Fiscal Year 2004/2005 General Fund Overview

General Fund Revenue

General Fund revenue for fiscal year 2004/2005 is $147,669,812. A reduction of funds reserved for equipment of $762,545 is added to the revenue amount to balance funds available with appropriations at $148,432,357. The chart below identifies a historical breakdown of the major revenue categories in the General Fund Budget.

General Fund Revenue Actual and Proposed

Revenue Source	FY 00/01 Actual	FY 01/02 Actual	FY 02/03 Actual	FY 03/04 Budget	FY 03/04 Revised	FY 04/05 Proposed
Property Tax	30,738,530	26,794,058	29,688,213	32,195,113	31,416,113	49,870,065
Other Local Taxes	56,705,008	51,808,165	56,036,611	58,302,000	58,302,000	55,619,200
Licenses and Permits	5,895,935	6,397,356	6,531,965	6,499,034	5,699,034	6,722,577
Fines and Forfeitures	4,091,517	3,797,379	3,814,676	5,722,853	5,022,853	4,810,419
Use of Money and Property	7,330,823	8,469,861	10,825,516	8,114,585	7,114,585	8,305,100
Revenue from Other Agencies	13,570,082	13,180,566	10,885,557	12,143,704	11,643,704	3,108,404
Charges for Current Services	9,654,076	10,022,952	9,184,034	11,694,178	10,525,178	10,064,326
Other Revenue	544,649	441,355	1,245,792	250,150	303,150	301,000
Non-Operating Revenue	(551,899)	5,246,031	(22,538,623)	7,712,401	7,712,401	8,868,721
Grand Totals	**127,978,721**	**126,157,723**	**105,673,743**	**142,634,018**	**137,739,018**	**147,669,812**

The negative $22,538,623 shown as Non-Operating Revenue in fiscal year 2002/2003 represents the accrued, unpaid interest on advances from the city to the Redevelopment Agency. In prior years, this interest was recorded as an expense in the Redevelopment Agency and deferred revenue in the various funds (which did not affect fund balance). Thus, there is a difference in amounts transferred in and out of the Redevelopment Agency.

Additionally, this amount represents the reclassification of the Workers' Compensation and Employee Health internal service funds to the General Fund. Since internal service funds recognize the total amount of claims payable, and the General Fund recognized the amount of claims at year-end that will be paid within one year, there is a difference in the transfers.

The largest revenue category Other Local Taxes breaks down as follows:

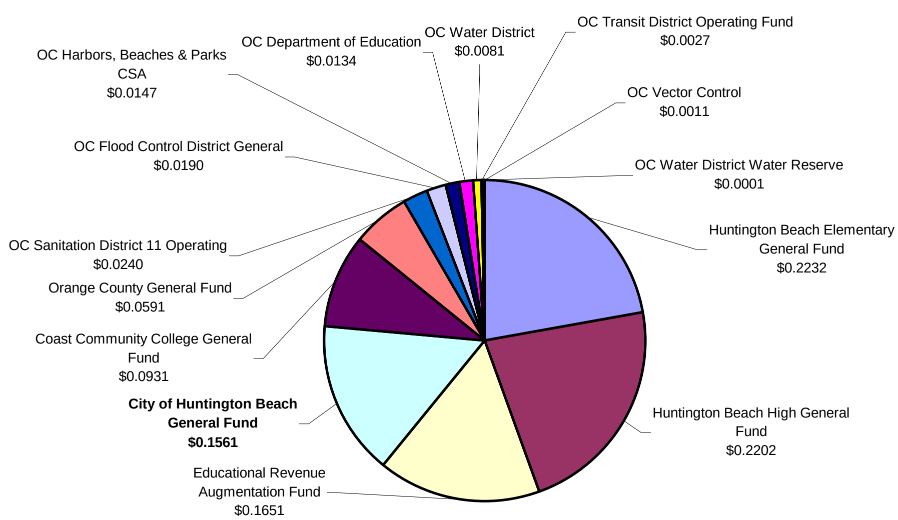
Other Local Taxes	FY 00/01 Actual	FY 01/02 Actual	FY 02/03 Actual	FY 03/04 Budgeted	FY 03/04 Revised	FY 04/05 Proposed
Sales Tax	26,694,454	21,645,430	24,266,926	24,675,000	24,675,000	19,432,000
Public Safety Sales Tax	1,388,081	1,804,802	1,614,736	1,935,000	1,935,000	2,032,000
Franchises	5,640,075	4,444,335	5,357,045	5,101,000	5,101,000	5,594,000
In-Lieu Tax	4,299,324	4,468,052	4,515,432	5,340,000	5,340,000	5,680,000
Transient Occupancy Tax	1,637,035	1,435,106	1,972,786	2,137,000	2,137,000	3,227,200
Utility User Tax	17,046,040	18,010,441	18,309,686	19,114,000	19,114,000	19,654,000
TOTAL OTHER LOCAL TAXES	**56,705,008**	**51,808,165**	**56,036,611**	**58,302,000**	**58,302,000**	**55,619,200**

The most significant discussion points include changes to Property Tax (including a discussion of changes to Vehicle License Fee (VLF) revenue), Sales Tax, Utility Users Tax (UUT), and Transient Occupancy Tax (TOT).

