



City of Huntington Beach

Proposed Budget
FY 2012/13



City of Huntington Beach
Proposed Budget
Fiscal Year
2012/2013



Submitted by
Fred A. Wilson, City Manager

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City of Huntington Beach City Council - 2012/2013



Don Hansen
Mayor



Devin Dwyer
Mayor Pro-Tem



Connie Boardman
Council Member



Keith Bohr
Council Member



Joe Carchio
Council Member



Matthew Harper
Council Member



Joe Shaw
Council Member

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City of Huntington Beach City Officials Proposed Budget FY 2012/13

Elected Officials

City Attorney Jennifer McGrath
City Clerk Joan Flynn
City Treasurer Alisa Cutchen

City Manager's Office

City Manager Fred A. Wilson
Deputy City Manager Paul Emery
Deputy City Manager Bob Hall

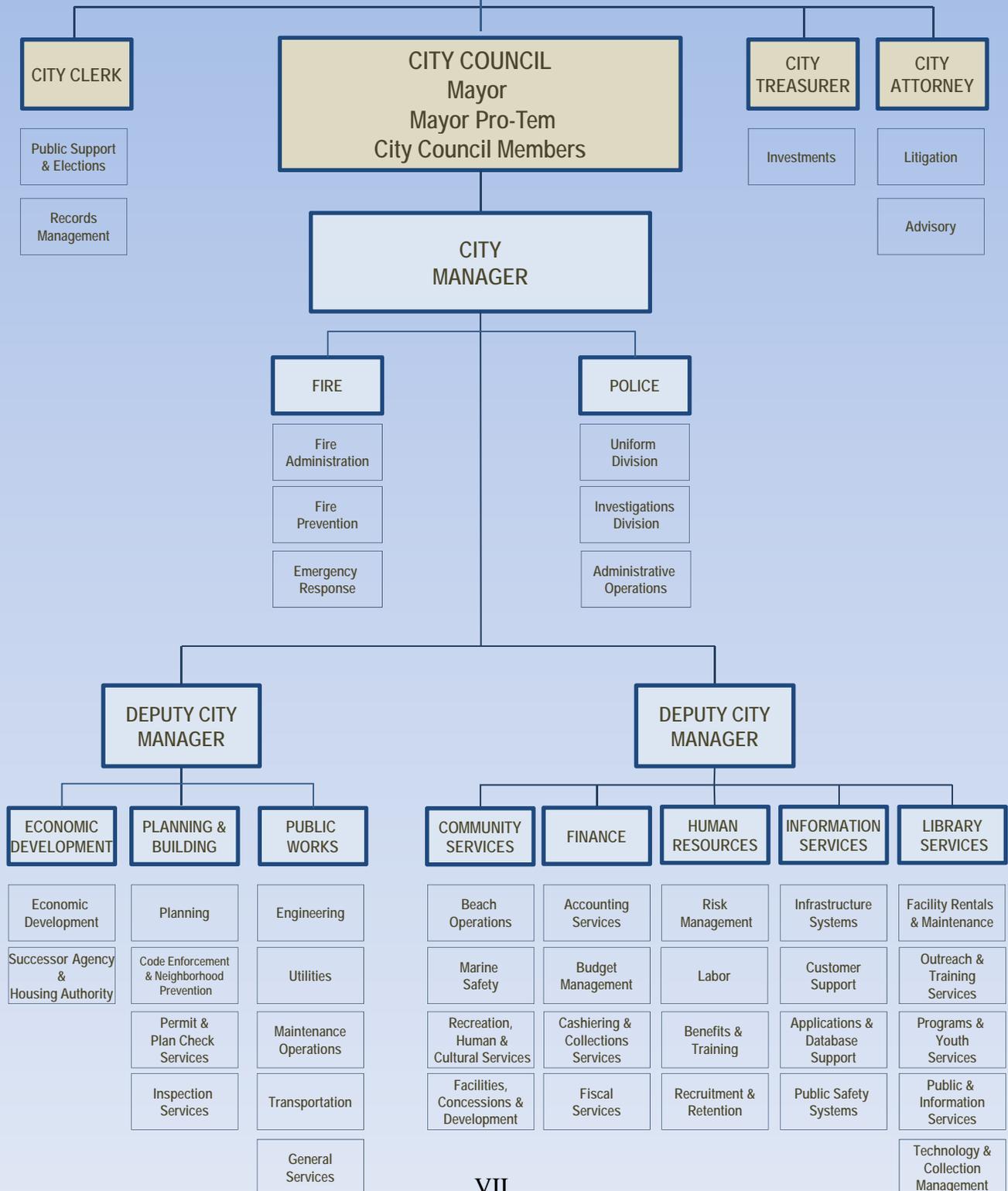
Department Directors

Community Services Paul Emery
Economic Development Bob Hall
Finance Lori Ann Farrell
Fire Patrick McIntosh
Human Resources Michele Warren
Information Services Jack Marshall
Library Services Stephanie Beverage
Planning and Building Scott Hess
Police Kenneth Small
Public Works Travis Hopkins

