

CITY OF HUNTINGTON BEACH CALIFORNIA



ADOPTED ANNUAL BUDGET
FISCAL YEAR 2008 - 2009



Adopted Budget

for the
City of Huntington Beach



2008/2009
Fiscal Year

Submitted by
Fred A. Wilson, City Administrator

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City of Huntington Beach City Council – 2008/2009



Debbie Cook
Mayor



Keith Bohr
Mayor Pro-Tem



Joe Carchio
Council Member



Gil Coerper
Council Member



Cathy Green
Council Member



Don Hansen
Council Member

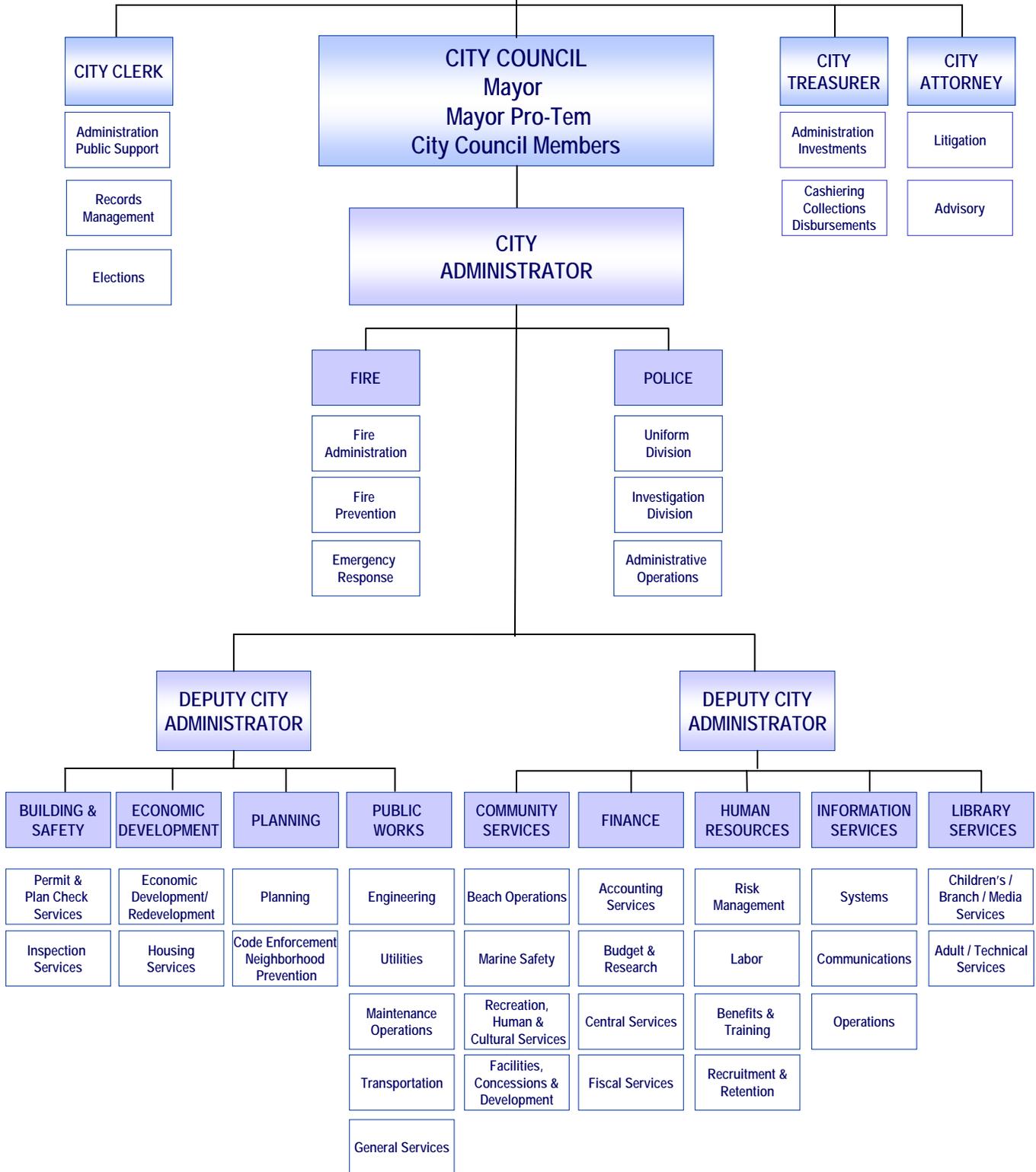


Jill Hardy
Council Member

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CITY OF HUNTINGTON BEACH

THE PEOPLE



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The Government Finance Officers Association of the United States and Canada (GFOA) presented a Distinguished Budget Presentation Award to the City of Huntington Beach, California for the annual Budget beginning October 1, 2007. In order to receive this award, a governmental unit must publish a budget document that meets program criteria as a policy document, as an operations guide, as a financial plan, and as a communications device.

This award is valid for a period of one year only. We believe our current budget continues to conform to program requirements, and the City will be submitting the adopted budget to GFOA to determine its eligibility for another award.

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*City of Huntington Beach
Adopted Budget Summary
FY 2008/09*



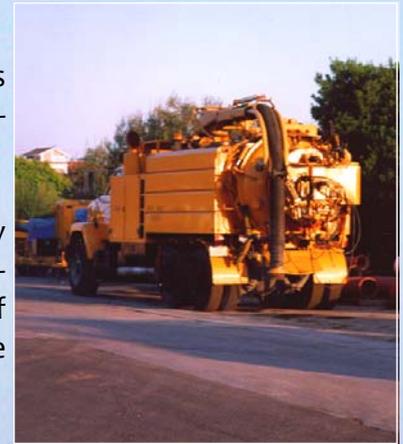


The City of Huntington Beach's annual budget is fundamental to the effective management of the city. It serves as both a spending plan for the year and a communications document, outlining the city's programs and services. The Adopted FY 2008/09 budget contains the tools and resources necessary to strengthen city services, improve accounting and budget oversight, build reserves, fund infrastructure and capital projects, and maintain the fiscal stability of Huntington Beach.

This budget summary is an overview of the adopted budget approved by the City Council, covering revenues, expenditures, and related information for fiscal year 2008/09. The City's fiscal year runs October 1st through September 30th. Detailed budget information can be found within the City's budget document, copies of which can be found online at www.surfcity-hb.org, at

City libraries, or by calling the Public Information Office at (714) 536-5577.

The Adopted budget for FY2008/09 totals \$336,790,060 across all funds. This is an increase of two percent over the prior fiscal year. General Fund expenditures represent fifty-nine percent of the total, or \$199,151,684.



The City of Huntington Beach is committed to preserving the financial stability of the City and has adopted a budget that achieves this goal. Given the current state of the economy, finance staff will carefully monitor the receipt of revenues as well as the spending patterns of all City departments to ensure the City's financial sustainability.



How Does the Budget Work?

