2000 Main Street,
Huntington Beach, CA
92648

City of Huntington Beach

File #: 23-157 **MEETING DATE:** 2/21/2023

REQUEST FOR CITY COUNCIL ACTION

SUBMITTED TO: Honorable Mayor and City Council Members

SUBMITTED BY: Al Zelinka, City Manager

VIA: Sunny Rief, Acting Chief Financial Officer

PREPARED BY: Sunny Rief, Acting Chief Financial Officer

Subject:
Year-End Audit Results for the FY 2021/22 Annual Comprehensive Financial Report (ACFR), Fiscal Year 2022/23 Mid-Year Budget Adjustments, and Fiscal Year 2022/23 Budget Update and Fiscal Health Report

Statement of Issue:

Fiscal Year 2022/23 Budget Update and Fiscal Health Report
On January 17, 2023, the City Council approved Mayor Pro Tem Van Der Mark's H-Item request for a comprehensive report on the state of the City's budget and financial health, as well as staffing levels, vacancies, the costs of filling vacancies, and any other aspect of citywide reorganization or planned increase in fiscal responsibility and economic efficiency. This Request for Council Action provides the information requested for City Council's consideration.

Fiscal Year 2021/22 Year-End Audit Results
The City received an Unmodified (Clean) Audit Opinion for the City's Fiscal Year (FY) 2021/22 Annual Comprehensive Financial Report (ACFR), which is the best 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 36th consecutive year. Included as an attachment is the FY 2021/22 ACFR to receive and file.

Fiscal Year 2022/23 Mid-Year Adjustments
The Finance Department has also spent time recently performeding a mid-year budget review for the fiscal year that began on July 1, 2022. 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 2022/23 Mid-Year Adjustments

1. General Fund (100) budget adjustments are requested as follows:
   a. Community & Library Services Department - funding for contract class instructors and increased printing costs for the spring and summer SANDS ($537,000) offset by additional recreation fee revenues for a net zero impact.
   b. Community Development Department - funding for increased building plan check services ($700,000) offset with plan check revenues for a net zero impact.
   c. Finance Department - funding for credit card processing fees arising from credit card payments made through the City's Enterprise Land Management System (ELM) ($115,000)
   d. Fire Department - funding for Fire Strike team reimbursement costs ($525,000) offset with strike team reimbursement revenues for a net zero impact and emergency medical supplies ($175,000) offset with emergency medical services revenue for a net zero impact.
   e. Police Department - funding for increased costs related to the County-wide 800MHz backbone cost sharing agreement ($189,000)
   f. Public Works Department - funding for increased fuel costs ($752,000) and increased vehicle maintenance and accident repair costs ($590,000)
   g. Non-Departmental - funding for increased natural gas costs ($250,000); a transfer to the Equipment Replacement Fund ($500,000 for item 5 below); a transfer to the Workers' Compensation Fund ($4,300,000 for item 4 below); and a transfer to the Section 115 Trust Fund ($2,000,000) to further protect the City from future pension cost increases.
2. The Police Department is requesting additional appropriations totaling $810,000, through the following sources:
   a. Narcotics Forfeiture - Federal Fund 212 ($60,000)
   b. Supplemental Law Enforcement Services Fund 984 ($750,000)
3. The Public Works Department is requesting additional appropriations of $531,000 in the Refuse Collection Fund 504 offset with refuse collection revenue for a net zero impact.
4. The Human Resources Department is requesting appropriations of $4,300,000 in the Workers' Compensation Fund 551 offset with transfers in from the General Fund for a net zero impact.
5. The Non-Departmental Department is requesting appropriations of $500,000 in the Equipment Replacement Fund 324 offset with transfers in from the General Fund for a net zero impact.
6. The Community Development Department is requesting to approve, accept and authorize execution of a grant agreement with the State of California Energy Commission and corresponding appropriations of $80,000 in a new CalAPP Grant Fund offset with grant revenues for a net zero impact.
7. The Community Development Department is requesting approval to amend a professional services contract with CSG Consultants, Inc. and corresponding increase in Professional Services Authority of $200,000 and to amend a professional services contract with True North Compliance Services, Inc. and corresponding increase in Professional Services Authority of $200,000.

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

Recommended Action:

A) Receive and File the FY 2021/22 Annual Comprehensive Financial Report and other auditor-issued reports; and

B) Receive and file the FY 2022/23 Budget Update and Fiscal Health Report (Attachment 8); and,

B) Approve mid-year budget adjustments to the FY 2022/23 Revised Budget in the funds and by the amounts contained in Attachment 3; and,

C) Authorize additional Professional Services authority in the Fiscal Year 2022/23 Revised Budget in the departments and by the amounts contained in Attachment 4; and,

D) Approve and authorize the Mayor and City Clerk to execute "Amendment No. 1 to Agreement between the City of Huntington Beach and CSG Consultants, Inc. for On-Call Building Division Plan Review Services" (Attachment 5); and,

E) Approve and authorize the Mayor and City Clerk to execute "Amendment No. 1 to Agreement between the City of Huntington Beach and True North Compliance Services, Inc. for On-Call Building Division Plan Review Services" (Attachment 6); and,

F) Accept, approve and authorize the City Manager to execute the grant agreement with the State of California Energy Commission in the amount of $80,000 (Attachment 7).

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 including Worker's Compensation, utilities, and other core services and potential loss of grant funding.

Analysis:

Fiscal Year 2021/22 Year-End Audit Results

Auditing firm Davis Farr LLP (Auditors) audited the City's financial statements and internal control for the FY 2021/22. The City received an Unmodified (Clean) Audit Opinion for the FY 2021/22 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 2022/23 Budget Update and Fiscal Health Report

Fiscal Year 2022/23 Budget Update

The City ended FY 2021/22 with a $3.4 million General Fund surplus, primarily due to stronger recovery in Sales Tax ($5.4M, or 12.1% increase from prior year) and Transient Occupancy Tax (TOT) ($5.4M, or 51.8% increase from prior year) than originally anticipated.

General Fund revenues for FY 2022/23 remain strong, with Transient Occupancy Tax TOT expected to increase $1.7M, or 10.8% from the prior year. Additionally, Charges for Services revenues are also anticipated to increase ($4M, or 14% from prior year), primarily through increases in building and planning permit activity and demand for emergency medical services. However, inflationary pressures have impacted expenditures, with costs for construction, utilities, and contracted services coming in above budget. In spite of this challenge, the City is expected to end FY 2022/23 with a $3.8M surplus while still funding increased costs for planned expenditures.

General Fund Five-Year Financial Forecast (in thousands):

General Fund Five Year Forecast						
(in thousands)	Actual FY21/22	Projected FY22/23	Projected FY23/24	Projected FY24/25	Projected FY25/26	Projected FY26/27
Revenue (Recurring)	$256,246	$273,293	$276,763	$282,097	$287,695	$293,546
Revenue (One-Time)	-	29,607	-	-	-	-
Total Revenues	**$256,246**	**$302,900**	**$276,763**	**$282,097**	**$287,695**	**$294,546**
Expenditures less UAL	234,277	251,031	256,408	262,956	269,158	274,718
CalPERS UAL	4,891	4,891	5,000	5,000	8,270	12,380
POB Payment	13,688	13,556	13,276	12,989	12,687	12,537
One-Time Expenditures	-	16,135	-	-	-	-
Total Expenditures	**252,856**	**285,613**	**274,684**	**280,945**	**290,115**	**299,635**
HB Recovery Reserves	-	(13,472)	-	-	-	-
Surplus/(Deficit)	**$3,390**	**$3,815**	**$2,078**	**$1,153**	**$ (2,421)**	**$ (6,089)**

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, 2022. 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 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 two 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 and natural disaster losses.

Historical Staffing Levels and Vacancies

The City's Adopted Budget includes 815.8 full-time General Fund positions, which is a reduction of 36.4 fewer positions from the compared to the City's pre-pandemic total of 852.2 positions. Since the City's Reorganization Plan was approved by City Council on November 2, 2020, the number of positions has increased by 19.

The City has had an average annual vacancy count of 60 positions over the past 10 fiscal years. Currently, the City has 82 vacancies: 25 sworn positions in Police, 9 sworn positions in Fire, and 48 non-sworn positions throughout the City's departments.

