

City of Huntington Beach  
FY 2009/10 Adopted Budget

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**City of Huntington Beach**  
**Adopted Budget**  
**Fiscal Year**  
**2009/2010**



**Submitted by**  
**Fred A. Wilson, City Administrator**

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# City of Huntington Beach Table of Contents Adopted Budget – FY 2009/10



City Council Directory .....	1
City of Huntington Beach Organizational Chart .....	3
Distinguished Budget Presentation Award .....	5
Budget Summary .....	7
Transmittal Letter .....	11
Budget Message .....	13

## Department Budgets

City Council .....	21
City Attorney .....	27
City Clerk .....	35
City Treasurer .....	43
City Administrator .....	51
Building & Safety .....	59
Community Services .....	69
Economic Development .....	85
Finance .....	115
Fire .....	129
Human Resources .....	145
Information Services .....	153
Library Services .....	167
Planning .....	179
Police .....	189
Public Works .....	207
Non-Departmental .....	237

## Capital Improvement Program

Capital Improvement Program Narrative .....	247
New Appropriations .....	256
Continuing Appropriations .....	260
Capital Improvement Program FY 2009/2010 through 2013/2014 .....	262
Drainage & Water Quality .....	265
Facilities .....	269
Neighborhood .....	278
Parks & Beaches .....	284
Sewer .....	295
Streets & Transportation .....	298
Water .....	312



# City of Huntington Beach Table of Contents Adopted Budget – FY 2009/10



## Budget Appendices

Community Profile .....	323
Budget Process and Calendar .....	325
Resolution No. 2009-50 .....	327
AB1234 Disclosure Reimbursement Expenses .....	329
Revenue Descriptions and Assumptions .....	334
Expenditure Descriptions and Assumptions.....	339
Glossary of Terms .....	341
Financial Policies .....	350
Authorized Full-time Equivalent Personnel – All Funds .....	355
Estimated Changes to Major Fund Balances .....	356
Debt Service and Interfund Interest Expenditures – Major Funds.....	357
Ratio of Outstanding Debt by Type .....	360
Statement of Direct and Overlapping Bonded Debt .....	361
Budget Summary and History – All Funds .....	362
Revenue Summary by Fund – All Funds .....	363
Revenue Summary by Object Account – All Funds .....	367
Revenue Summary by Object Account – General Fund .....	375
Expenditure Summary by Fund – All Funds.....	382
Expenditure Summary by Object Account – All Funds.....	385
Expenditure Summary by Object Account All Departments – General Funds .	390
Expenditure Summary by Object Account by Departments – General Funds .	391



