

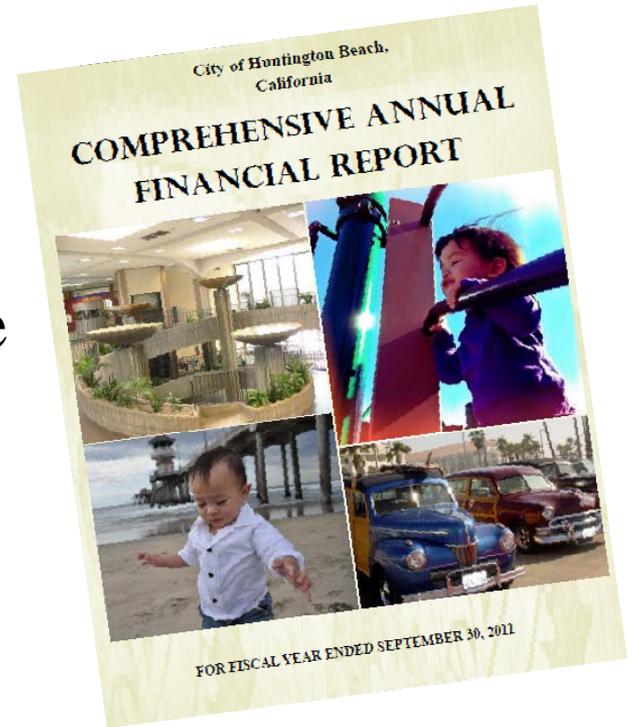
# City of Huntington Beach

## FY 2011/12 Mid-Year Report



# Summary

- ▶ Recap of FY 2010/11 Audit and Year-End Results
- ▶ FY 2011/12 Mid-Year Update
- ▶ FY 2012/13 Budget and Long Term Financial Plan Update
- ▶ Next Steps



# FY 2010/11 Audit Results

- ▶ Auditing firm of Macias, Gini & O'Connell audited City's financial performance and reports
- ▶ FY 2010/11 Comprehensive Annual Financial Report received an Unqualified (Clean) Audit Opinion
- ▶ The City's CAFR is award winning – has received the Government Finance Officers Association's (GFOA) Excellence in Financial Reporting Award for 25 years

# FY 2010/11 Performance (Audited)

- General Fund Revenue:\$186.5 million
- Includes both recurring and one-time revenue (\$3.5 million)
- General Fund expenditures, liabilities and loan repayments: \$179.3 million
- In addition:
  - \$1.3 million to CIP reserve to fund additional street repairs in FY 2011/12
  - \$1.1 million set-aside for PARS liability
  - \$0.6 million set-aside for Worker's Compensation third-party claims account
  - \$0.8 million set-aside for Litigation settlement and payout
  - \$0.75 million in net encumbrances and pre-paid insurance

**Results in remaining year-end balance of \$2.7 million or 2% of  
the General Fund**

# FY 2010/11 Year End Results

- ▶ Options discussed at January 2012 Study Session:
  - Deposit remaining fund balance into Budget Stabilization Fund
  - Continue with existing Financial Reserve Policy:
    - Save two months of General Fund expenditures; then,
    - 50% to Economic Uncertainties Reserve
    - 25% for Infrastructure Fund
    - 25% to Capital Improvement Reserve (CIR)
  
- ▶ City Council directed staff to deposit fund balance into Economic Uncertainties reserve to address potential emergency circumstances, such as RDA elimination

# General Fund Balance

(In Thousands)

Fund Balance Category	FY 09/10	FY 10/11	Estimated FY 11/12
Economic Uncertainties	19,710	19,710	19,710
Economic Uncertainties - RDA Contingency*	0	2,695	2,695
Litigation Reserve	900	900	900
Litigation Settlement/Payout*	0	780	0
Equipment Replacement	6,913	6,913	6,913
Capital Projects	2,970	4,270	2,970
PARS Obligation	3,549	4,649	0
Other Fund Balance	7,310	8,661	7,461
<b>Total Fund Balance **</b>	<b>41,352</b>	<b>48,578</b>	<b>40,649</b>

\* Included in Economic Uncertainties Reserve in actual FY 10/11 CAFR.

\*\* Excludes Land held for resale of \$5.7 million transferred in from the former Redevelopment Agency.