PROPERTY TAX

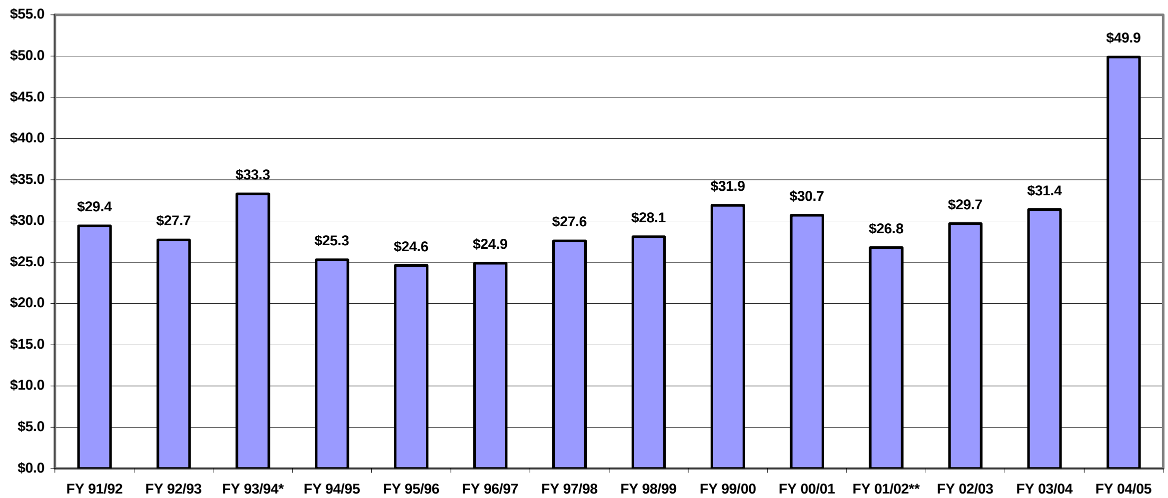
All personal property (real and tangible) in the state is subject to a property tax equal to 1% of its "full cash value." Valuations of real property are frozen at the value of the property in 1975, with a maximum adjustment up of 2% per year based on inflation. When a change of ownership, new construction, or tenant improvements occurs, the property is reassessed to its current value. The chart below provides a breakdown of each property tax dollar paid in the City of Huntington Beach.

Huntington Beach
Property Tax Dollar Breakdown



The basic property tax levy (secured and unsecured) is projected to be a total $31,362,000, which is an increase of 8.4% over fiscal year 2003/2004. Total property tax revenue is projected to be $49,870,065. This is an increase of 58.74% over fiscal year 2003/2004. The major reason for this substantial increase is the proposed state budget, which reallocates sales tax revenue and VLF revenue in the form of the "Triple Flip" and "VLF In-Lieu." Both the "Triple Flip" and "VLF In-Lieu" are explained below.

General Fund Property Tax Revenue
(in millions)



* 15-month fiscal year, switch from July 1st to October 1st fiscal year cycle
** Stopped levying the Property Tax Override

<u>The "Triple Flip"</u>

The city anticipates, based on the proposed state budget, that property tax revenue will be an increasingly significant portion of city revenues. This is the result of legislation, commonly referred to as the "Triple Flip," which was approved by the voters on March 2, 2004, as part of a bond initiative formally known as the "California Economic Recovery Act." This act authorizes the issuance of $15 billion in bonds to finance the 2002/2003 and 2003/2004 state budget deficits, which would be payable from a fund to be established by the redirection of sales tax revenues through the "Triple Flip."

The Flips

1. Under the "Triple Flip," one-quarter of Huntington Beach's (and all local governments') one percent share of the sales tax imposed on taxable transactions within the city's jurisdiction will be redirected to the state.
2. In an effort to eliminate the adverse impact of the sales tax revenue redirection on the city, the legislation provides for property taxes in the Education Revenue Augmentation Fund (ERAF) to be redirected to the city.

3. Because ERAF was previously earmarked for schools, the legislation provides for schools to receive other state general fund revenues.

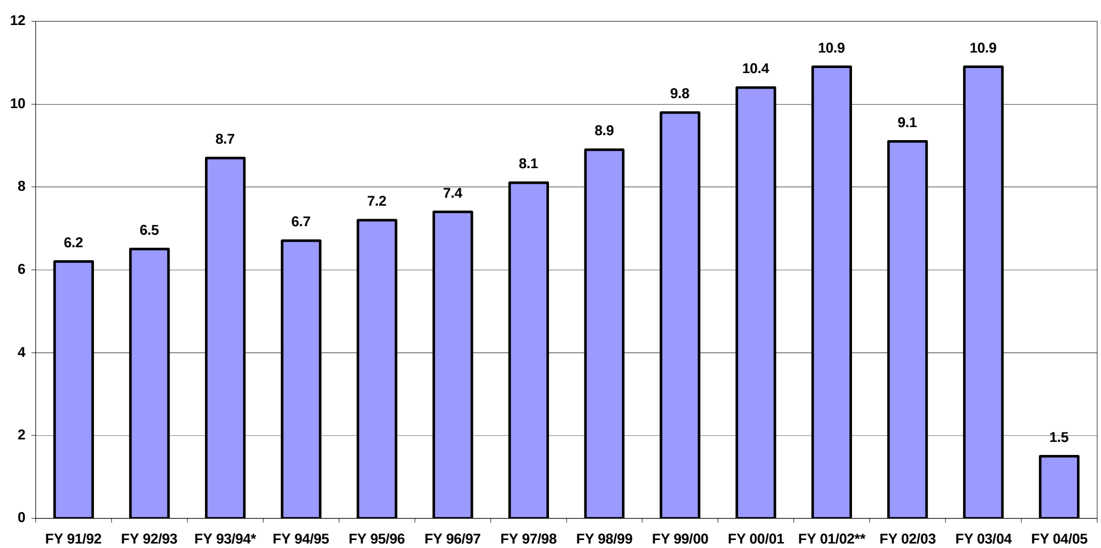
It is expected that the swap of sales taxes for property taxes would terminate once the deficit financing bonds are repaid, which is currently expected to occur between 2013 and 2017. Because the basis of this revenue is the redirection of ERAF revenue (i.e. property tax), it will be placed in the General Fund under the property tax revenue category. A special revenue account has been created in the General Fund to assist the city in tracking the "Triple Flip" reimbursements. It is estimated that a total of $6.5 million in sales tax will be redirected under the "Triple Flip" plan in fiscal year 2004/2005. Projected sales tax revenue has been reduced by the same $6.5 million amount.