# City of Huntington Beach City Council Adopted Budget – FY 2009/2010



Keith Bohr  
Mayor



Cathy Green  
Mayor Pro-Tem



Joe Carchio  
Council



Gil Coerper  
Council



Devin Dwyer  
Council



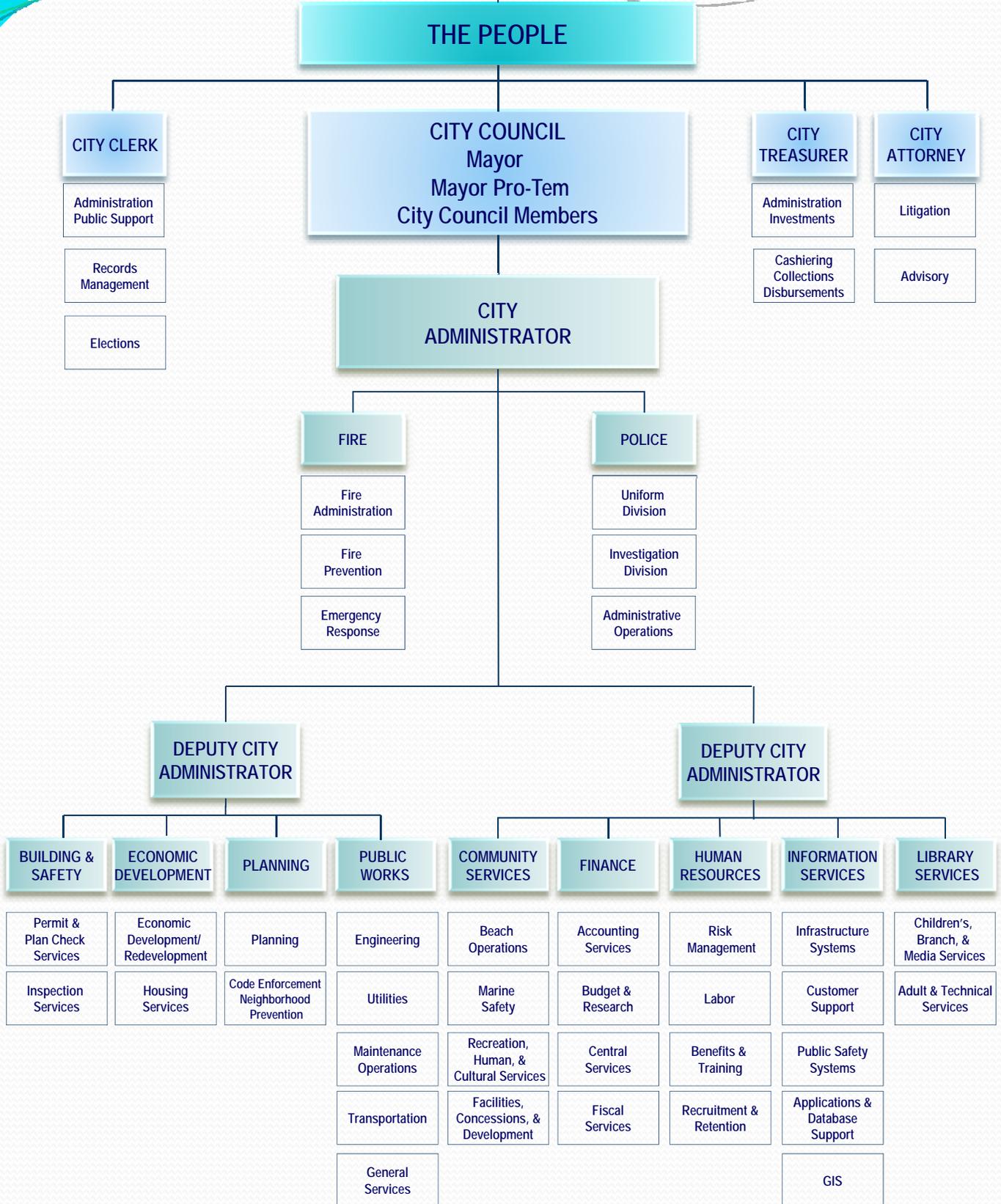
Don Hansen  
Council



Jill Hardy  
Council

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# City of Huntington Beach Adopted Budget – FY 2009/10



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GOVERNMENT FINANCE OFFICERS ASSOCIATION

*Distinguished  
Budget Presentation  
Award*

PRESENTED TO

**City of Huntington Beach  
California**

For the Fiscal Year Beginning

**October 1, 2008**

President

Executive Director

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, 2008. 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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# Budget Summary

FY 2009/10



## BUDGET HIGHLIGHTS

- Total appropriations of \$304.5 million
- General Fund revenue expected to decline 7% over FY 2008/09
- General Fund expenditures 9% lower than FY 2008/09
- Financial Policies revised to increase reserves for economic uncertainties
- Economic climate continues to present challenges

## INSIDE THIS ISSUE:

General Fund Revenue Challenges	2
City's Response to the Economic Downturn	2
General Fund Expenditures	3
Five-Year Financial Plan	3
Staffing Plan and Human Resources	4
How Does the Budget Work?	4

## City Adopts Budget for FY 2009/10

The City of Huntington Beach annual budget is a blueprint for how local tax dollars will be spent. It spells out priorities for municipal services and programs on which residents depend. How the City manages its financial resources is reflected in the quality of services provided to citizens and visitors every day of the year.

The City of Huntington Beach's adopted budget for FY 2009/10 is a balanced budget, and addresses the challenges of the current economic climate. The adopted budget emphasizes fiscal responsibility and focuses resources consistent with the City's Strategic Goals.

The combined adopted budget is **\$304,447,205** across all funds. This represents a ten percent decrease from the adopted budget of FY 2008/09. This reduction is in direct response to declining revenues, State take-aways of funding, and long-term financial projections indicating a continued stagnant economy.

