City of Huntington Beach

2000 Main Street,
Huntington Beach, CA 92648

Legislation Details (With Text)

File #:	23-481		
Type:	Public Hearing	**Status:**	Held
File created:	5/30/2023	**In control:**	City Council/Public Financing Authority
On agenda:	6/6/2023	**Final action:**	
Title:	Consider Adopting Resolution No. 2023-24 to Adopt a Budget for the City for Fiscal Year 2023/2024 and Authorize the Corresponding Appropriation and Transfer of $4.9 Million of AES Reserves and $3.9 Million of Equipment Replacement Reserves and Return to a 12-year Paving Cycle; Resolution No. 2023-25 Establishing the Gann Appropriation Limit for Fiscal Year 2023/2024; Resolution No. 2023-23 Levying a Retirement Property Tax for Fiscal Year 2023/2024 to Pay for Pre-1978 Employee Retirement Benefits; Resolution No. 2023-27 Amending the City's Classification Plan by Adding the Classifications of Graphic Designer, Multimedia Officer, and Municipal Records Manager; Resolution No. 2023-28 to Adopt a Revised General Fund Reserve Policy; Resolution No. 2023-26 Acknowledging Receipt of a Report Made by the Fire Chief of the Huntington Beach Fire Department Regarding the Inspection of Certain Occupancies Required to Perform Annual Inspections in such Occupancies Pursuant to Sections 13146.2 and 13146.3 of the California Health and Safety Code; Approve and Authorize the execution of Amendment No. 2 to the Agreement between the City of Huntington Beach and Mind OC for Pilot Mobile Crisis Response Program; and Approve and Authorize the Execution of Professional Services Contract between the City of Huntington Beach and National Council for Community Development (NDC) for Technical Assistance Services		
Attachments:	1. Att 1 - Public Hearing Notice, 2. Att 2 - Reso No. 2023-24 FY 2023-24 Budget Adoption, 3. Att 3 - Professional Services FY 2023-24, 4. Att 4 - Reso No. 2023-25 GANN Appropriation Limit, 5. Att 5 - Reso No. 2023-23 Employee Tax Override, 6. Att 6 - Reso No 2023-27 Amend Classification Plan, 7. Att 7 - Reso No. 2023-28 General Fund Reserve Policy, 8. Att 8 - Reso No. 2023-26 Inspection of Certain Occupancies, 9. Att 9 - Amendment No. 2 Mind OC Signed, 10. Att 10 - NDC Contract, 11. Att 11 - Powerpoint Presentation, 12. 6/2 SC - Email, 13. 6.6 SC - Email		

Date	Ver.	Action By	Action	Result
6/6/2023	1	City Council/Public Financing Authority	continued	Pass

REQUEST FOR CITY COUNCIL ACTION

SUBMITTED TO: Honorable Mayor and City Council Members

SUBMITTED BY: Al Zelinka, City Manager

VIA: Sunny Han, Acting Chief Financial Officer

PREPARED BY: Serena Bubenheim, Acting Assistant Chief Financial Officer

Subject:

Consider Adopting Resolution No. 2023-24 to Adopt a Budget for the City for Fiscal Year 2023/2024 and Authorize the Corresponding Appropriation and Transfer of $4.9 Million of AES Reserves and $3.9 Million of Equipment Replacement Reserves and Return to a 12-year Paving Cycle; Resolution No. 2023-25 Establishing the Gann Appropriation Limit for Fiscal Year 2023/2024; Resolution No. 2023-23 Levying a Retirement Property Tax for Fiscal Year 2023/2024 to Pay for Pre-1978 Employee Retirement Benefits; Resolution No. 2023-27

Amending the City's Classification Plan by Adding the Classifications of Graphic Designer, Multimedia Officer, and Municipal Records Manager; Resolution No. 2023-28 to Adopt a Revised General Fund Reserve Policy; Resolution No. 2023-26 Acknowledging Receipt of a Report Made by the Fire Chief of the Huntington Beach Fire Department Regarding the Inspection of Certain Occupancies Required to Perform Annual Inspections in such Occupancies Pursuant to Sections 13146.2 and 13146.3 of the California Health and Safety Code; Approve and Authorize the execution of Amendment No. 2 to the Agreement between the City of Huntington Beach and Mind OC for Pilot Mobile Crisis Response Program; and Approve and Authorize the Execution of Professional Services Contract between the City of Huntington Beach and National Council for Community Development (NDC) for Technical Assistance Services

Statement of Issue:

The City Charter of the City of Huntington Beach requires a Public Hearing prior to the adoption of the City's annual budget. The City Charter further requires adoption of the annual budget by June 30, 2023, for Fiscal Year (FY) 2023/24.