Vehicle License Fee and "VLF In-Lieu" Revenue

The Vehicle License Fee (VLF) is collected by the state in-lieu of personal property taxes on vehicles. In November 2003, Governor Schwarzenegger reduced the VLF from 2.0% to 0.65% of the market value of the vehicle. The state then "backfilled" the city the difference between the two market value rates.

Because the basis of this revenue is the redirection of state property tax revenue, it will be placed in the General Fund under the property tax revenue category. A special revenue account has been created in the General Fund to assist the city in determining the "VLF In-Lieu" reimbursements. It is estimated that a total of $8.0 million in VLF backfill revenue will be redirected under the "VLF In-Lieu" plan in fiscal year 2004/2005. Projected VLF revenue has been reduced by the same $8.0 million amount.

General Fund Vehicle License Fee (VLF) Revenue



*** 15-month fiscal year, switch from July 1st to October 1st fiscal year cycle**

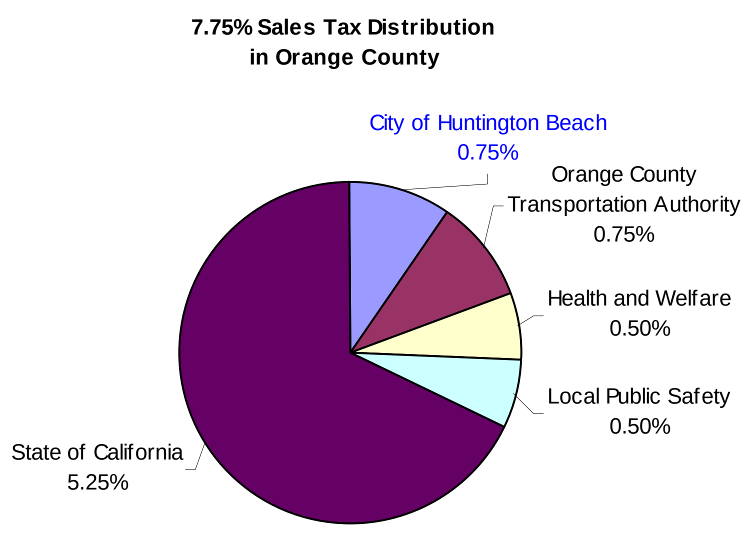
In May 2004, Governor Schwarzenegger and the League of California Cities negotiated an agreement that calls for cities, counties, special districts, and redevelopment agencies to help the state balance its budget by reducing VLF revenue paid to local agencies and loaning the state VLF revenue for two years. For agreeing to this deal cities, counties, special districts and redevelopment agencies are to receive the following Constitutional protections of local funding:

- Property, Sales Tax, and VLF Backfill Protections
- Automatic Suspension of Unfunded Mandates
- Flexibility for State in Times of Fiscal Emergency
- Voluntary Revenue Exchanges

The proposed deal between the Governor and League of California Cities requires that cities receive state property tax revenue in-lieu of VLF and loan the state $2.6 billion in VLF revenue. The City of Huntington Beach will be loaning the state $2,485,043 each year in fiscal years 2004/2005 and 2005/2006. A final term of the deal is that cities are to be repaid some of their loan amounts to the state in fiscal year 2006/2007. In fiscal year 2006/2007, the City of Huntington Beach is to be repaid $3.6 million of the $5.0 million loaned to the state. The balance of the loan, $1.4 million, will be forgiven. Total General Fund projected revenue for VLF is $1.5 million. This is the net number after the “VLF In-Lieu” revenue of $8.0 million and the city’s loan to the state of $2.5 million.