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City of Huntington Beach Organizational Chart Proposed Budget – FY 2012/13

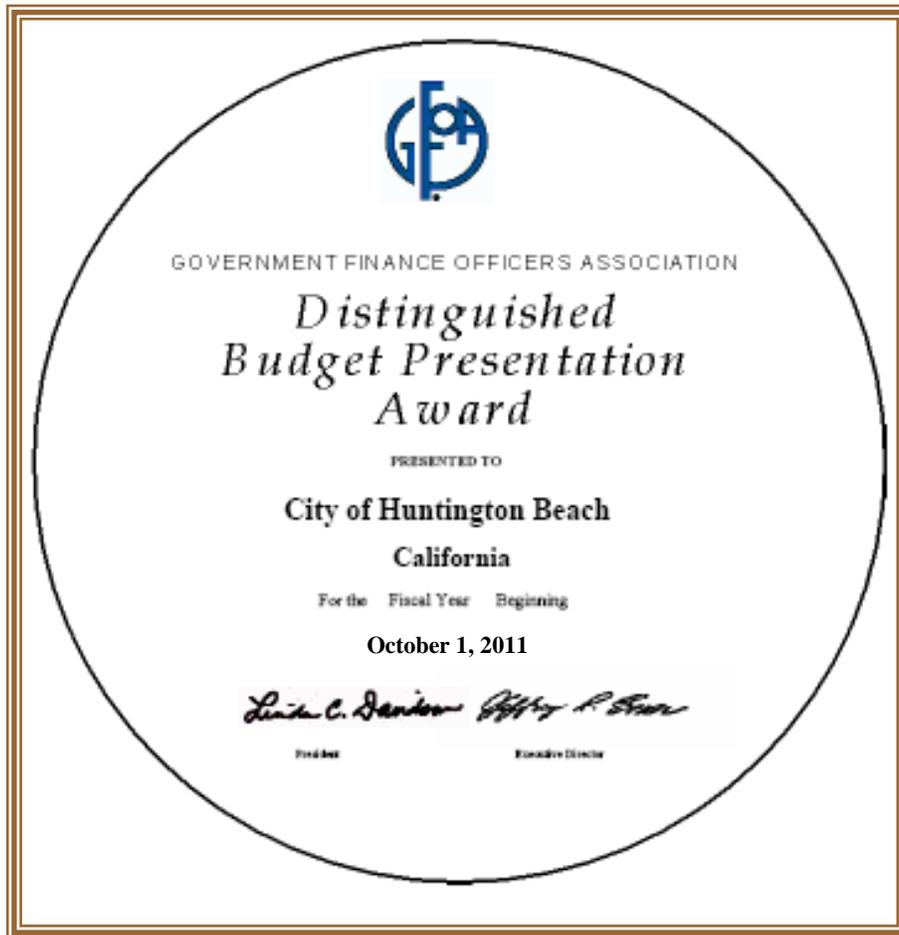
THE PEOPLE



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City of Huntington Beach Proposed Budget FY 2012/13



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, 2011. 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

2000 Main Street, Huntington Beach, CA 92648

CITY MANAGER'S OFFICE

July 16, 2012

I am pleased to present the Fiscal Year 2012/13 Proposed Budget. The FY 2012/13 Proposed Budget preserves the quality-of-life programs and services that define us as “Surf City,” while ensuring we continue to thrive as a financially and environmentally sustainable destination City.

Despite significant constraints over the past five years, the City has maintained its emergency operating and capital reserves, retained its high-quality AA bond credit rating, preserved core public safety services, and completed numerous large-scale development projects, all while facing daunting financial challenges.

A Roadmap to Success – the Strategic Plan

With the Strategic Plan goals and objectives as a roadmap, the City has persevered through this unprecedented financial crisis. Huntington Beach remains resilient and has endured the single harshest economic storm of this generation. Current economic indicators in Huntington Beach suggest consumer confidence is on the rise, which could bode well for sales tax and transient occupancy tax projections, among others. The City is also beginning to experience a slight rebound in some areas of the General Fund in large part due to the City's approval of new commercial and residential development projects and the active promotion of Huntington Beach as a destination location for businesses.