# Potential Use of Reserves to Meet Critical Needs

- ▶ Prepayment of PARS Remaining Liability of \$4.5 million (FY 12/13, FY 13/14 and FY 14/15); Payments of \$1.5 million each
- ▶ Transfer to Infrastructure Fund to help meet 15% charter requirement
  - FY 2011/12 year-end transfer of unspent funds in Public Works
  - FY 2012/13 transfer of \$1.5 million currently projected to meet 15% requirement
- ▶ Utilize reserves to fund one-time purchases such as equipment
- ▶ Utilize reserves to end current year in balance due to State's rejection of RDA transfer of \$4.9 million

# FY 2011/12 Mid-Year Update

- ▶ General Fund Overview
- ▶ FY 2011/12 Recap

# FY 2011/12 Overview

- ▶ Current fiscal year was projected to end in balance...
- ▶ However, on April 30, 2012 Redevelopment transfer of \$4.9 million disallowed by the State
- ▶ \$1.3 million in one-time debt service savings will help close the gap in this year only (one-time)
- ▶ \$1.1 million in additional revenue from building permits, sales tax and TOT revenues, among others will help offset potential revenue loss
- ▶ Remaining \$2.5 million may be required from reserves to balance the General Fund



# FY 2011/12 Recap

- ▶ Current fiscal year was projected to end in balance
- ▶ If \$4.9 million in RDA cannot be retained, the following items will help mitigate the impact:
  - \$1.3 million in bond savings- one time only
  - \$1.1 million in revenue increases
  - \$1.3 million in CIP reserve to fund streets
  - Expense reductions across departments
- ▶ However, we may need to dip into reserves by \$1.2 million or more to end year in balance

# FY 2012/13 Projected Budget

- ▶ Long Term Financial Plan
- ▶ Potential Challenges Ahead
- ▶ Highlights of FY 12/13 State Budget – May Revise
- ▶ Budget Timeline
- ▶ Next Steps

# Long Term Financial Plan Assumptions

## Assumptions:

- Neutral labor cost adjustments
- No additional personnel added to Table of Organization
- RDA transfer of \$4.9 million is eliminated
- Employee Tax Override is maintained
- \$1.0 million additional for Equipment Replacement each year through FY 2014/15 for a total of \$6.0 million
- \$1.5 million more for Infrastructure in FY 2012/13, and an additional \$1 million each year thereafter, to meet the 15% infrastructure Charter requirement
- CalPERS' discount rate has changed from 7.75% to 7.5%

# Long Term Financial Plan

	<b>Budget FY 12/13</b>	<b>Budget FY 13/14</b>	<b>Budget FY 14/15</b>	<b>Budget FY 15/16</b>	<b>Budget FY 16/17</b>
<b>SCENARIO 1*</b>					
Revenue	181,634,773	183,010,929	184,784,383	187,015,903	189,599,201
Expenditure	<u>184,103,564</u>	<u>186,987,647</u>	<u>189,805,462</u>	<u>193,660,902</u>	<u>194,685,992</u>
Challenge	<b>(2,468,791)</b>	<b>(3,976,719)</b>	<b>(5,021,079)</b>	<b>(6,644,999)</b>	<b>(5,086,791)</b>
<b>SCENARIO 2</b>					
Annual challenge after Structural Cuts in FY 12/13, and thereafter	(2,468,791)	(3,976,719)	(5,021,079)	(6,644,999)	(5,086,791)
		<u>2,468,791</u>	<u>3,976,719</u>	<u>5,021,079</u>	<u>6,644,999</u>
		<b>(1,507,927)</b>	<b>(1,044,361)</b>	<b>(1,623,920)</b>	<b>1,558,208</b>
<b>SCENARIO 3</b>					
Annual Challenge After Structural Cuts and Holding Equipmt Constant at \$4M / FY		(507,927)	955,639	376,080	3,558,208

\* Assumes \$4.2 million in Override Tax Remains

# **Current Budget Scenario FY 2012/13: RDA Elimination and CalPERS Increase**

- ▶ Loss of RDA Transfer to General Fund: \$4.9 M
- ▶ CalPERS' Board approved lowering the discount rate from 7.75% to 7.50%
  - Year 1 impact: \$280 thousand in FY 2012/13 for July-Sept 2012
  - Year 2 impact: \$1.8 million
- ▶ Net impact to the General Fund for FY 12/13: \$2.5 M

# Impact of \$2.5 million Challenge by Department

## Potential Reduction by Department

City Council	1,100
City Manager	32,733
City Attorney	39,605
City Clerk	12,960
City Treasurer	2,443
Community Services	233,275
Economic Development	29,251
Finance	91,880
Fire*	210,548
HR	88,725
Info Svcs	107,078
Library	76,153
Planning & Bldg	113,178
Police	1,078,593
Public Works	<u>382,479</u>
<b>TOTAL</b>	<b>2,500,000</b>

\* Cut reduced from \$524,289 to \$210,548 due to Constant Manning.

