



City of Huntington Beach

File #: 21-426

MEETING DATE: 6/1/2021

REQUEST FOR CITY COUNCIL ACTION

SUBMITTED TO: Honorable Mayor and City Council Members

SUBMITTED BY: Oliver Chi, City Manager

PREPARED BY: Dahle Bulosan, Chief Financial Officer

Subject:

Consider Adopting Resolution No. 2021-38 to Adopt a Budget for the City for Fiscal Year 2021/2022; Resolution No. 2021-41 establishing the Gann Appropriation Limit for Fiscal Year 2021/2022; Resolution No. 2021-40 Levying a Retirement Property Tax for Fiscal Year 2021/2022 to Pay for Pre-1978 Employee Retirement Benefits; Resolution No. 2021-37 Setting Advanced Life Support, Basic Life Support, and Emergency Ambulance Transportation Fees to be Charged by the Fire Department; Resolution No. 2021-36 Amending the Community & Library Services Department Charges for Entrance To or Use of City Property (Supplemental Fee Resolution 14);

Approve for introduction Ordinance No. 4232 Amending Huntington Beach Municipal Code Chapters 10.04 and 10.60 Relating to On-Street Parking Meter Zones;

Approve the purchase of certain capital equipment and authorize the City Manager to enter into all documents necessary to acquire and lease finance the purchase of the capital equipment at an interest rate not to exceed 2.25%; approve the refinancing of the City's four outstanding capital leases at an interest rate not to exceed 1.50%, and authorize the City Manager or designee to take all administrative and budgetary actions necessary to complete the refinancing; and,

Authorize the Mayor to establish a three-person City Council Ad-Hoc Subcommittee to review expenditure opportunities and make recommendations to the City Council on how to best utilize funds received through the American Rescue Plan Act (ARPA)

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, 2021, for Fiscal Year (FY) 2021/2022.

Financial Impact:

Employee Tax Override: Pursuant to Chapter 3.07 of the Municipal Code, the Proposed Budget for FY 2021/22 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 \$6.8 million in revenue in FY 2019/20. This recurring revenue source is included in the Proposed FY 2021/22 Budget.

Capital Equipment Financing: The replacement of three helicopters, one fire engine, and one rescue boat is included in the City's Capital Equipment Replacement program for FY 2021/22. Staff recommends the financing of the capital equipment, not to exceed \$8.75 million, through a ten-year lease-purchase agreement. Based on a conservative interest rate estimate of 2.25%, the estimated annual debt service payment would be \$986,892, which is included in the FY 2021/22 proposed budget.

Additionally, refinancing the City's current outstanding capital equipment loans at a conservative interest rate estimate of 1.50% would reduce General Fund debt service expenditures by ~\$43,000 over the life of the loans.

Emergency Medical Service (EMS) Fees: Updating the EMS fees in accordance with the most recent EMS fee study would increase General Fund revenues by ~\$1.1 million annually.

Parking Rate Adjustments: Changing the parking rates to incorporate seasonal rate changes and align with neighboring cities would generate an additional ~\$1.68 million in General Fund revenue annually.

Recommended Action:

A) Adopt Resolution No. 2021-38, "A Resolution of the City Council of the City of Huntington Beach Adopting a Budget for the City for Fiscal Year 2021/22;" and,

B) Authorize the Professional Services included in the FY 2021/2022 budget to be representative of the services projected to be utilized by departments in FY 2021/2022; and,

C) Approve budget adjustments to the FY 2021/2022 Proposed Budget in the Funds and by the amounts contained in Attachment 2, Exhibit A-1; and,

D) Adopt Resolution No. 2021-41, "A Resolution of the City Council of the City of Huntington Beach Establishing the Gann Appropriation Limit for Fiscal Year 2021/2022" of \$1,049,513,696;" and,

E) Adopt Resolution No. 2021-40, "A Resolution of the City Council of the City of Huntington Beach Levying a Retirement Property Tax for Fiscal Year 2021/2022 to Pay for Pre-1978 Employee Retirement Benefits;" and,