As a result, at the conclusion of FY 2010/11, the City was in the enviable position of ending the year with a surplus, adding \$2.7 million to its Economic Uncertainties Reserve, including unanticipated one-time revenue. In addition, in the current fiscal year the City has been able to sustain the most egregious State takeaway of the past 50 years - the total elimination of Redevelopment funding. The City's economic development efforts have paid off with certain revenue streams finally achieving a restoration to FY 2007/08 pre-recession levels. Sales tax, the City's second largest General Fund revenue stream, is projected to reach a high in FY 2012/13 due to the strong and stable tax base developed by existing businesses, plus new store openings featuring Costco, Nordstrom Rack and Dick's Sporting Goods stores, to name a few. However, the recovery from the worst economic downturn since the Great Depression continues to be a long and delicate one and requires continued fiscal conservatism and diligence.

FY 2012/13 will mark the fifth consecutive year of budget reductions for the City. As such, this budget contains several proposals to reinvent the way we deliver services and maximize opportunities to outsource and/or modify the provision of services where it makes sense. Strategic reductions in services have been proposed in departments across the City to meet the \$2.5 million estimated General Fund shortfall for FY 2012/13, reflecting an almost 2.0 percent cut to most departments.

The FY 2012/13 Proposed Budget also addresses many unique challenges, among them the recent elimination of Redevelopment by the State of California, confirmed by the California State Supreme Court in December 2011. The Huntington Beach Redevelopment Agency was dissolved as of February 1, 2012, with the State rendering the decision that long-standing and formerly legal debts entered into between the City and the Agency, over three decades ago, are now considered null and void. The Redevelopment Agency repaid the City \$4.9 million annually for these loans. This decision alone created a significant revenue shortfall for next year.

Following the goals identified in the Strategic Plan, the City of Huntington Beach seeks to provide sustainable quality services to maintain and enhance our safe and vibrant community.

The following goals will guide the City's operations in Fiscal Year 2012/13:

Improve the City's Infrastructure

- Consider the formation of the Street Benefit Assessment District Blue Ribbon Committee
- Provide the City Council with the results of an updated needs assessment of the City Storm Drain System

Enhance Economic Development

- Update the 10 Point Business Plan and report the results to the City Council

Improve Long-Term Financial Sustainability

- Negotiate contracts with a goal of full employee pickup of the employee share of CalPERS costs
- Negotiate contracts with a goal of eliminating the retiree medical subsidy for all new employees

Develop, Retain and Attract Quality Staff

- Conduct at least three inter-departmental knowledge sharing workshops
- Host two staff training forums to share training opportunities and get feedback from staff

Maintain Public Safety

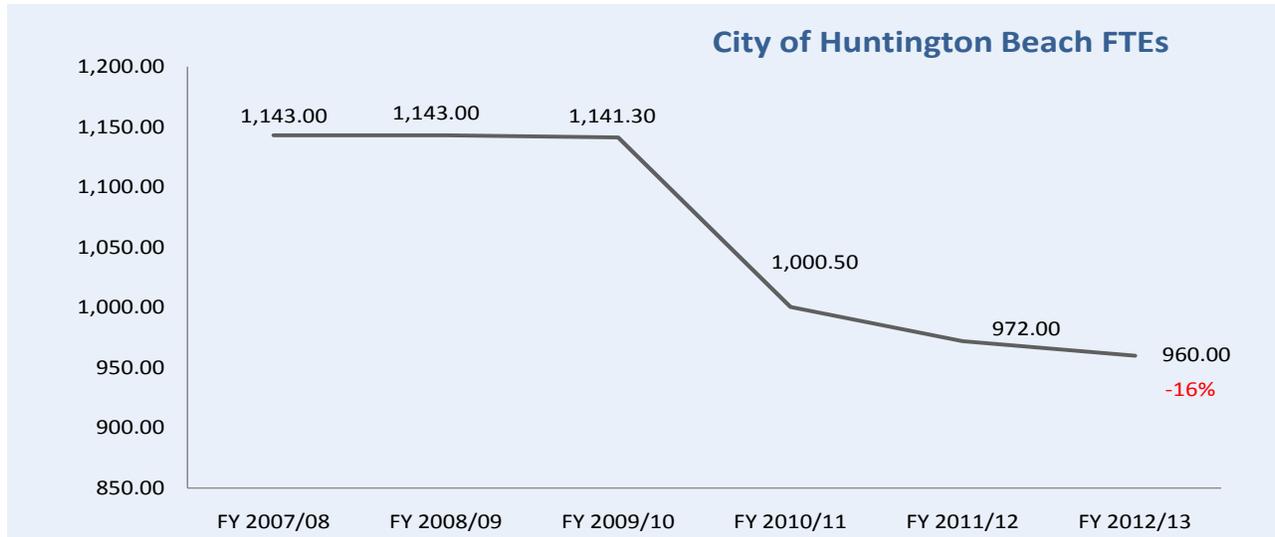
- Complete a feasibility study regarding providing lifeguard, police and fire dispatch and SWAT services to Newport Beach and Costa Mesa
- Conduct an analysis of the number and types of calls the Police Department responds to and implement a plan to reduce the number of calls responded to commensurate with the current staffing levels