When reviewing a municipal budget, references are made to the General Fund, Enterprise Funds, Grants, Special Revenue Funds, and so forth. But what does it all mean?

The primary funding source of any municipal budget is the General Fund. Most services provided to Huntington Beach residents are paid for out of the General Fund: park maintenance, public safety, recreational programming, and street maintenance, to name a few.

To support these services, revenue is placed in the General Fund from sources recognizable by most citizens: property taxes, sales tax, parking revenue, fines from traffic violators, recreation fees, and a wide variety of others. Other types of revenue are restricted and can only be

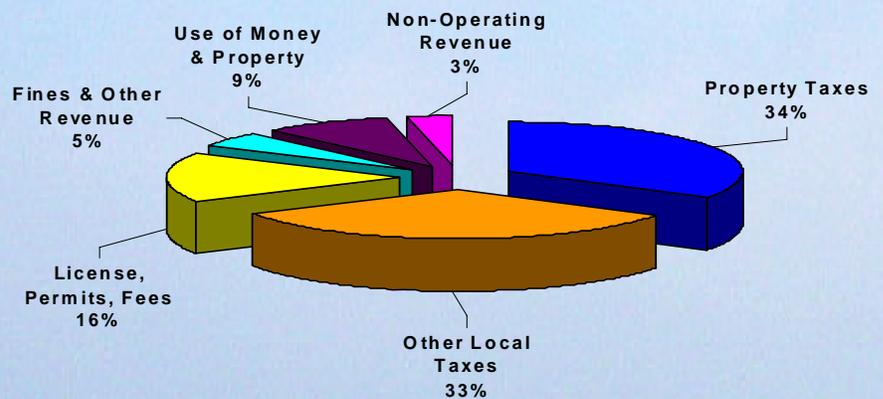
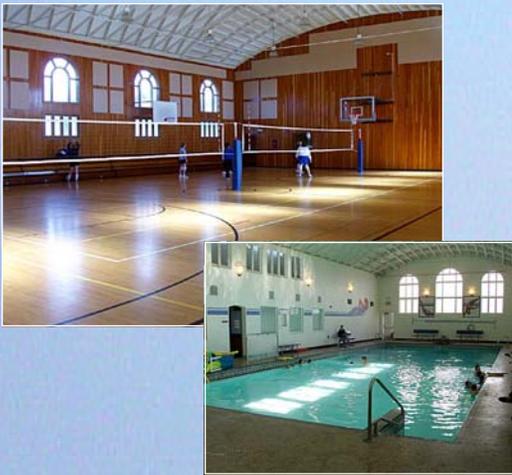
used for specific purposes. For example, Measure M sales tax revenue (a half-cent County of Orange sales tax) is earmarked for street-related capital projects as well as operation of the transportation system. The next time you shop in Huntington Beach or pay property tax, remember that a portion of that money comes back to the City. That revenue is then budgeted and used to pay for essential services you depend on every day: community services, library, police, fire, and even accounting and finance operations.



General Fund Revenue

The General Fund includes revenue the City has available to provide general services to our residents. This includes most City staff and operations of the police, fire, recreation, beaches, library, planning, building, legal, and financial departments. Revenues not included in the General Fund are specifically designated for projects related to infrastructure, water utilities, grant programs, and refuse collection.

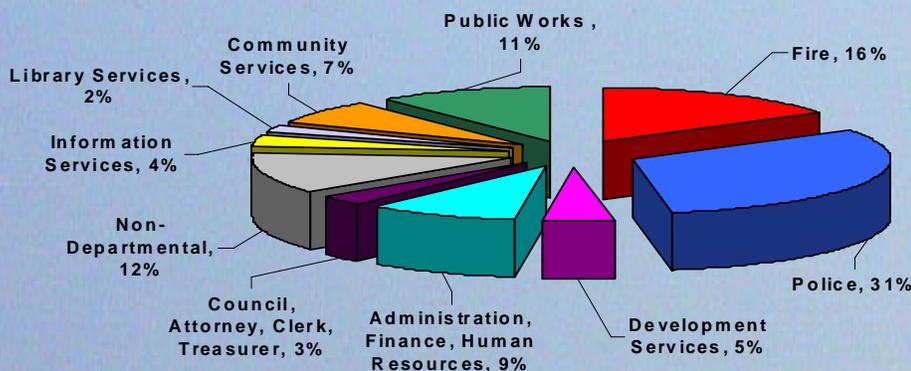
The graph below highlights the diversity of the City's General Fund revenue sources. Property and Other Local Taxes (e.g., Sales, Transient Occupancy, and Utility Users Taxes) account for more than two-thirds of General Fund revenue. The City also receives revenue from the rental of City facilities, parking citations, business license taxes, State and Federal programs, and myriad other sources. This diversity in revenue enables the City to maintain a high level of service despite negative changes in the economy. General Fund revenue for FY 2008/09 totals \$194,689,700, a 5.2% increase over FY 2007/08. Of this 5.2% increase, 4.1% is due to the incorporation of former special revenue funds into the General Fund to allow for more efficient accounting of the programs they supported.



General Fund Expenditures

General Fund expenditures total \$199,151,684 and are driven by the City Council's Strategic Plan, with forty-seven percent devoted to public safety (Police and Fire departments).

Development Services includes the Economic Development, Building and Safety, and Planning departments and comprises five percent of the General Fund budget. Non-Departmental expenditures support the City's equipment replacement program, citywide expenses such as fuel and utilities, and debt service expenses.



Capital Improvement Program

The Capital Improvement Program (CIP) identifies major public improvements throughout the City. The CIP is a five-year budget and planning document, which allows for the planning, budgeting, and scheduling of capital projects over the next five years. The CIP allows departments to set aside necessary resources for large projects. In general, the CIP includes new projects and upgrades to existing facilities costing in excess of \$50,000. The CIP is reviewed and updated annually as part of the budget process.



The CIP is developed to address elements contained in the City's General Plan, as well as City Council adopted planning documents and master plans. These projects correspond to goals in the Strategic Plan.



