



CITY OF HUNTINGTON BEACH

2000 Main Street, Huntington Beach, CA 92648

CITY MANAGER'S OFFICE

September 3, 2013

Honorable Mayor and Members of the City Council:

It is with great pleasure that I present to you the Fiscal Year 2013/14 Adopted Budget. The theme of this budget, “The Building Blocks of Economic Prosperity - Recovery, Realignment and Reinvestment,” reflects the extraordinary accomplishments the City has achieved despite fiscal challenges, while embracing the unique opportunities that lay ahead. As the City of Huntington Beach navigates through this next phase of the economic recovery, the FY 2013/14 Adopted Budget advances the City’s mission and commitment to excellence while providing a solid framework for continued financial sustainability and innovative public service.

The Building Blocks to Economic Prosperity

Through the hard work of our residents, businesses, employees and the leadership of our City Council, we are beginning to experience a solid economic recovery. While continuing to be mindful of external events, FY 2013/14 will mark the first time in six years that the General Fund portion of the budget will be balanced without layoffs, eliminating positions, or cutting departments and services, signaling a significant turning point for the City.

As such, how the City enters into this new era of increased stability is of utmost importance. At this important turning point, the City will face critical choices; focus on new service and program enhancements or primarily focus on funding the commitments it has already made.

To ensure a sustainable path moving forward, the FY 2013/14 Adopted Budget offers a blueprint – *Building Blocks to Economic Prosperity – Recovery, Realignment and Reinvestment*. I am confident that if followed, these building blocks will form the foundation for continued leadership, excellence and financial sustainability in FY 2013/14 and beyond.

Recovery

After a six-year period characterized by worldwide economic adversity, there are encouraging signs that we are on the path toward economic ***recovery*** to pre-recession levels of revenue, employment and consumer confidence. General Fund revenues are rising modestly, and in some cases, reaching or exceeding levels experienced before the economic meltdown. The FY 2013/14 General Fund Adopted Budget contains a modest increase in General Fund revenue that reflects the strength of Huntington Beach’s local economy without unnecessarily increasing risk.

Realignment

The restoration of the economy provides us a unique opportunity – the opportunity to shift our focus towards the ***realignment*** of financial and human resources to adequately fund commitments already made and strengthen critical operations such as public safety. Properly funding promises already made, before we embark on creating new commitments, will ensure the City will not further increase outstanding debts.

Reinvestment

With an improving economy, there is a unique opportunity to work towards a solid plan for ***reinvestment*** in our City. The FY 2013/14 Adopted Budget reflects a Capital Improvement Plan that contains \$28.5 million in total funding. It also includes \$1.5 million for a new Senior Center, providing the initial seed money to get this much anticipated project off the ground.

These three building blocks - Recovery, Realignment and Reinvestment - form the basis of the Fiscal Year 2013/14 Adopted Budget. The Adopted Budget's highlights are provided below.

FY 2013/14 Adopted Budget Overview

Strategic Plan - The City's Strategic Plan, which describes the overall policy goals and objectives of the City Council, includes five distinct Three-Year Goals for 2012 through 2015. Those goals, as listed below, helped guide the development of the FY 2013/14 Adopted Budget:

- Improve the City's Infrastructure;
- Enhance Economic Development;
- Enhance and Maintain Public Safety;
- Improve Long-Term Financial Sustainability; and,
- Develop, Retain, and Attract Quality Staff.

All Funds - The FY 2013/14 Adopted Budget is structurally balanced and totals \$313.8 million in All Funds, reflecting a \$19.1 million or 6.5 percent increase from the FY 2012/13 Adopted Budget of \$294.7 million. This increase is primarily due to greater spending in the Capital Improvement Program (CIP) and the receipt of new Federal and State grants. The All Funds Budget contains over 50 distinct funds, including Enterprise Funds (Water, Refuse, Sewer and Drainage), Special Revenue Funds (e.g. Federal, State and County grants) and the General Fund.