The most difficult reductions were felt in the General Fund. General Fund expenditures represent 59 percent of the total budget, supporting essential city services such as police, fire, public works, and community services. The General Fund budget of **\$181,333,883** represents a nine percent decrease from FY 2008/09.



*The world famous Huntington Beach pier helps draw more than twelve million visitors to the City annually.*

These reductions were necessitated by declining revenue. General Fund revenue is projected to decrease seven percent from FY 2008/09. This sharp decrease in revenue required the



*Huntington Beach offers miles of bike trails and other excellent recreational opportunities for people of all ages.*

development of a much leaner budget than in prior years.

The economic outlook for the upcoming fiscal year means that the City's historical commitment to fiscal responsibility is as important as ever. As part of this commitment, updated financial policies were adopted. The

most significant change to the financial policies was to increase the percentage of reserves set aside for economic uncertainties. This change helped place Huntington Beach on a stronger financial base.

The following pages present an overview of the challenges facing Huntington Beach as the economy slowly recovers. Included are presentations of General Fund revenue and expenditure trends, a discussions of reductions made to balance the FY 2009/10 budget, and an overview of the Long-Term Financial Plan and its use in setting future spending priorities.

More detailed information can be found in the City's budget document, copies of which are available online at [www.surfcity-hb.org](http://www.surfcity-hb.org), at City libraries, or by calling the Public Information Office at 714-536-5577.



*Each year, hundreds of runners gather at Pier Plaza to compete in the 5 or 10 mile Distance Derby, helping to support worthwhile charities at the same time.*



A prolonged and deep economic downturn has affected all revenue streams, leading to a projected decline of nine percent in General Fund revenue for FY 2009/10.

In an effort to balance the budget and preserve fund balance, Huntington Beach has curtailed expenditures for FY 2008/09 and FY 2009/10.

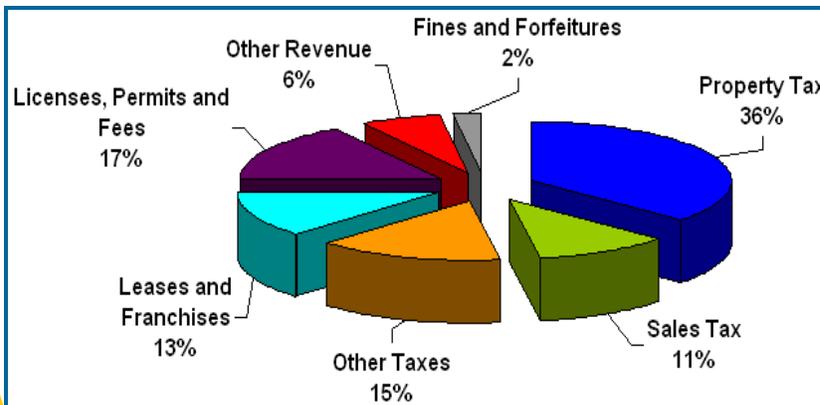


## General Fund Revenue - Challenges

General Fund revenue for FY 2009/10 is projected to be \$181,345,941, nine percent lower than FY 2008/09. This is due to several reasons: a decline in retail sales causing a five percent drop in sales tax, stagnation of property values, decreased transient occupancy tax as fewer business travelers and vacation seekers stay in our hotels, and a decrease in development activity. All of these are symptoms of the prolonged recession gripping the nation. On top of that, the State of California continues to struggle with balancing its budget, causing it to borrow property tax and take redevelopment revenue from local agencies.

Figure #1 shows the diversity of revenue sources and Table #1 provides historical data. Property, Sales, Transient Occupancy, and Utility Users Taxes account for more than two-thirds of projected General Fund revenue. The City also receives revenue from the rental of City facilities, parking citations, State and Federal programs, and myriad other sources. Falling property values and continued moribund retail activity affects the City's General Fund revenue stream.