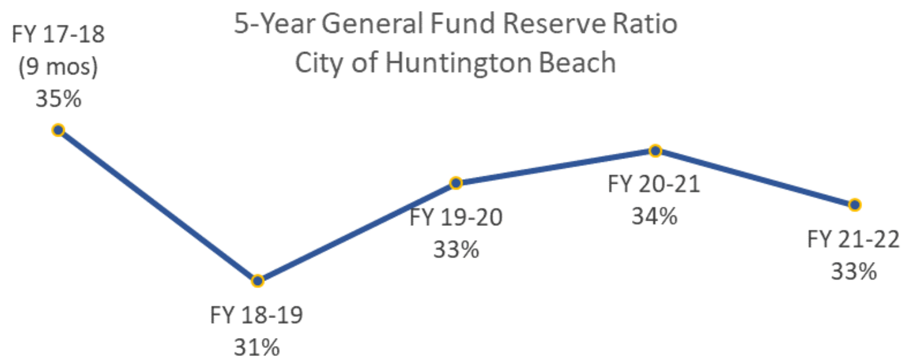
Fiscal Health Report

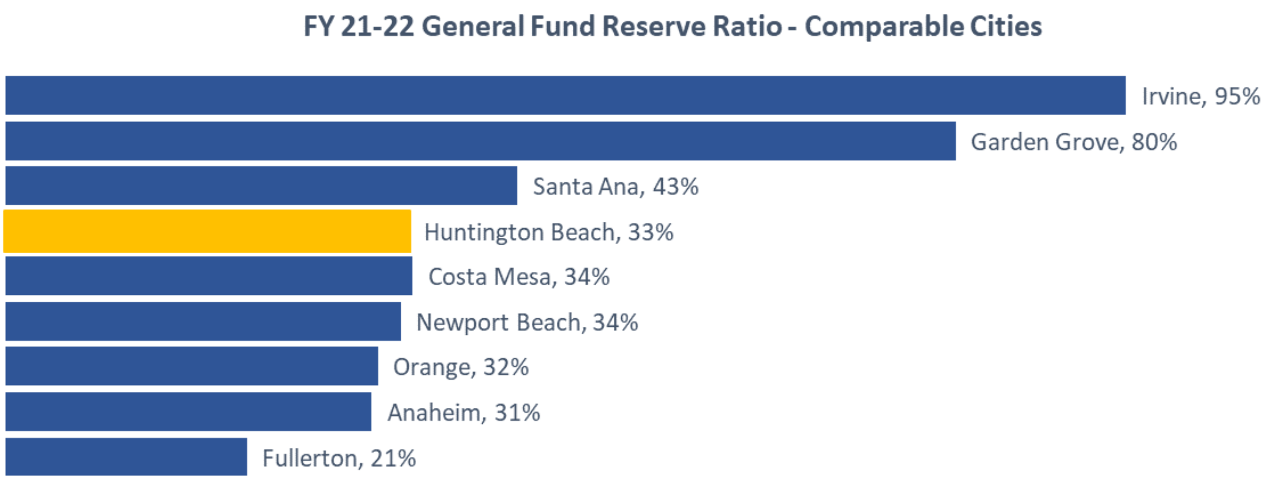
Financial Health Indicators (FHI) are a proactive approach to monitoring or assisting local governments in identifying early signs of fiscal stress and can be used to measure the fiscal health of the City. The report reviews 12 different aspects of the City's finances to see how Huntington Beach has been performing over the past five years and how the City compares to other Orange County cities. The comparative data is derived from the Annual Comprehensive Financial Report (ACFR) published by each City for the fiscal year ended June 30, 2022. The cities used for comparative purposes are: Anaheim, Costa Mesa, Fullerton, Garden Grove, Irvine, Newport Beach, Orange, and Santa Ana. The FHIs are separated into three broad categories that are generally described below:

- *Financial Position - Can the City Pay its Bills Now:* The City's financial position is strong if it has plenty of cash and other liquid resources available. Without those resources, it will have to borrow money, delay payments, or liquidate some of its other assets, all of which carry significant financial costs.
- *Financial Performance - Can the City's Revenues Cover its Expenses:* The City does not only need to pay bills now, but it needs to make sure that the money it brings in on an annual basis is sufficient to cover its annual expenses. Missing this mark can negatively affect service levels and the City's credit rating which is important for current loan covenants and any future potential debt financing.
- *Long-Term Solvency - Can the City Pay its Bills in the Future:* The City will have bills in the future and its current financial condition will influence its ability to pay them. For the long-term future, the City needs to ensure that its revenue sources can cover long-term spending needs and provide services to a growing and changing population.

Financial Position: Can the City Pay its Bills Now

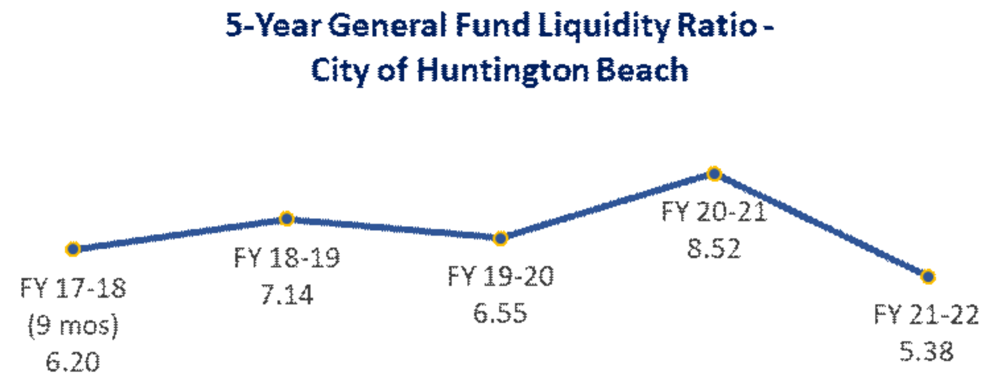
FHI #1 General Fund Reserve Ratio: This indicator identifies changes (increases or decreases) in General Fund reserves from the prior year to the current year and is useful in identifying if the City's fund balance reserve is deteriorating. A declining fund balance reserve can be a sign of fiscal stress. This indicator is important in identifying a trend of a deteriorating fund balance reserves as well as how rapidly it is deteriorating. A higher ratio suggests larger reserves for dealing with unexpected resource needs in the long run.

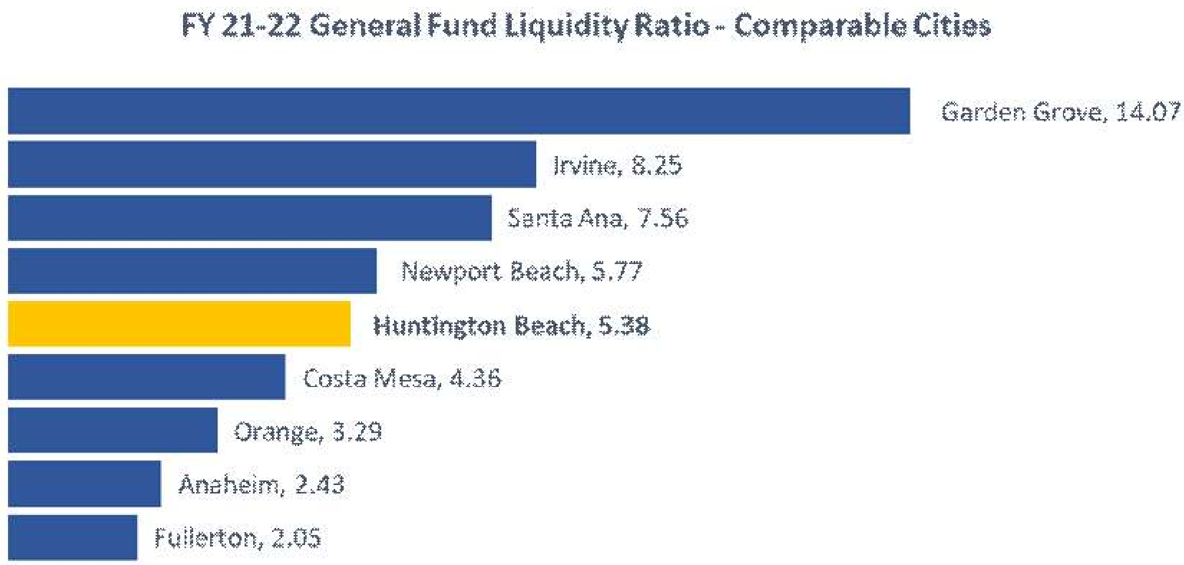




The City's General Fund balance reserves increased from 33% to 34% of revenues in FY 2020/21, then decreased slightly to 33% in FY 2021/22. This is attributed in stronger revenue growth in FY 2021/22, which is used to calculate this ratio. The overall General Fund Balance increased by $3.39M in FY 2021/22.