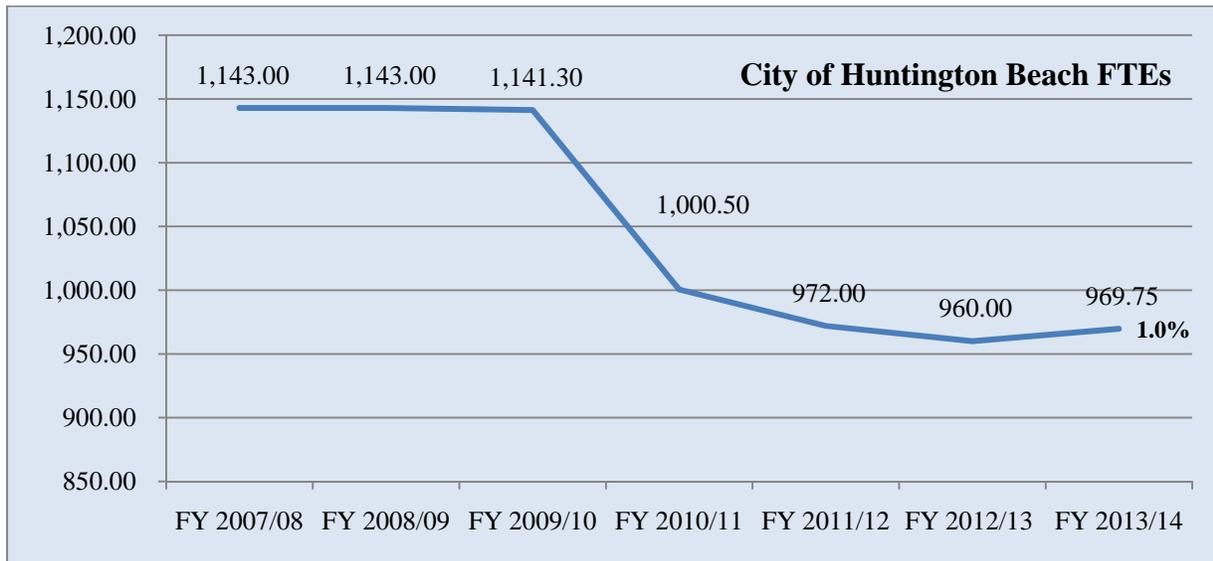
General Fund - The FY 2013/14 Adopted General Fund Budget, which provides the majority of public services to the community, totals \$193.5 million, representing a \$7.4 million, or 3.9 percent increase, from the FY 2012/13 Adopted Budget of \$186.2 million. It is important to note that nearly 81 percent of this increase, or \$6.0 million, is needed to fund legal mandates, unfunded liabilities and other fixed costs. As such, only a small portion of anticipated revenue increases next year are available to support discretionary spending, and/or enhanced services.

Unfunded Liabilities, Legal and Other Fixed Costs	Amount
CalPERS Rate Increases (No Phase-In)	\$ 3,090,775
Retiree Medical Prepayment Plan	\$ 902,209
Retiree Supplemental Prepayment Plan	\$ 533,035
Subtotal Unfunded Liabilities	\$ 4,526,019
General Liability Insurance Policy Premium Increases	\$ 345,165
General Plan Update	\$ 500,000
Equipment Replacement	\$ 1,000,000
800 MHz Countywide Upgrade	\$ 1,000,000
Affordable Care Act	\$ 192,192
Subtotal Fixed Costs	\$ 3,037,357
Minus Funding for PARS Annual Payment	\$ (1,586,770)
Total	\$ 5,976,606

Personnel – From FY 2008/09 to the present, the City has eliminated 183 positions from the Table of Organization, or 16 percent, from a high of 1,143 FTEs essentially eliminating one in every six positions. Of the positions remaining on the Table of Organization, yet another 32 were actually defunded during that period, thereby increasing the total number of positions either eliminated or defunded since FY 2008/09 to 215 FTEs or one in every five positions.

In contrast, the FY 2013/14 Adopted Budget reflects zero cuts in staffing and actually adds a minimal number of positions, primarily in public safety departments, to realign available funding to high priority areas or to mitigate risk.

Specifically, the Adopted Budget reflects a slight, or one percent, increase in staffing of 9.75 FTEs. Staffing enhancements include two Community Services Officers, six Ambulance Operators, and partial positions in a few departments, bringing the total personnel count on the City’s Table of Organization to 969.75, still 173.25 positions below the all-time high. Please note the Adopted Budget also restores funding for five Police Officer positions previously defunded during the economic crisis, increasing the total number of positions funded in the budget to 14.75 FTEs.



The First Building Block – The Economic Recovery

Economic indicators are favorable in Huntington Beach, as illustrated by increased planning and building revenue, property, sales and transient occupancy taxes, and parking receipts, to name a few. New large-scale mixed use projects such as The Residences at Bella Terra and Pacific City will generate additional revenue going forward. Large retail projects such as the new Costco, have added \$1.0 million to the City’s coffers in FY 2012/13 alone. As a result, during FY 2011/12, the City was able to create a \$3.1 million Budget Stabilization Fund to help protect the City from the onslaught of adverse State actions. We must still be reminded of an important tenet, however; the economic recovery is vulnerable to global, national and state forces completely outside of the City’s control. To ensure the greatest degree of protection from these unstable and continually evolving factors, we must continue on the path of fiscal conservatism and restraint.

General Fund Revenue

Revenues in FY 2012/13 are exceeding expectations and it appears the trend will continue into FY 2013/14. As such, the General Fund recurring revenue is expected to reach \$193.5 million in FY 2013/14, reflecting a 3.0 percent increase, excluding one-time revenues.

General Fund Revenue is comprised of numerous sources including property, sales, utility, and Transient Occupancy Taxes (TOT) that are anticipated to exceed pre-recession levels. Sales tax has exceeded the previous high mark in FY 2007/08 due to new store openings and the acquisition of new businesses. Other fees, including building and permit revenue have increased due to the construction of new buildings and residential properties. FY 2013/14 indicates another year of strong and stable sales as major industry groups including General Consumer Goods, Autos and Transportation, and Hotels and Restaurants continue to improve.

Property Tax for FY 2013/14 now includes the assessed values of Huntington Beach and Sunset Beach properties. Secured property taxes are estimated at \$41.5 million, reflecting an 11 percent increase for the City. Sales tax is expected to generate almost \$28.4 million in FY 2013/14, reflecting a 4.3 percent increase as consumer confidence levels and labor market conditions continue to improve.

Transient Occupancy Tax, a 10 percent tax imposed on hotels within the City, is also projected to increase from an estimated \$7.4 million to \$7.7 million, as the hotel industry continues to thrive throughout the country and Huntington Beach remains a coveted destination.

