



# City of Huntington Beach

File #: 24-195

MEETING DATE: 3/19/2024

## REQUEST FOR CITY COUNCIL ACTION

**SUBMITTED TO:** Honorable Mayor and City Council Members

**SUBMITTED BY:** Eric G. Parra, Interim City Manager

**VIA:** Sunny Han, Chief Financial Officer

**PREPARED BY:** Sunny Han, Chief Financial Officer

**Subject:**

**Year-End Audit Results for the FY 2022/23 Annual Comprehensive Financial Report (ACFR), Fiscal Year 2023/24 Budget Update, and Fiscal Year 2023/24 Mid-Year Budget Adjustments**

**Statement of Issue:**

**Fiscal Year 2022/23 Year-End Audit Results**

The City received an Unmodified (Clean) Audit Opinion for the City's Fiscal Year (FY) 2022/23 Annual Comprehensive Financial Report (ACFR), which is the highest audit result attainable. In addition, the Government Finance Officers Association awarded their Certificate of Achievement for Excellence in Financial Reporting to the City for the 37th consecutive year. Included as an attachment is the FY 2022/23 ACFR to receive and file.

**Fiscal Year 2023/24 Budget Update and Mid-Year Adjustments**

The Finance Department has prepared a mid-year budget review for the fiscal year that began on July 1, 2023. In interfacing with operating departments, budgetary requests have been assessed across all City departments, and certain adjustments are being recommended based on available resources in the General Fund, through grants and/or restricted funds.

**Financial Impact:**

**Fiscal Year 2023/24 Mid-Year Adjustments**

1. General Fund (100) budget adjustments are requested as follows:
  - a. Community & Library Services Department - funding for contract class instructors (\$246,187) offset by additional recreation fee revenues for a net zero impact.
  - b. Fire Department - funding for Fire Strike team reimbursement costs (\$480,000) offset with strike team reimbursement revenues for a net zero impact and emergency medical supplies (\$117,000) offset with emergency medical services revenue for a net zero impact.

2. The Public Works Department is requesting additional appropriations of \$7,350 in the Local Road Safety Plan (LRSP) Grant Fund 1272 offset with additional grant revenue for a net zero impact.

There are sufficient revenues, cash, and/or fund balances to support the above referenced adjustments.

**Recommended Action:**

- A) Receive and File the FY 2022/23 Annual Comprehensive Financial Report and other auditor-issued reports; and,
- B) Approve mid-year budget adjustments to the FY 2023/24 Revised Budget in the funds and by the amounts contained in Attachment 3.

**Alternative Action(s):**

Do not approve the recommended action(s) and direct staff accordingly. Denial of Mid-Year budget adjustment requests would result in insufficient funding for critical areas and potential loss of grant funding.

**Analysis:**

**Fiscal Year 2022/23 Year-End Audit Results**

Auditing firm Davis Farr LLP (Auditors) audited the City's financial statements and internal control for the FY 2022/23. The City received an Unmodified (Clean) Audit Opinion for the FY 2022/23 Annual Comprehensive Financial Report (ACFR), which is the highest opinion possible (Attachment 1).

In addition, the Auditors issued the following reports (Attachment 2):

- AU-C 260 Letter: Auditor's Communications with Those Charged with Governance
- Appropriations Limit Agreed-Upon Procedures
- Air Quality Management District (AQMD) Report

**Fiscal Year 2023/24 Budget Update**

The City ended FY 2022/23 with a \$3.7 million General Fund surplus, after year-end transfers of \$12.62M to partially fund unfunded liabilities (Workers' Compensation, General Liability, Retirement Supplemental) and Infrastructure needs.

For FY 2023/24, after 29 months of post-pandemic jobs growth in California, employment growth was flat in September 2023 and declined in October 2023. California consumers and businesses are spending less, while also shifting their spending from taxable goods, such as new car sales, to nontaxable items, such as travel, leisure, and entertainment. As a result, FY 2023/24 General Fund sales tax revenues are projected to decline by approximately \$1.3 million. Utility tax and franchise fee

revenues are also lower than the prior year due to one-time natural gas spikes during FY 2022/23. In spite of these challenges, property tax revenues, the City's largest General Fund revenue source (36.7%), continues to remain strong, with revenue projected to be slightly above the adopted budget due to increased supplemental property taxes. The City is expected to end FY 2023/24 with a \$2.0 million surplus, including the mid-year budget items proposed within this report.