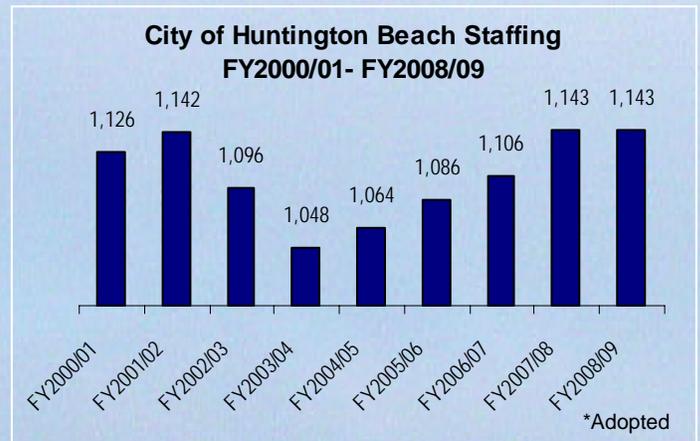
The CIP for FY 2008/09 totals \$38,588,575 in new appropriations for various street and transportation, parks and beaches, facilities, and related capital projects as well as \$14,018,530 in continuing appropriations for on-going projects. Projects are funded through a combination of grants, Enterprise Funds, Special Revenue Funds, the Infrastructure Fund, and other sources. Examples of projects included in the

2008/09 fiscal year are:

- Construction of an 8th ball field at the Sports Complex
- Installation of Beach Blufftop restrooms
- Various arterial highway rehabilitation projects
- Central Library renovation

Staffing

Funding for personnel expenses comprises the most significant investment the City makes each year. The City's dedicated staff provides an efficient, high level of service to the Huntington Beach community. Recently negotiated, long-term memoranda of understanding have enabled management to budget more accurately for personnel costs, while an increased number of retirements have provided an opportunity to assess operations for potential streamlining. The adopted budget includes funding for a total of 1,143 full-time equivalent (FTE) positions; 1,013.94 positions are funded within the General Fund.



For the 2008/09 fiscal year there are no new positions being added to the City's table of organization.

Huntington Beach City Council



City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648

Questions?
Public Information Office:
Phone: (714) 536-5577
E-mail: lpayne@surfcity-hb.org





City of Huntington Beach

2000 Main Street, Huntington Beach, CA 92648
Fred A. Wilson, City Administrator

November 2008

Honorable Mayor and Members of the City Council:

I am pleased to present the adopted FY 2008/09 budget, representing the spending plan for Huntington Beach's 100th year since incorporation. The balanced budget totals \$336,790,060 which is a 2.0 percent increase from last year's adopted budget. The General Fund budget, which provides for the majority of public services to our community, totals \$199,151,684, representing an increase of 5.9 percent over last year's adopted budget. This is a balanced budget that meets the required seven percent financial policy reserve of \$13,628,279, funds a second tier reserve for additional economic security, provides for continued buy-down of unfunded liabilities, funds an equipment reserve and replacement program, and maintains a general liability reserve of \$2,000,000.

Huntington Beach will be faced with several challenges in FY 2008/09 due to the impact of economic changes at the national, regional, and state level. However, because of prudent fiscal management, the adopted budget for FY 2008/09 maintains service and staffing levels. The breadth and diversity of the City's revenue stream will also assist with weathering the economic downturn. Overall, Huntington Beach is on solid financial footing due to sound management and planning practices.

Key to this sound management has been the adoption of a Strategic Plan guiding the City's spending decisions. This City Council adopted plan provides staff five primary goals that guide budget development. These goals are: Financial, Infrastructure, Land Use and Economic Development, Engaging the Community, and City Services. Staff has outlined a program of service that proposes to accomplish the following:

Financial

- Operationalizes the Long Term Financial Plan (LTFP) that was completed in July 2008;
- Updates the cost allocation plan and comprehensive user fee study; and,
- Completes a third year of auditing of Transient Occupancy Tax and internal programs.

Infrastructure

- Creates a Capital Improvement Program of \$38,588,575 with full project documentation (under Capital Improvement tab of the budget) which funds:
 - sewer, drainage, and storm water quality projects
 - maintenance and upgrade of city facilities
 - neighborhood improvement projects, including street rehabilitation and residential pavement
 - Edison sports complex expansion, pier building and restroom construction, and skate park design
 - streets and transportation projects such as bridge rehabilitation and traffic signal upgrades

Land Use and Economic Development

- Continues efforts of the Planning and Building and Safety Departments to meet and exceed customer service benchmarks; and,
- Oversee the completion and opening of The Strand downtown development.

Engaging the Community

- Continue planning numerous centennial celebration events;
- Continue the scanning of city records to provide greater public access to historical documents;
- Converts building permit records to digital format, expanding access for customers; and,
- Increase access to Library holdings by providing expanded internet service.

City Services

- Expand Library Service's children's book collection;
- Establish programs to help improve safety around elementary schools; and
- Continue provision of clean water to residents by increasing cross-connection inspections.

The FY 2008/09 adopted budget continues the efforts of prior years of improving operational and programmatic efficiencies in light of slowing revenue growth. Because of prudent financial management, the right-sizing of department budgets, and a focus on accurate revenue projections, Huntington Beach can continue to fund an equipment replacement program, build reserves, and fund capital improvements while making no cuts to service or staffing levels.

With the City Council's 2020 Vision Statement, staff continues to explore opportunities to address the five strategic goals. There is much to be done, but the vision statement has given us clear direction. I expect that FY 2008/09, while presenting challenges due to the economy, will nonetheless provide the necessary levels of service to create and maintain a sustainable, family and business-friendly community.

The dedicated employees of the City of Huntington Beach remain committed to your vision. We are proud to serve and look forward to another year, working to meet the needs of our citizens, visitors, and businesses.

Sincerely,



Fred A. Wilson
City Administrator

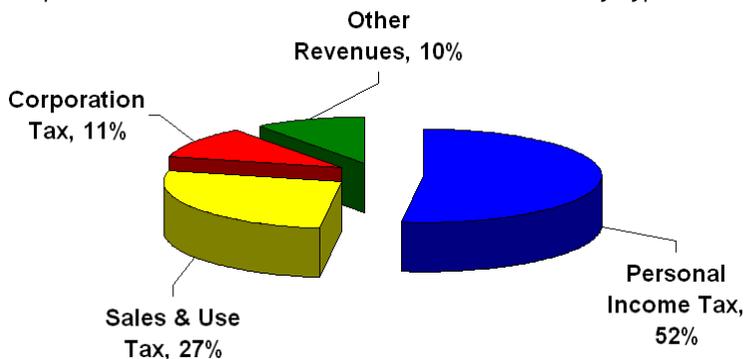


City of Huntington Beach Budget Message



Fiscal Year 2008/09 marks the 100th anniversary of Huntington Beach's incorporation. Surf City has witnessed myriad changes since the turn of the century. The adopted budget for FY 2008/09 includes funding for programs and services unheard of 100 years ago: geographic information system (GIS) software, helicopter operation and maintenance, desktop computer replacement, digital document imaging, and numerous other programs and projects. But, there are other services which continue, albeit in improved fashion: fire, marine safety, police, and public works to name just a few.