The Fiscal Year 2012/13 Proposed Budget was developed under these guiding principles. The following information describes the All Funds and General Fund Budgets in greater detail.

FY 2012/13 Proposed Budget Summary

The Proposed FY 2012/13 Budget is structurally balanced and totals \$293.8 million in All Funds, reflecting an almost 6.0 percent decrease from the FY 2011/12 Adopted All Funds Budget. The Proposed FY 2012/13 General Fund Budget, which provides the majority of public services to the community, totals \$186.2 million, representing a slight 1.4 percent increase from this year's Adopted Budget. The proposed increase in the General Fund is deliberate as it strategically utilizes specific reserves to address critical infrastructure needs and reduce the City's retirement liabilities, while applying structural recurring revenue to the cost of ongoing core public services.

In FY 2011/12, 28.5 positions were eliminated from the City’s Table of Organization throughout All Funds. With the proposed reductions in FY 2012/13 of 12 FTEs, the City will have reduced the workforce by a total of 183 positions, or 16%, from a high of 1,143 FTEs in FY 2008/09, essentially eliminating 1 in every 6 positions over the last four years.



The significant decline in FTEs over the past four years is due to required budget reductions, a reorganization that the City underwent in FY 2010/11 when 141 positions were eliminated, and the recent abolishment of Redevelopment statewide. The reorganization in FY 2010/11 included the merger of the Planning and Building Departments, as well as, transitioning from a full-time City Treasurer to a part-time City Treasurer, among other efficiencies. Alongside these efforts to restructure the City’s operations, a highly successful early retirement incentive program was offered, allowing 103 positions to be eliminated from the City’s payroll.

Improve Long-Term Financial Sustainability

To reach a balanced budget, departments are reducing personnel and operating expenses or increasing revenue by a total of \$2.5 million in the General Fund. These efforts have led to a proposed decrease in the Table of Organization of 12 full time positions, as well as, 3.25 part time positions, for a total of 15.25 positions eliminated Citywide. Nonetheless, departments continue to supply quality service to the public with fewer resources. Many departments now rely on cross-departmental resource sharing and extensive cross training to provide services to the public. However, the \$2.5 million in budget solutions will inevitably lead to fewer services to the citizens of Huntington Beach. Changes in the delivery of services contained in the FY 2012/13 Proposed Budget include: fewer motor officers writing traffic citations, fewer book purchases and database subscriptions at the Central Library, reduced maintenance of City parks and medians, longer processing times in the Planning and Building Department, and fewer art exhibitions at the Huntington Beach Art Center.

To maintain the City’s financial sustainability over the long-term, the City will maintain General Fund Reserve levels of \$39.6 million, including an Economic Uncertainties Reserve (including the RDA contingency) of \$22.4 million, or 12 percent, of the General Fund. While the City has not yet reached its goal of maintaining two months of expenses in the Economic Uncertainties Reserve, it has created a strong safety net to guard against unanticipated State raids, cost increases and/or revenue shortfalls.

Fund Balance Category	FY 09/10	FY 10/11	Estimated FY 11/12	Estimated FY 12/13
Economic Uncertainties	19,710	19,710	19,710	19,710
Economic Uncertainties - RDA Contingency*	0	2,695	2,695	2,695
Litigation Reserve	900	900	900	900
Litigation Settlement/Payout*	0	780	0	0
Equipment Replacement	6,913	6,913	6,343	6,343
Capital Projects	2,970	4,270	2,970	1,270
PARS Obligation	3,549	4,649	1,587	0
Other Fund Balance	7,310	8,661	8,661	8,661
Total Fund Balance **	41,352	48,578	42,866	39,579

* 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.