Financial Impact:

Proposed Budget: The Fiscal Year 2023/24 Proposed Budget is structurally balanced. The All Funds Proposed Budget equals $508.8 million. The General Fund Proposed Budget totals $285.6 million, with the planned use of $8.8 million in General Fund reserves. Individual departmental and fund-level appropriations are contained in the attachments herein.

Employee Tax Override: Pursuant to Chapter 3.07 of the Municipal Code, the Proposed Budget for Fiscal Year 2023/24 assumes the continuation of the Retirement Tax Cap of $0.01500 per $100 of assessed value. As of the most recent audited financial statements, this tax rate resulted in $7.9 million in revenue in Fiscal Year 2021/22. This recurring revenue source is included in the Proposed FY 2023/24 Budget.

Update to the City's General Fund Reserve Balance Policy: The City desires to maintain a prudent level of reserves and 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. Additionally, staff is recommending strengthening the City's Reserve policy to ensure that funds are set aside systematically and used only when truly necessary.

Mind OC Contract Extension: Staff is requesting approval to amend the professional services contract with Mind OC for the Be Well HB mobile crisis response program. The City has been awarded federal and state grants (U.S. Department of Health and Human Services and California Dept. of Health Care Services) to offset the cost of the program for FY 2023/24. Funding for future years will be identified in future budgets.

National Development Council Contract: Staff is requesting approval to execute a new professional services contract with National Council for Community Development (NDC). Funding for this contract is provided through the annual allocations for the Community Development Block Grant

and HOME programs and the Community Development Department's annual operating budget.

Recommended Action:

A) Adopt Resolution No. 2023-24, "A Resolution of the City Council of the City of Huntington Beach Adopting a Budget for the City for Fiscal Year 2023/2024" (Attachment 2); and,

B) Authorize the Professional Services included in the FY 2023/24 budget to be representative of the services projected to be utilized by departments in FY 2023/24 (Attachment 3); and,

C) Authorize the appropriation and transfer of the full balance ($4.9 million) of the AES Reserve from the General Fund to the AES Mitigation Fund 1284; and,

D) Authorize the appropriation and transfer of $3,903,803 from the General Fund Equipment Replacement Reserve to the Equipment Replacement Fund 324; and,

E) Approve the return to a 12 year paving cycle; and,

F) Adopt Resolution No. 2023-25, "A Resolution of the City Council of the City of Huntington Beach Establishing the Gann Appropriation Limit for Fiscal Year 2023/2024" of $1,171,687,773" (Attachment 4); and,

G) Adopt Resolution No. 2023-23, "A Resolution of the City Council of the City of Huntington Beach Levying a Retirement Property Tax for Fiscal Year 2023/2024 to Pay for Pre-1978 Employee Retirement Benefits" (Attachment 5); and,

H) Adopt Resolution No. 2023-27, "A Resolution of the City Council of the City of Huntington Beach Amending the City's Classification Plan by Adding the Classifications of Graphic Designer, Multimedia Officer, and Municipal Records Manager" (Attachment 6); and,

I) Adopt Resolution No. 2023-28, "A Resolution of the City Council of the City of Huntington Beach Adopting a Revised General Fund Reserve Policy" (Attachment 7) and authorize the City Manager or designee to execute all administrative and budgetary actions necessary to consolidate certain General Fund Assigned Fund Balances to the Economic Uncertainties Reserve in order to meet the City's two-month Emergency Reserve requirement; and,

J) Adopt Resolution No. 2023-26, "A Resolution of the City Council of the City of Huntington Beach, California Acknowledging Receipt of a Report Made by the Fire Chief of the Huntington Beach Fire Department Regarding the Inspection of Certain Occupancies Required to Perform Annual Inspections in such Occupancies Pursuant to Sections 13146.2 and 13146.3 of the California Health and Safety Code" (Attachment 8); and,

K) Approve and authorize the Mayor and City Clerk to execute "Amendment No. 2 to Agreement between the City of Huntington Beach and Mind OC for Pilot Mobile Crisis Response

Program" (Attachment 9); and,

L) Approve and authorize the Mayor and City Clerk to execute "Professional Services Contract between the City of Huntington Beach and National Council for Community Development (NDC) for Technical Assistance Services" (Attachment 10).

