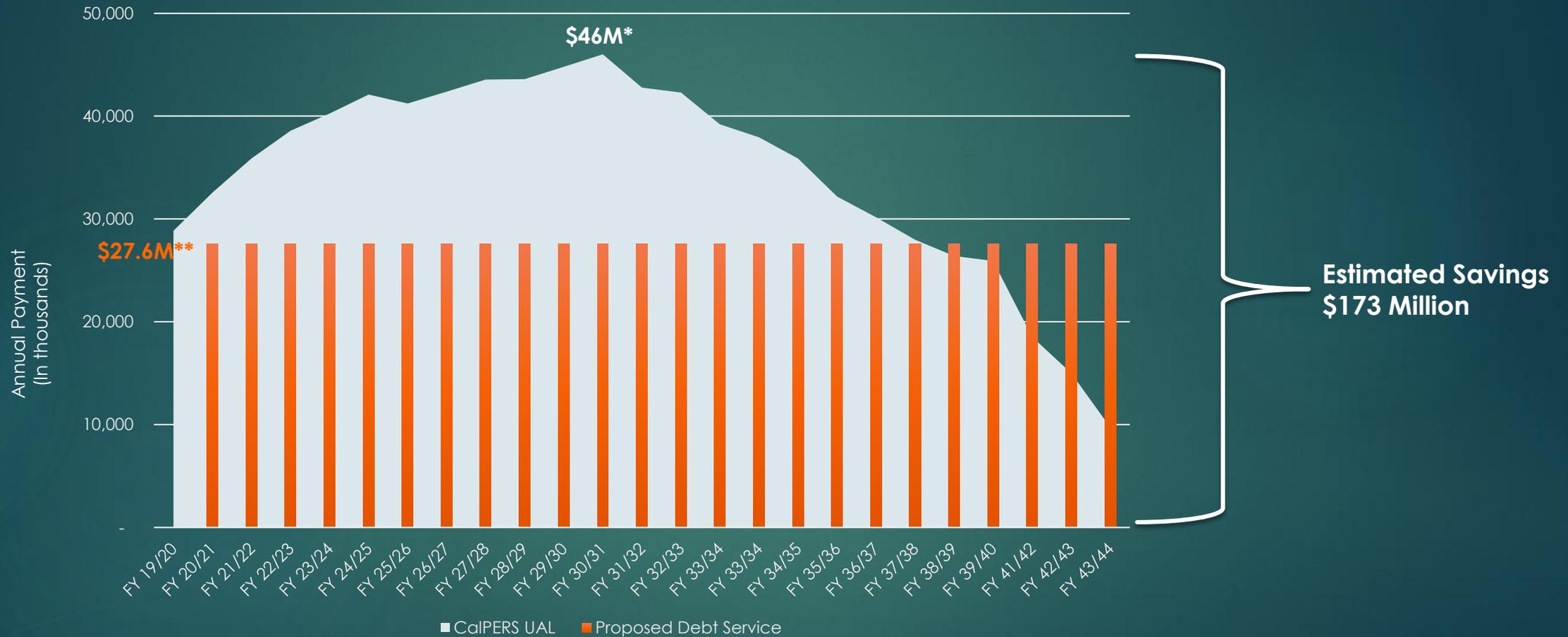
UAL Cost Increase Impact on HB

- ▶ HB's annual UAL payment costs (i.e., our mortgage payments) have increased dramatically during the past decade, and will continue to increase until 2031
 - ▶ FY 2004/05 No UAL Payment
 - ▶ FY 2008/09 UAL Payment \$4.58 million
 - ▶ FY 2018/19 UAL Payment \$24.93 million
 - ▶ FY 2030/31 UAL Payment \$46.02 million
- ▶ In the past 10 years (from 2009-2019), our annual UAL payment has increased a staggering 444%, from \$4.58 million to \$24.93 million
- ▶ By FY 2030/2031, our UAL payment is projected to increase by 85% over FY 2018/2019, from \$24.93 million to \$46.02 million
 - ▶ **This equates to a \$21.09 million annual cost increase!!!**

City of Huntington Beach UAL Payment Amounts FY 2004/05 – FY 2018/19 (in thousands)