This budget also recommends that funds set-aside in the PARS Obligation Reserve be used to make the final payment of \$1.5 million for the PARS early retirement incentive program. In addition, this budget increases General Fund spending for infrastructure by \$3.8 million, with \$1.7 million of that amount funded from the Capital Improvement Reserve (CIR) to fund numerous infrastructure improvements throughout the City. The strategic use of existing reserves to meet specific objectives and one-time expenses maximizes the use of all resources at the City's disposal to meet critical needs.

General Fund

Expenditures

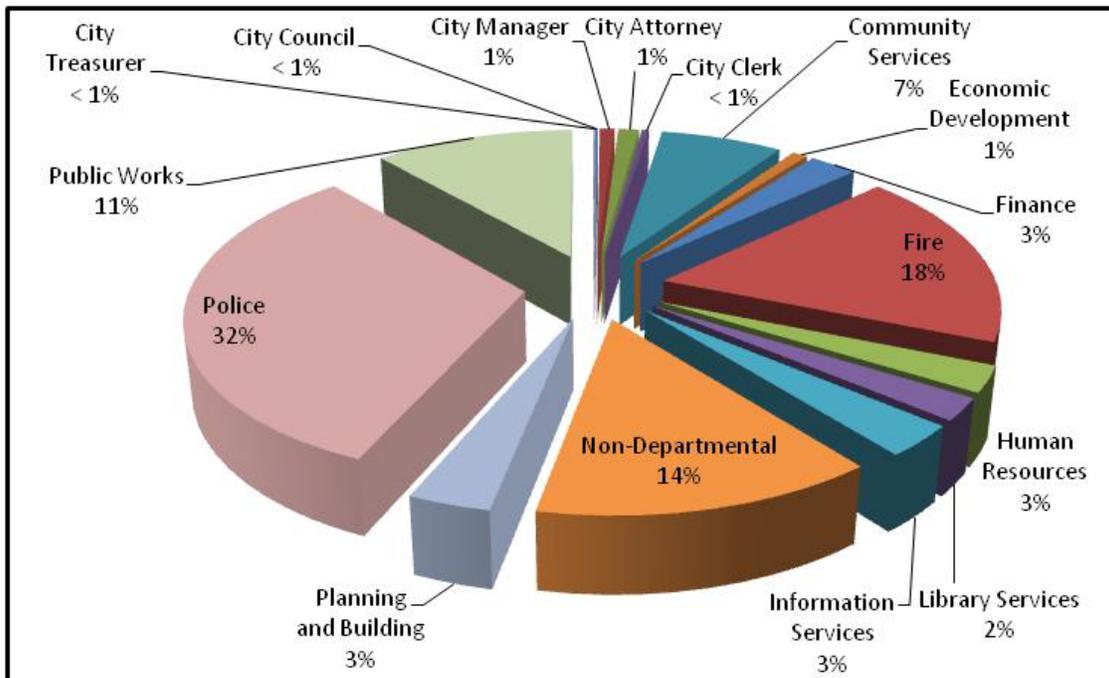
Total Proposed General Fund expenditures equal \$186.2 million, supported by \$182.9 million in structural General Fund revenue, \$1.5 from the PARS Obligation set-aside, and \$1.7 from the CIR. Presented below are the Proposed FY 2012/13 General Fund Budgets:

	Total Actuals FY 2008/09	Total Actuals FY 2009/10	Total Actuals FY 2010/11	Adopted Budget 2011/12	Proposed Budget 2012/13
City Council	295,024	301,260	300,026	298,819	298,112
City Manager	1,839,369	1,652,334	1,492,832	1,547,745	1,389,761
City Attorney	2,736,425	2,656,638	2,141,827	2,161,624	2,125,564
City Clerk	1,083,846	867,727	798,272	707,537	902,585
Community Services	14,042,107	13,328,026	12,731,142	12,731,959	12,842,682
Economic Development	1,776,573	2,401,531	1,723,127	1,596,488	1,618,672
Finance	10,685,108	10,560,473	3,422,722	5,014,722	4,954,395
Fire	33,133,622	32,397,631	34,316,941	33,159,427	34,351,368
Human Resources	4,729,332	5,208,887	6,043,314	4,842,549	4,751,612
Library Services	4,587,646	4,505,981	3,921,292	4,156,349	4,120,885
Information Services	7,339,358	6,781,671	5,878,857	5,844,245	5,867,138
Non-Departmental	17,583,725	14,997,797	24,452,911	25,431,749	27,145,548
Planning and Building	7,190,275	6,329,750	5,825,823	6,177,166	6,067,033
Police	59,036,474	57,569,492	58,848,187	58,868,831	58,700,024
Public Works	19,623,676	17,438,364	16,219,657	20,875,437	20,919,335
City Treasurer	1,308,311	1,531,682	1,274,360	133,331	129,724
	186,990,870	178,529,245	179,391,290	183,547,977	186,184,437