General Fund Expenditures

Total Adopted General Fund expenditures equal \$193.5 million, supported by an equal amount of General Fund revenue for a structurally balanced budget. Presented below is the Adopted FY 2013/14 General Fund Budget, along with historical information, by Department:

Department	FY 2009/10 Actual	FY 2010/11 Actual	FY 2011/12 Actual	FY 2012/13 Adopted	FY 2012/13 Revised *	FY 2013/14 Adopted
City Council	301,260	300,026	310,386	281,112	287,308	249,027
City Manager	3,172,061	3,215,959	3,041,750	3,008,432	2,946,800	2,100,236
City Attorney	2,656,638	2,141,827	2,294,044	2,125,564	2,132,364	2,262,363
City Clerk	867,727	798,272	689,121	902,585	944,209	738,248
Community Services **	13,328,026	12,731,142	13,392,111	12,842,682	12,898,951	8,912,850
Finance	10,560,473	3,422,722	4,572,707	4,954,395	5,098,840	5,169,127
Fire **	32,397,631	34,316,941	34,651,952	34,351,368	34,619,317	39,906,314
Human Resources	5,208,887	6,043,314	5,192,580	4,751,612	4,837,191	5,196,222
Library Services	4,505,981	3,921,292	3,933,932	4,120,885	4,191,721	4,286,732
Information Services	6,781,671	5,878,857	5,856,819	5,867,138	6,073,020	6,301,130
Non-Departmental	15,879,601	24,452,911	28,916,348	27,145,548	33,511,572	28,163,653
Planning and Building	6,329,750	5,825,823	6,118,538	6,067,033	6,835,915	6,327,529
Police	57,569,492	58,848,187	58,992,053	58,700,024	59,111,743	62,323,915
Public Works	17,438,364	16,219,657	21,784,089	20,919,335	20,686,610	21,467,046
City Treasurer	1,531,682	1,274,360	141,169	129,724	130,592	136,906
	178,529,245	179,391,290	189,887,597	186,167,437	194,306,152	193,541,297

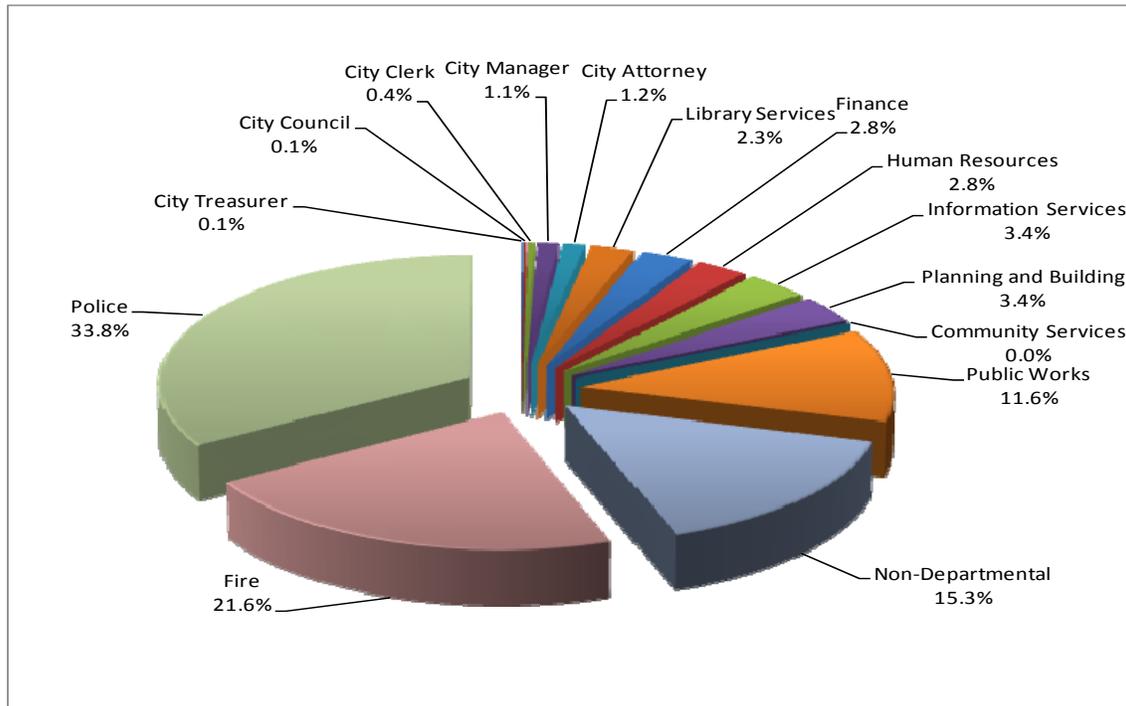
*FY 2012/13 Revised Budget includes encumbrances and carry-over appropriations transferred in from FY 2011/12.

**FY 2013/14 Adopted Budget reflects the transfer of the Marine Safety Division to the Fire Department.

Building Block Number Two – Realigning Funding to High Priority Areas

The FY 2013/14 Adopted Budget realigns funding to high priority services and initiatives. As revenue increases, we must ensure funds are spent wisely and for the highest and best uses to avoid over-leveraging future resources. The following pie chart illustrates the proportionate share of each City department in the FY 2013/14 Adopted Budget.