FHI #2 General Fund Liquidity Ratio: This indicator assesses changes (increases or decreases) in available cash and is useful in identifying the City's ability to pay bills on time by measuring readily available cash, such as unrestricted cash and investments. A declining ratio indicates that the City does not have sufficient cash available to meet its current obligations as they come due. This indicator is important in identifying a trend of deteriorating cash as well as how rapidly it is deteriorating. For this measure, a higher ratio suggests a greater capacity for paying off short-term obligations.

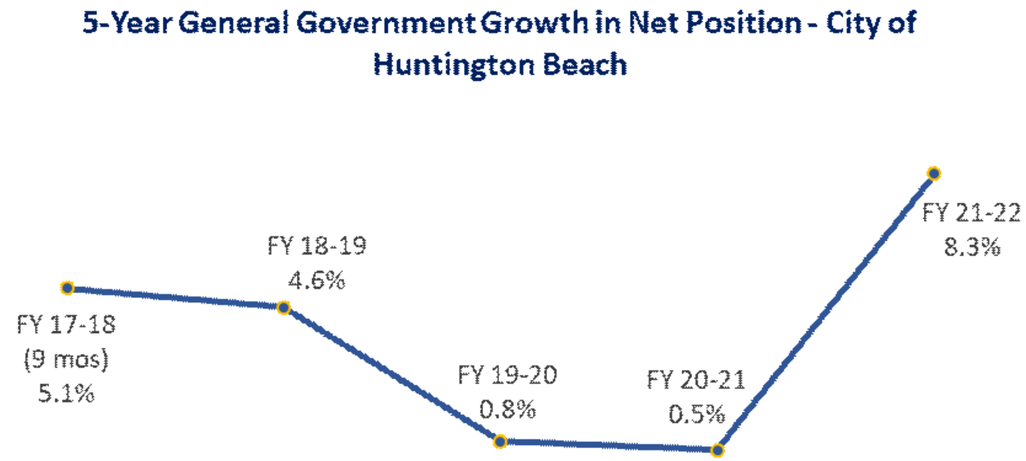


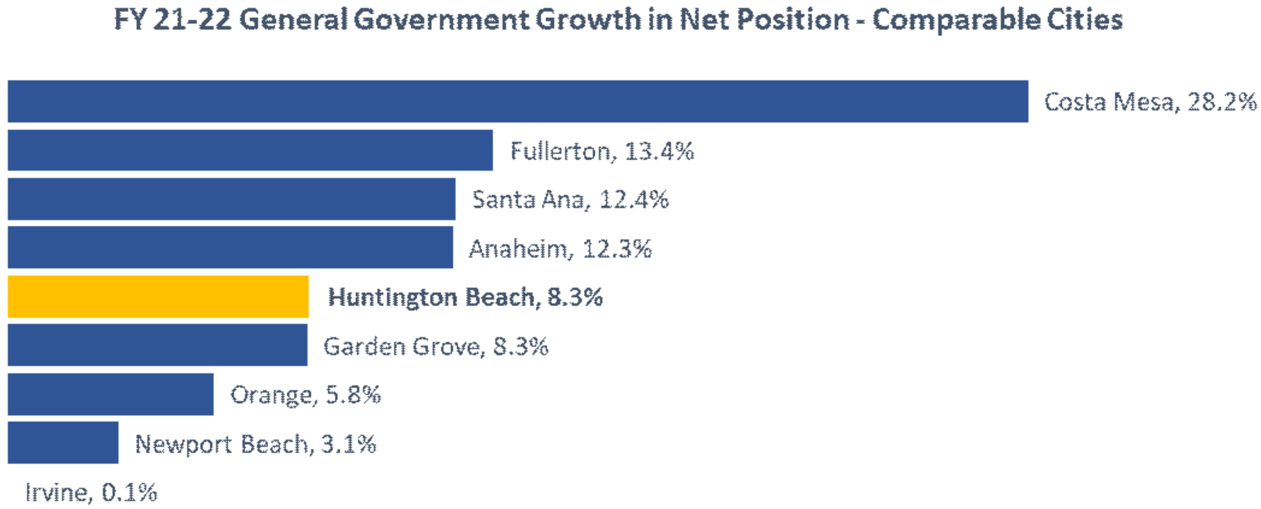


The City's liquidity ratio indicates that the City is able to pay its bills as payments are due by measuring readily available cash, such as unrestricted cash and investments, compared to the total liability obligations, such as payables and accrued payroll. The total liability obligations at year end will vary from year to year based on pay period end dates, timing of projects, and timing of invoices issued by suppliers.

Financial Performance - Can the City's Revenues Cover its Expenses

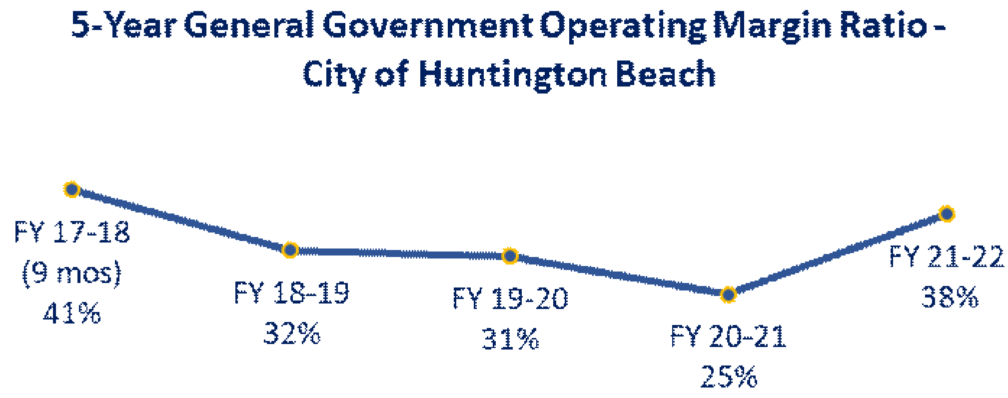
FHI #3 General Government Growth in Net Position Ratio: A growth in net position indicates that the City can pay its expenses with its revenue and is able to establish appropriate reserves for future allocation. Revenues from the City's programs ideally should cover the expenses that the City incurs for those programs, otherwise reserves may need to be used to meet the needs. A higher ratio suggests that annual costs are adequately funded, and the financial condition is improving.

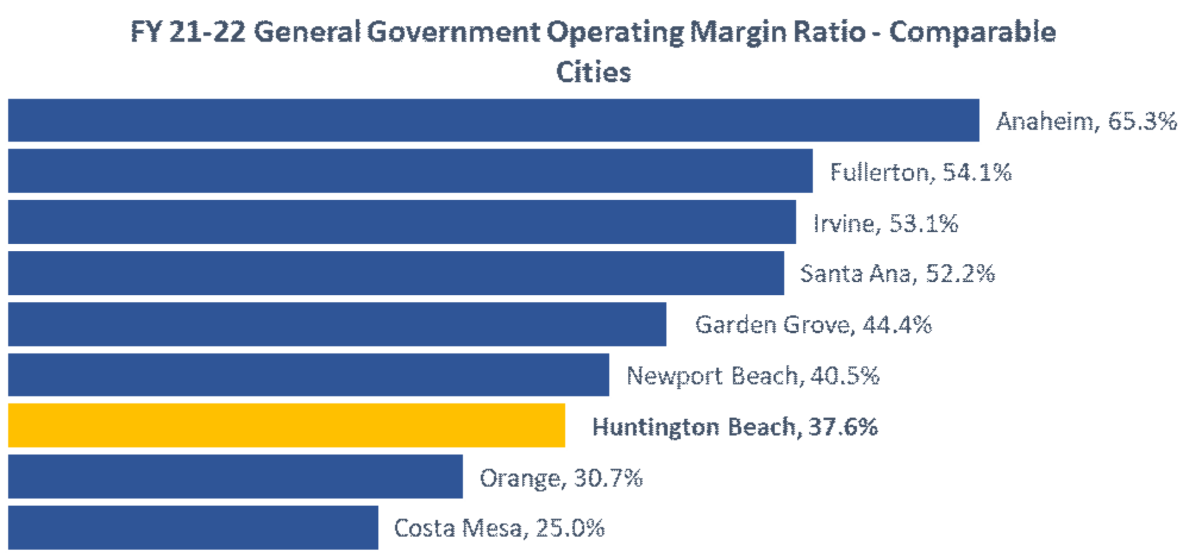




This ratio measures the change in net position compared to the total General Government net position. When revenues exceed expenses and assets exceed liabilities, an increase in the ratio will be seen. The City has shown continued growth in net position. The 8.3% increase in FY 2021/22 is largely attributed to the 21.3% CalPERS investment return, which eliminated the 15% unfunded pension liability remaining with CalPERS after the FY 2020/21 Pension Obligation Bond refinancing of 85% of the City's unfunded pension liability. It is important to note that there will be a new unfunded pension liability created due to the -7.5% CalPERS investment return in FY 2021/22 which will be reported on the City's FY 2022/23 ACFR.