Graph 1: State of California General Fund Revenue by Type

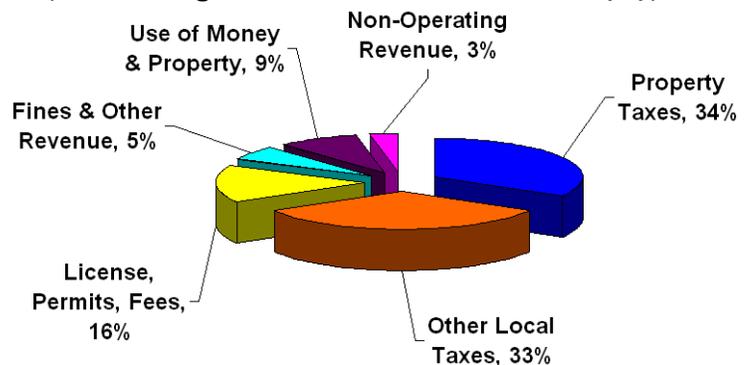


What has not changed is the City's commitment to providing the highest quality of service to residents and visitors while being good stewards of each dollar spent. The City is mindful of this mission in light of the challenges presented by the recent economic slowdown. Nonetheless, the City has adopted a balanced budget with no reduction in services or personnel for FY 2008/09.

A primary reason for the City being able to weather the current economic slowdown is its diversified revenue base. Graph 1 shows the composition of the State of California's General Fund revenue by type. The State's heavy dependence on personal income and corporation taxes for almost two-thirds of its revenue illustrates how economic downturns can drastically affect the State's coffers. However, Huntington Beach's General Fund revenue is much more diversified, allowing the City to better withstand real estate, development, and retail pullbacks. As Graph 2 shows, no single source of revenue dominates Huntington Beach's General Fund revenue composition.

In addition, continued prudent fiscal management and the right-sizing of department budgets have positioned the City favorably as we negotiate the housing market and retail downturn. Hence, the FY 2008/09 adopted budget has the same number of positions as authorized in FY 2007/08 while maintaining current levels of service.

Graph 2: Huntington Beach General Fund Revenue by Type



For FY 2008/09, the total adopted expenditure budget across all funds is \$336,790,060. This includes \$38,588,575 in new Capital Improvement Program (CIP) projects. Many of the day-to-day services provided to our visitors and residents are funded by

the General Fund: public safety, street maintenance, recreational programs, and development assistance, to name a few. These and other services are funded by total General Fund appropriations of \$199,151,684. This amount includes one-time appropriations of \$1,784,500 for the Capital Improvement Reserve (CIR), \$2,500,000 for the Equipment Replacement reserve, and other one-time capital purchases. Therefore, the FY 2008/09 General Fund revenues of \$194,689,700 are enough to cover on-going expenditures.

The following sections describe General Fund expenditure appropriations and revenue projections in greater detail. In addition, some of the exciting changes outlined in the FY 2008/09 budget will be described. Finally, the many Capital Improvement Program (CIP) projects budgeted for FY 2008/09 will be outlined.

General Fund

Expenditures

Total, adopted General Fund appropriations for all departments in FY 2008/09 are \$199,151,684. These General Fund expenditures – Personal Services, Operating, Capital, and Non-Operating – represent a 5.8 percent increase in FY 2008/09 over projected FY 2007/08 expenditures. The primary reason for the growth in expenditures is due to operational and accounting changes in FY 2008/09. These will be discussed in greater detail in the following section.

For FY 2008/09, General Fund salary and benefits are budgeted at \$139,315,585, representing a 9.2 percent increase over FY 2007/08. Adopted operating expenditures represent a growth of approximately 1.2 percent in FY 2008/09 over FY 2008/08. Table 1 below shows historical, projected (FY 2007/08), and adopted (FY 2008/09) General Fund expenditures by department.

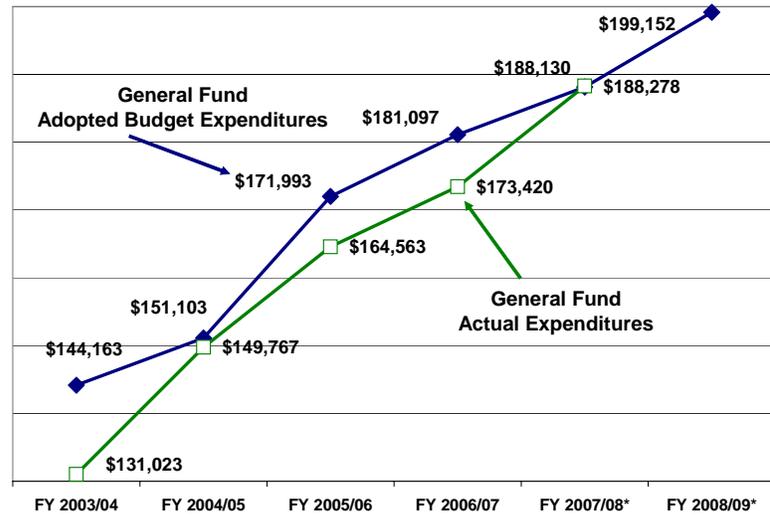
*Table 1: General Fund Historical Expenditures by Department (in thousands)**

	Total Actuals FY 2003/04	Total Actuals FY 2004/05	Total Actuals FY 2005/06	Total Actuals FY 2006/07	Adopted Budget FY 2007/08	Projected FY 2007/08	Adopted Budget FY 2008/09
City Council	\$ 280	\$ 254	\$ 271	\$ 290	\$ 305	\$ 299	\$ 317
City Attorney	\$ 2,771	\$ 2,326	\$ 2,272	\$ 2,438	\$ 2,801	\$ 2,769	\$ 2,823
City Clerk	\$ 712	\$ 679	\$ 828	\$ 907	\$ 995	\$ 1,011	\$ 1,170
City Treasurer	\$ 1,519	\$ 1,547	\$ 1,446	\$ 1,056	\$ 1,329	\$ 1,283	\$ 1,509
City Administrator	\$ 1,165	\$ 1,267	\$ 1,426	\$ 1,489	\$ 1,970	\$ 1,587	\$ 1,734
Building & Safety	\$ 2,830	\$ 3,259	\$ 3,541	\$ 3,848	\$ 4,249	\$ 3,920	\$ 3,980
Community Services	\$ 10,350	\$ 10,727	\$ 12,489	\$ 12,971	\$ 13,853	\$ 13,625	\$ 14,183
Economic Development	\$ 842	\$ 776	\$ 1,121	\$ 1,533	\$ 1,680	\$ 1,617	\$ 1,915
Finance	\$ 2,318	\$ 2,501	\$ 3,311	\$ 11,363	\$ 11,671	\$ 12,298	\$ 11,372
Fire	\$ 18,814	\$ 22,133	\$ 22,960	\$ 25,424	\$ 26,530	\$ 26,012	\$ 31,728
Human Resources	\$ 3,977	\$ 6,047	\$ 4,078	\$ 4,203	\$ 5,778	\$ 4,655	\$ 5,521
Information Services	\$ 5,117	\$ 5,018	\$ 6,177	\$ 6,375	\$ 6,818	\$ 6,817	\$ 7,229
Library Services	\$ 2,958	\$ 3,125	\$ 3,355	\$ 3,886	\$ 4,006	\$ 4,309	\$ 4,535
Planning	\$ 2,237	\$ 2,243	\$ 2,660	\$ 2,949	\$ 3,093	\$ 4,022	\$ 3,266
Police	\$ 39,553	\$ 45,355	\$ 49,696	\$ 54,741	\$ 60,237	\$ 57,248	\$ 62,640
Public Works	\$ 14,806	\$ 17,413	\$ 18,975	\$ 21,017	\$ 21,769	\$ 21,929	\$ 21,299
Non-Departmental	\$ 20,772	\$ 25,098	\$ 29,957	\$ 18,930	\$ 21,045	\$ 24,872	\$ 23,931
	\$ 131,023	\$ 149,767	\$ 164,563	\$ 173,420	\$ 188,130	\$ 188,273	\$ 199,152