Share of General Fund Budget – By Department



Public Safety Realignment

Marine Safety Realignment - In FY 2012/13, the City evaluated its Marine Safety operations to determine the appropriate placement for the Division. The FY 2013/14 Adopted Budget incorporates the recommendations made to merge Marine Safety operations into the Fire Department to promote greater efficiencies and enhance service delivery to the public. As such, the Adopted Budget reflects the transfer of \$4.7 million and 14 FTEs from the Community Services Department to the Fire Department.

Police Department Enhancements - For the first time in six years, the City is in a position to realign resources to strategically increase Police Department staffing by 7.0 FTEs to address the most critical public safety needs. The Adopted Budget restores funding for five Police Officer positions previously defunded, bringing the total number of funded sworn personnel in the Police Department to 212 FTEs. These positions will be used to bolster enforcement staffing that has been cut in past years. The Adopted Budget also includes funding for two new Community Services Officer positions that will provide additional staff support.

Emergency Medical Response - The Adopted Budget also includes additional funding for a fifth City-operated ambulance and related staffing. The additional ambulance is needed to meet the increase in emergency medical responses handled by the Fire Department and is supported by additional revenue the City will receive from the transports, as well as from recent changes in Federal and State legislation. Six additional Ambulance Operators, non-safety positions, are funded to operate the ambulance, as well as additional operating funds for related fuel, insurance and maintenance costs.

800 MHz Countywide System - In addition, \$1.0 million is included to begin financing Huntington Beach's share of the new 800 MHz Countywide Coordinated Communications System (CCCS). This system is Orange County's state-of-the-art analog/digital trunked public safety radio communications system. It provides radio communications services to City and County law enforcement, fire services, public works and lifeguard/marine safety departments in Orange County and allows for interoperability among all disciplines. While this amount falls far short of the estimated \$15 million needed to fund the City's share, it represents a solid start.

As a result of the myriad recommendations to strengthen the City's public safety services, the Police and Fire Departments budgets total \$102.2 million, or 52.8 percent of the FY 2013/14 Adopted General Fund Budget. This amount reflects an increase of almost 10 percent, largely due to the transfer of Marine Safety to the Fire Department, pension cost increases, and additional funding for 13 FTEs, achieving the City Council's Strategic Plan goal to Enhance and Maintain Public Safety.

Staffing and Fixed Cost Realignments

Many of the City's remaining departments comprise less than three percent of the General Fund Budget, excluding the Public Works (11.1%), Community Services (4.6%) and Information Services Departments (3.3%). Many departments are facing significant challenges in managing workloads and providing services. Cutbacks over five consecutive years left some departments relying on cross training and temporary staffing services to maintain productivity. As such, 1.75 additional FTEs are recommended as follows: ½ FTE in Human Resources; ½ FTE in Information Services; ½ FTE in Finance; and, ¼ FTE in Planning and Building to ensure compliance with legal/regulatory mandates difficult to meet given staffing shortages. Additional funding of \$345,200 has also been included in the Adopted Budget for fixed cost increases in liability insurance lines of coverage.

Office of Business Development Realignment

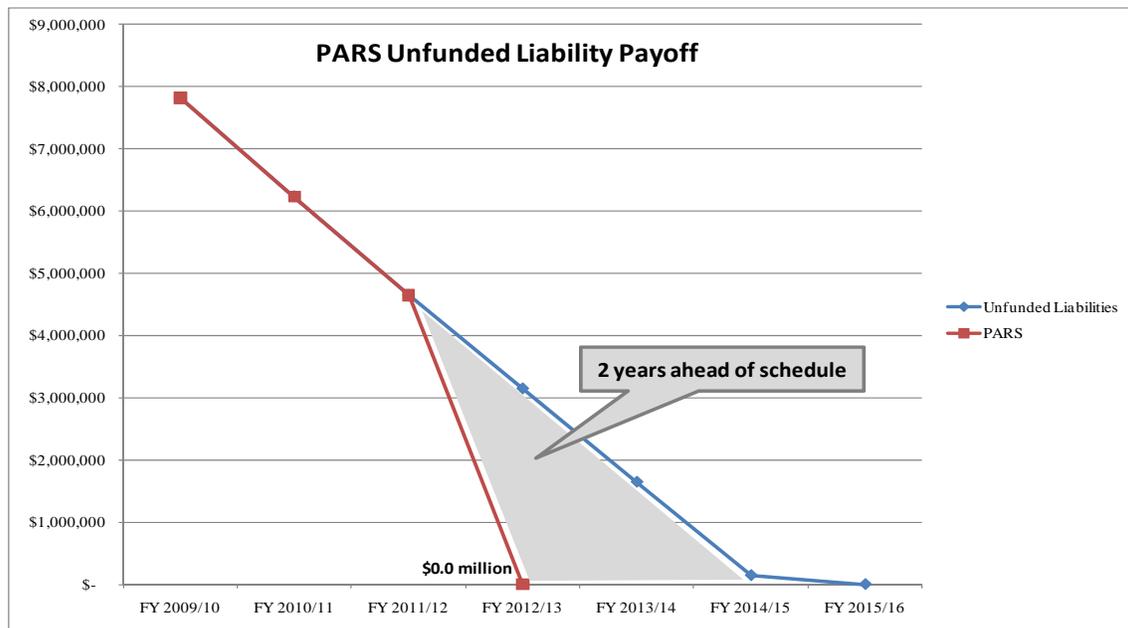
A new Office of Business Development is being created in the City Manager's Office effective October 1, 2013. To staff this renewed commitment to economic development, the 4.5 FTEs of the former Economic Development Department will be transferred into the City Manager's Office. While the State eliminated its commitment to economic development, the City remains steadfast in its goal to stimulate business development in Huntington Beach. The Successor Agency, Business Improvement District, and Housing Authority budgets formerly included in the Economic Development Department are now contained in the Non-Departmental budget.