Four City departments including Police, Fire, Public Works, and Non-Departmental comprise over 75 percent of the City’s General Fund Proposed FY 2012/13 Budget. Included in the Non-Departmental budget is \$3.0 million for equipment replacements and funding for debt service payments, utilities, general leave payouts and other items that do not apply to any one particular department. It is important to note that the \$3.0 million budgeted for Equipment reflects a continuation of the amount budgeted in FY 2011/12. While this amount has increased annually from \$1.0 million in FY 2009/10 to \$3.0 million in FY 2011/12, we are not recommending additional increases at this time in order to avoid deeper staffing and programming cuts.

Maintain Public Safety

The following pie chart illustrates how funds are apportioned to the various departments in the City based on the Proposed FY 2012/13 General Fund Budget.



Public Safety expenses comprised of the Police and Fire Departments budgets, total 50 percent of the Proposed FY 2012/13 General Fund Budget at 32 percent and 18 percent, respectively. With half of the General Fund Budget committed to public safety, the community can be assured that the City has committed the resources necessary to ensure the safety and quality-of-life of its residents. Also of note is that each of the remaining departments comprises less than three percent of the General Fund Budget, with the exclusion of the Public Works and Community Services Departments. This chart clearly illustrates the difficulty in making budget reductions for five consecutive years when resources are limited and many departments comprise three percent or less of the entire General Fund budget.

Revenue

General Fund revenue for FY 2012/13 is projected at \$182.9 million. While it may appear that revenues are remaining stagnant and that there is no growth relative to last year’s Adopted General Fund Revenue Budget, that is actually not the case. The current year, FY 2011/12 Budget, included an anticipated \$4.9 million transfer from the former Redevelopment Agency, which was later deemed null and void. Hence, the General Fund revenue estimate of \$182.9 million for next year actually reflects an almost \$4.5 million increase from the Revised FY 2011/12 General Fund Revenue Budget for a true “apples-to-apples” comparison.

The General Fund is comprised of numerous revenue sources including property, sales, utility, transient occupancy taxes (TOT), fees, permits, concessions and parking, among other revenue streams. Projected increases for next year are driven by improved performance in sales tax, TOT, development and parking fees, reflecting an overall increase in revenue of 2.5 percent.

Enhance Economic Development

It is clear that the City's targeted and multi-pronged efforts to enhance economic development have paid off. Property tax, the City's single largest revenue source, has stabilized as the real estate market slowly emerges from the housing crisis. Secured property tax revenue for FY 2012/13 reflects a slight 0.25 percent increase, greater than County-wide projections of zero or negative growth. However, total property tax revenue is projected to decline slightly to \$44.8 million, from last year's adopted level of \$46.0 million due mostly to declines in Unsecured and Supplemental property tax receipts.



Sales tax is expected to bring in approximately \$33.0 million in FY 2012/2013, reflecting a five percent increase over the existing sales tax base and an additional \$1.0 million in increased revenue from the opening of Costco, Dick's Sporting Goods and Nordstrom Rack. Auto dealers in town have had a good year. Through May of 2012, auto sales in Huntington Beach show no sign of losing the gains made over the past year and a half. Next year's sales tax projections reflect strong performance.

Transient Occupancy Tax (TOT), a 10 percent tax imposed on lodging facilities within the City, is also projected to increase from the current year's estimated receipts of \$6.5 million to \$7.0 million, as the hotel industry continues to thrive throughout the country. Average Daily Rates and Room Occupancies from 2010 have held into the current year and are projected to continue rising slightly in FY 2012/13. Much of the increase in Transient Occupancy Tax is due to a direct increase in the number of California residents choosing to vacation locally, or to have a "STAY-cation," rather than incur the expenses related with out-of-area travel. The Planning and Building Department is currently experiencing an up-tick in development fees in the current fiscal year. It is anticipated FY 2011/12 revenues will approximate \$4.3 million - reflecting an almost \$1.0 million increase over the \$3.3 million received in FY 2010/11. This is in large part due to commercial and residential projects along the Beach-Edinger Corridor which have begun the entitlement and building process.

Improve the City's Infrastructure

During tough economic times, many cities reduce spending on capital improvements and infrastructure. However, a City's infrastructure is one of its essential business attraction and retention tools. I am pleased to report that despite the City's challenges, the FY 2012/13 Proposed Budget continues to invest in its infrastructure.