# \$2.5 million Potential Service Impacts

## Preliminary items for FY 2012/13 include:

- ▶ Reduction of Police Department's Motor Traffic Unit (5.0 FTE: \$845 K)
- ▶ Elimination of Police Department's Public Fingerprinting Service and Other Non-Sworn Reductions (\$234k)
- ▶ Public-Private Partnership Operating Model for Art Center (\$300 K)
- ▶ Reduction of book purchases and research databases at Libraries (\$70K)
- ▶ Reduction of Citywide Landscape Maintenance and other public works service reductions (\$384k)
- ▶ Reduction in Planning & Building temp staff and services leading to longer processing times (\$120K)
- ▶ Elimination of Utility User Tax Auditing services (\$65K)

# \$2.5 million Potential Service Impacts

## Preliminary items for FY 2012/13 include:

- ▶ Estimated Total of 37.5 positions eliminated
  - Full-Time: 17.7 FTE (5.0 FTE Potential Layoffs)
  - Part-Time: 19.8 Staff
  - TOTAL: 37.5 Positions

# Scenario A: Employee Override Tax Eliminated

- ▶ Departments initially identified \$4.2 million in cuts in March 2012
- ▶ Scenario A for informational purposes only currently
- ▶ Scenario A will be updated and presented in upcoming Study Sessions in August, September and October 2012

# FY 2012/13 Budget Scenarios

	Scenario A Override	Scenario B RDA/CalPERS	Scenario C TOTAL	% Cut
City Council	9,242	5,475	14,717	4.9%
City Manager	47,868	28,358	76,226	4.9%
City Attorney	66,854	39,605	106,459	4.9%
City Clerk	21,877	12,960	34,837	4.9%
City Treasurer	4,124	2,443	6,566	4.9%
Comm Svcs	393,768	233,275	627,042	4.9%
Econ Dev	49,375	29,251	78,626	4.9%
Finance	155,093	91,880	246,972	4.9%
Fire*	355,405	210,548	565,954	1.7%
HR	149,768	88,725	238,493	4.9%
Info Svcs	180,748	107,078	287,826	4.9%
Library	128,545	76,153	204,698	4.9%
Planning & Bldg	191,044	113,178	304,222	4.9%
Police	1,820,665	1,078,593	2,899,258	4.9%
Public Works	645,625	382,479	1,028,104	4.9%
<b>TOTAL</b>	<b>4,220,000</b>	<b>2,500,000</b>	<b>6,720,000</b>	<b>4.3%</b>

\*Cut reduced from \$524,289 to \$210,548 due to Constant Manning.

# Potential Budget Challenges

SCENARIO	AMOUNT	ITEM	STATUS
Scenario A	\$4.2 M	Employee Property Tax Override	On Hold/Revisit in August 2012
Scenario B	<u>\$2.5 M</u>	RDA Elimination/CalPERS Discount Rate Change	FY 2012/13 Proposed Budget
Scenario C	\$6.7 M	All of the funding above is eliminated	August/September/October /November 2012

# FY 2012/13 State Budget Update

- ▶ May 16, 2011 - Governor's May Revise unveiled
- ▶ State of California faces a \$15.7 billion gap for Fiscal Year 12/13 versus the initial projection of \$9.0 billion
  
- ▶ Governor Brown Proposes to close this gap with the following:
  - \$8.3 billion in cuts to state employee compensation (5% cut); welfare, health care; higher education and State court system cuts
  
  - \$5.9 billion in tax initiatives
    - Temporary Income Tax on highest income earners (\$250,000 for individuals; \$500,000 for couples)
    - Temporary Quarter Sales Tax Increase from 7.25% to 7.50% (4 years)
  
  - \$1.5 billion in other one time revenues/expense reductions
    - Of this amount \$1.0 billion is Redevelopment Agency and Low Income Housing Fund Balances Takeaway

# FY 2012/13 State Budget Update

- ▶ In order to balance State Budget deficit, Governor Brown is proposing legislation to take Redevelopment and Low Income Housing (20% set-aside) fund balances from Cities (Trailer Bill)
- ▶ City staff will monitor progress of legislation and present updates at later Study Sessions
- ▶ Recommend City Council Oppose Trailer Bill

# FY 2012/13 BUDGET TIMELINE

## (Tentative)

<u>Item</u>	<u>Proposed Date</u>
Present - June 30, 2012	Internal Budget Development and Finalization
July 16, 2012	Proposed FY 2012/13 Budget to City Council Study Session
August 1, 2012	CIP and Infrastructure Study Session
August 31, 2012	Charter Deadline to Submit Budget to City Council
September 4, 2012 September 17, 2012	Proposed Budget Adoption Date – 1 <sup>st</sup> Meeting Alternative Budget Adoption Date – 2 <sup>nd</sup> Meeting
September 30, 2011	Charter Deadline to Adopt the FY 2012/13 Budget
October 1, 2012	New Fiscal Year Begins
November 4, 2012	Election Day- Employee Tax Override Ballot Measure

# Next Steps

- ▶ Direction needed on potential use of Fund Balances for Fiscal Year 11/12 and 12/13
- ▶ Budget Strategy for FY 12/13 currently includes finding solutions to meet the current \$2.5 million deficit
- ▶ Second Round of Budget Solutions may take place during August/September/October 2012
- ▶ Negotiations still underway to potentially negotiate concessions



**Questions?**