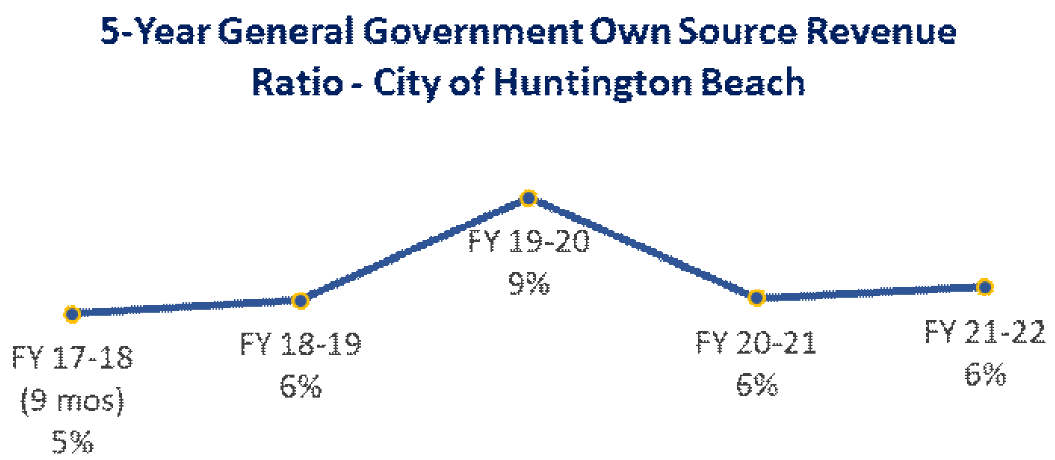
FHI #4 General Government Operating Margin Ratio: The City funds certain programs via grants and intergovernmental aid from other government agencies (e.g. Federal and State) and also charges for services that are offered to its residents. This measurement illustrates how much of the City expenditures are funded by charges, fees, and grants rather than general tax dollars to fund program expenditures. For this measure, a higher ratio suggests basic government services are more self-sufficient through charges, fees, and grants and less reliant on general tax dollars to fund program expenditures.

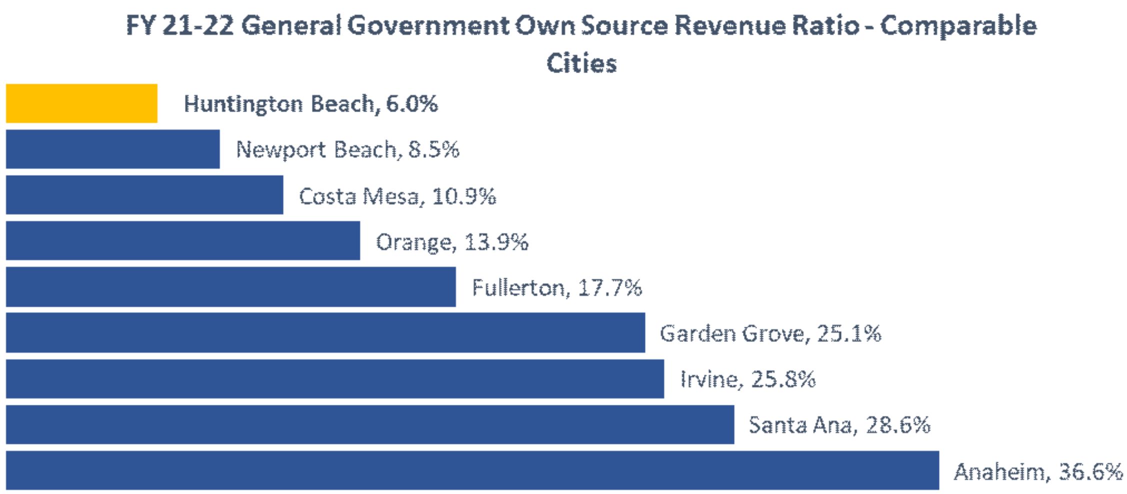




This ratio illustrates how much of the City's expenditures were funded by charges, fees, and grants (37.6%) rather than general tax dollars (62.4%) to fund program expenditures. The other cities appear to fund their operations more heavily by charges, fees, and grants. This could be attributed to the level of cost recovery implemented by each City. While there is no standard we know that most cities do not implement 100% cost recovery.

FHI #5 General Government Own Source Revenue Ratio: The City receives grants and intergovernmental aid from other government agencies, such as the state and federal governments. While the City welcomes grants and aid to support City services, the less reliant the City is on money from those sources, the more independent the City's financial condition is. Revenues from grants are used to support some City functions. Other functions, such as public safety, are mainly funded by general tax dollars. This ratio illustrates the extent to which general government revenues were supported by grants. A lower ratio suggests that the City is not heavily reliant on grants and more reliant on general tax dollars and charges for services.

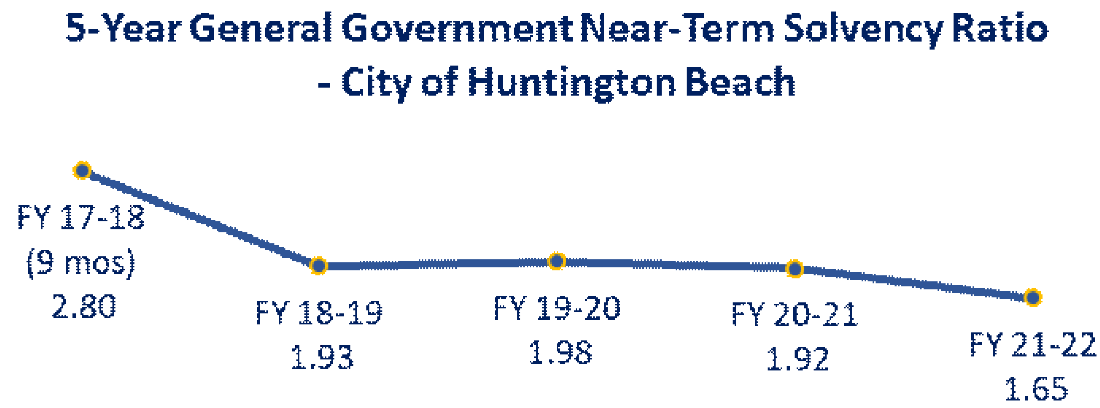


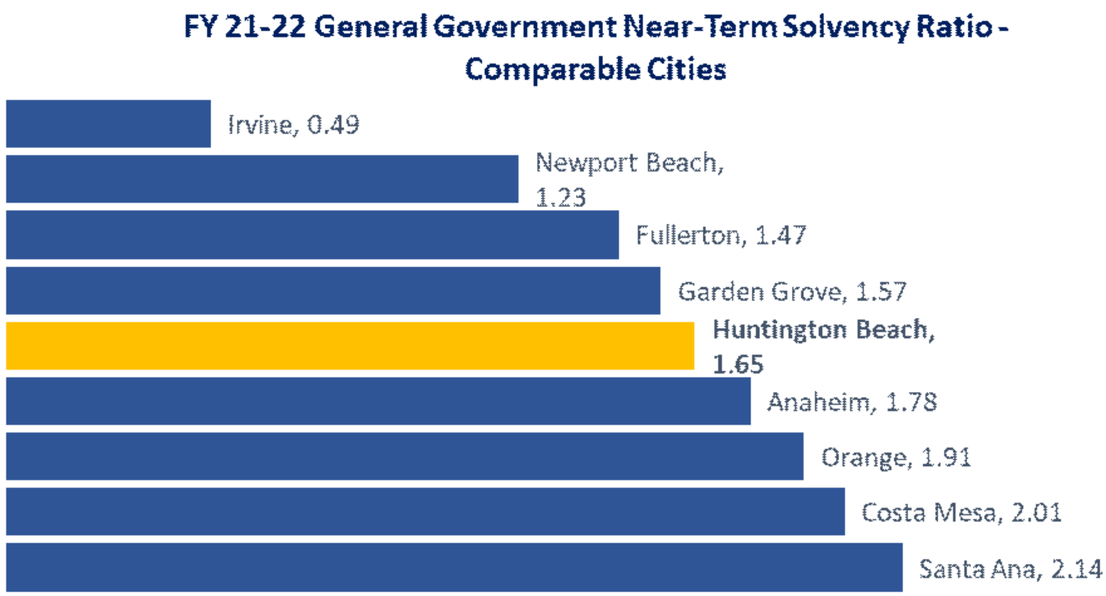


This ratio explains how much of our revenues are from grants (6%) compared to general tax dollars and charges for services (94%). With the addition of the American Rescue Plan Act funding of $29.6 million, this ratio will be higher next year and is not indicative of an ongoing pattern as these funds are considered one-time funding only.