Realigning Funding to Pre-Pay Liabilities

The City is dedicated to honoring the commitments made to its employees and addressing its unfunded liabilities. As requested by the City Council at the Study Session conducted on April 15, 2013, staff has developed a plan for the pre-payment of the City's unfunded liabilities that was formally presented at the Long-Term Financial Plan Study Session on August 19, 2013. We are pleased to report that some of the plan's recommendations have already been in progress and are incorporated into the FY 2013/14 Adopted Budget, launching a multi-year effort to pay down the City's multiple pension and retiree medical unfunded liabilities years ahead of schedule.

PARS Early Retirement Incentive Program

In May 2010, the City Council approved an early retirement incentive program through the Public Agency Retirement System (PARS) to reduce labor costs and help the City remain financially sound throughout the recession. At inception, the program incurred a liability of \$7.9 million to be paid over a five year period, at \$1.6 million each year. In an effort to aggressively reduce our unfunded liabilities and alleviate the burden for subsequent years, staff sought City Council approval to pay this liability in full during Fiscal Year 2012/13. By paying in full, the City freed up approximately \$1.6 million each year for the next two years for other endeavors and eliminated the remaining \$3.2 million liability from its books two years ahead of schedule.



CalPERS

The cost of pension benefits offered through the California Public Employees Retirement System (CalPERS) remains the City's greatest annually escalating cost and unfunded liability. The FY 2013/14 Adopted Budget includes \$27.7 million in All Funds for the City's share of employee pension costs. This amount reflects a \$3.4 million increase from the prior year, or a 13.8 percent increase in annual pension costs without enhancing benefit levels.

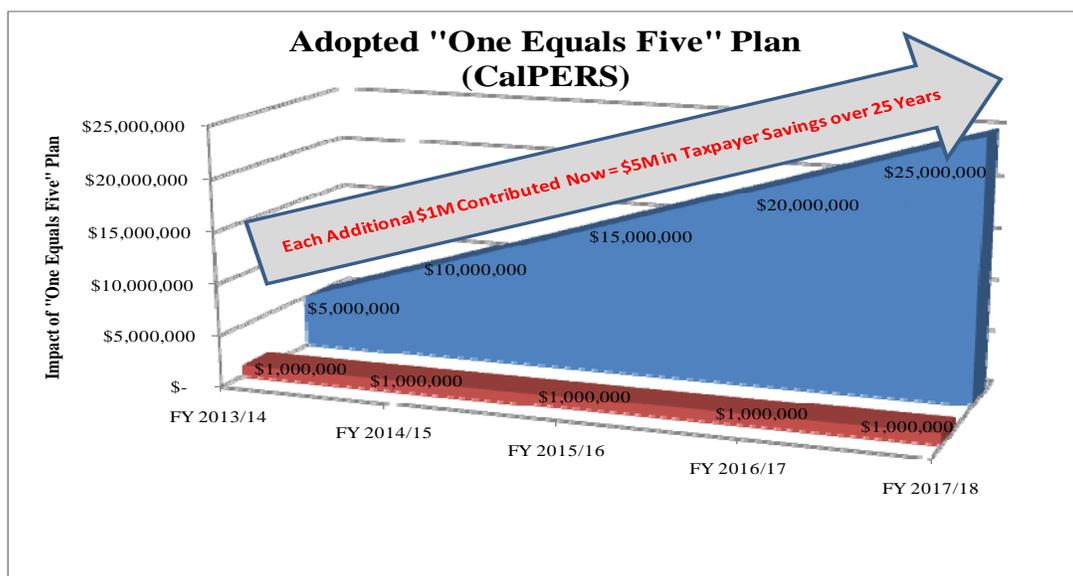
This steep increase is largely due to two factors: 1) CalPERS' reduction of the investment portfolio's discount rate from 7.75 percent to 7.5 percent; and, 2) The reduced payroll base of City employees that are paying into the plan for liabilities already incurred. The change in the discount rate is a mere 25 basis point change in the earnings assumption; however, its fiscal impact on the City of Huntington Beach is \$1.8 million alone in the General Fund.

While CalPERS has offered an employer contribution rate that purportedly "eases" the budgetary impact of the discount rate change over a two-year period, such a "phased-in" rate will actually cost the City more in the long run as it merely pushes the fiscal impact into subsequent years, further exacerbating costs.

Hence, the FY 2013/14 Adopted Budget reflects the actual, "non phased-in" contribution rate that fully accounts for the fiscal impact of the discount rate change in the first year as opposed to smoothing it out over two years at a higher long-term cost. While CalPERS has offered this two-year smoothing solution to assist cash-strapped cities, it actually increases costs in the long run according to the City's independent actuary, Bartel Associates. The City is budgeting the financially prudent solution and "biting the bullet" today in order to secure stronger financial footing tomorrow.