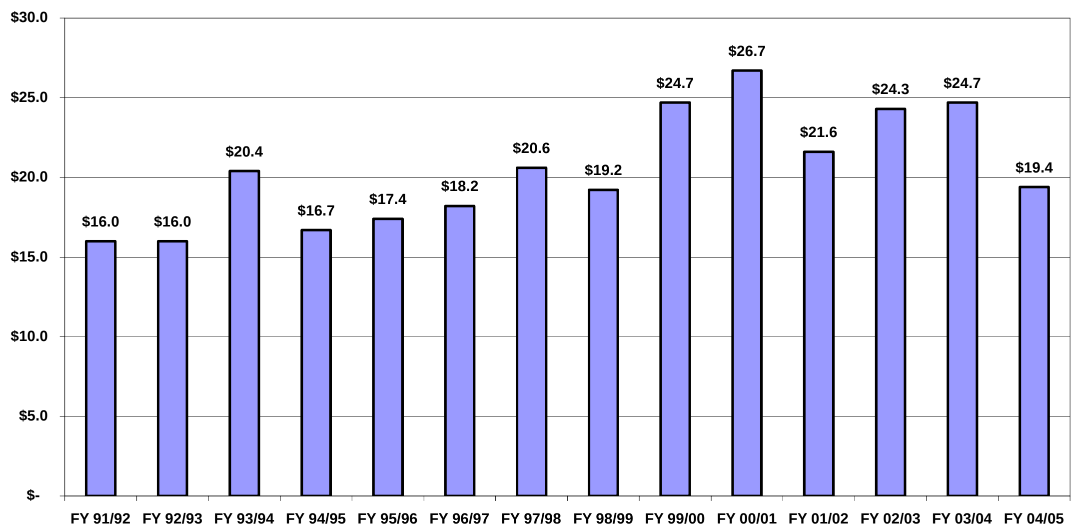
SALES TAX

The city’s share of sales tax is equal to 0.75% of total taxable sales generated within the city (before the “Triple Flip” the city’s share was 1.00%). The balance of the sales tax rate is distributed as follows:



Sales tax is projected to be $19,432,000, a decrease of 21.25% from fiscal year 2003/2004. This decrease is the result of the "Triple Flip," whereby 25% of the city's sales tax revenue will be redirected to the state. The remaining sales tax is projected to increase by 5% in fiscal year 2004/2005, this projection is based on the growing economy and signs of strength in some business sectors.

General Fund Sales Tax Revenue
(in millions)



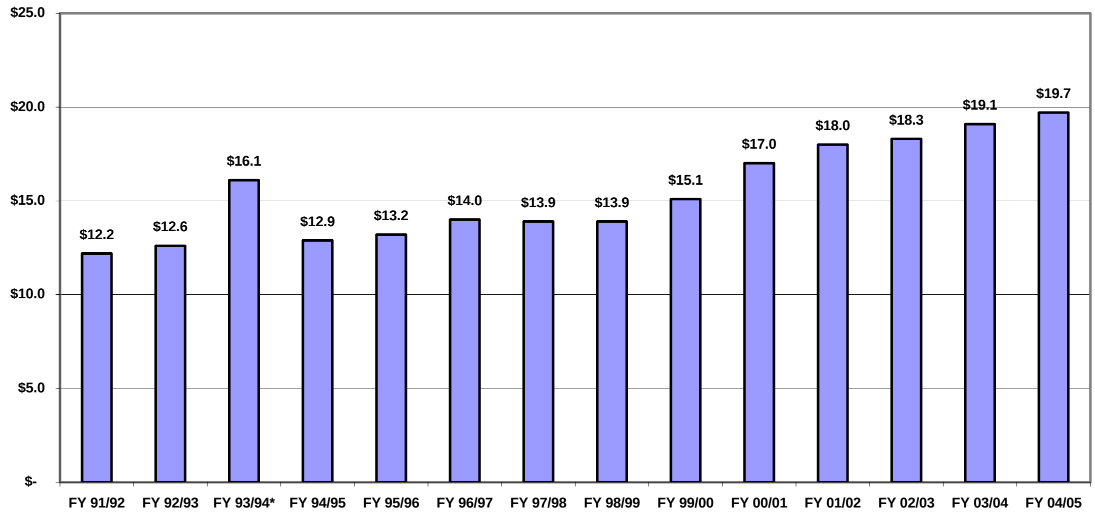
* 15-month fiscal year, switch from July 1st to October 1st fiscal year cycle

UTILITY USERS TAX (UUT)

This tax is imposed on the consumers (residential and business) of water, gas, telephone, electricity, and cable television services. Consumers are assessed at the rate of 5% of the monthly usage charge. Customers exempt from the utility users tax include, but are not limited to, the following: County of Orange, City of Huntington Beach, school districts, and senior citizens of qualifying age and gross income limitations.

UUT is projected to be $19,654,000, which is an increase of 2.83% over fiscal year 2003/2004. Based on a simple trend analysis, UUT revenue has been capped for the last several years primarily due to minimal growth in utility customers given the city's near built-out status. The growth in UUT appears to be from increased utility rates.

General Fund Utility Users Tax (UUT) Revenue
(in millions)

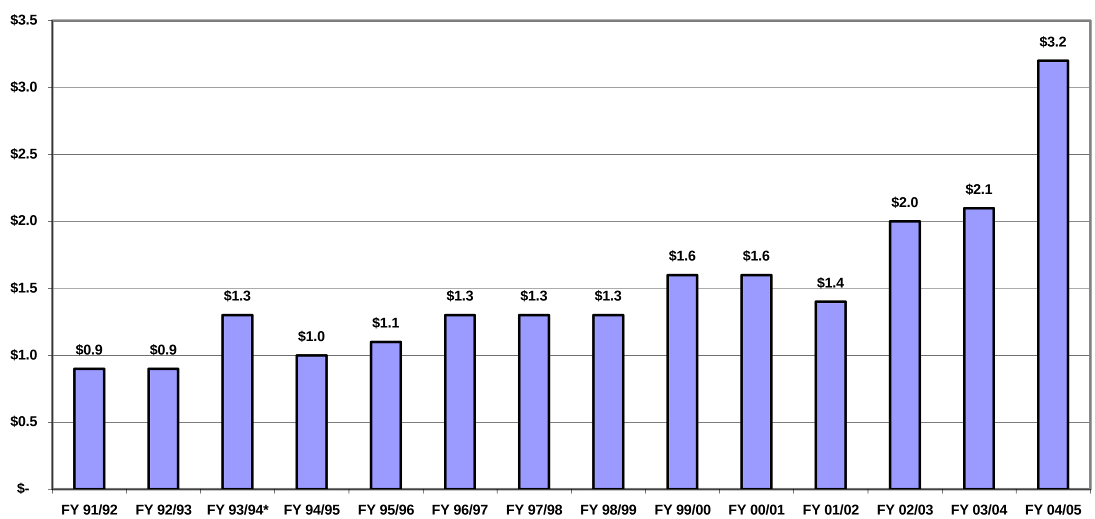


* 15-month fiscal year, switch from July 1st to October 1st fiscal year cycle

TRANSIENT OCCUPANCY TAX (TOT)