Long-Term Solvency - Can the City Pay its Bills in the Future

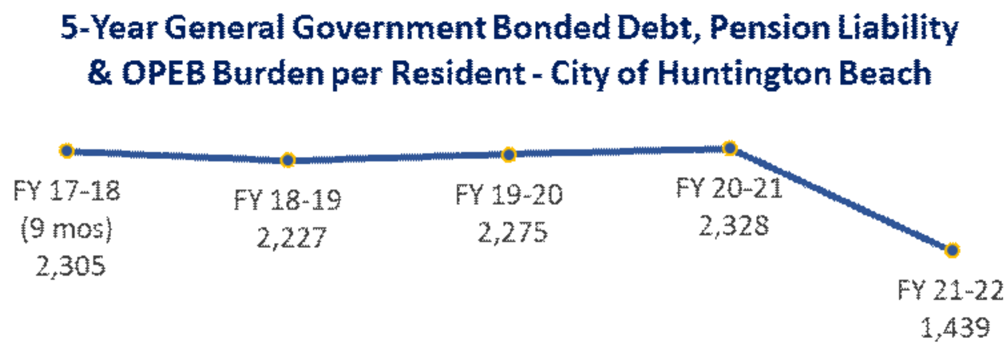
FHI #6 General Government Near-Term Solvency Ratio: The City has both short-term and long-term obligations that must be paid in the future. The fewer number of years of annual revenue needed to pay the City's obligations, the stronger the City's financial condition. This ratio demonstrates that the City is able to pay a larger portion of its debts with annual revenues. For this measure, a lower ratio indicates a stronger financial condition.

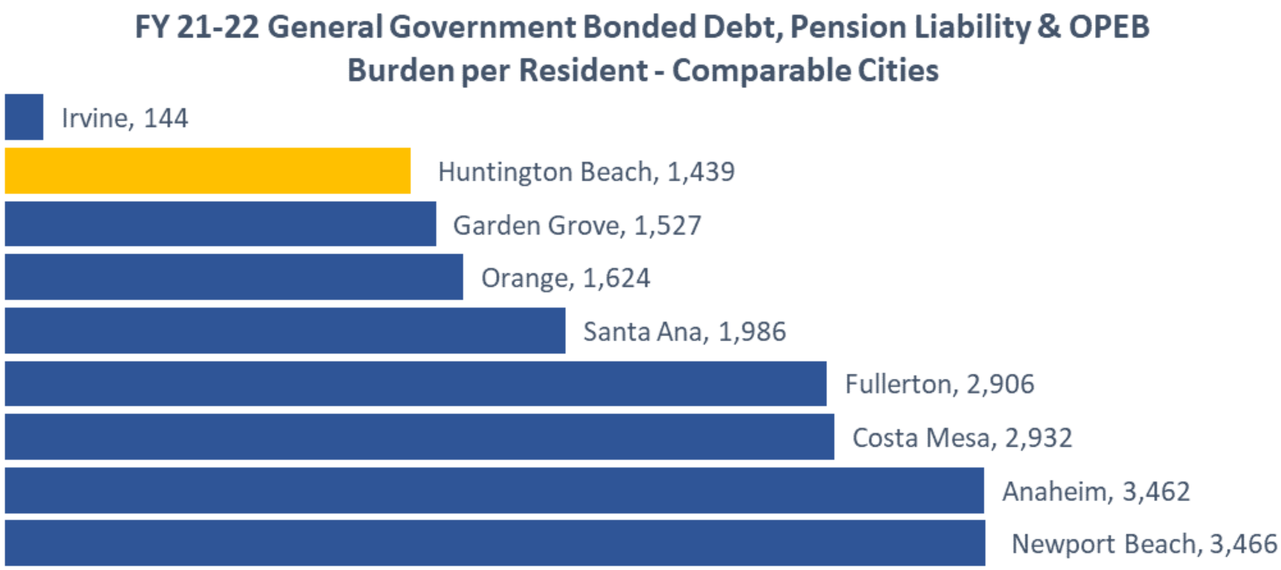




The City has both short-term and long-term obligations that must be paid in the future. The fewer number of years of annual revenue needed to pay obligations, the stronger the City's financial condition. The decrease of the City's long-term debt in FY 2020/21 is due to the refinancing of 85% of the City's pension liability with the issuance of Pension Obligation Bonds, as well as refinancing of two of the City's Lease Revenue Bonds (2010A and 2011A) to lower interest rates. The decrease in FY 2021/22 is largely attributed to the 21.3% CalPERS investment return, which eliminated the 15% unfunded pension liability remaining with CalPERS after the Pension Obligation Bond refinancing. It is important to note that there will be a new unfunded pension liability created due to the -7.5% CalPERS investment return in FY 2021/22 which will be reported on the City's FY 2022/23 ACFR.

FHI #7 General Government Debt, Pension Liability, and OPEB Burden per Resident Ratio: The City issues debt for a variety of reasons and pays for employees' pensions, including other post-employment benefits. Having a low debt per capita would put the City in a stronger financial position. Lower bonded debts, pension liability, and other post-employment benefits (OPEB) per capita result in a smaller debt burden on taxpayers. For this measure, a lower ratio indicates a stronger financial condition.