F) Approve the purchase and 10-year lease financing for the replacement of the City's three helicopters, fire engine, and rescue boat at an amount not to exceed \$8.75 million, with an annual interest rate not to exceed 2.25%, and authorize the City Manager or designee to enter into any and all documents to finance the purchase of the capital equipment and take all administrative and budgetary actions necessary to complete the purchase and financing; and,

G) Approve the refinancing of the City's four outstanding capital leases (Schedules 1000141779, 1000142350, 1000143109, and 1000146094) at an annual interest rate not to exceed

1.50%, and authorize the City Manager or designee to enter into any and all documents and take all administrative and budgetary actions necessary to complete the refinancing; and,

H) Adopt Resolution No. 2021-37, "A Resolution of the City Council of the City of Huntington Beach Setting Advanced Life Support, Basic Life Support, and Emergency Ambulance Transportation Fees to be Charged by the Fire Department of the City of Huntington Beach;" and,

I) Approve for Introduction Ordinance No. 4232, "An Ordinance of the City of Huntington Beach Amending Chapters 10.04 and 10.60 of the Huntington Beach Municipal Code On-Street Parking Meter Zones;" and,

J) Adopt Resolution No. 2021-36, "A Resolution of the City Council of the City of Huntington Beach Amending the Community Services & Library Department Charges for Entrance To or Use of City Property by Amending Resolution 2016-59, as Amended by Resolution Nos. 2017-28, 2017-44, 2017-46, 2018-01, 2018-29, 2018-48, 2018-55, 2019-07, 2019-19, 2019-87, 2020-37, 2021-17, and 2021-18, which Established a Consolidated Comprehensive Citywide Master Fee and Charges Schedule (Supplemental Fee Resolution 14); and,

K) Authorize the Mayor to establish a three-person City Council Ad-Hoc Subcommittee to review expenditure opportunities and make recommendations to the City Council on how to best utilize funds received through the American Rescue Plan Act.

Alternative Action(s):

Continue the Public Hearing until June 15, 2021, and instruct City staff regarding changes to be incorporated into the budget.

Analysis:

As required by the City Charter, the City Manager submitted the FY 2021/2022 Proposed Budget to the City Council on May 11, 2021. The Proposed Budget and the Five-Year Capital Improvement Program (CIP) were also discussed at a City Council Study Session held on May 17, 2021.

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 1, 2021.

Overview

Over the past year, the City has come together as **OneHB** to address the fiscal and public health challenges of the COVID-19 pandemic. Through the leadership and support of the City Council, the City executed a Separation Incentive Program and comprehensive restructuring of all operating departments, which is estimated to save the City \$6 million annually. In March 2021, the City refinanced 85 percent of its pension debt to save the City approximately \$166.7 million and mitigate significant fluctuations in pension costs from year to year. Inclusive of these significant budget measures, the

FY 2021/2022 Proposed Budget also includes the restoration of temporary operating cuts made in response to the COVID-19 pandemic, reflects the addition of four (4) full-time positions, and prioritizes improvements to the City's facilities, roads, and parks.

The FY 2021/2022 Proposed Budget is structurally balanced and totals \$424.4 million across All Funds. This reflects a \$65.4 million, or 18.2 percent, increase from the FY 2020/2021 Adopted All Funds Budget of \$359.0 million. A significant portion of the increase is due to added investment in essential infrastructure and equipment, restoration of COVID-19 temporary cost saving measures, and the establishment of the Pension Liability Fund required as part of the Pension Obligation Bond issuance.

For FY 2021/2022, General Fund revenue is projected at \$228.0 million, an \$11.1 million or 5.1 percent increase from the current year's Adopted Budget. Major sources of General Fund revenue include Property Tax, Sales Tax, Utility Users Tax, and Transient Occupancy Tax, among others. The largest increases in General Fund revenue are in Sales Tax and Transient Occupancy Tax, with expected revenues totaling \$44.6 million and \$10.7 million, respectively. Most of the increases from these two revenue sources are attributable to the projected positive impacts resulting from widespread

COVID-19 vaccinations, loosening public health orders, and the re-opening of businesses for indoor dining and shopping.