Enterprise and Special Revenue Funds

Enterprise funds are proprietary funds supported by user fees and charges. The rates charged to customers for these services cover the costs of operations, maintenance, and more importantly, the financing of related capital and infrastructure assets. The City maintains four enterprise funds: Water, Water Master Plan, Sewer Service, and Refuse Collection.

Expenditures for FY 2012/13 total \$63.5 million. Due to the complexity and number of projects, the annual budgets in Enterprise Funds tend to fluctuate significantly between fiscal years.

Fund	Total Actuals	Total Actuals	Total Actuals	Adopted Budget	Year End Projected	Total Budget
	FY 2008/09	FY 2009/10	FY 2010/11	2011/12	2011/12	2012/13
00504 - Refuse Collection Service	10,551,808	10,543,766	10,662,566	10,851,780	10,853,001	10,911,664
00506 - Water	32,905,696	33,382,618	38,320,575	40,744,275	45,801,670	42,530,634
00507 - Water Master Plan	1,515,502	1,519,709	(6,608,340)	2,681,398	3,290,934	1,285,715
00511 - Sewer Service Fund	7,358,551	6,575,198	6,338,323	14,368,866	20,868,066	8,792,046
GRAND TOTAL	52,331,557	52,021,291	48,713,123	68,646,319	80,813,671	63,520,059

The City also maintains several Special Revenue Funds, which are funding sources legally restricted to a specific purpose. An example of a Special Revenue Fund is the Gas Tax or Measure M Fund, which limit expenditures to street and transportation improvements only. Special Revenue Funds total \$4.3 million in the Proposed Budget for FY 2012/13.

Fund	Total Actuals	Total Actuals	Total Actuals	Adopted Budget	Year End Projected	Total Budget
	FY 2008/09	FY 2009/10	FY 2010/11	2011/12	2011/12	2012/13
00201 - Air Quality Fund	207,167	614,561	268,169	584,509	702,272	307,238
00206 - Traffic Impact	6,345,856	1,250,823	123,376	0	146,173	148,838
00207 - Gas Tax Fund	6,331,516	2,291,073	2,428,570	3,719,980	5,413,721	1,851,525
00209 - Park Acquisition & Development	804,468	758,150	532,544	828,494	1,462,400	847,749
00213 - Measure M Fund	5,567,560	3,406,684	1,974,667	2,367,237	2,713,964	2,300,439
GRAND TOTAL	19,256,567	8,321,291	5,327,326	7,500,221	10,438,530	5,455,789

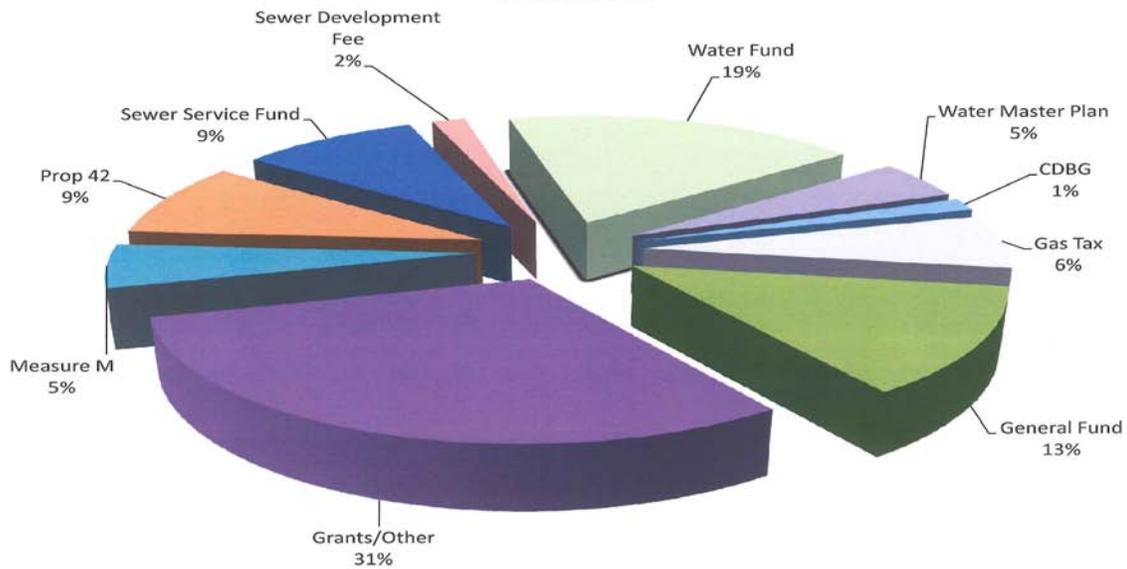
Capital Improvement Program

The Capital Improvement Program (CIP) identifies the major public improvements to the City's infrastructure over the next five years. In general, the CIP includes new projects and upgrades to existing facilities of \$50,000 or more. The CIP is developed to address elements in the City's General Plan, as well as, City Council adopted planning documents and master plans. Projects correspond to the Strategic Plan Goals adopted by the City Council in January 2012.