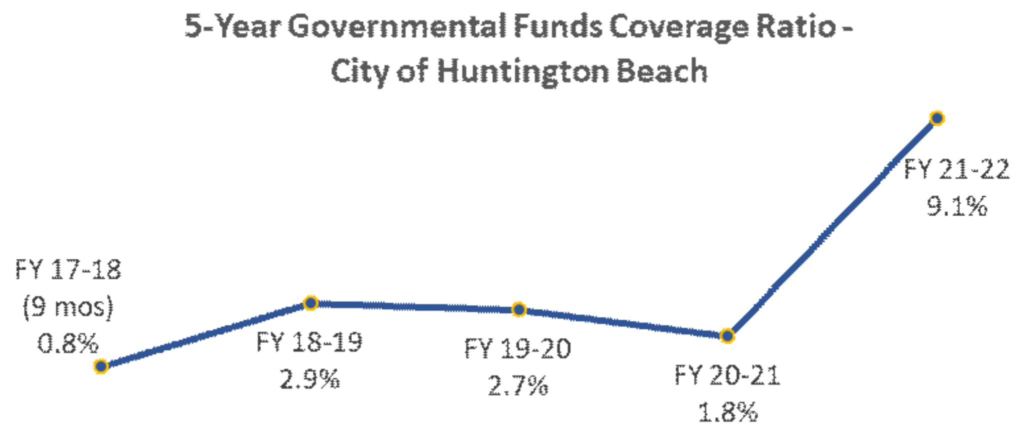


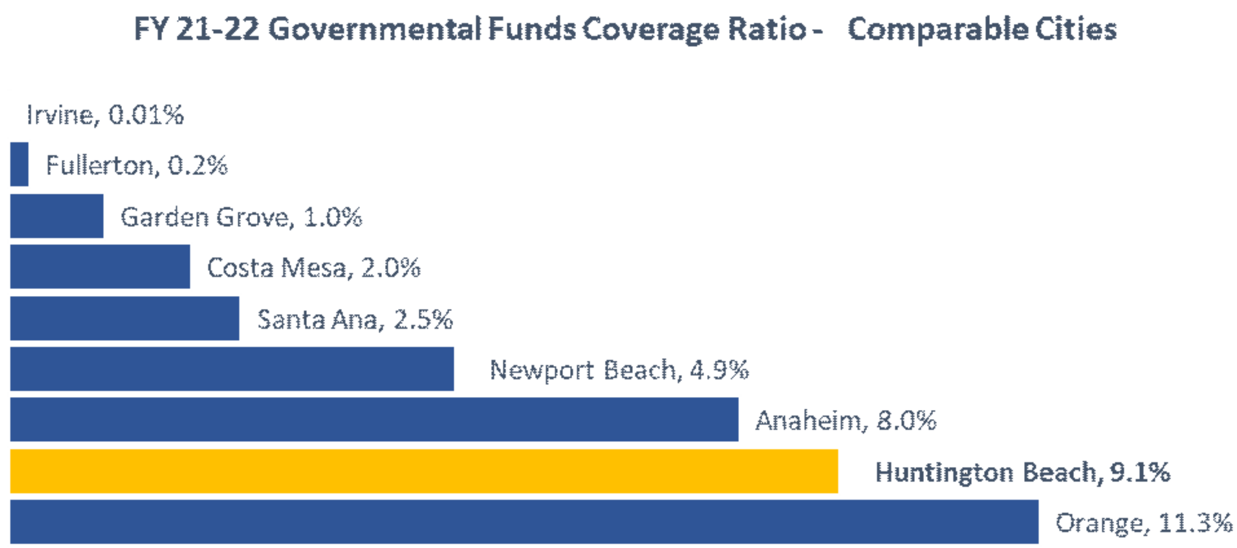


As previously discussed, the sharp decrease in FY 2021/22 is largely attributed to the 21.3% CalPERS investment return, which eliminated the 15% unfunded pension liability remaining with CalPERS after the Pension Obligation Bond refinancing. It is important to note that there will be a new unfunded pension liability created due to the -7.5% CalPERS investment return in FY 2021/22 which will be reported on the City's FY 2022/23 ACFR.

FHI #8 Governmental Funds Coverage Ratio: If a large portion of the City's expenses go towards paying debt principal and interest, it shows that the City is less able to spend money on services and capital improvements. The City has principal and interest payments on debt. The lower the amount of these payments compared to all the other expenditures it has, the stronger its financial condition.

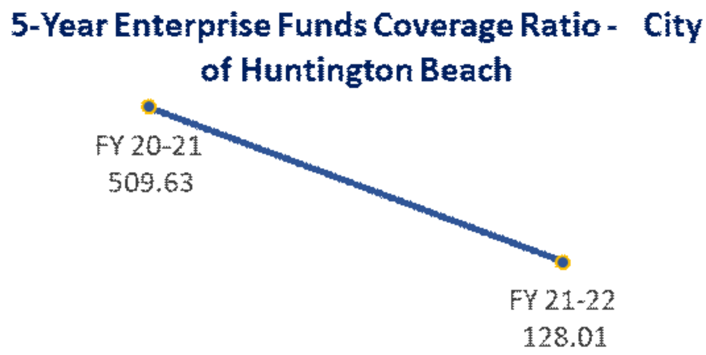
For this measure, a lower ratio indicates a stronger financial condition.

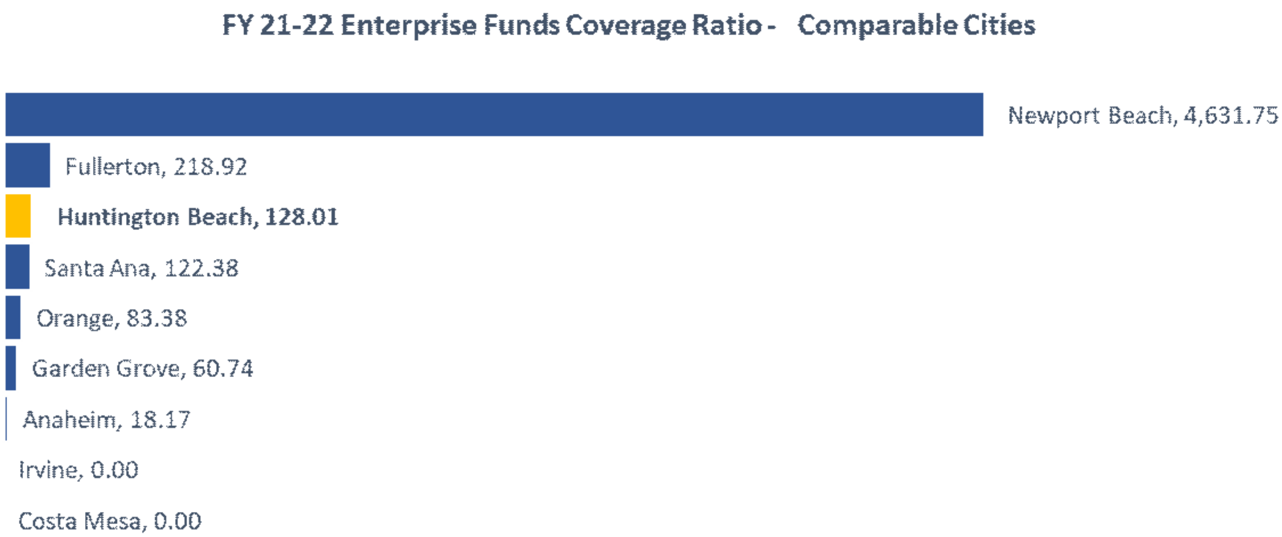




The City has a higher ratio than most of the comparative cities, implying the City has higher principal and interest payments and more overall long-term debt. The City did have more long-term debt than the comparative cities, primarily as a result of the issuance of a $363.6 million Pension Obligation Bond in FY 2021/22 of which $341.5 million was related to general government funds. However, it is important to note that when aggregating all of the City's bonded debt, pension, and OPEB liabilities as shown in FHI #7, Huntington Beach has one of the lowest debt burdens per resident to comparative cities.

FHI #9 Enterprise Funds Coverage Ratio: This measure compares the interest expense owed on debts annually to the ongoing, typical operating revenues from which that expense will be paid. This is similar to a small business owner making sure that the interest payments on the mortgage for her office aren't too large compared to the revenues she brings in each year. Just like the City's governmental services need to pay their debts (e.g., bonds) in the long-term, the City's Enterprise Funds need to do so as well. The City's Enterprise Funds include Water, Sewer, Refuse, and Hazmat Service Funds. For this measure, a higher ratio indicates a stronger financial condition.

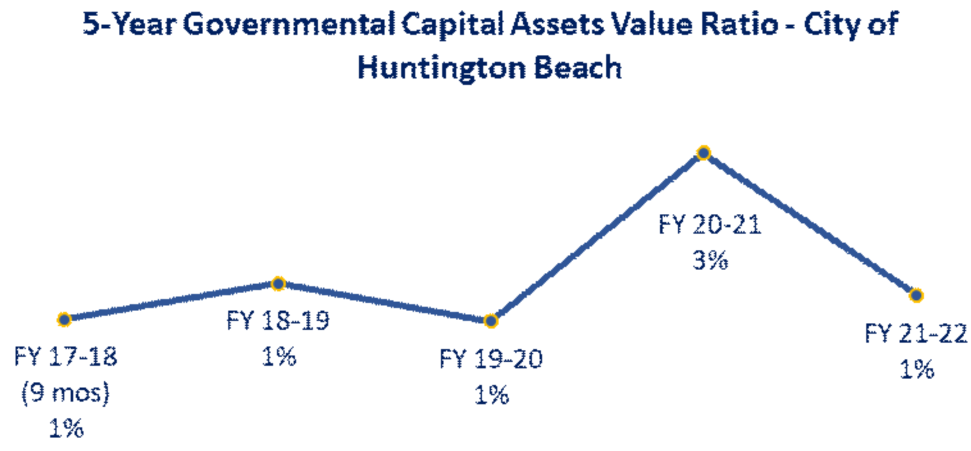


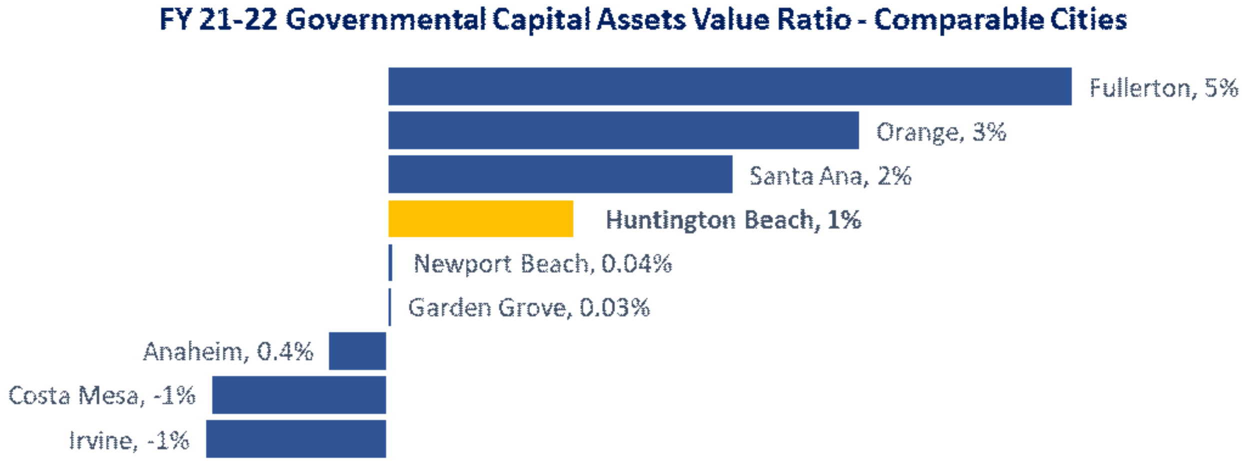


Note: No Enterprise Funds in the cities of Costa Mesa and Irvine.