The TOT is set at 10% for the use of a room in a hotel or other lodging facility. The Redevelopment Agency receives 60% of any TOT collected within the Main Pier Project sub-area, with the exception of the TOT from the Waterfront Hilton, 100% of which is going to the General Fund. TOT is projected at $3,227,200, which is an increase of 51.02% over fiscal year 2003/2004.

General Fund Transient Occupancy Tax (TOT) Revenue
(in millions)



* 15-month fiscal year, switch from July 1st to October 1st fiscal year cycle

General Fund Expenditures

General Fund expenditures for fiscal year 2004/2005 total $148,432,357. This includes the planned expenditure of equipment replacement reserve funds within the General Fund of $762,545, which provides for a balance between expenditures and budgeted funds available. The chart below identifies a historical breakdown of expenditures in the General Fund Budget by department.

General Fund Expenditures Actual and Proposed

Department	FY 00/01 Actual	FY 01/02 Actual	FY 02/03 Actual	FY 03/04 Budget	FY 03/04 Revised	FY 04/05 Proposed
Administration	1,469,567	1,719,619	1,559,692	1,586,822	1,596,061	1,307,815
Administrative Services	3,874,171	4,268,839	8,323,810	8,517,811	9,386,050	10,542,009
City Attorney	2,505,115	2,516,820	2,837,218	3,073,171	3,332,774	3,064,166
Building	2,588,763	2,610,035	2,566,513	2,904,229	2,907,923	3,092,133
City Council	259,615	237,377	268,924	276,486	276,486	279,960
City Clerk	601,502	675,896	555,269	841,823	841,823	769,985
Community Services	9,979,513	10,174,950	9,311,474	10,398,912	10,588,119	10,943,662
Economic Development	16,875	706,413	843,827	948,376	982,285	952,560
Fire	18,285,192	18,204,961	18,658,671	19,577,483	19,595,898	20,907,490
Library	4,071,624	3,953,551	3,653,111	3,150,014	3,151,082	3,177,916
Info Systems	2,846,815	2,788,495	2,911,270	8,015,135	8,022,209	6,120,964
Non Departmental	25,659,716	18,335,741	17,573,441	23,456,382	23,612,654	20,052,286
Planning	2,272,604	2,442,380	2,386,350	2,498,921	2,882,716	2,546,976
Police	38,645,983	37,669,521	40,888,941	41,083,485	40,743,089	46,101,484
Public Works	22,218,096	19,186,102	16,814,285	16,265,467	16,582,517	16,951,540
City Treasurer	915,890	1,183,938	1,357,831	1,568,573	1,588,922	1,621,411
Grand Totals	**136,211,039**	**126,674,636**	**130,510,628**	**144,163,090**	**146,090,610**	**148,432,357**

Each department is described in the tabbed sections following this budget message. The department tabs include: an organization chart, description, summary of ongoing activities and projects, budget data sheets, and a summary of changes from fiscal year 2003/2004. The most significant discussion points at a citywide level include changes to the overtime, internal service funds, retirement, Memorandum-of-Understanding (MOU) with the employee associations, and infrastructure budgets.

A carry over issue from balancing the two-year budget was that 14-safety positions (9 Police Officers, 2 Sergeant, 2 Deputy Fire Marshals, and 1 Fire Protection Specialist) were unfunded but remained within the city's Table of Organization. These positions continue to be frozen and unfunded in the proposed fiscal year 2004/2005 Table of Organization, per the direction staff received with the adoption of the fiscal year 2003/2004 budget. To change the funding of these positions, City Council will need to direct staff to fully fund them at a total cost of $1,796,000 in the fiscal year 2004/2005 budget.