### General Fund Five-Year Financial Forecast:

(in thousands)	Actual FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27	Projected FY27/28
Revenue (Recurring)	281,337	282,969	287,221	294,366	301,718	309,310
Revenue (One-Time)*	31,380	2,276	-	-	-	-
Planned Use of Reserves	-	8,804	-	-	-	-
<b>Total Sources of Funds</b>	<b>312,717</b>	<b>294,049</b>	<b>287,221</b>	<b>294,366</b>	<b>301,718</b>	<b>309,310</b>
Expenditures less UAL	254,720	264,960	269,807	281,813	290,201	297,443
CalPERS UAL	4,891	5,000	5,223	8,981	12,727	16,458
POB Payment	13,663	13,276	13,010	12,750	12,537	12,537
One-Time Expenditures	18,721	8,804	-	-	-	-
<b>Total Expenditures</b>	<b>291,995</b>	<b>292,040</b>	<b>288,040</b>	<b>303,544</b>	<b>315,465</b>	<b>326,438</b>
Restricted Reserves	16,978	-	-	-	-	-
<b>Surplus/(Deficit)</b>	<b>\$3,744</b>	<b>\$2,009</b>	<b>(\$819)</b>	<b>(\$9,178)</b>	<b>(\$13,747)</b>	<b>(\$17,128)</b>

The Five-Year Financial Forecast above shows the balance of General Fund expenditures for five fiscal years following the audited fiscal year ended June 30, 2023. The revenue projections include updated assumptions based on economic trends and the most recent projections by sales tax and property tax experts. The expenditure projections include the future impacts of the FY 2021/22 CalPERS investment return of -7.5 percent and FY 2022/23 investment return of 6.1 percent and assume a 6.8 percent rate of return thereafter (the CalPERS discount rate). As CalPERS investment gains and losses are amortized over 20 years with a five-year ramp up, only the first three years of the -7.5 percent return are shown in the Five-Year Forecast. The projections for future fiscal years also include increased expenditures for Worker's Compensation based on the increased cost of claims due to rising medical costs and an expanded list of injuries that are presumed to be work related under California law, as well as the increased cost for General Liability premiums based on the national trend of rising cyberthreats, natural disaster losses and growing number of insurers withdrawing from California and from writing public entity liability.

### **Fiscal Year 2023/24 Mid-Year Adjustments**

The FY 2023/24 Budget was adopted by City Council on June 26, 2023, for the fiscal year beginning July 1, 2023. The Finance Department has compiled recommended budget adjustments to cover additional costs and/or provide appropriations necessary to expend funds that have been received for specific purposes. The City has received revenues that will support the requested adjustments in the General Fund. The Other Funds adjustment will be funded by available grant revenue.

**General Fund**

The Community & Library Services Department is requesting appropriations to meet increased demand for recreational and Art Center class contract instructors (\$246,187). These costs will be offset by additional recreation fee revenues, resulting in a net zero impact to the General Fund.

The Fire Department participates in the California Fire and Rescue Emergency Mutual Aid System, and the department has responded to multiple mutual aid requests to assist in major fires over the past years. The State of California will fully reimburse Huntington Beach for all allowable Strike Team expenditures and will reimburse an additional 14.57% administrative rate applied to these allowable expenditures.

The Fire Department has incurred \$480,000 in Strike Team expenditures for FY 2023/24 so far. Since there is no annual appropriation for this business unit, given that Strike Team costs are unknown until costs are incurred, the Fire Department is requesting a budget appropriation of \$480,000, which will be fully reimbursed by the State.

To meet the operational demands of increased vendor prices and increased medical calls, the Fire Department is requesting a budget appropriation of \$117,000 for emergency medical supplies. Additional emergency medical service revenues are anticipated to offset the added costs.

**Other Funds**

Local Road Safety Plan (LRSP) (Fund 1272)

The City was awarded \$147,000 in State grant funds in September 2021 for development of a Local Road Safety Plan. To date, \$139,650 of the total grant award has been appropriated. Staff is requesting appropriation of the remaining grant funds in the amount of \$7,350. There are sufficient offsetting grant revenues, resulting in a net zero impact.

**Environmental Status:**

Not applicable

**Strategic Plan Goal:**

Non Applicable - Administrative Item

**Attachment(s):**

1. FY 2022/23 Annual Comprehensive Financial Report (ACFR)
2. Other Auditor Issued Reports
3. Fiscal Year 2023/24 Recommended Mid-Year Adjustments
4. FY 2023/24 Budget Update and Mid-Year Budget Adjustments Presentation