The City only shows two fiscal years of data as its Enterprise funds did not carry long-term debt prior to FY 2020/21, with the issuance of a $363.6 million Pension Obligation Bond in FY 2021/22 of which $22.1 million was related to Enterprise funds.

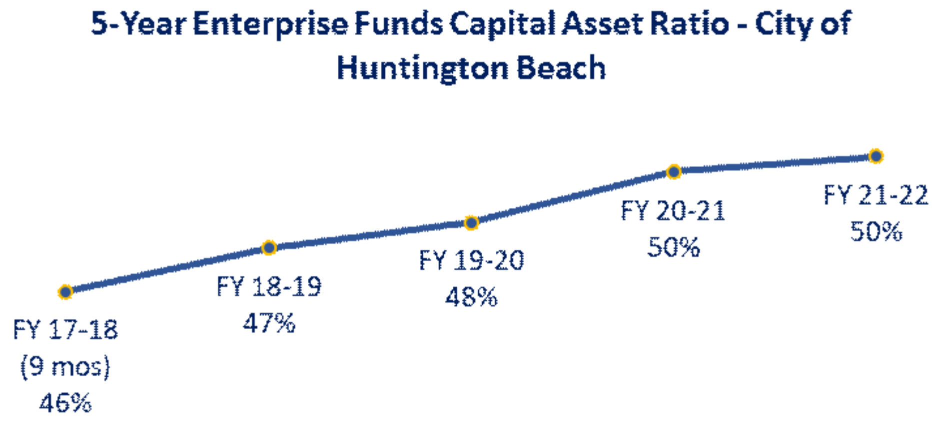
FHI #10 General Government Capital Asset Value Ratio: A negative ratio indicates that the City's capital assets decreased in value- that is, the value at the end of the year was less than the value at the beginning of the year. This indicates that the depreciation of capital assets was greater than the value of capital assets added, and that some capital assets may need to be renovated or replaced. Most of the City's capital assets decrease in value over time due to depreciation. The City needs to make sure that as capital assets age, it is renovating or replacing them. Capital assets include land, buildings, vehicles, and public infrastructure. For this measure, a higher ratio indicates a stronger financial condition.

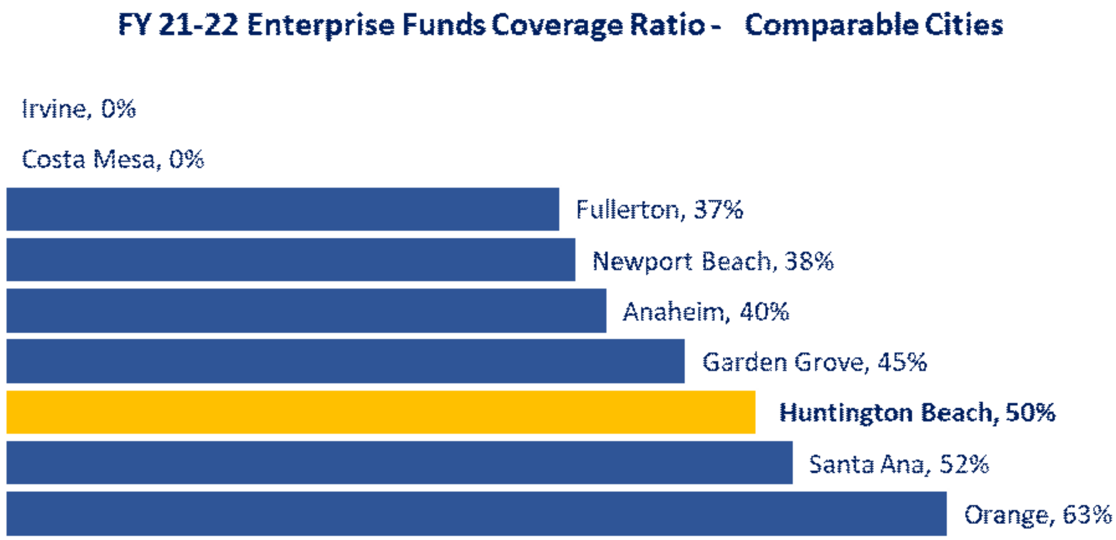




The City showed an increase in FY 2020/21 primarily due to the purchase of land which is temporarily being used as the site for a 174-bed Navigation Center.

FHI #11 Enterprise Funds Capital Asset Age Ratio: This ratio explains the percentage of Enterprise Funds capital assets that have been depreciated. Depreciable capital assets include buildings, vehicles, and public infrastructure. Assets are depreciated over their useful life as they age, and their value is reduced. A lower ratio indicates Enterprise Funds capital assets are newer and may not require as much replacement and/or maintenance costs compared to older capital assets.

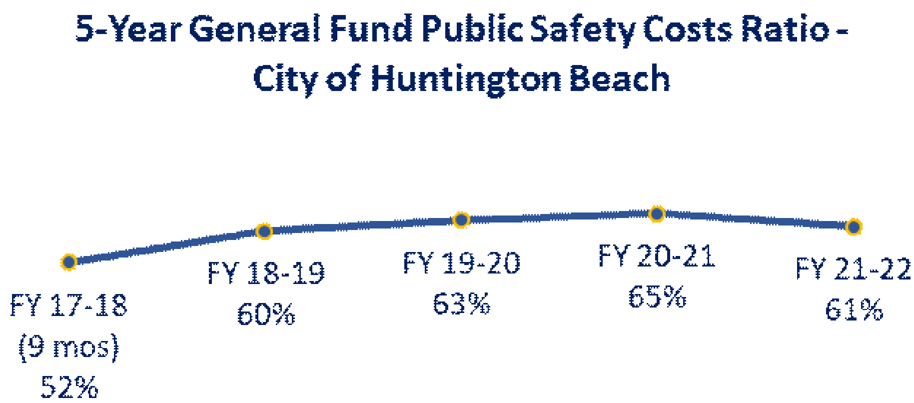


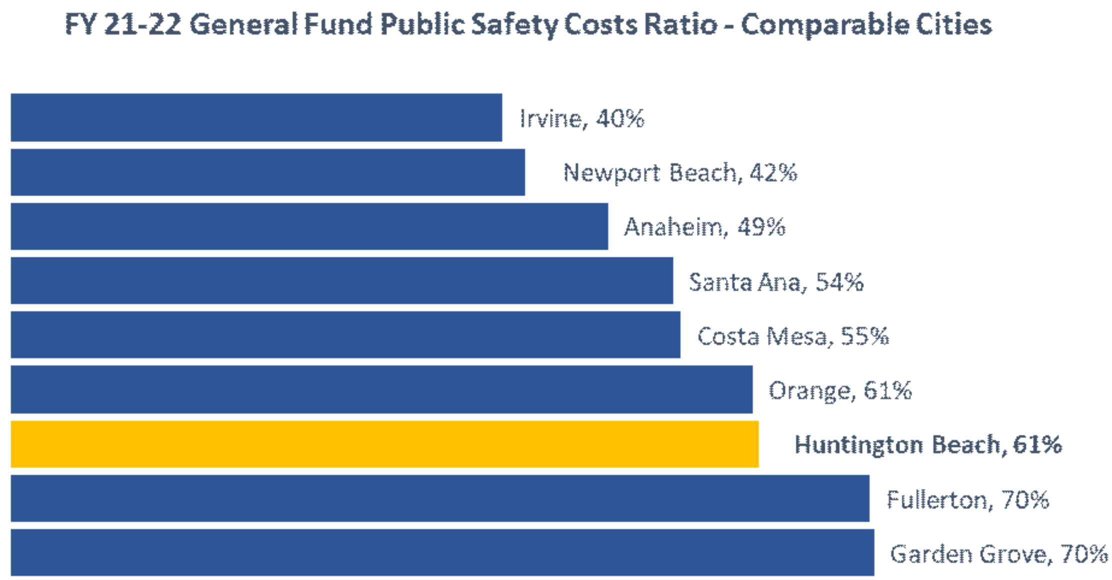


Note: No Enterprise Funds in the cities of Costa Mesa and Irvine.