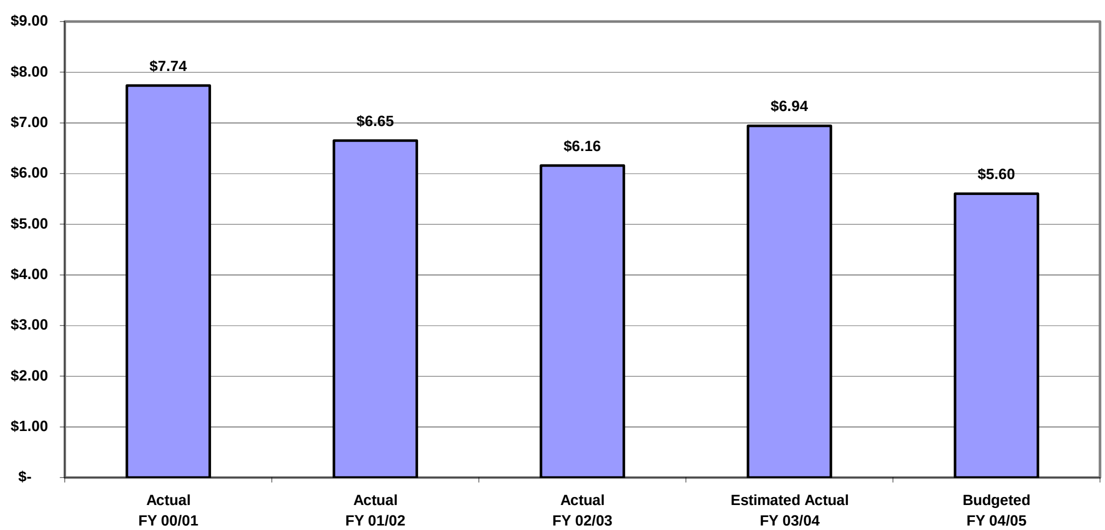
OVERTIME

In fiscal year 2003/2004, overtime budgets were reduced as a part of budget reductions. In addition, the fiscal year 2003/2004 budget inadvertently left out substantial overtime budget amounts. This budget error has been monitored and reported in quarterly budget reports through the 2003/2004 fiscal year. The fiscal year 2004/2005 budget provides expenditure estimates based on expected actual overtime experience for fiscal year 2003/2004.

Overtime expenditures are often driven by staff vacancies. It is important to note that the overtime budget assumes full staffing. Traditionally, the budget uses this approach with the understanding that salary savings from the vacant positions offset overages in overtime budgets due to staff vacancies.

The overtime budget in the General Fund in fiscal year 2004/2005 is $5,602,704, a 33.58% increase over the fiscal year 2003/2004 adopted budget primarily due to the budgeting error previously mentioned.

General Fund Overtime Expenditures
(in millions)



INTERNAL SERVICE FUNDS

To support the implementation of the Governmental Accounting Standards Board (GASB) rule 34, the city consolidated all Internal Service Funds into the General Fund. In fiscal year 2001/2002, the Liability Reserve and Equipment Replacement Funds were consolidated into the General Fund. In fiscal year 2002/2003, the Health Insurance and Workers' Compensation Funds were consolidated into the General Fund but were originally budgeted in their own funds. Fiscal year 2004/2005 is the first year that Workers' Compensation and Health Insurance are fully budgeted within the General Fund.

There are two budget impacts in fiscal year 2004/2005 as a result of Internal Service Funds being consolidated with the General Fund. First, an overall increase in expenditures in the General Fund has resulted from the simple transfer of funds without there being an increase in the total city budget (all funds). Second, while expenditures related to health insurance are capped (subject to each employee association's Memorandum-of-Understanding), Workers' Compensation costs can still create changes to the General Fund. The fiscal year 2004/2005 proposed budget anticipates a modest increase in expenditures for Workers' Compensation, as possible savings resulting from recent reforms enacted by the State legislature have not yet been analyzed.

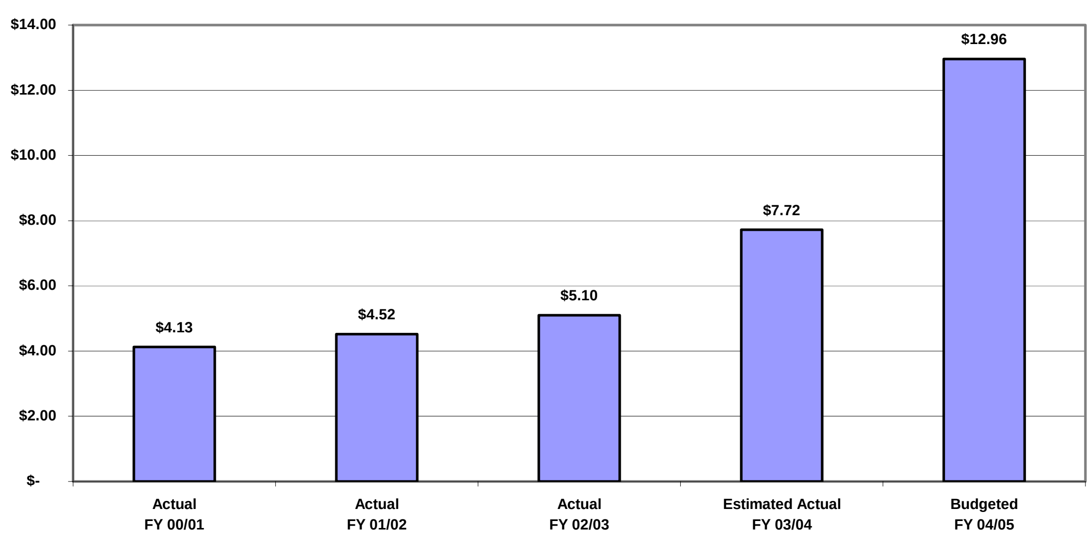
RETIREMENT

The City of Huntington Beach offers its employees three different retirement benefits: a defined benefit plan through the California Public Employees' Retirement System (CalPERS), a self-funded Retirement Supplement Plan, and a self-funded Retiree Medical Plan. Over the last several years the cost of retirement benefits has been escalating.

California Public Employees' Retirement System (CalPERS)

The city currently reimburses 7% of the miscellaneous (non-safety) employee's contribution and 6.75% of the safety employee's 9% contribution rate on behalf of the employees to CalPERS. The employer CalPERS rate for miscellaneous employees remains at 0.000% and increases to 25.144% from 8.997% for safety employees. The payment of the employee contribution on behalf of the employees has been negotiated over the years with the employee associations. The city is required to contribute amounts necessary to fund the benefits for its members using the actuarial basis determined by CalPERS.