**FY 2007/08 will be closed out and all expenditure and revenue accruals finalized, by the end of November. Therefore, amounts listed for FY 2007/08 at publication of the FY 2008/09 final budget document are projections.*

Graph 3 shows General Fund expenditures – adopted budgets versus actuals – back to FY 2003/04. It illustrates the City’s ongoing efforts to right-size budgets by striving to adopt budgets with accurate predictions of expenditures. Accomplishing this, along with having accurate projections of revenue, helps ensure that each department receives adequate appropriations to meet ongoing needs.

Graph 3: General Fund Expenditures: Adopted Budget vs. Actuals (in thousands)



*FY 2007/08 and FY 2008/09 are projected/adopted amounts.

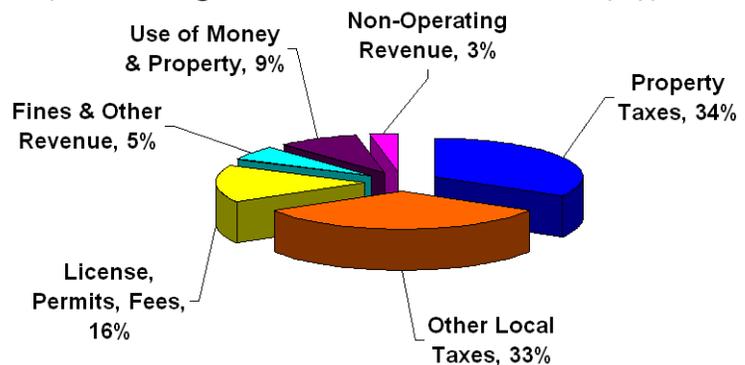
The challenge facing Huntington Beach in FY 2008/09 – and in the near future – is budgeting conservatively in times of slowing revenue growth. The following section provides a detailed description of the various sources of General Fund revenue and what Huntington Beach is doing to best manage them.

Revenue

General Fund revenue for FY 2008/09 is projected to be \$194,689,700. Revenue comes from several different sources: sales tax, property taxes, fees and permits, parking tickets, State and Federal subventions, and many other sources. Graph 4 illustrates these various revenue categories and shows that two-thirds of the City’s General Fund revenue comes from property, and other local taxes (such as sales and transient occupancy taxes).

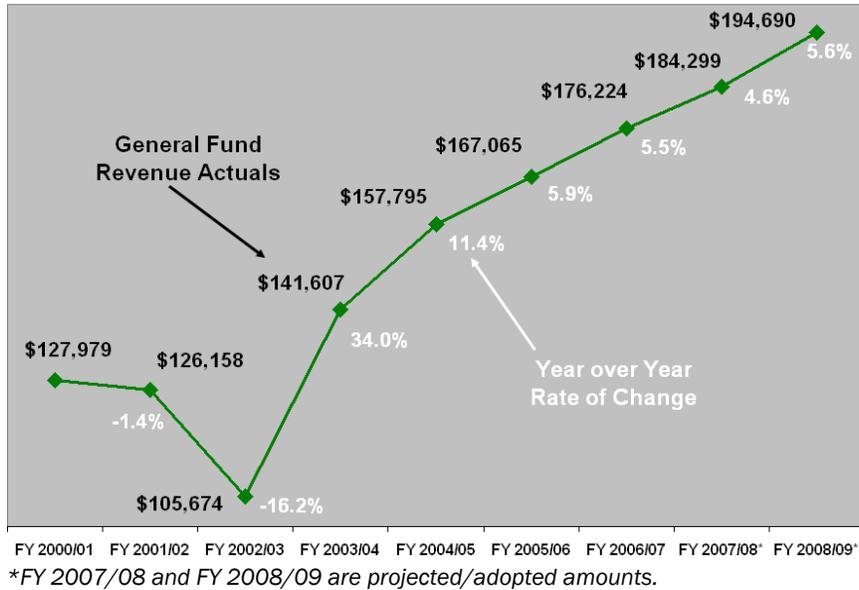
Graph 5 presents seven years of total General Fund revenue receipts, along with projected revenue for FY 2007/08 and FY 2008/09. Revenue has grown steadily since FY 2003/04. The amount of General Fund revenue projected for FY 2008/09 includes revenue from new sources. Several funds are being dissolved and their expenditure and revenue appropriations are being incorporated into the General Fund for FY 2008/09. A detailed discussion of this transition will be outlined on the following pages.

Graph 4: Huntington Beach General Fund Revenue by Type



Excluding the revenue from the consolidated funds, General Fund revenue is projected to grow by 1.1 percent in FY 2008/09 over FY 2007/08 projections. Whereas, from FY 2000/01 to FY 2006/07, actual revenue receipts averaged a 6.5 percent annual growth rate.

Graph 5: Historical General Fund Revenue



The slowed growth in revenue is primarily due to decreased development activity and the reduced permit and fee revenue associated with such activity. However, growth in other revenue categories should help offset this downturn, illustrating the value of the City's diversified revenue stream. Table 2 provides a historical overview of the numerous types of revenue the City collects and receives, as well as projections for FY 2007/08 and 2008/09.

Property tax revenue is anticipated to increase 3.6 percent in FY 2008/09 over FY 2007/08 projections. A majority of the City's property tax revenue comes from secured property tax billings, which are based on residential and commercial assessed values. Overall, the City is expecting \$67,140,000 in General Fund property tax revenue in FY 2008/09.