**Figure #1 — Diversity of Revenue Sources, FY 2009/10 General Fund Budget**



**Table #1 — General Fund Revenue**

Fiscal Year	Revenue
2003/04	\$141,606,938
2004/05	\$157,795,347
2005/06	\$167,064,528
2006/07	\$176,223,745
2007/08	\$185,198,525
2008/09*	\$182,394,700
2009/10**	\$181,345,941

\*Projected, \*\*Adopted

## Huntington Beach Responds to the Economic Downturn

Fiscal vigilance by the City Administrator and Finance staff has helped minimize the effects of declining revenue. Through regular, monthly budget reports, it was evident that expenditures would need to be curtailed beginning in FY 2008/09, to meet the precipitous drop in sales tax and other revenue.

For FY 2008/09, there was a two percent, across the board reduction in each department's General Fund budget. This equated to more than \$4.0 million in reductions to operating and personnel budgets.

As projected revenue for FY 2009/10 continued to decrease, deeper cuts to department budgets were made. Through the cooperation of all departments, the FY 2009/10 budget was balanced.

The following are examples of the types of reductions made to help balance the FY 2009/10 budget:

- Maintaining 70 vacant positions citywide
- Eliminating temporary staff
- Reduce overtime
- Reducing operation maintenance and professional service costs
- Curtailing training, travel, and conference budgets for departments

These are just a few, general examples of the wide ranging cuts made to the FY 2009/10 General Fund budget. The City Administrator will continue to monitor revenue and expenditure trends as well as exploring cost savings measures such as a holiday closure of City facilities and operations.

# General Fund Expenditures by Service Area

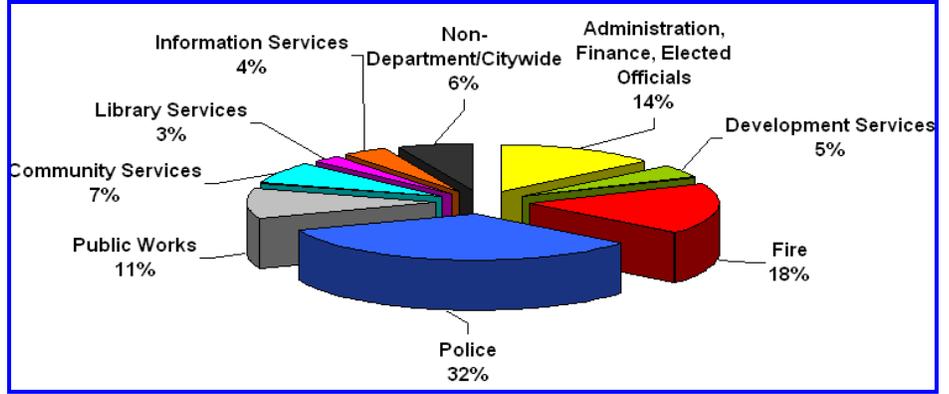
Figure #2 demonstrates the distribution of resources amongst various departments and services. As always, Huntington Beach's commitment to public safety remains strong, with more than 50 percent of General Fund expenditures devoted to Police, Fire, and Marine Safety. Table #2 shows historical General Fund expenditures for a seven-year period, FY 2003/04 through FY 2009/10.

**Table #2 — General Fund Expenditures**

Fiscal Year	Expenditures
2003/04	\$131,023,368
2004/05	\$149,766,552
2005/06	\$164,562,720
2006/07	\$173,419,685
2007/08	\$184,449,366
2008/09*	\$187,391,018
2009/10**	\$181,333,883

\*Projected, \*\*Adopted

**Figure #2 — General Fund Expenditures, by Service Area, FY 2009/10 Adopted Budget**



## Five-Year Financial Plan

As part of the commitment to the City Council approved Strategic Plan, the Finance Department has developed and recently updated a five-year financial plan. This plan is one of many tools the City Administrator can use when developing budgets and setting strategic spending priorities.

In these difficult financial times, it is important to have a well-researched and dependable projection of the City's fiscal health. Finance staff, in consultation with sales and property tax consultants, as well as economic and financial experts, built the five-year financial plan based on reasonable, conservative estimates of future expenditures and revenue.

Table #3 is a summary of the revenue and expenditure projections. It indicates how Huntington Beach is faced with increasing expenditures at a time of stagnating revenue.

The projections show that, without structural changes to General Fund operations, the City will face a cumulative loss of fund balance of \$25 million over the next five years.