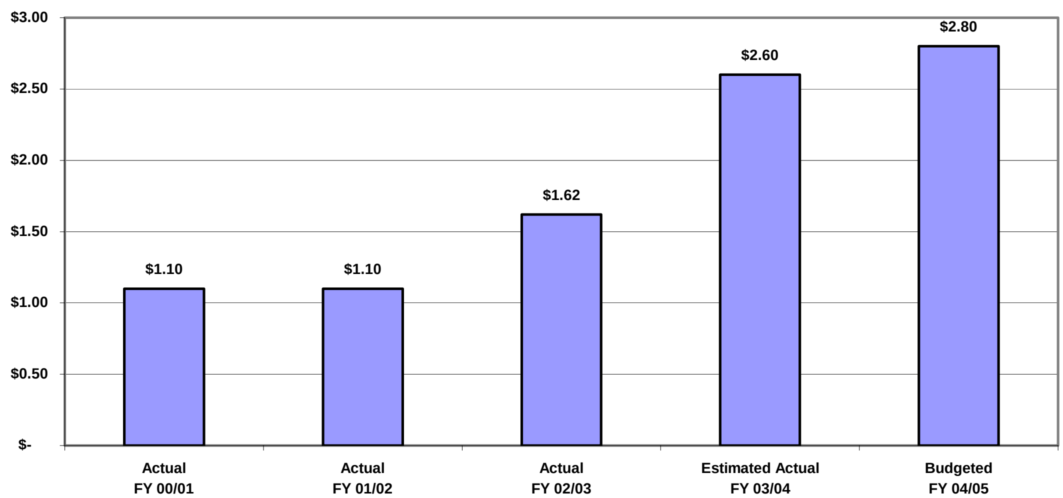
General Fund CalPERS Expenditures
(in millions)



City's Retirement Supplement Plan

The city provides a single-employer defined benefit plan to all employees hired before 1998 (dates vary according to labor association) who are also covered under the city's retirement plan with CalPERS. The benefit commences at the same time as the CalPERS benefit commences and is payable for the employee's lifetime. The amount of the monthly benefit is calculated as the difference between the employee's CalPERS Unmodified Monthly Allowance and the actual monthly CalPERS retirement benefit the individual actually receives. The monthly benefit payable under the city's Retirement Supplement Plan remains level during the employee's lifetime and will not be reduced.

Payments to Retirees in the Supplemental Retirement Program (in millions)



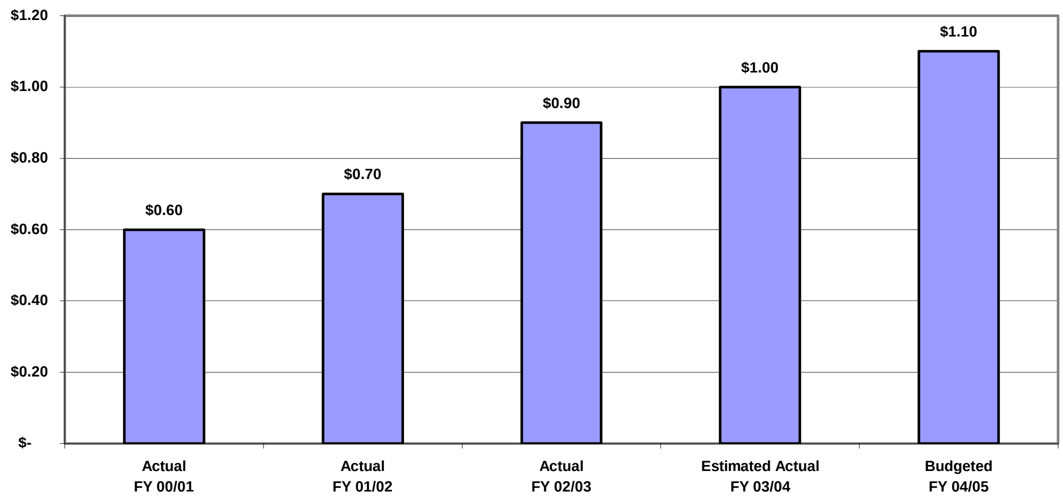
Each year the city is required by the Governmental Accounting Standards Board to receive an actuarial study of both the Supplemental and Retiree Medical Plans. The actuarial study details the cost of the programs, the Annual Required Contribution (ARC), and Unfunded Liabilities of the programs.

As of September 30, 2003, the most current study, the Supplemental Retirement Plan completed on December 19, 2003, the Supplemental Retirement Plan had an Unfunded Liability of $30.13 million, an ARC of 4.95% of salary, and paid out $1.62 million in benefits in fiscal year 2002/2003. Under the proposed fiscal year 2004/2005 budget, funding of the Supplemental Retirement Program ARC will be increased from 3.00% to 5.02% of salary. As of July 30, 2004, the Supplemental Retirement Fund had a cash balance of $12.03 million.

City's Retiree Medical Plan

The city maintains a Retiree Subsidy Medical Plan for all employees that are guaranteed a retirement benefit allowance by CalPERS, provided they have a minimum of 10 years of continuous service with the city (or are granted an industrial disability retirement), and are employed by the city at the time of their retirement. Payment of the Retiree Subsidy Medical Plan continues until the retiree is eligible for Medicare coverage (age 65), or until death if the employee is not eligible for Medicare. Spouses are covered for one year after an employee's death.