This ratio explains the percentage of Enterprise Fund capital assets that have been depreciated. The City's Enterprise Funds capital assets have aged over the past five years which is evidenced by the annual increase in the ratio. While the ratio is higher when compared to a majority of its comparative cities, the increasing trend in this ratio could be indicative of other issues which require additional analysis.

Indicator #12 General Fund Public Safety Costs Ratio: This ratio compares the total costs of the General Fund public safety, which includes police and fire, to the total General Fund expenditures. A higher ratio indicates more funds are dedicated to public safety.





The Public Safety costs ratio increased over the four fiscal years prior to FY 2021/22, then declining primarily due to the refinancing of 85% of the City's pension liability with the issuance of Pension Obligation Bonds in FY 2020/21, with cost savings first realized in the prior fiscal year. It is important to note that the remaining 15% pension liability held with CalPERS may incur increasing annual UAL payments in the future due to the -7.5% CalPERS investment return in FY 2021/22.

Fiscal Year 2022/23 Mid-Year Adjustments

The FY 2022/23 Budget was adopted by City Council on June 7, 2022, for the fiscal year beginning July 1, 2022. 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 or has set -aside prior year fund balances that will support the requested adjustments in the General Fund. The Other Funds adjustments will be funded by available revenue or fund balances within each distinct Fund.

General Fund

The Community & Library Services Department is requesting appropriations to meet increased demand for recreational and Art Center class contract instructors and increased costs to print the spring and summer editions of the SANDS ($537,000). These costs will be offset by additional recreation fee revenues, resulting in a net zero impact to the General Fund.

The City received higher than anticipated requests for development services from multiple large projects, solar permits, accessory dwelling unit (ADU) permits and commercial construction and tenant improvements. The Community Development Department is requesting to increase its professional services appropriation for building plan check services by $700,000, which will be offset by permit fee revenues and result in a net neutral impact to the General Fund.

The Community Development Department is also requesting to amend professional services agreements and corresponding professional services authority with CSG Consultants, Inc. and True North Compliance Services, Inc. for on-call building division plan review services. Each contract will be increased by $200,000 for a new not to exceed amount of $1,000,000.

The Finance Department is requesting an appropriation of $115,000 to cover credit card fees for payments made through the City's ELM system. The City currently does not charge for use of credit cards, which has resulted in higher credit card fees being absorbed by 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 15.94% administrative rate applied to these allowable expenditures.

The CAL FIRE 2023 Fire Season Outlook states that the weather outlook for January through April calls for mixed temperature and precipitation anomalies, with some months being a bit wetter while others on the drier side. The Fire Department has incurred $525,000 in Strike Team expenditures for FY 22/23 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 $525,000, 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 $175,000 for emergency medical supplies. Additional emergency medical service revenues are anticipated to offset the added costs.

The Police Department is requesting an appropriation of $189,000 to fund the City's portion of the 800MHz backbone cost sharing agreement that is managed by the Orange County Sheriff's Department. A new Joint Agreement, beginning July 1, 2022, has re-allocated each city's share based on radio count, removed the County's 40 percent share, and includes increased operational costs and capital project funding.

The Public Works Department is requesting appropriations of $752,000 for increased citywide fuel costs and $590,000 for increased vehicle maintenance and accident repair costs. Inflationary pressures have significantly impacted fuel prices and costs for vehicle parts and repairs.

Staff is requesting appropriations totaling $7,050,000 in the Non-Departmental Department to pay for increased utility bill costs due to the recent spike in natural gas prices ($250,000) and transfers to the Equipment Replacement Fund ($500,000), Workers' Compensation Fund ($4,300,000) and the Section 115 Trust ($2,000,000). Equipment Fund transfers are needed to ensure adequate funding for essential capital equipment needs and address rising equipment costs. The Workers' Compensation transfer is requested to pay for 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. Transfers to the Section 115 Trust are requested to further protect the City from future pension cost increases.

Other Funds

Narcotics Forfeiture - Federal (Fund 212)
Federal narcotics forfeiture revenues are equitably shared federal financial assistance, used to supplement local law enforcement resources. An appropriation of $60,000 is needed in the Narcotics Forfeiture - Federal Fund for detective overtime costs arising from participation in the Orange County Regional Narcotics Suppression Program (OC RNSP).

Equipment Replacement (Fund 324)
This fund accounts for citywide vehicle and capital equipment purchases. An additional appropriation of $500,000 is requested to ensure adequate funding for essential capital equipment needs and address rising equipment costs. This appropriation is funded by the requested $500,000 transfer from the General Fund.

Refuse Collection Service (Fund 504)
The residential curbside collection rate increased by $1.92 effective July 1, 2022, based on the formula adopted in Resolution 2021-05, and is estimated to provide an additional $1,103,000 in revenues. Part of this increase was included in the FY 2022/23 Adopted Budget. However, due to higher than anticipated inflation and increased fuel costs, the Public Works Department is requesting an expenditure appropriation of $531,000 to fund the additional pass-thru costs associated with the Refuse Collection and Disposal Services contract. Based on current revenue collection amounts, these adjustments will have a net neutral impact.

Workers' Compensation (Fund 551)
California Workers' Compensation Law provides state mandated benefits to employees for work-related illness or injury. Benefits may include payments for medical treatment, salary continuation, Total Temporary Disability (TTD) benefits, and permanent disability benefits. The City is self-insured for its workers' compensation program and is liable for all costs up to $1 million dollars per claim. The costs related to claims are paid for by the City as the Employer.

An appropriation of $4,300,000 is needed for increased costs of Workers' Compensation claims driven by rising medical costs and an expanded list of injuries that are presumed to be work related under California law, including cancer and post-traumatic stress.

Supplemental Law Enforcement Services (Fund 984)
Supplemental Law Enforcement Services Fund (SLESF) revenues are provided by the State of California to fund front line law enforcement activities. An appropriation of $600,000 is requested for temporary relocation of the 9-1-1 center to the Central Net facility at Gothard Fire Station. The current 9-1-1 center will undergo a remodel, expected to begin in the fall of 2023. Relocation of dispatch services requires the coordination and assistance of several vendors and stakeholders to move the Computer Aided Dispatch (CAD) and phone monitors, modems, desks and other computer accessories to Central Net.

An appropriation of $150,000 is requested for the purchase of investigative software offered through Peregrine. This technology platform provides a single point of access to view and analyze large-scale and real-time data from various sources, streamlining criminal analysis and utilizing secure links to quickly share information and reports with other law enforcement agencies. There is sufficient fund balance in this fund to cover the requested appropriations.

CalAPP Grant (new fund)
The Community Development Department has been approved for a grant from the State of California Energy Commission for expenses associated with adopting an automated solar permit platform called SolarAPP+. The platform verifies code compliance and issues permits in real time to a licensed contractor for a solar energy system. The grant will reimburse software costs, staff time and other related expenses, up to $80,000.

Environmental Status:
Pursuant to CEQA Guidelines Section 15378(b)(5), administrative activities of governments that will not result in direct or indirect physical changes in the environment do not constitute a project.

Not applicable

Strategic Plan Goal:
Economic Development & Housing
Infrastructure and Parks
Fiscal Sustainability, Public Safety and other

Attachment(s):
1. FY 2021/22 Annual Comprehensive Financial Report (ACFR)
2. Other Auditor Issued Reports
3. Fiscal Year 2022/23 Recommended Mid-Year Adjustments
4. Fiscal Year 2022/23 Recommended Mid-Year Professional Services Authority
5. Amendment No. 1 to Agreement between the City of Huntington Beach and CSG Consultants, Inc. for On-Call Building Division Plan Review Services
6. Amendment No. 1 to Agreement between the City of Huntington Beach and True North Compliance Services, Inc. for On-Call Building Division Plan Review Services

7. Grant Agreement with the State of California Energy Commission (Number APP-22-038)
8. City of Huntington Beach Financial Health Indicators Report
9. Financial Update & FY 2022/23 Mid-Year Budget Adjustments Presentation