Table 2: General Fund Historical Revenue by Type (in thousands)

	Total Actuals FY 2003/04	Total Actuals FY 2004/05	Total Actuals FY 2005/06	Total Actuals FY 2006/07	Projected FY 2007/08	Adopted Budget FY 2008/09
Property Taxes	\$ 33,799	\$ 48,119	\$ 55,168	\$ 60,607	\$ 64,834	\$ 67,140
Other Local Taxes	\$ 60,991	\$ 60,234	\$ 58,398	\$ 58,979	\$ 62,040	\$ 63,865
License and Permits	\$ 7,732	\$ 7,432	\$ 7,209	\$ 10,026	\$ 9,204	\$ 7,531
Fines and Forfeitures	\$ 4,342	\$ 4,365	\$ 4,288	\$ 4,165	\$ 4,683	\$ 4,688
Use of Money and Property	\$ 8,924	\$ 9,891	\$ 12,084	\$ 14,032	\$ 14,846	\$ 16,626
Revenue from Other Agencies	\$ 10,146	\$ 6,808	\$ 5,318	\$ 6,092	\$ 5,033	\$ 4,951
Charges for Current Services	\$ 11,165	\$ 10,756	\$ 13,876	\$ 15,695	\$ 16,256	\$ 22,568
Other Revenue	\$ (362)	\$ 3,101	\$ 3,130	\$ 2,217	\$ 1,673	\$ 1,732
Non-Operating Revenue	\$ 4,870	\$ 7,090	\$ 7,594	\$ 4,411	\$ 5,731	\$ 5,590
	\$ 141,607	\$ 157,795	\$ 167,065	\$ 176,224	\$ 184,299	\$ 194,690

Sales tax revenue is expected to increase in FY 2008/09 by 2.5 percent, for a projected total of \$32,525,000. Actual sales tax revenue received, from FY 2000/01 to 2006/07, has averaged a 1.9 percent annual growth rate. (Taxable sales have averaged a 3.6 percent annual growth rate from 1989-2006, and 6.3 percent from 1996-2006.) It should be noted that, since FY 2004/05, the implementation of the sales tax reimbursement program by the state (known as the "triple-flip") has made accurate predictions of sales tax revenue growth more difficult. The State retains one-quarter of the one percent of sales tax revenue due localities for the purposes of backing economic recovery bonds and reimburses cities only twice each year. This reimbursement schedule, along with the difficulty the state has had in accurately predicting sales tax receipts, adds a layer of difficulty in predicting future triple-flip reimbursement apportionments.

In addition to the state sales tax reimbursement program, there are other happenings which impact Huntington Beach's sales tax projections. For FY 2008/09, the slow down in the larger economy is reflected in sales tax revenue projections. Fortunately, Huntington Beach has a diverse sales tax base. While many retail outlets have seen declines due to the current economy, many of the City's auto dealers and restaurants have maintained steady business.

In addition to modest growth in sales tax revenue, the City will continue to project relatively strong growth in Transient Occupancy Tax (TOT). The City's hotels continue to provide a steady revenue stream to the General Fund. Since FY 2004/05, TOT revenue has averaged an 8.6 percent annual growth rate. Taking a conservative approach, given current and future economic considerations, the City is projecting a 6.5 percent growth in TOT revenue for FY 2008/09, which translates into \$7.5 million in expected TOT dollars. The opening of the new Shorebreak Hotel in the downtown Strand development should help further boost the City's TOT revenue.

Parking revenue from the various beach and downtown lots and meters, as well as annual beach passes, is also projected to show strength. For FY 2008/09, revenue from all parking sources is expected to be \$9.0 million. This is a 7.0 percent growth over FY 2007/08 projections.

While much of the change in revenue is outside the City's control, there are actions the City can take to ensure certain revenue categories are being maximized. Currently, a comprehensive fee study is being conducted, the first since FY 2004/05.

The fee study project will review all fees to ensure Huntington Beach is recovering reasonable and legally supportable fee revenue from the Public Works, Fire, Building and Safety, and Planning Departments' development activities. Also, the fee study will review other charges for service such as Library and Community Service fees. One of the goals of any fee study is to make sure the costs of providing a service are being recovered through the fee being charged. Cost recovery of fee supported activities helps ensure there is proper funding for citywide services such as Police and Fire protection, Public Works maintenance projects, and other essential services.

Changes

There are several organizational and accounting changes included in the FY 2008/09 adopted budget. These changes encompass the incorporation of several programs into the General Fund. This initiative is being undertaken in an effort to improve management and oversight of several programs, while ensuring proper accounting methods are applied. The consolidated functions come from a diverse range of service areas: Library Services, Fire, Community Services, Economic Development, and Police.

The most significant change is the movement of the FireMed Program Fund into the General Fund. An audit and analysis, conducted jointly by the Fire and Finance Departments, found the merging would lead to increased efficiencies and improved management. Emergency Medical Services' (EMS) expenditures are consolidated entirely in the General Fund, helping promote ease of budgetary and accounting management of these essential services. FireMed Program Fund related revenue of \$6.4 million will help offset a portion of the EMS related expenditures.

The Library Service Fund (LSF) is also being merged into the General Fund; a decision supported by an operational review conducted by the Library Services and Finance Departments. This review found no reason to keep certain Library programs and functions separate from the General Fund. The revenue from development related fees – the Community

Enrichment Library Fee – will help offset Library staffing and operating expenditures in the General Fund. Several staff (5.5 FTE), as well as equipment and supplies appropriations, will now be subsumed within Library Services' General Fund budget.

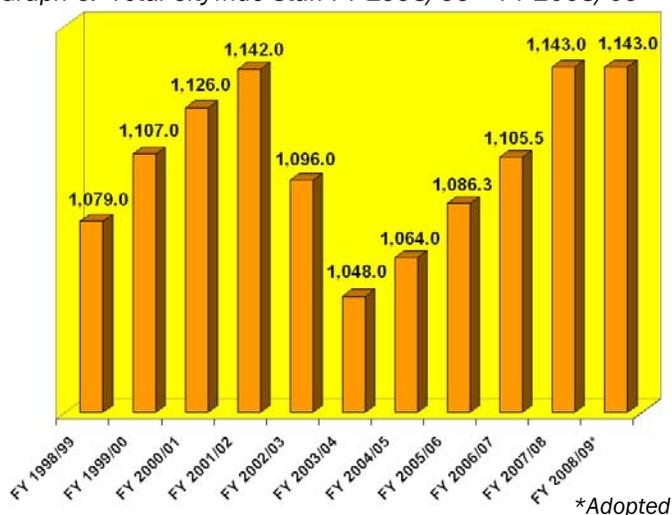
Community Services' Cultural Affairs Fund, Economic Development's Ocean View Estates function, and the Police Departments' Work Furlough/Pay-to-Stay program are also being merged into their respective departments' General Fund budgets. Analysis of all these functions has shown that the monitoring and management of these programs can be improved significantly by bringing them into the General Fund.

Throughout FY 2008/09, other non-General Fund functions will be reviewed for possible consolidation into the General Fund. Such analysis and operational reviews continue the City's commitment to transparent and responsible fiscal management.

Staffing

Given the focus on providing funding for ongoing and expanded operations while minimizing the creation of new expenses, there were very few changes to staffing. In fact, there is no net increase in full-time equivalent (FTE) personnel in the FY 2008/09 adopted budget (see Graph 6).

Graph 6: Total Citywide Staff FY 1998/99 – FY 2008/09



The Police Department is adding one staff position: Facilities Maintenance Crewleader. However, the department also eliminated the Crossing Guard Coordinator position, leading to no net increase in staff. The request from Police involved a reassignment of personnel to better meet department needs.

