

Recommended Action:

- A) Adopt Resolution No. 2020-39, "A Resolution of the City Council of the City of Huntington Beach Adopting a Budget for the City for Fiscal Year 2020/21;" and,
- B) Authorize the Professional Services included in the FY 2020/2021 budget to be representative of the services projected to be utilized by departments in FY 2020/2021; and,
- C) Adopt Resolution No. 2020-32, "A Resolution of the City Council of the City of Huntington Beach Establishing the Gann Appropriation Limit for Fiscal Year 2020/2021" of \$1,001,044,445; and,
- D) Approve budget adjustments to the FY 2020/2021 Proposed Budget in the Funds and by the amounts contained in Attachment 2, Exhibit A-1; and,
- E) **Budget Option 1:** Adopt Resolution No. 2020-46, "A Resolution of the City Council of the City of Huntington Beach to grant another designated period for two years additional service credit," authorizing the implementation of the CalPERS early retirement program for eligible members as identified by job classification in Exhibit A of the resolution, and authorizing the City Manager to take all administrative and budgetary actions necessary to implement the CalPERS early retirement program; or,
- F) **Budget Option 2:** Adopt Resolution No. 2020-46, "A Resolution of the City Council of the City of Huntington Beach to grant another designated period for two years additional service credit," authorizing the implementation of the CalPERS early retirement program for eligible members as identified by job classification in Exhibit A of the resolution, approve and direct staff to implement the Self-Designed Separation Incentive Program for Safety employees, and authorizing the City Manager to take all administrative and budgetary actions necessary to implement the programs; or,
- G) **Budget Option 3:** Approve and direct staff to implement the Self-Designed Separation Incentive Program for all eligible Safety and Miscellaneous employees, authorizing the City Manager to take all administrative and budgetary actions necessary to implement the program; or,
- H) **Budget Option 4:** Deploy layoff procedures and engage in the meet-and-confer process to negotiate requisite staffing cost reductions.

Alternative Action(s):

Do not approve the recommended action and direct staff accordingly.

Analysis:

As required by the City Charter, the City Manager submitted the FY 2020/2021 Proposed Budget to the City Council on June 1, 2020. The Proposed Budget and the Five-Year Capital Improvement Program (CIP) were also discussed at a City Council Study Session held on June 1, 2020.

A Public Hearing to consider adopting the FY 2020/2021 was presented to City Council on June 15, 2020 and a decision was postponed for a Special Meeting on June 29, 2020. The purpose of the Special Meeting is to provide the City Council with additional information related to the Early Retirement Program and to provide additional Workforce Reduction Program alternatives.

Overview

The theme of next year's budget, "**OneHB**," reflects the City's response to the extraordinary financial and operational challenges due to the global COVID-19 pandemic. The FY 2020/2021 Proposed Budget was carefully prepared to balance City Council and community priorities despite these uncertain times.

The Fiscal Year 2020/2021 Proposed Budget includes \$19 million in General Fund revenue reductions from prior Fiscal Year 2018/2019 actuals, and a \$1 million revenue reduction from current Fiscal Year 2019/2020 projections, particularly due to a substantial loss of tax revenue. The financial impacts of the pandemic remain volatile due to the closure of local businesses.

The Fiscal Year 2020/2021 Proposed General Fund Budget reflects a 4.4% operating expense reduction across all departments, totaling \$1.8 million; a \$3.1 million reduction in personnel costs; and a \$7.8 million reduction in non-operating transfers. In order to balance the Fiscal Year 2020/21 budget, and to mitigate more significant reductions to core services, we are proposing a staffing reduction of approximately 5% of the City's work force via an early retirement program, which is estimated to generate ongoing cost savings of no less than \$6.2 million. Overall, we continue to protect our essential functions during this unprecedented crisis.

The FY 2020/2021 Proposed Budget is structurally balanced and totals \$359.0 million in All Funds, reflecting a 5.8% decrease from the FY 2019/2020 Adopted All Funds Budget of \$381.0 million. The General Fund portion of the proposed FY 2020/2021 budget totals \$216.9 million, representing a 6.4% decrease from the FY 2019/2020 Adopted Budget of \$231.6 million.