Guided by the projections in the five-year financial plan, the City Administrator and executive management have begun exploring ways to deal with the lowered revenue outlook of the next several years.

One of the immediate responses to the five-year financial plan projections has been to revise the City's financial policies in order to strengthen its reserve policy.

Most importantly, the amount of fund balance set aside to deal with economic uncertainties – the rainy day, emergency reserve – has been increased from seven percent of revenue to fifteen percent of revenue.

This update of the financial policies, along with a commitment to constantly reviewing and updating the five-year financial plan should help Huntington Beach weather the current economic storm without affecting public safety and services to residents.

**Table #3 — Five-Year Financial Plan Projections FY 2010/11 — FY 2014/15\***

	FY 2010/11	FY 2011/12	FY 2012/13	FY 2013/14	FY 2014/15
Revenue	\$181	\$182	\$185	\$188	\$192
Expenditures	(\$186)	(\$189)	(\$193)	(\$197)	(\$198)
Challenge	(\$5)	(\$7)	(\$8)	(\$9)	(\$6)

\*In millions of dollars.



# Staffing — Meeting the Challenges of FY 2009/10

A hiring freeze was implemented as part of the budget reduction process begun in FY 2008/09. In a continuing effort to reduce expenditures, the hiring freeze will continue through at least FY 2009/10.

Currently, there are over seventy vacant positions across all departments. The hiring freeze is being managed so as to minimize the impact on essential city services such as public safety and infrastructure.

Since personnel costs (salaries and benefits) constitute almost seventy-five percent of the City's budget, any strategy to contain future costs must take this into account. Therefore, in addition to maintaining vacancies, other cost saving strategies are being considered.

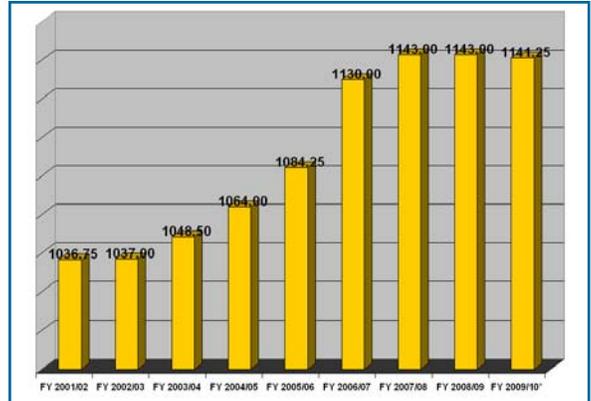
The various cost cutting strategies are being discussed by management and the City's employee labor groups in order to reach mutually acceptable solutions.

One cost cutting measure being considered is a holiday closure. The plan being developed involves shutting down non-essential operations for four days at the end of December.

Figure #3 shows the number of budgeted full-time positions for nine years, across all funds. As the graph shows, the last three years has seen no growth in the number of employees.

The FY 2009/10 adopted budget includes funding for a total of 1,141.25 full-time equivalent (FTE) positions. This represents a decline of 1.75 FTE from FY 2008/09.

**Figure #3 — Historical Budgeted Full-Time Positions**



*\*Adopted budget*

As part of the City Administrator's directive to reduce expenditures, the Building & Safety Department eliminated vacant positions.

## 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.

On the flip side, revenue sources most people are familiar with are considered General Fund revenues: property taxes, sales tax, parking revenue, fines from traffic violators, and even a portion of vehicle registration.

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.



*Sales tax revenue from every purchase in Huntington Beach is deposited to the City's General Fund — bringing over twenty million dollars annually to Surf City.*

City of Huntington Beach  
2000 Main Street  
P.O. Box 190  
Huntington Beach, CA 92648



**Questions?**  
**Public Information Office:**  
Phone: (714) 536-5577  
E-mail: [lpayne@surfcity-hb.org](mailto:lpayne@surfcity-hb.org)  
Web site: [www.surfcity-hb.org](http://www.surfcity-hb.org)



# CITY OF HUNTINGTON BEACH

2000 Main Street, Huntington Beach, CA 92648

**Fred A. Wilson, City Administrator's Office**

December 1, 2009

Honorable Mayor and Members of the City Council:

In accordance with the City Charter, I am pleased to present to the City Council the adopted FY 2009/10 budget. Reflecting the priorities and goals of the City Council, the budget serves as a financial road map for the city. It is a flexible spending plan that determines the level and quality of municipal services to the community, given the limited economic resources we have available. Furthermore, the FY 2009/10 budget was developed with the general assumption that emphasis will be on quality municipal services and will reflect a stronger customer service orientation.