Payments to Retirees in the Retiree Medical Program (in millions)



As of September 30, 2003, the most current study, the Retiree Medical Plan completed on December 19, 2003, the Retiree Medical Plan had an Unfunded Liability of $6.70 million, an ARC of 1.17% of salary, and paid out $862,000 in benefits in fiscal year 2002/2003. Under the proposed fiscal year 2004/2005 budget, funding of the Retiree Medical Plan ARC will remain at 1.00% of salary. As of July 30, 2004, the Retiree Medical Fund had a cash balance of $5.13 million.

MEMORANDUM-OF-UNDERSTANDING (MOU)

Under the Meyers-Milias-Brown Act, commonly referred to as MMB, and the city’s Employer Employee Relations Resolution, city employees are represented by employee associations. Each employee association then negotiates a Memorandum-of-Understanding (MOU) with the city that details an employee’s wages, hours, and other terms and conditions of employment. The length of MOU’s varies by employee association. There are seven employee associations representing 96% of the full-time employees. The other 4% (50 employees) are non-represented and covered under the Non-Associated Resolution. The Surf City Lifeguard Employees’ Association (SCLEA) represents the permanent part-time Ocean Lifeguards, the seasonal part-time Ocean Lifeguards, and the part-time Junior Lifeguard Instructors.

Currently, only three employee associations are working under current MOU's: the Firefighters' Association, Fire Management Association, and SCLEA. All three of these MOU's are set to expire by December 31, 2004. All other employee associations are working under expired MOU's. The city has negotiated side letter agreements with all employee associations with expired MOU's regarding health insurance through December 31, 2004. The city will continue to negotiate new MOU's with all employee associations during the reminder of fiscal year 2003/2004 and into fiscal year 2004/2005 if necessary.

The chart below shows each employees association, the number of employees represented by the association, and MOU expiration date.

City of Huntington Beach Employee Associations

Employee Association	Represented Employees*	MOU Expiration
Police Officers' Association (POA)	207	9/30/2003
Marine Safety Officers' Association (MSOA)	13	9/30/2003
Management Employees' Organization (MEO)	95	12/31/2003
Municipal Employees' Association (MEA)	441	12/31/2003
Police Management Association (PMA)	39	12/31/2003
Firefighters' Association (HBFA)	112	9/30/2004
Fire Management Association (FMA)	5	12/31/2004
Surf City Lifeguard Employees' Association (SCLEA) Part-Time	140	12/31/2004

* The number employees represented as June 30, 2004, not all represented employees are members of the employee association, does not include any vacant positions.

INFRASTRUCTURE

The overall fiscal year 2004/2005 investment in infrastructure across all funds is $51.6 million. The majority of this investment is for construction and rehabilitation of infrastructure. It includes a General Fund component of $22.4 million primarily for maintenance that includes infrastructure contributions from the operating budgets of Public Works, Community Services, Information Services, and Library Services. Debt service for capital project such as the Library Expansion, Central Park Sports Complex, South Beach improvements, and Beach Maintenance Facility.

While the city has been allocating a great deal of resources toward addressing the city's infrastructure issues, many deferred maintenance issues remain. In the coming years, the city will need to find new ways to deal with (fund or allocate resources to) these deferred maintenance issues before they reach a crisis level. Some of these deferred maintenance issues include: sidewalks, curbs, gutters, arterial block walls, streets, alleys, storm drains, and city facilities.

The General Fund infrastructure expenditures in fiscal year 2004/2005 are equal to 15.17% of General Fund revenue. The following table breaks down the calculation of the General Fund component for fiscal year 2003/2004 and the prior four years.

General Fund Infrastructure Spending	FY 00/01 Actual	FY 01/02 Actual	FY 02/03 Actual	FY 03/04 Budget	FY 04/05 Proposed
Public Works	16,621,592	15,072,375	13,458,255	13,657,665	15,231,813
Community Services	1,689,171	1,508,578	1,305,917	1,408,623	1,545,085
Library Services	83,823	120,984	84,054	68,333	70,404
Information Services	0	0	0	82,965	93,513
CIP Fund	851,898	7,399,725	2,854,144	823,852	0
General Fund Infrastructure Debt Service	3,165,000	3,561,000	3,561,000	5,448,000	5,442,385
TOTALS	**22,411,484**	**27,662,662**	**21,263,370**	**21,489,438**	**22,383,201**
General Fund Revenue	**127,978,721**	**126,157,723**	**132,674,776**	**137,739,018**	**147,517,784**
% of Revenue Dedicated for Infrastructure	**17.51%**	**21.93%**	**16.03%**	**15.60%**	**15.17%**
5-Year Rolling Average	**17.14%**				

The City Charter requires a 15% General Fund commitment averaged over five years, beginning with fiscal year 2000/2001. The annual commitments beginning with fiscal year 2000/2001 are displayed in the table above. The average spending since the City Charter amendment took effect in fiscal year 2000/2001 is 17.14%.

General Fund Reserve

The financial policies of the city require that the General Fund reserve be 7% of adopted General Fund revenue. This equals approximately $10.3 million for fiscal year 2004/2005. The General Fund reserve is expected to be $6.2 million or 4.2% of adopted General Fund revenue in fiscal year 2003/2004. This assumes that there are no significant revenue reductions or expenditure increases in the remainder of fiscal year 2003/2004.

This reserve includes consideration of all anticipated department savings (normal savings as well as savings resulting from the hiring freeze and deferral of expenditures for supplies, services, and capital). The savings anticipated is offset by overages in overtime. Revenue adjustments in fiscal year 2003/2004 are also fully recognized including reductions in concession, parking fines, VLF, and transfers from other funds and increases in Property Tax.