In FY 2007/08, a three-year contract was awarded to All City Management Services to manage and run the City's crossing guard program. Prior to that, one full-time staff position – the Crossing Guard Coordinator – managed the program and oversaw a bevy of temporary staff. Upon the retirement of this staff member, a department analysis concluded this function would be better provided through a professional services contract. Therefore, for FY 2008/09, the Crossing Guard Coordinator position has been eliminated.

Concurrently, the Police Department realized that the facilities management/maintenance function, supervised by a Police Sergeant, would be better managed by a non-sworn specialist in that area (a Facilities Maintenance Crewleader). This change also allows the department to better utilize a Police Sergeant in the Special Enforcement Bureau.

The City also has long-term Memoranda of Understanding (MOUs) in place for its employee associations. Most notable are the recent five-year MOUs negotiated and agreed upon between the City and the Management Employees' Organization (MEO) and the Municipal Employees' Association (MEA). Having long-term MOUs in place provides both the employees and the City with stability and predictability, allowing the City to better project and plan for future personnel and benefit expenditures.

Enterprise and Special Revenue Funds

The City has four primary enterprise funds: Water, Water Master Plan, Sewer Service, and Refuse Collection. The annual expenditures for these funds are balanced against revenue from service charges and fees. The rates charged to consumers cover the current cost of ongoing operations as well as the maintenance and financing of capital assets (wells, sewer lift stations, etc.).

The adopted FY 2008/09 budget for these four funds totals \$67,340,155. As can be seen in Table 3, annual expenditures in these funds vary. Given the nature of these funds, large, multi-year capital projects cause expenditures to fluctuate each fiscal year.

Table 3: Historical Expenditure for Primary Enterprise Funds (in thousands)

	Total Actuals FY 2003/04	Total Actuals FY 2004/05	Total Actuals FY 2005/06	Total Actuals FY 2006/07	Projected FY 2007/08	Adopted Budget FY 2008/09
Refuse Collection Service	\$ 9,653	\$ 9,755	\$ 10,236	\$ 10,489	\$ 10,590	\$ 10,734
Water	\$ 25,953	\$ 22,934	\$ 17,498	\$ 26,469	\$ 29,282	\$ 44,913
Water Master Plan	\$ 4,163	\$ 5,806	\$ 10,454	\$ 6,138	\$ 8,283	\$ 2,560
Sewer Service Fund	\$ 4,018	\$ 5,924	\$ 3,880	\$ 5,765	\$ 11,034	\$ 9,134
	\$ 43,787	\$ 44,419	\$ 42,068	\$ 48,861	\$ 59,189	\$ 67,340

In addition to these enterprise funds, the City also maintains several Special Revenue Funds. These funds have restrictions on how the revenue is spent. For example, there are several Special Revenue Funds providing appropriations for street and transportation upgrades, rehabilitation and repair: Measure M, Traffic Impact, Air Quality, and the Gas Tax Funds are four examples.

The Measure M Fund collects the half-cent County sales tax and earmarks this revenue for various citywide transportation projects. As shown in Table 4, Measure M Fund revenue is projected to be \$2,550,000 in FY 2008/09. The other funds listed in Table 4 show projected FY 2007/08 and adopted FY 2008/09 revenue that can be earmarked for various street and transportation improvements to public rights-of-way.

Table 4: Selected Special Funds Revenue (in thousands)

	Total Actuals FY 2003/04	Total Actuals FY 2004/05	Total Actuals FY 2005/06	Total Actuals FY 2006/07	Projected FY 2007/08	Adopted Budget FY 2008/09
Air Quality Fund	\$ 411	\$ 253	\$ 272	\$ 298	\$ 273	\$ 270
Traffic Impact Fund	\$ 1,038	\$ 1,919	\$ 1,315	\$ 882	\$ 6,274	\$ 875
Gas Tax Fund	\$ 4,432	\$ 4,145	\$ 5,966	\$ 6,109	\$ 7,352	\$ 3,662
Measure M Fund	\$ 2,442	\$ 3,032	\$ 2,680	\$ 2,797	\$ 3,108	\$ 2,550
	\$ 8,323	\$ 9,349	\$ 10,233	\$ 10,087	\$ 17,006	\$ 7,357

Other Funds

Enterprise and Special Revenue Funds represent only a handful of funds with restricted revenue. In addition to the projected \$194,689,700 in General Fund revenue, Huntington Beach is projecting an additional \$123,133,172 in non-General Fund revenue. Table 5 provides a summary of this revenue by type.

The \$123.1 million in non-General Fund revenue has various uses: upgrades to City parks and beach facilities, improvements to streets and transportation networks, and construction and improvement of various housing projects. The City's five-year Capital Improvement Program (CIP) utilizes some of this revenue for various projects (see next section).

The City has several redevelopment project areas that collect property tax. This property tax – known as tax increment – is anticipated to be \$22,385,400 in FY 2008/09 (see Table 5) and is recorded in two funds separate from the General Fund. This tax increment is used to fund low-income housing projects as well as improvements within each redevelopment project area. For example, there is \$350,000 in appropriations in FY 2008/09 for improvements to the Main Promenade parking structure downtown. The project includes elevator upgrades and security enhancements such as closed-circuit television cameras.

The \$68,010,000 in Charges for Current Service encompasses charges for residential trash collection, sewer, and water service. In addition, there are service charges for commercial water usage and related development surcharges.

Table 5: Other Funds Revenue by Type* (in thousands)

	Total Actuals FY 2003/04	Total Actuals FY 2004/05	Total Actuals FY 2005/06	Total Actuals FY 2006/07	Projected FY 2007/08	Adopted Budget FY 2008/09
Property Taxes	\$ 11,615	\$ 14,339	\$ 18,753	\$ 19,945	\$ 21,241	\$ 22,385
Other Local Taxes	\$ 3,494	\$ 2,226	\$ 2,446	\$ 2,547	\$ 2,400	\$ 2,400
License and Permits	\$ 49	\$ 65	\$ 222	\$ 105	\$ 54	\$ 50
Use of Money and Property	\$ 4,945	\$ 6,419	\$ 10,633	\$ 14,373	\$ 9,866	\$ 8,994
Revenue from Other Agencies	\$ 16,768	\$ 14,945	\$ 12,386	\$ 13,444	\$ 13,348	\$ 9,018
Charges for Current Services	\$ 65,039	\$ 65,884	\$ 68,153	\$ 72,136	\$ 67,570	\$ 68,010
Other Revenue	\$ 3,644	\$ 15,329	\$ 10,309	\$ 4,763	\$ 2,352	\$ 683
Non-Operating Revenue	\$ 69,319	\$ 27,535	\$ 37,066	\$ 12,541	\$ 13,757	\$ 11,593
	\$ 174,873	\$ 146,743	\$ 159,968	\$ 139,854	\$ 130,589	\$ 123,133

*FY 2008/09 revenue projections do not include grant revenue. Huntington Beach accounting and budgeting policies require grant fund revenue to be recorded at the time of City Council approval of the given grant

Capital Improvement Program

Each year Huntington Beach updates and adopts a five-year Capital Improvement Program (CIP). The FY 2008/09 adopted budget includes \$38,588,575 in new appropriations for various street and transportation, parks and beaches, facilities, and related capital projects as well as \$14,018,530 in continuing appropriations for on-going projects.