The Proposed General Fund Expenditure Budget totals \$228.0 million; an \$11.1 million, or 5.1 percent increase, compared to the FY 2020/2021 Adopted Budget of \$216.9 million. The increase is mainly due to the added Section 115 Trust pension liability set-aside, increased investment in infrastructure and equipment, and restoration of expenditure reductions made in response to the COVID-19 pandemic. The Proposed General Fund Budget has no reliance on one-time revenues to fund ongoing operations.

The FY 2021/2022 Proposed Budget includes 962.25 Full Time Equivalents (FTEs); an increase of four (4) FTEs across all funds compared to FY 2020/2021. The new positions include one (1) Administrative Aide and one (1) Administrative Analyst in Public Works to focus on the Smart Cities Initiative and sustainability projects and programs, one (1) Principal Administrative Analyst in the Administrative Services Department to oversee Citywide performance management and data analysis, and one (1) Deputy Director of Homeless and Behavioral Services dedicated to coordinating the City's homeless response efforts.

The FY 2021/2022 Proposed Budget was carefully prepared to balance immediate priorities, along with the need for long-term investments. 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.

Revisions to the Proposed Budget

The FY 2021/2022 Proposed Budget presented to the City Council on May 17, 2021, totaled \$424.2 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 2021/2022 was calculated as follows:

FY 2020/2021 Appropriation Limit	\$1,001,044,445
Multiplied by percentage grown in State Per Capita Personal Income	1.0573
<u>Multiplied by change in County Population</u>	<u>0.9916</u>
Proposed FY 2021/2022 Appropriation Limit	\$1,049,513,696

Appropriations of revenues controlled by the Gann Limit are primarily in the General Fund. The General Fund proposed appropriation for FY 2021/2022 of \$228.0 million is significantly below this appropriation limit (Attachment 4).

Examples of proceeds of taxes governed by the Gann Appropriation Limit include 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 2021/22 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 2021/22 will represent the tenth 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 age 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 \$25.3 million. As such, the proposed tax rate is recouping only 26 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 2021/22.

Public Hearing

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

Capital Equipment Financing

The City's FY 2021/22 capital equipment plan includes the replacement of three MD520N helicopters that were placed into service in 1998, 2001, and 2007. The City has issued a Request for Proposals for the purchase of three new helicopters, which includes the sale of the existing helicopters. The anticipated cost of the helicopter acquisition, net of the estimated sale proceeds of ~\$2.5 million, is anticipated to be ~\$7.3 million.

The budget also includes the replacement of a high usage fire engine that was placed into service in 2002 with a Pierce model to ensure interoperability. The replacement fire engine will be obtained from Pierce Manufacturing through South Coast Fire Equipment and is anticipated to cost \$867,440. Competitive pricing was obtained through an interagency transaction with the City of Los Angeles.

The City currently has three Lifeguard rescue boats, with the oldest (33 years) recommended for replacement. The cost of the new boat is estimated at \$583,000 and will be competitively bid.

Staff is recommending financing the costs for the replacement of the helicopters, fire engine, and boat. The City's existing Master Lease Agreement with JP Morgan Chase would be amended to include the lease-purchase of these critical pieces of public safety equipment at an estimated total cost not to exceed \$8.75 million, with an interest rate not to exceed 2.25%. The estimated first year debt service of \$986,892 for a 10-year loan is included in the City's Proposed FY 2021/22 budget.

The City currently has four capital equipment leases with an outstanding principal balance of \$4,051,527 with interest rates between 1.71-2.234% for the acquisition of two North Star ambulances, two Pierce fire engines, and 800 MHz backbone and related equipment. Currently, interest rates have lowered to the point where refinancing the outstanding loans will be economically beneficial. The proposed no-cost refinancing at a conservative interest rate of 1.50% would save the City ~\$43,000 over the life of the loan. The amortization schedule of the proposed refinancing is structured to coincide on a fiscal year basis with the maturity dates of the loans being refinanced.