Pension Obligation Bond Savings



* FY 30/31 represents peak of annual payment – \$21.09 million or 85% increase from FY 18/19

** Proposed Pension Obligation Bond Debt Service



Long Term Financial Planning

Five-Year Financial Plan – General Fund*

(in thousands)
without POB

Category	Adopted FY 19/20	Projected FY 19/20	Projected FY 20/21	Projected FY 21/22	Projected FY 22/23	Projected FY 23/24	Projected FY 24/25
Salaries	101,830	101,276	102,381	104,082	105,658	107,258	108,882
CalPERS Normal Cost	13,296	13,296	14,106	14,382	14,646	14,917	15,195
CalPERS UAL	26,191	26,191	29,506	32,501	34,948	36,465	38,149
<i>Pension Stabilization Reserve</i>	-	-	4,523	4,523	4,523	4,523	4,523
Other Benefits	29,205	27,639	24,023	24,807	25,536	26,287	27,060
Operating	40,523	41,981	42,821	43,249	43,682	44,118	44,560
Infrastructure	4,000	4,000	5,000	5,200	5,400	5,600	5,800
Equipment	4,651	4,651	4,651	4,651	4,651	4,651	4,651
Other Capital	317	750	-	-	-	-	-
POB Debt Service	-	-	-	-	-	-	-
Debt Service/Transfers	11,609	12,413	10,968	10,818	10,413	10,413	9,663
Total Expenditure	231,621	232,197	237,978	244,212	249,456	254,232	258,483
GF Recurring Revenue	230,840	236,878	240,311	244,516	249,018	253,659	258,288
(Challenge)/Surplus	(781)	4,681	2,333	304	(438)	(573)	(195)
YOY Revenue \$		5,342	3,433	4,205	4,502	4,641	4,630
YOY Revenue %		2%	1%	2%	2%	2%	2%