Alternative Action(s):

A. Instruct City staff regarding changes to be incorporated into the budget and adopt the FY 2023/24 Budget and corresponding actions and resolutions as amended.

B. Continue the Public Hearing until June 20, 2023.

Analysis:

As required by the City Charter, the City Manager submitted the FY 2023/24 Proposed Budget to the City Council on May 7, 2023. The Proposed Budget and the Five-Year Capital Improvement Program (CIP) were also discussed at a City Council Study Session held on May 16, 2023.

The purpose of the budget study session was to provide the City Council an opportunity to discuss the Proposed Budget with staff before proceeding with the formal Public Hearing on June 6, 2023.

Overview

Over the past couple years, the City has come together in an extraordinary way to address the fiscal and public health challenges of the COVID-19 pandemic. Through the leadership and support of the City Council, the City implemented significant cost saving measures without reductions in essential service levels, including a Citywide Separation Incentive Program and reorganization plan, and refinancing of the City's pension debt. As a result of these measures, and numerous other measures taken over the past couple years, we project a $3.8 million dollar General Fund surplus for FY 2022/23.

Inclusive of these significant budget measures, the FY 2023/24 Proposed Budget also includes mandated and additional one-time savings to mitigate the City's rising pension costs; prioritizes improvements to the City's facilities, roads and parks; incorporates increased funding for critical programs such as Workers' Compensation and General Liabilities; accounts for increases to the City's contractual obligations and inflationary cost impacts; and includes the addition of 11 positions across various City departments to meet increased demand and bring critical services in-house.

The FY 2023/24 Proposed Budget is structurally balanced and totals $508.8 million across All Funds. This reflects a $23.2 million, or 4.4 percent, decrease from the FY 2022/23 Adopted All Funds Budget of $532.0 million. A significant portion of the decrease is due to the one-time redistribution of $29.6 million of American Rescue Plan Act (ARPA) funds to the General Fund in FY 2022/23 for the provision of core governmental services.

For FY 2023/24, General Fund revenue is projected at $280.4 million, a $2.8 million, or 1 percent decrease from the FY 2022/23 Adopted Budget. Major sources of General Fund revenue include Property Tax, Sales Tax, Utility Users Tax, and Transient Occupancy Tax, among others. The largest decrease in General Fund revenue is in Non-Operating Revenue, attributable to the one-time transfer

of ARPA funds for general governmental services that was included in the FY 2022/23 Adopted Budget. The largest revenue increase is in Property Tax, with expected revenues totaling $104.2 million due to gains in assessed property valuations. Franchise and Utility Users Taxes are anticipated at $33.0 million, a 21.8 percent increase, driven by increases in utility prices including gas and electricity. Charges for Current Services is projected to increase $6.4 million due to increased demand for services, including medical transports, recreation classes and building and planning services.

The Proposed General Fund Expenditure Budget totals $285.6 million and is supported by revenues of $280.4 million, plus the one-time use of $8.8 million in General Fund Reserves. Use of reserves include the 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. The full balance of the AES Reserve ($4.9 million) is being transferred to a new AES Mitigation Fund to be used for various Capital Improvement Projects as outlined in the Memorandum of Understanding between the City and AES Southland Development LLC.

The Proposed General Fund Budget has no reliance on one-time revenues to fund ongoing operations, which is critical to maintaining the City's financial viability and success and represents a $16.6 million, or 6.2 percent, increase compared to the FY 2022/23 Adopted Budget of $269.0 million. This increase is attributable to higher personnel costs arising from the addition of 11 full time employees, increased Workers' Compensation and overtime costs, and inflationary impacts on normal business activities.