Emergency Medical Service (EMS) Fees

Fire Department fees for emergency medical services were last adjusted in 2012. The City engaged the Matrix Group to evaluate cost of service relationships between the City and its customers for emergency medical services. A top-down approach was used to distribute the cost recovery for these services across all users. The proposed fees will eliminate the current deficit between the City's actual costs and the existing fees, while remaining in alignment with neighboring jurisdictions. The following proposed fee schedule was prepared by The Matrix Group in cooperation with City staff:

Fee Description	Current Fee	Recommended Fee
Basic Life Support (BLS) Base Rate *	\$1,130	1,655
Advanced Life Support (ALS) Surcharge	100	174
Non-Resident Surcharge	450	474
Treat No transport Fee	350	366
Mileage	\$16.54/mile	\$15.77/mile
Oxygen	81	115
EKG	\$60-100	64

* The BLS Base Rate previously approved with Resolution 2021-61 includes Emergency Transport Fees of \$717.07, BLS

The recommended fee schedule shown above sets all rates at full cost recovery. Additionally, the schedule would eliminate the itemized charges of medical supplies and medications to allow for a more streamlined billing and recording process.

FireMed rates will remain unchanged and members will continue to be protected against any out-of-pocket costs, if they are insured, and uninsured members will continue to receive a 20% reduction of the fees.

Parking Rate Adjustments**Hourly Parking Meter Rates**

Staff conducted a review of surrounding beach cities, including Laguna Beach and Newport Beach, and is proposing changing the metered parking rate from a year-round \$2.00 hourly rate to a seasonal rate ranging from \$2.25-3.00 per hour, as shown below:

Meter Zone	Current Rate	Proposed Rate	
	Year Round	Off-Peak	Peak Season
Downtown/Residential	\$2.00	\$2.25	\$3.00
Bluff Top, Dog Beach, PCH, Warner Lot, 1st 2nd Atlanta	2.00	2.25	2.50
Pier Plaza (lots north/south of pier)	2.00	2.25	3.00
Beach Blvd	2.00	2.25	2.25

The proposed peak season rates would be in effect from Memorial Day weekend through Labor Day, and are comparable to the rates at surrounding beach cities. Other administrative changes pertaining to the proposed Ordinance include the movement of the Southside Atlanta meters from residential to recreational zoning.

South Beach Attended Lots

Staff is proposing to increase the current daily rates for the South Beach attended lots from \$15 to

\$20 per day for autos, pickup trucks, motorcycles, and vehicles over 20 feet in length during the following periods:

- Saturdays and Sundays during peak season, as defined above
- Memorial Day
- Labor Day

Rates for the South Beach Attended Lots were last adjusted in November 2009. The proposed rate increase would not affect vehicles with disabled person placards. Additionally, the annual beach parking pass rate will remain unchanged.

Main Promenade Parking Structure

Based on review of the Main Promenade Parking Structure rates, staff is proposing the elimination of the current customer validation program with a revised rate schedule that includes 90 minutes of free downtown parking in the structure, followed by \$1.00 for each 20-minute period thereafter. The revised rate structure would benefit all Downtown businesses, including those not currently participating in the customer validation program, and encourage patrons to park in the structure instead of the nearby residential areas.

In addition, staff is proposing that the maximum daily rate be increased from \$17.00 to \$20.00 during the peak season to align with the proposed South Beach Attended Lot rates. Staff is also recommending that the current Peak - Holiday and Special Event rate be removed and replaced with the maximum daily rate of \$20.00 during the peak season.

The current and proposed rate structures are shown below:

CURRENT RATE STRUCTURE

First 30 minutes	No Charge
Up to Two Hours (includes first 30 minutes)	\$1.00/hour
After Two Hours	\$1.00/Each 20 minutes
Customer Validation/hour (Max two validations per ticket)	\$.50/hour

PROPOSED RATE STRUCTURE

First 90 minutes	No Charge
After 90 minutes	\$1.00/Each 20 minutes
After 90 minutes - 4th of July and Air Show**	\$2.00/Each 20 minutes

Maximum Daily Rates

	<u>Current</u>	<u>Proposed</u>
Off-Peak	\$ 15.00	No change
Peak Season*	17.00	20.00
Peak Season - Holidays and Special Events	20.00	Remove

*Currently, peak season is defined as Memorial Day-Labor Day. This would be changed to Memorial Day weekend-Labor Day weekend to align with the proposed seasonal hourly parking meter rate changes.

** Includes two additional days immediately preceding and/or following July 4th as selected by the Director of Community & Library Services and Three-Day Air Show Event.