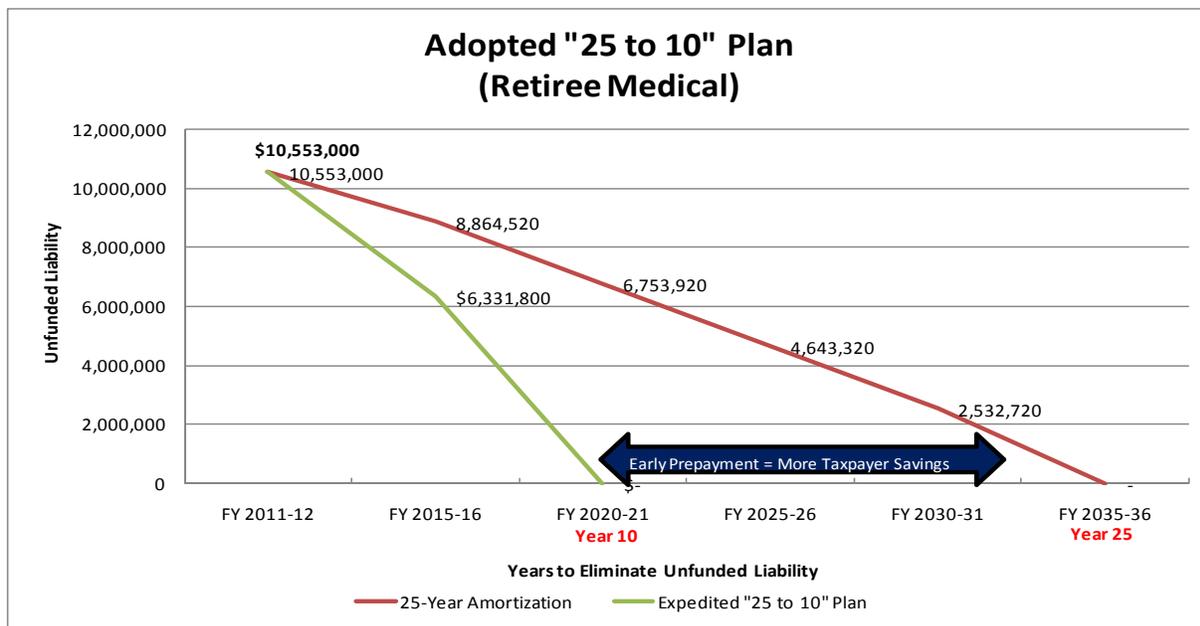
The "One Equals Five" Plan

At the May 2013 Mid-Year Update provided to the City Council, staff recommended that any General Fund balances remaining at the end of the 2012/13 fiscal year be directed towards paying down the City's unfunded CalPERS liability, currently estimated at \$278 million on a market value basis. According to actuarial calculations, each additional \$1 million contributed to the City's plan will benefit the City five times over resulting in \$5 million in taxpayer savings over a 25 year period. Hence, as part of the FY 2013/14 Adopted Budget, staff will propose a revision to the City Council's Financial Policies that allows for a certain amount of additional General Fund revenue received above budgeted expectations to be deposited directly into the "One Equals Five Set-Aside" for direct payment to CalPERS at the end of the year, to make a significant dent in reducing the City's liabilities.



Retiree Medical Plan

The City has agreed, via contract, with each employee association to provide post-employment medical benefits to retirees. As of the most recent actuarial valuation, the City's Retiree Medical Plan had an unfunded liability of \$10.6 million, reflecting a 47.5 percent funded status. For the last three years, the City has actually exceeded each Annually Required Contribution (ARC) payment in order to expedite paying down this unfunded liability. Although the City's policy has generally been to make 100 percent of each year's ARC, the City has paid an additional \$981,000 above amounts required, into the Plan over the last three years. To further expedite the prepayment of this unfunded liability, the Finance Department recommended that an additional \$698,000 be deposited into the plan annually to reduce the amortization of the unfunded liability from the current 25-year, to a 10-year schedule. The Adopted Budget reflects an additional \$1.1 million to be contributed to this plan to implement this prepayment program. This reduces the amortization of the unfunded liability from 25 years to 10 years, immediately shaving off 15 years of payments.