The CIP projects are funded from a variety of sources: the County of Orange half-cent sales tax (Measure M), traffic impact fees, the State gasoline tax, tax increment, numerous grants from Federal, State, and County sources, and the General Fund Capital Improvement Reserve (CIR).

The CIR has appropriations in FY 2008/09 of \$1,784,500: Central Library interior and exterior renovation has \$454,000 in appropriations; there is \$450,000 for an additional sports field at the Huntington Beach Sports Complex; fence replacement at Ocean View Estates; and, repair of a grade-slope at Lambert Park.

In FY 2008/09, there are two new sources of revenue providing needed funding for street and transportation projects: the Highway Safety and Traffic Reduction (Proposition 1B) program and the Traffic Congestion Relief Fund (Proposition 42) program. The \$20 billion in Proposition 1B bonds approved by California voters in November 2006, will provide Huntington Beach with \$6.3 million over four years for roadway enhancements. The Proposition 42 program will provide an additional \$700,000 for roadway maintenance in FY 2008/09.

In FY 2008/09, a total of \$8.5 million is being appropriated for arterial street projects and another \$2.0 million for traffic flow enhancements. Some of the specific projects funded by Proposition 1B, Proposition 42, Safe Routes to School grants, and other funding sources include: bridge rehabilitation, improvements to Atlanta, Edinger, and Brookhurst Avenues, and new signage and traffic signals in the vicinity of several schools. There is also \$3.0 million in Measure M Funds to replace concrete and street trees per the approved petition process.

There are several sewer and water quality projects included in the FY 2008/09 adopted CIP. These include Sewer Service Fund projects such as sewer line replacement (\$250,000), sewer station rebuilds (\$2.7 million), and water main replacement (\$2.0 million).

In the area of park facilities, there are several new and continuing projects, including the reconfiguration of Edison Park to include youth sports fields, and the expansion of LeBard Park. New projects, funded by \$8.0 million in Park Acquisition and Development and State Park Bonds revenue, include design of a skate park and an environmental assessment of Bartlett Park.

Opportunities and Challenges

Huntington Beach will face several challenges in FY 2008/09. However, the City will also take advantage of various opportunities to continue the trend of prudent fiscal management that has held expenditures to reasonable levels and allowed the City's fund balance and reserves to grow steadily. In fact, working capital – current assets (cash and receivables) minus current liabilities – has increased 45 percent in recent years: from \$26.5 million in FY 2004/05 to \$38.5 million through the first half of FY 2007/08.

Another measure of the improved financial health of the City is the fund balance. Over the last five fiscal years, the fund balance in the General Fund has increased significantly as illustrated in Table 6. The growth and maintenance of the fund balance allows for the building up of additional reserves above and beyond the seven percent policy amount.

Table 6: Fund Balance, General Fund FY 2003/04 – FY 2007/08

	Fiscal Year Beginning Fund Balance	Total Change Over 4 Years
October 2003	\$14,974	
October 2004	\$26,332	
October 2005	\$38,286	
October 2006	\$40,586	
October 2007	\$43,696	
		\$28,722

Right-sizing of Huntington Beach's budget, along with dependable predictions of revenue, has provided the City with the ability to anticipate and plan for the recent economic slow-down. Even though assessed values of property will not increase by double-digits and sales tax revenue will grow more slowly, Huntington Beach nonetheless finds itself on solid financial footing. Key to this stability is the various opportunities on the horizon within the City.

For example, there are several major developments which should provide additional breadth to Huntington Beach's revenue stream as well as cement Huntington Beach's reputation as a "destination city." One of these developments nearing completion is The Strand, an 110,000 square foot retail and entertainment area in the downtown. A major piece of The Strand development is the Shorebreak Hotel, slated for opening in early 2009. This new development will provide residents and tourists alike with yet another reason to frequent the City's famous downtown district.

Strategic Plan

In August 2006, the City Council approved a Strategic Plan. The five Strategic Plan goals – Engaging the Community, City Services, Land Use and Economic Development, Financial, and Infrastructure – help guide CIP projects, performance measures, and other aspects of Huntington Beach's operations. The Strategic Plan provides the City with ways to approach challenges and maximize opportunities.

One of the opportunities, guided by the Financial goal of the Strategic Plan, is the recent completion of a Long Term Financial Plan (LTFP). The Finance Department worked closely with Public Financial Management Inc. (PFM) to complete this document. The ten-year planning model of the LTFP provides expenditure and revenue projections, along with different scenarios which might affect the City's finances. The most useful part of the LTFP is the enumeration of major, citywide, capital project needs and suggestions for funding them.

Other internal opportunities finding impetus in the Strategic Plan include the recent creation and subsequent filling of the Energy Project Manager position as well as approval of the Rideshare Coordinator job classification. The Energy Project Manager will assist Huntington Beach in reaching its goals of becoming more efficient and "green." In addition to overseeing energy efficiency efforts, the Energy Project Manager will have responsibility for creating a Strategic Energy Plan and will work with the Orange County Cities Energy Efficiency Partnership.

The Personnel Commission and City Council recently approved addition of the Rideshare Coordinator job classification. This position will be fully funded by an air quality grant from the State of California and will help the City increase and improve its car pooling efforts. Both of these positions will help Huntington Beach conserve resources.

Summary

In addition to regional and national economic concerns, the City's management team will be focused on potential issues such as rising County of Orange property tax administration fee assessments, review of the municipal code dealing with business licenses, and utility user tax challenges.

Several cities in California have challenged their respective County Auditor-Controller offices on the assessment of property tax administration fees. Based on League of California Cities and State Controller's Office opinions, there appear to be grounds for challenging the allocation of these fees since the inception of sales and property tax swaps back in FY 2004/05. With local agencies around the State now receiving property tax funds in-lieu of sales tax and vehicle

license fee revenue, the administrative overhead fees charged by County Auditor-Controllers have increased markedly in the last two years. Huntington Beach is in the initial stages of reviewing Orange County's method for assessing these fees and possibly challenging the methodology. Successful appeal of the current assessment method would save the City considerable funds that could be used for provision of essential General Fund services.

Overall, Huntington Beach will continue the efforts of prior years which have proved successful in maintaining a balanced budget while enabling the City to maintain services. The adopted FY 2008/09 budget is balanced, strengthens City services, improves accounting and budget oversight, builds reserves, funds infrastructure and capital projects, and maintains the fiscal stability of Huntington Beach.

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