The FY 2023/24 Proposed Budget includes 1,002.75 Full Time Equivalents (FTEs); an increase of 11 FTEs across all funds compared to FY 2022/23. The new positions include 1 Deputy Community Prosecutor, 2 Senior Deputy City Attorneys and 1 Senior Legal Assistant in the City Attorney's Office. A Municipal Records Manager is being added to the City Clerk's Office to assist with the citywide centralization of records management, and 1 Graphic Designer and 1 Multi-Media Officer are proposed to oversee the operations of the City's Cable "3" Channel, YouTube Channel and online digital content, and to assist with citywide public information materials in the Office of Communications, bringing part of currently contracted services in-house. Three new positions are included in the Community Development Department to provide timely inspection and plan review services and improve long-term service delivery. One HR Analyst is included in Risk Management to support increased workload, mitigate risk and ensure compliance with regulatory requirements.

The FY 2023/24 Proposed Budget was carefully prepared to balance immediate priorities along with the need for long-term investments. The Proposed Budget does not include any financial impacts of agreements with bargaining groups that are under consideration by the City; the City Budget will be amended as bargaining group agreements are approved by the City Council. The City Budget reflects the priorities of the City Council and outlines a plan committed to enriching the quality of life for our residents, businesses, and visitors by increasing funding for core services such as public safety, community & library service programs, and improving the City's infrastructure.

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.

Paving Cycle

In August 2022, staff gave a study session presentation on the Pavement Management Plan (PMP) Overview. At this study session Council provided direction to implement a 9-year zone cycle instead of the previous 12-year zone cycle, of which the last zone of the first 12-year cycle is currently under construction.

In working through the CIP process, and working to achieve a balanced budget, staff reviewed the cost/benefit of a 9-year cycle to a 12-year cycle. After this review staff is recommending a 12-year cycle for the following reasons:

1. 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;
2. The construction cost for the 9-zone program totals $2.5 million more annually than the 12-zone program; and
3. The City has seen success with the 12-year zone program which has achieved an overall PCI of 81.6 which indicates the residential streets are currently in “good” condition.

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 2023/24 was calculated as follows:

FY 2022/23 Appropriation Limit	$1,126,155,850
Multiplied by percentage grown in State Per Capita Personal Income	1.0444
Multiplied by change in County Population	0.9962
Proposed FY 2023/24 Appropriation Limit	$1,171,687,773

Appropriations of revenues controlled by the Gann Limit are primarily in the General Fund. The General Fund proposed appropriation for FY 2023/24 of $285.6 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.

Employee Tax Override

On July 16, 2012, the City Council adopted an ordinance to permanently cap the tax rate at $0.01500 per $100 of assessed valuation. Therefore, the requested tax levy for FY 2023/24 reflects the same tax rate of $0.01500 per $100 of assessed valuation effective in FY 2012/13 pursuant to Chapter 3.07 of the Municipal Code. Fiscal Year 2023/24 will represent the twelfth year of the application of the permanent cap.

The current capped Employee Tax Override results in an approximate $75 annual tax levy for a property assessed at $500,000. Revenue generated from this property tax helps the City fund public safety employee pension costs associated with pre-1978 retirement benefit levels. As such, the tax can only pay for the estimated costs associated with the public safety pension benefit formulas in place prior to the enactment of Proposition 13 on July 1, 1978. Hence, the tax can only pay for retirement benefits for all retired, current, and future public safety City employees that were contracted for prior to July 1, 1978 (such as the 2% at 50 benefit formula for Safety employees in place before enactment of Proposition 13).

Based on the most recent CalPERS actuarial valuations, the cost of pre-1978 retirement benefit levels for Safety personnel totals $26.1 million. As such, the proposed tax rate is recouping only 27 percent of eligible Safety personnel retirement costs.

Due to the County of Orange's timeline for approving the tax rate and the city's budget cycle, the rate must be set before the City Council takes action on its annual budget. The recommended assessment rate would maintain essential services for Fiscal Year 2023/24 (Attachment 5).

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.

Update to the 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. 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.

Staff is recommending consolidating certain General Fund Assignments into the Economic Uncertainties Reserve in order to meet the two-month reserve requirement, as listed below:

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**

Additionally, staff is recommending: (1) a minimum of 25% of unrestricted one-time revenues would be transferred to the Section 115 Trust, and (2) 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.