Retiree Supplemental Plan

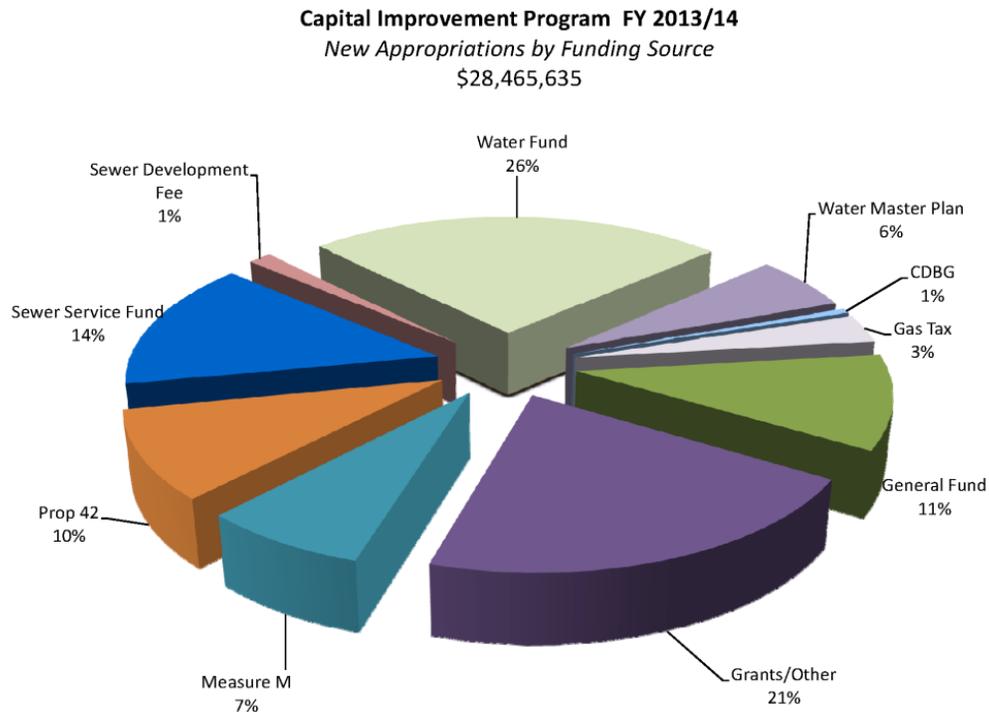
The City also administers a supplemental defined benefit retirement plan for all employees hired prior to 1997. As of September 30, 2011, the most recent actuarial valuation, 643 retirees and beneficiaries received benefits and 319 active employees were eligible for the plan at retirement. The plan is 42.9 percent funded with an unfunded liability in the amount of \$36.7 million. Last year, to expedite paying down this unfunded liability, staff recommended an additional payment of \$969,000 into the Plan at year-end, which was approved. The City is also committing an additional \$568,000 above the FY 2012/13 Budget and beyond to decrease this liability in the hopes of paying it down in 10 years, versus the original amortization of 16 years.

Building Block Number Three – Reinvesting in Our Infrastructure and Community

The condition of a City’s infrastructure is a hallmark of its financial strength. Many cities will focus resources on operating budgets while neglecting infrastructure and equipment assets resulting in greater expenses and disrepair. This is problematic as well-maintained capital assets are a vital and essential business attraction and retention tool. The FY 2013/14 Adopted Budget reinvests in one of its most vital resources for long-term success and sustainability – its infrastructure, and includes funding for a new Senior Center.

Capital Improvement Program

The Capital Improvement Program (CIP) identifies the major public improvements to the City’s infrastructure assets over the next five years. In general, the CIP includes new projects and upgrades to existing facilities of \$50,000 and 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.



For FY 2013/14, the CIP addresses critical infrastructure and capital needs divided into numerous categories including drainage and storm water, facilities, neighborhood, parks and beaches, sewer, streets and transportation and water improvements. New improvements in the FY 2013/14 Adopted Budget total \$28.5 million, an increase of \$7.1 million from the current fiscal year. It is important to note half of this amount relates to the receipt of \$3.1 million in additional but non-recurring Federal and State grant funding for the Atlanta Widening project and traffic signal modifications in critical intersections throughout the City. In addition, the FY 2013/14 Adopted Budget includes \$9.1 million in Continuing Appropriations in the CIP to complete previously approved capital projects. The primary funding sources for capital projects are restricted funds.

An essential dynamic of the FY 2013/14 Adopted Budget is the Charter requirement that 15 percent of General Fund revenues be spent on infrastructure. The General Fund portion of the Adopted Budget commits a total of \$30.9 million in citywide funding across departments to infrastructure spending. For the first time in six years, the Adopted Budget includes \$3.0 million in recurring, structural General Fund support for capital improvements to sidewalks, pavement, neighborhood, drainage and storm water systems, beaches, parks and roadways.

Projects for the Water and Sewer System correspond with the adopted master plans and major maintenance programs. An additional \$1.2 million is contained in the Water Fund to fund a new utility billing system to promote greater water conservation and reduce waste. Measure M, Gas Tax and the General Fund will be used to rehabilitate three arterial highway segments. Local neighborhood improvements will include replacement of sidewalks and residential street overlays. Some major park projects include design for Bartlett Park, LeBard Park, and construction of the Shipley Nature Center Parking Lot. We are confident that the CIP contains many projects that will further Huntington Beach as an inviting tourist destination.

Senior Center

The Adopted Budget contains \$1.5 million in the Infrastructure Fund to support start-up costs for the new Senior Center. The new funding for the Senior Center represents the culmination of a ballot measure approved by the voters. It is a symbolic first step toward reinvesting in our highly-valued senior community for generations to come.

Enterprise 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 maintenance and improvements. The City has four enterprise funds: Water, Water Master Plan, Sewer Service, and Refuse Collection. Expenditures for FY 2013/14 total \$71.4 million. Due to the complexity and number of projects, the annual budgets in Enterprise Funds tend to fluctuate significantly between fiscal years.

Special Revenue Funds

The City also maintains numerous Special Revenue Funds, which are funding sources legally restricted for specific purposes. Examples of Special Revenue Funds include the Gas Tax and Measure M Funds, which limit expenditures to street and transportation improvements only. Special Revenue Funds total almost \$17.1 million in the FY 2013/14 Adopted Budget.