## Our Vision: Guided by Strategic Goals

In July 2009, the City Council updated its Strategic Plan, which establishes priorities for the next three years (2009-2012.) The goals are listed below along with examples of specific projects:

### **Maintain Our Financial Reserves**

- Develop a policy to strengthen the financial uncertainties reserve while maintaining reserves for capital and equipment investment;
- Refocus the long-term financial plan to a five-year horizon to better plan for the impacts of economic changes.

### **Maintain, Improve and Obtain Funding for Public Improvements**

- Identify cost neutral funding for Green projects.

### **Maintain Public Safety**

- Develop a funding strategy to support construction of a police training facility.

### **Enhance Economic Development**

- Update the downtown parking master plan with the goal of maximizing convenience for residents, business owners and visitors, while enhancing revenue opportunities.

### **Improve Internal and External Communication**

- Conduct a review of community requests from the Surf City Pipeline web based Citizen Information System.

## Budget Summary

The overall budget totals \$304,447,000, which represents an approximate ten percent decrease from last year's adopted budget. The General Fund budget, which provides for the majority of public services to our community, totals \$181,334,000, a decrease of ten percent over last year's budget.

The adopted budget for FY 2009/10 is built on a strong foundation. In recent years, the Mayor and City Council have established prudent fiscal policies, which have prepared the city to meet the challenges presented by the current and continued economic downturn. This balanced budget includes an economic uncertainty reserve of \$20,635,000 or eleven percent of the General Fund budget. In addition, the adopted budget retains \$10,193,000 in reserves set aside for capital projects and equipment replacement.

Even with this strong foundation, the current economic conditions have presented great challenges. The continued decline in revenues projected for FY 2009/10 have made it necessary and prudent to present a spending plan significantly reduced when compared with previous fiscal years. I am proud of the innovation and commitment of our city staff; they have quickly responded to the requirement to reduce the cost to operate our city.

Overall, General Fund departments have reduced personnel expenses by nearly \$3 million; much of this savings has come from the ongoing hiring freeze of nearly 70 vacant positions. In addition, operating expenses have been reduced by \$6 million and capital expenditures have been reduced by over \$9 million. These reductions have required all departments to review service delivery, improve efficiency, and adapt their services to fit the resources available. We are building a cost-conscience culture in partnership with all of our employees and suppliers.

The State of California passed two measures that take monies from the City during the current fiscal year. Proposition 1A resulted in the loss of approximately \$5 million in property taxes for FY 2009/10, to be paid back to cities within three years. To manage this, Huntington Beach joined hundreds of cities across California in a Securitization Program that will effectively replace the borrowed funds in the current year. The State of California also took Redevelopment Agency (RDA) funds of approximately \$5.4 million in FY 2009/10 and an additional \$1.1 million the year after. The loss of funds impacts the ability of the RDA to enhance economic development throughout the City, to provide low-income housing assistance, and to continue to support widespread activities on behalf of other departments. Unlike the Proposition 1A borrowing, the State has the ability to take this RDA money without the requirement to pay it back.

These issues, combined with the fact that General Fund expenditures will likely continue to outpace revenues, will need to be addressed in the coming months and years. By using a long-range view and taking proactive and creative steps to confront these obstacles, I am confident that the City will successfully achieve our key goals and priorities, while preparing for a secure financial future. As the author, Norman Vincent Peale said:

**“Empty pockets never held anyone back. Only empty heads and empty hearts can do that.”**

It is with your leadership and the efforts of our outstanding city staff, that I believe we will continue to meet the challenges that lie ahead and provide the necessary services to create and maintain our sustainable, family and business-friendly community.