*Does not factor in recession

Five-Year Financial Plan – General Fund*

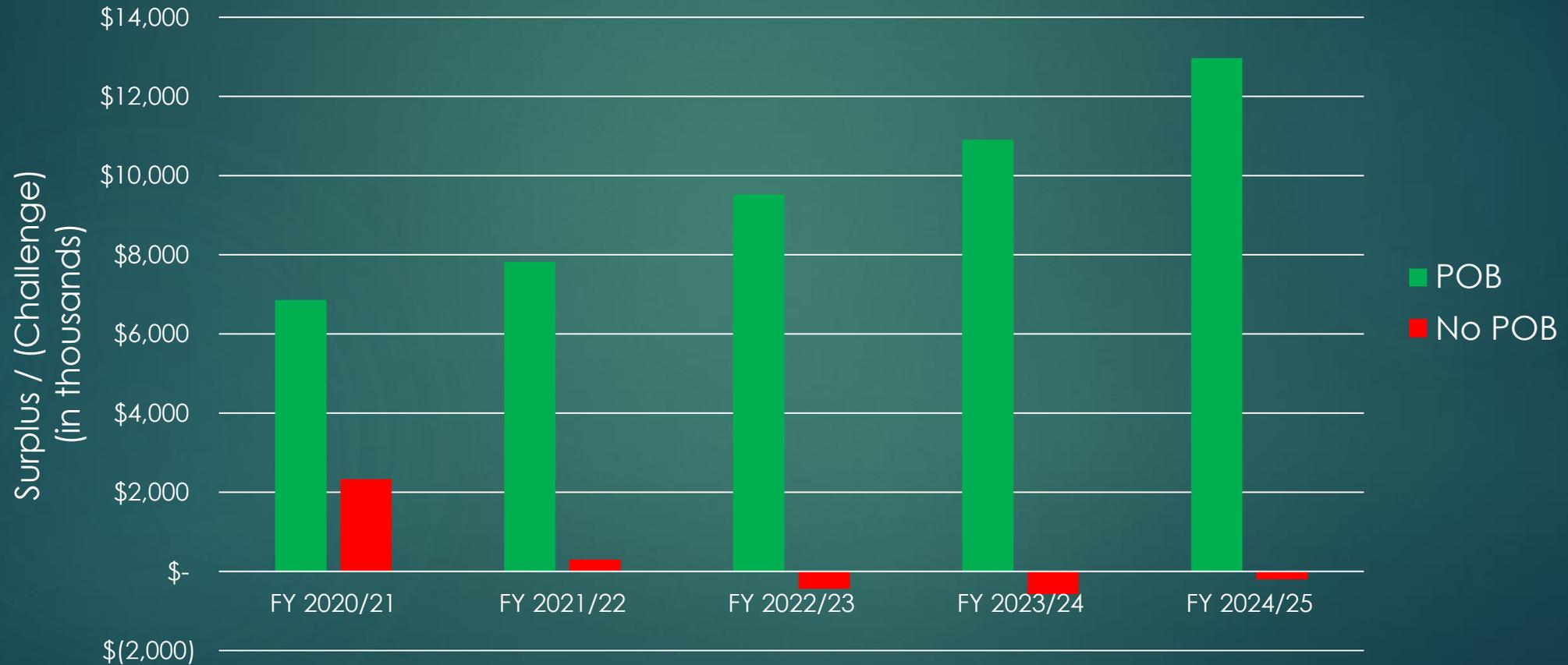
(in thousands)
with POB

Category	Adopted FY 19/20	Projected FY 19/20	Projected FY 20/21	Projected FY 21/22	Projected FY 22/23	Projected FY 23/24	Projected FY 24/25
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CalPERS Normal Cost	13,296	13,296	14,106	14,382	14,646	14,917	15,195
CalPERS UAL	26,191	26,191	-	-	-	-	-
<i>Pension Stabilization Reserve</i>	-	-	4,523	4,523	4,523	4,523	4,523
Other Benefits	29,205	27,639	24,023	24,807	25,536	26,287	27,060
Operating	40,523	41,981	42,821	43,249	43,682	44,118	44,560
Infrastructure	4,000	4,000	5,000	5,200	5,400	5,600	5,800
Equipment	4,651	4,651	4,651	4,651	4,651	4,651	4,651
Other Capital	317	750	-	-	-	-	-
POB Debt Service	-	-	24,983	24,983	24,984	24,984	24,985
Debt Service/Transfers	11,609	12,413	10,968	10,818	10,413	10,413	9,663
Total Expenditure	231,621	232,197	233,456	236,694	239,492	242,751	245,319
GF Recurring Revenue	230,840	236,878	240,311	244,516	249,018	253,659	258,288
(Challenge)/Surplus	(781)	4,681	6,856	7,822	9,526	10,908	12,970
YOY Revenue \$		5,342	3,433	4,205	4,502	4,641	4,630
YOY Revenue %		2%	1%	2%	2%	2%	2%

*Does not factor in recession

Summary Comparison – POB vs. No POB

5-Year General Fund Outlook POB vs. No POB



Community & Organizational Needs

▶ Homelessness Response

- ▶ Fund establishment of a temporary shelter
- ▶ Fund additional police officers to enforce quality of life regulations

▶ Quality of Life Improvements

- ▶ Need for additional code enforcement officers

▶ Capital Needs

- ▶ Significant infrastructure, park, facility, and capital replacement needs

▶ Labor Relations

- ▶ 6 of the City's bargaining units currently have expired labor agreements
- ▶ 4-years since the City provided our last general wage increase
- ▶ Current economy / job market is extremely competitive

▶ Financial Planning

- ▶ Currently in the longest period of sustained economic growth... ever.
- ▶ We need to be planning for a possible future recession

City Council Policy Options

- ▶ As staff has assessed all of our options, we continue to believe that refinancing our UAL pension debt is the most responsible and fiscally conservative way to address our current fiscal challenges
- ▶ Based on our long-term financial modeling, we can survive without refinancing our pension debt, but that scenario will result in significant financial constraints for the next 15 years
- ▶ Refinancing our UAL pension debt provides us the opportunity to prudently address existing debt loads, while providing the City with the opportunity and resources to thoughtfully address community priorities

FY 2020/21 Proposed Budget Calendar

Description	Date
FY 19/20 Mid-Year Study Session	February 18, 2020
FY 20/21 CIP & Proposed Budget Study Session	May 18, 2020
Public Hearing: Budget Adoption	June 1, 2020
Public Hearing: Budget Adoption (Alternate Date)	June 15, 2020
FY 20/21 Begins	July 1, 2020

Questions