Acknowledge Receipt of Fire Inspections

California Health & Safety Code Sections 13146.2 and 13146.3 require all fire departments that provide fire protection services to perform annual inspections in every building used as a public or private school, hotel motel, lodging house, apartment house and certain residential care facilities. These inspections are performed to meet certain building standards. Section 13146.2 of the Code requires departments to report annually to its governing body on its conformance to these requirements. State Senate Bill 1205 requires that effective January 1, 2019, the governing body annually adopt a resolution or other formal document certifying that these inspections were completed and that this document be submitted to the State.

During calendar year 2022, the Huntington Beach Fire Department completed annual inspections of all buildings referenced under Sections 13146.2 and 13146.3 of the California Health and Safety Code. This includes the following:

Occupancy Type	# in Jurisdiction	# of Inspections
R1s ("hotel, motel, lodging houses")	20	20
R1s that are also High Rises	3	3
R2s ("apartment houses")	2,537	2,537
R2 that are also High Rises	1	1
R2.1 ("supervised residential")	5	5
R4s ("residential/assisted living")	1	1
Es ("public and private schools")	38	38

This represents inspection rate of 100% of all required facilities.

In conformance with Senate Bill 1205, staff recommends the adoption of the resolution shown as

Attachment 8.

Mind OC Contract Extension
Since its successful launch in May 2021, Be Well HB, a pilot mobile crisis response program has become a critical City resource to help with a variety of non-emergency public assistance situations such as mental health crisis, addiction, and homelessness.

Council approval is requested to extend the contract with the service provider, Mind OC, for an additional three years until June 30, 2026 (Attachment 9), with an annual contract amount of not-to-exceed $1.5 million. The cost for FY 2023/24 will be 100% covered by a portion of the $500,000 federal grant from the U.S. Department of Health and Human Services and $1.5 million state grant from the California Dept. of Health Care Services. Funding for the two subsequent years will be incorporated into the respective annual operating budgets and program costs may be reduced or eliminated, contingent upon the funding availability in each given year.

National Development Council Contract
The National Council for Community Development (NDC) provides technical assistance services for housing and economic development activities for the Community Development Department. An existing three-year contract will expire at the beginning of FY 2023/24. Council approval is requested for a new two-year agreement until June 30, 2025 (Attachment 10) with total compensation not to exceed $156,818. Funding for this contract is incorporated in the Community Development Block Grant and HOME program administrative costs, and the Community Development Department's annual operating budget. The contract procurement required through Municipal Code 3.03 was completed through an executed interagency agreement with San Joaquin County.

Environmental Status:
Not applicable

Strategic Plan Goal:
Community Engagement
Homeless Response
Economic Development & Housing
Infrastructure & Parks
Fiscal Sustainability, Public Safety or Other

Attachment(s):
1. Public Hearing Notice
2. Resolution No. 2023-24, "A Resolution of the City Council of the City of Huntington Beach Adopting a Budget for the City for Fiscal Year 2023/2024"
3. Professional Services included in the Fiscal Year 2023/2024 Budget
4. Resolution No. 2023-25, "A Resolution of the City Council of the City of Huntington Beach Establishing the Gann Appropriation Limit for Fiscal Year 2023/2024"
5. Resolution No. 2023-23, "A Resolution of the City Council of the City of Huntington Beach Levying a Retirement Property Tax for Fiscal Year 2023/2024 to Pay for Pre-1978 Employee Retirement Benefits"

6. Resolution No. 2023-27, “A Resolution of the City Council of the City of Huntington Beach Amending the City’s Classification Plan by Adding the Classifications of Graphic Designer, Multimedia Officer, and Municipal Records Manager”
7. Resolution No. 2023-28, “A Resolution of the City Council of the City of Huntington Beach Adopting a Revised General Fund Reserve Policy”
8. Resolution No. 2023-26, “A Resolution of the City Council of the City of Huntington Beach, California Acknowledging Receipt of a Report Made by the Fire Chief of the Huntington Beach Fire Department Regarding the Inspection of Certain Occupancies Required to Perform Annual Inspections in such Occupancies Pursuant to Sections 13146.2 and 13146.3 of the California Health and Safety Code”
9. Amendment No. 2 to Agreement between the City of Huntington Beach and Mind OC for Pilot Mobile Crisis Response Program
10. Professional Services Contract between the City of Huntington Beach and National Council for Community Development (NDC) for Technical Assistance Services
11. FY 2023/24 Budget Adoption Presentation