The FY 2020/2021 General Fund revenue is projected at \$216.9 million, a \$13.9 million or 6.04% decrease from the current year's Adopted Budget. General Fund revenue consists of numerous sources, such as taxes and fees. Major sources of revenue include Property Tax, Sales Tax, Utility Users Tax, and Transient Occupancy Tax, among others.

The FY 2020/2021 Proposed Budget reflects additional funding for 5.0 FTEs in the General Fund for the Homeless Task Force and Code Enforcement Programs. Of note, the City's Table of Organization reflects an increase of only 2.0 FTEs, which accounts for the two new position in the Community Development Department for additional code enforcement staff. In addition, three previously defunded but authorized Police Department positions are recommended to be restored from the General Fund, which are positions that will be assigned to the City's Homeless Task Force. The total FTE count in All Funds for FY 2020/2021 is 989.25.

Revisions to the Proposed Budget

The FY 2020/2021 Proposed Budget presented to the City Council on June 1, 2020 totaled \$359 million. Based on feedback provided during the study session, the Proposed Budget has been adjusted to address City Council feedback, and the full spending plan is outlined in Exhibit A-1 (Attachment 2).

Professional Services

As established by Administrative Regulation Number 228, each department has submitted a list of professional services that are generally contained in their Proposed Budgets (Attachment 3). Professional services contracts are subject to compliance with Administrative Regulation Number 228

and City Ordinance Chapter 3.03.

Gann Appropriation Limit

In November 1979, the California voters approved Article 13B of the State of California Constitution, which allows the City’s spending of tax proceeds to increase only by factors from the base year of 1978-1979. In June 1990, Proposition 111 was passed, which changed the way the limit is calculated and is outlined as follows.

The City may increase its limit annually in two ways:

- By a percentage equal to the increase from the preceding year in county or city population (whichever is greater).
- By an amount equal to the change in per capita personal income in California or the change in the assessment roll the preceding year due to the addition of local non-residential new construction (whichever is greater).

The proposed appropriation limit for FY 2020/2021 was calculated as follows:

FY 2019/2020 Appropriation Limit	\$ 964,662,284
Multiplied by percentage grown in State Per Capita Personal Income	1.0373
Multiplied by change in City Population	<u>1.0004</u>
Proposed FY 2020/2021 Appropriation Limit	\$1,001,044,445

Appropriations of revenues controlled by the Gann Limit are primarily in the General Fund. The General Fund proposed appropriation for FY 2020/2021 of \$216.9 million is significantly below this appropriation limit (Attachment 4).

Examples of proceeds of taxes governed by the Gann Appropriation Limit are: property taxes, sales taxes, utility taxes, state subventions, fines, forfeitures, interest revenue on regulatory licenses, user charges, and user fees, to the extent that those proceeds exceed the costs reasonably borne by that entity in providing the regulation, product, or service.

Public Hearing

The City Charter requires that a public hearing be conducted on the City budget prior to adoption. Public Hearing notices have been published per City Charter requirements (Attachment 1). At the close of this hearing, all legal requirements for budget adoption will have been met.

Funding a \$1M Transfer to The Section 115 Trust

The reduction of the General Liability Fund transfer of \$1.0 million from the General Fund, and the restatement of the annual transfer of \$1.0 million to the Section 115 Trust Fund, create a net neutral impact to the General Fund and All Funds.

Workforce Reduction Program

The Fiscal Year 2020/2021 Proposed Budget includes a staffing reduction proposal of approximately 5% of the City’s workforce, with an estimated net savings of \$6.2 million. At the June 1, 2020 City Council Study Session, two retirement programs plan options (a CalPERS Plan providing two years of additional service credit, and a self-designed retirement plan providing \$1,500 for every year of

service, plus 6-months' worth of insurance coverage) were presented as part of this budgetary reduction program. Staff provided estimated cost and savings information on the early retirement plans to City Council at the public hearing meeting on June 15, 2020. City Council requested staff to perform a survey of the employees to determine how many people would likely retire if offered either of the programs, provide additional costing information of the programs based on incremental levels of participation, and continue discussion of this agenda item (Attachment 6) at a Special Meeting on June 29, 2020.