Sincerely,



Fred A. Wilson  
City Administrator



# City of Huntington Beach Budget Message



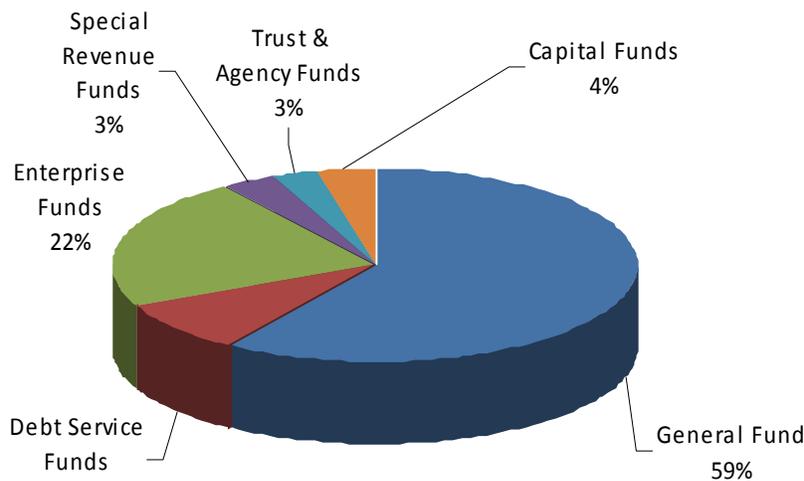
The City of Huntington Beach’s adopted budget for fiscal year 2009/10 is a balanced budget, which addresses the challenges of the current economic climate, emphasizes fiscal responsibility, and focuses resources consistent with the City’s Strategic Goals. These goals are to maintain our financial reserves; maintain, improve and obtain funding for public improvements; maintain public safety; enhance economic development; and improve internal and external communication.

The nationwide recession, lack of consumer confidence, and revenue takeaways from the State of California have had a significant impact on the City’s operations. Beginning in the latter part of FY 2007/08, development activity began to decline, decreasing the amount of revenue from permits and fees available to support the City’s General Fund. The trend in declining revenue worsened dramatically in FY 2008/09 with an eighteen percent decline in sales tax, decreases in transient occupancy tax (TOT), development related revenue, and several other revenue sources.

To manage this decline in resources, the City Administrator took aggressive steps to reduce the use of fund balance and to restructure City operations within available resources. These steps included implementing a hiring freeze, delaying the purchase of equipment and capital, and prudent operating reductions from each of the departments resulting in projected year-end expenditures six percent below the adopted FY 2008/09 budget.

The FY 2009/10 adopted budget continues the culture of fiscal conservatism and has included further operating reductions from the departments, maintenance of the hiring

freeze, and replacement of only the most essential equipment.



The combined adopted budget for fiscal year 2009/10 is \$304,447,204, a decrease of ten percent over the current fiscal year’s adopted budget. The most difficult reductions included in the adopted budget were felt in

the General Fund, which will decrease by nine percent over the previous fiscal year's budget, to \$181,333,883. Detailed information on these reductions is reflected within the individual budgets of all departments.

Overall, the General Fund comprises 59% of the City's total adopted budget. The remainder consists of five other fund types: Special Revenue Funds, Enterprise Funds, Debt Service Funds, Capital Project Funds, and Trust & Agency Funds. These groups, their major revenue sources, and significant changes affecting revenue and expenditures are described in subsequent sections.

## **General Fund**

### ***Expenditures***

Total adopted General Fund expenditures are \$181,333,883, which are supported by \$181,345,941 in revenues. In order to balance expenditures with significantly lower revenue than the previous fiscal year, departments were required to make reductions to their operating budgets, including reductions in temporary staffing and overtime. General Fund appropriations by department are outlined below.