Reinvesting in Employees - Affordable Care Act

On March 23, 2010, the Affordable Care Act was signed into law. The Act implements comprehensive health insurance reforms that will roll out over four years and beyond. The “Shared Responsibility Payment” portion of the Act requires that employers of 50 or more FTEs offer affordable health care coverage as defined under the law. FTEs are defined as employees who average 30 or more hours per week in any given month. However, Seasonal and Part-Time employees may also be included under this Act. Based on a preliminary analysis, the City’s cost to implement this program may be as high as \$1 million.

Although the Shared Responsibility Payment portion of the Act has been delayed until January 1, 2015, the FY 2013/14 Adopted Budget includes a \$192,200 set-aside to begin to address the increased costs that will likely arise from this legislation. This proactive “seed funding” will place the City ahead of the curve when the law finally takes effect in 2015.

Equipment Replacement

Equipment replacement is budgeted at \$4.0 million, a \$1.0 million increase from the current year. Funding has increased annually since FY 2009/10 except for one year due to fiscal constraints. Departments requested \$6.5 million in replacement requests, revealing a \$2.5 million shortfall. Equipment replacement requests that are being funded include aging public safety equipment including a new ambulance, cardiac monitor upgrades, helicopter engine replacement and 13 police vehicles, among other items.

Protecting the Safety Net - General Fund Reserves

In the midst of economic turmoil, the City still made significant gains in bolstering its reserves to protect against adverse events. During this time, the City also maintained its AA- credit rating, while many other cities were faced with significant downgrades. A City’s credit rating is equivalent to a “FICO score” of sorts – the Universal yardstick used to compare the financial strength of one entity to another. With an AA- credit rating, the City would be eligible for lower financing costs if it chooses to finance a large-scale capital project through the financial markets.

To maintain financial sustainability over the long-term, the City is planning to maintain stable General Fund Reserve levels of approximately \$51.2 million, including an Economic Uncertainties Reserve of \$24.0 million or 12 percent of the General Fund Budget. Although the City has not yet reached its goal of maintaining two months of expenses in the Economic Uncertainties Reserve totaling \$31.0 million, it has created a strong safety net to guard against unanticipated cost increases and/or revenue shortfalls. This is paramount as the City is in current litigation against the State Department of Finance on whether current bond debt totaling \$3.6 million through maturity, is an enforceable obligation under the law. In response to the City withholding these funds, the State has threatened to “clawback” the City’s General Fund sales and use tax receipts to force payment.

General Fund Balances

Fund Balance Category	Audited FY 2010/11	Audited FY 2011/12	Estimated FY 2012/13	Estimated FY 2013/14
Economic Uncertainties	23,185	24,011	24,011	24,011
Equipment Replacement	6,913	6,913	11,413	11,413
Capital Improvement Reserve	4,270	5,970	5,970	5,970
PARS Obligation	4,649	4,701	-	-
Budget Stabilization Fund		3,100	-	-
Retiree Medical Unfunded Liability		698	698	698
Litigation Reserve	900	900	900	900
Other Fund Balance	14,639	8,142	8,253	8,253
Total Fund Balance	54,556	54,435	51,245	51,245

Updating the General Plan

The Adopted Budget includes \$500,000 for an update of the City's General Plan as part of a multi-year process. The General Plan is the fundamental policy document of the City which provides the framework for management and utilization of the City's physical, economic and human resources. By providing a basis for rational decision-making, this document guides civic decisions regarding land use, the design and/or character of buildings and open spaces, the conservation of existing housing, infrastructure and public services, the protection of environmental resources, and the protection of residents from natural and human-made hazards.

Long-Term Financial Plan

The Long-Term Financial Plan (LTFP), which consists of the five-year forecast of the City's General Fund, was updated to improve the City's long-term financial sustainability as required by the Strategic Plan. The FY 2013/14 Adopted Budget reflects the results of the LTFP update, including a new five-pronged approach for addressing the City's unfunded liabilities.

Conclusion

The FY 2013/14 Adopted Budget marks the start of a new era in the City's history. It embraces a new economic reality with renewed commitments to high priority services and community needs such as public safety. Increasing police staffing, enhancing emergency medical response, and funding essential equipment, symbolizes our intention to focus resources on the greatest needs. The Adopted Budget also renews its commitment to the community through a \$1.5 million appropriation for seed funding for a new Senior Center, providing assurances to our residents that their voices have been heard and action is on the way.

However, we cannot forget our past. The Adopted Budget still contains remnants of tough decisions the City was forced to make to survive half a decade of economic turmoil and distress. It reflects the impacts of a recession that dramatically impacted the City's resources necessitating the slashing of City staff by nearly 20 percent and the elimination of \$26.5 million from the General Fund Budget over six years. It also contains the history of commitments previously made, resulting in \$280 million in unfunded liabilities that we must work harder to address.

Hence, as the City embarks on its new journey, the FY 2013/14 Adopted Budget provides three distinct Building Blocks - Recovery, Realignment and Reinvestment to help guide the City's decision-making going forward. Encouraging innovation while simultaneously addressing past commitments may soon become our greatest challenge.

I am inspired by this new challenge and embrace the opportunity to work with the City Council and the community to strengthen our beloved Surf City for years to come.

Sincerely,



Fred A. Wilson
City Manager



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