General Fund Impact

The proposed parking rate adjustments described above would have the following impact to General Fund revenues:

- **Parking Meter Adjustments:** Annual increase of ~\$1.32M
- **South Beach Seasonal Attended Parking Lot Fee Adjustments:** Annual increase of ~\$376k
- **Main Promenade Parking Structure Adjustment:** Annual decrease of ~\$16k

If approved, the hourly parking meter adjustments would take effect July 15th, and all other rate adjustments would take effect June 2nd.

American Rescue Plan Act (ARPA)

The American Rescue Plan Act of 2021 provides \$1.9 trillion in funding, program changes, and tax policies aimed at mitigating the effects of the COVID-19 pandemic, and includes \$350 billion in funding to state, local, territorial, and tribal governments. The City is estimated to receive \$29.6 million, to be allocated in two distributions, the first of which was received in May 2021, and the second to be received the following year. On May 10, 2021, the Department of Treasury released the Interim Final Rule for the use of the Coronavirus State and Local Fiscal Recovery Funds (CSLFRF), which includes the following objectives:

- Support urgent COVID-19 response efforts to continue to decrease spread of the virus and bring the pandemic under control;
- Replace lost revenue for eligible state, local, territorial, and Tribal governments to strengthen support for vital public services and help retain jobs;
- Support immediate economic stabilization for households and businesses; and,
- Address systemic public health and economic challenges that have contributed to the inequal impact of the pandemic.

The CSLFRF provides substantial flexibility for local governments to meet local needs and can also be used to make necessary investments in water, sewer, and broadband infrastructure. The funds must be used on eligible costs encumbered between March 3, 2021, and December 31, 2024.

Staff is recommending the creation of an ARPA subcommittee to review potential uses of the funds under the following framework:

- Repair **past** COVID-19 impacts
- Respond to **present** needs
- Plan for HB's **future**

Final guidance on eligible uses of ARPA funding and related reporting is expected from the Department of Treasury after the 60-day comment window for the Interim Final Rule.

Environmental Status:

Not applicable.

Strategic Plan Goal:

Organizational Fiscal Stability
Community Engagement
Homelessness Response
Economic Development & Housing
Infrastructure & Parks
COVID-19 Response

Attachment(s):

1. Public Hearing Notice
2. Resolution No. 2021-38, "A Resolution of the City Council of the City of Huntington Beach Adopting a Budget for the City for Fiscal Year 2021/2022"
3. Professional Services included in the Fiscal Year 2021/2022 Budget
4. Resolution No. 2021-41, "A Resolution of the City Council of the City of Huntington Beach Establishing the Gann Appropriation Limit for Fiscal Year 2021/2022"
5. Resolution No. 2021-40, "A Resolution of the City Council of the City of Huntington Beach Levying a Retirement Property Tax for Fiscal Year 2021/2022 to Pay for Pre-1978 Employee Retirement Benefits"
6. Master Lease Purchase Agreement
7. Capital Equipment Lease Documents and Opinion of Counsel
8. Refinancing Lease Documents and Opinion of Counsel
9. Resolution No. 2021-37, "A Resolution of the City Council of the City of Huntington Beach Setting Advanced Life Support, Basic Life Support, and Emergency Ambulance Transportation Fees to be Charged by the Fire Department of the City of Huntington Beach"
10. Ordinance No. 4232, "An Ordinance of the City of Huntington Beach Amending Chapters 10.04 and 10.60 of the Huntington Beach Municipal Code On-Street Parking Meter Zones"
11. Legislative Draft of Ordinance No. 4232
12. Resolution No. 2021-36, "A Resolution of the City Council of the City of Huntington Beach Amending the Community Services & Library Department Charges for Entrance To or Use of City Property by Amending Resolution 2016-59, as Amended by Resolution Nos. 2017-28, 2017-44, 2017-46, 2018-01, 2018-29, 2018-48, 2018-55, 2019-07, 2019-19, 2019-87, 2020-37, 2021-17, and 2021-18, which Established a Consolidated Comprehensive Citywide Master Fee and Charges Schedule (Supplemental Fee Resolution 14)"