Based on City Council direction at the June 15, 2020 public hearing meeting, staff has worked to assess alternative reduced-cost workforce reduction options to address the \$6.2 million budget deficit for FY 2020/21. The new options assessed include the following:

Option 1: Modified CalPERS early retirement program option, open only to unrepresented and miscellaneous staff as identified in Exhibit A of resolution 2020-46

Option 2: Modified CalPERS early retirement program option for miscellaneous staff as identified in Exhibit A of resolution 2020-46 and self-designed voluntary separation incentive program for safety

Option 3: Use of the self-designed voluntary separation incentive program exclusively

Option 4: Deploy layoff procedures and engage in the meet-and-confer process to negotiate requisite staffing cost reductions

In addition, to gain a better understanding of the number of employees that may participate in each early retirement program alternatives, staff conducted a survey of eligible participants. We had a 72% response rate. The results of the surveys are as follows:

Miscellaneous Employees

- No retirement incentive - 1% likely or very likely to retire
- CalPERS program - 44% likely or very likely to retire
- Self-designed program - 17% likely or very likely to retire

Safety Employees

- No retirement incentive - 1% likely or very likely to retire
- CalPERS program - 43% likely or very likely to retire
- Self-designed program - 29% likely or very likely to retire

Under the options presented, the CalPERS early retirement program would provide two years of additional service credit for eligible program participants. The self-designed separation incentive program would provide \$1,500 for every year of service and 6-months' worth of insurance coverage for employees electing to participate in this program. Staff compiled the following chart to compare the one-time program costs, ongoing available savings, and cost-savings ratio of each option.

No.	Description	Likely 1x Program Costs	Ongoing Available Cost Savings	Cost : Savings Ratio
Option 1	Modified CalPERS (Misc.)	\$2.6 M	\$7.8 M	3.00x
Option 2	Modified CalPERS (Misc.) + Self-Designed (Safety)	\$3.5 M	\$9.2 M	2.63x
Option 3	Self-Designed (Misc. + Safety)	\$2.3 M	\$4.5 M	1.96x
Option 4	Layoff & Employee Concessions	\$0.0 M	\$6.2 M	n/a

Option 1 offers the best cost-savings ratio since the program would only be offered to eligible miscellaneous employees, and would not be offered to safety staff. It would also achieve the desired ongoing cost savings. Option 2 is a viable strategy that provides voluntary separation options for both miscellaneous and safety employees, but the program does not provide as great a cost-savings ratio when compared to Option 1. This option also achieves the requisite ongoing savings goal. Option 3 will likely not achieve enough program participation to balance the budget based on the survey, making it an unattractive option. Option 4 does not have any specific one-time program costs. However, it will result in significant operational and service level disruptions.

Based on the survey conducted, the need to shrink the City’s workforce, the cost-savings ratio comparison of the plans, and the need to minimize operational and service level disruptions, **staff recommends moving forward with either Option 1 or Option 2.** These programs are recommended as they would likely attract the desired number of employee participants, yield high levels of cost savings long term, and provide an opportunity to strategically restructure the City organization. Of note, staff projects that on-going budgetary cost savings will cover the one-time costs associated with each workforce reduction program within 1-2 years, given the planned reduction in the workforce and the savings realized with replacing essential employees currently in the CalPERS classic retirement plan with less costly essential employees in the CalPERS’ PEPRA retirement plan. Since the enactment of the California Public Employees’ Pension Reform Act (PEPRA) in 2013, an increasing number of full-time employees hired by the City are enrolled in PEPRA. As existing employees retire or separate, there are both immediate salary savings and long-term reductions to the City’s pension liability.

Environmental Status:

Not applicable.

Strategic Plan Goal:

- Enhance and maintain high quality City services
- Enhance and maintain infrastructure
- Strengthen long-term financial and economic sustainability
- Enhance and modernize public safety service delivery
- Improve quality of life

Attachment(s):

1. Public Hearing Notice.
2. Resolution No. 2020-39, “A Resolution of the City Council of the City of Huntington Beach

Adopting a Budget for the City for Fiscal Year 2020/2021”

3. Professional Services included in the Fiscal Year 2020/2021 Budget
4. Resolution No. 2020-32, “A Resolution of the City Council of the City of Huntington Beach Establishing the Gann Appropriation Limit for Fiscal Year 2020/2021”
5. Resolution No. 2020-46, “A Resolution of the City Council of the City of Huntington Beach to grant another designated period for two years additional service credit”
6. Final 6-15-20 RCA with Attachments 1-5