For FY 2012/13 the CIP addresses critical infrastructure and capital needs divided into numerous categories including drainage and water quality, facilities, neighborhood, parks and beaches, sewer, streets and transportation and water. New improvements in the Proposed FY 2012/13 Budget total \$23.2 million with approximately \$14.7 million in continuing appropriations for projects approved last year. The primary funding sources for capital projects remain restricted revenue funds and enterprise funds such as water, sewer and street repair funds.

An essential dynamic of the FY 2012/13 CIP Budget is the Charter requirement that 15 percent of General Fund revenues be allocated to infrastructure spending. The FY 2012/13 General Fund Proposed Budget commits a total of \$31.6 million in funding across departments to the maintenance and improvement of the City's infrastructure. The FY 2012/13 Proposed Budget increases infrastructure spending by \$3.8 million in the General Fund, including more than \$200,000 in new infrastructure related equipment purchases, a new \$640,000 transfer to the Infrastructure Fund, and \$3.0 million in capital improvements to sidewalks, pavement, neighborhood streets, drainage and storm water systems, beaches, parks and arterial roadways. This is the second consecutive year in which a commitment has been made to maintain the quality of streets in Huntington Beach, a strategy vital to the community's economic success.

Capital Improvement Program FY 2012/13
New Appropriations by Funding Source
 \$23,295,029



Projects for the Water, Water Master Plan, and Sewer Service enterprises correspond with the adopted master plans and major maintenance programs. Measure M, CIR and SLPP grant funds will be used to rehabilitate two arterial highway segments consistent with the City’s Pavement Management Plan. Local neighborhood improvements will include replacement of sidewalks including ADA ramps where warranted and residential street overlays. Some major park projects include repaving the parking lots in City parks and facilities, design of the Senior Center, Lambert Park Slope repair and reconfiguration of the Murdy Park Center patio. We are confident that the CIP contains many projects that will further Huntington Beach as an inviting tourist destination, as well as serve the local community.

Develop, Retain and Attract Quality Staff

One of the Strategic Plan goals outlined by the City Council in January 2012 was the training, development and enrichment of existing and future City staff. In an era of limited resources, improving training and education opportunities for existing staff and encouraging quality-of-life programs at work, provide excellent tools to reinvest in our employees, improve staff morale and enhance overall performance.

As such, the FY 2012/13 Proposed Budget continues existing tuition reimbursement programs, maximizes the use of Webinars, employee enhancement educational forums and cross-training opportunities to empower City employees to function at their greatest capacity. In FY 2011/12, the “POWER Team,” led by the City Clerk and a team of dedicated City employees, has taken the lead on creating low- or no-cost programs, projects and opportunities to enhance employee development, training and morale.

The City organization is looking forward to the evolving recommendations of the POWER Team to enhance the development of City staff, while ensuring they have the tools to achieve our collective goals.

Conclusion

The FY 2012/2013 Proposed Budget has provided another opportunity for the City to re-visit all facets of its operations. Indeed, no rock has gone un-turned to face the challenges which lie ahead. The City has been resilient through the recession, through the hardship of losing Redevelopment and through the myriad challenges that continue to face us as public servants; however, I believe we will continue to thrive and redefine the organization despite limited resources to become even more innovative and create new opportunities for continued prosperity and success for many generations to come.

Through these tough economic times we will continue to increase investment in our community, in our businesses, in our infrastructure, and in our employees. We continue to look for ways to evolve as a City and create easier access for the public we serve. I strongly believe that with the strategies incorporated in the FY 2012/13 Proposed Budget the City of Huntington Beach can accomplish these essential goals.

Thank you to Lori Ann Farrell, Finance Director, and Carol Molina-Espinoza along with other members of her staff, for their hard work and efforts in preparing this budget.

Sincerely,

A handwritten signature in black ink, appearing to read 'Fred A. Wilson', written in a cursive style.

Fred A. Wilson
City Manager