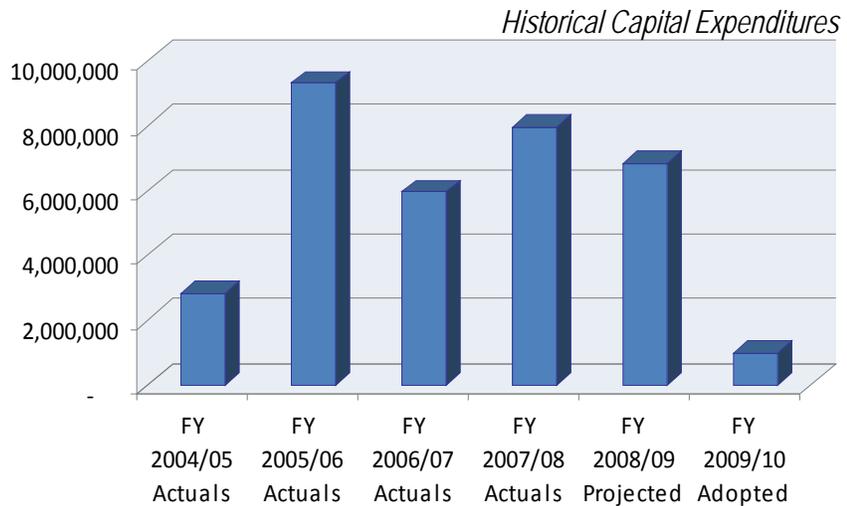
	Actuals FY 2005/06	Actuals FY 2006/07	Actuals FY 2007/08	Adopted Budget FY 2008/09	Projected Budget FY 2008/09	Adopted Budget FY 2009/10
City Council	\$270,698	\$289,580	\$294,790	\$316,827	\$296,338	\$295,850
City Attorney	2,272,270	2,438,416	2,771,022	2,822,760	2,748,332	2,635,911
City Clerk	828,013	906,565	991,835	1,169,818	1,105,587	956,064
City Treasurer	1,446,400	1,056,384	1,357,483	1,508,860	1,359,684	1,492,949
City Administrator	1,425,990	1,489,387	1,587,592	1,733,830	1,862,991	1,773,820
Building & Safety	3,541,380	3,848,353	3,843,913	3,980,357	4,029,679	3,696,184
Community Services	12,488,688	12,970,638	13,921,467	14,182,889	13,454,893	13,408,348
Economic Development	1,120,864	1,533,273	1,750,030	1,914,658	1,788,573	1,583,820
Finance	3,310,606	11,362,740	11,808,094	11,371,746	10,995,363	10,857,093
Fire	22,959,995	25,424,104	26,687,055	31,727,869	33,496,613	32,240,904
Human Resources	4,078,202	1,202,590	4,724,873	5,521,105	4,273,741	6,469,696
Information Services	6,176,587	6,374,624	6,741,303	7,229,214	7,217,464	7,028,601
Library Services	3,355,159	3,886,480	4,337,214	4,535,326	4,531,214	4,650,004
Planning	2,659,889	2,948,832	3,855,942	3,266,091	3,469,834	3,334,002
Police	49,695,504	54,741,037	56,014,342	62,639,709	59,243,077	60,015,156
Public Works	18,975,331	21,016,913	21,874,109	21,299,348	20,208,395	19,362,381
Non-Departmental	29,957,142	18,929,767	21,888,303	23,931,277	17,001,295	11,533,100
<b>Totals</b>	<b>\$164,562,720</b>	<b>\$173,419,685</b>	<b>\$184,449,366</b>	<b>\$199,151,684</b>	<b>\$187,083,076</b>	<b>\$181,333,883</b>

The largest decrease however is in the area of capital, primarily reflected in the Non-Departmental budget. In FY 2008/09, \$10.5 million was included in the adopted budget for new and replacement equipment, funding of the Equipment Replacement Reserve, and the Capital Improvement Reserve (CIR). This latter reserve represented the General Fund's contribution towards capital improvement projects identified in the five-

year Capital Improvement Program (CIP). Due to the rapid shrinking of the economy in FY 2008/09, these projects were put on hold and the purchase of the majority of the equipment was delayed.

FY 2009/10 will see further reductions in the amount dedicated to capital, with only \$1 million included in the adopted budget. This funding will be used at the City Administrator's discretion on an as-needed basis throughout the fiscal year.

As the adjacent figure illustrates, the City has consistently invested significant resources in replacing obsolete equipment and upgrading the City's infrastructure. The continued funding of the City's equipment needs will be addressed in the City's five-year financial plan with



funding potentially stemming from the Equipment Replacement Reserve, the Infrastructure Fund, or the Capital Improvement Reserve. Despite the reductions to the FY 2009/10 capital appropriations, the adopted budget maintains funds in these reserves for future equipment needs.

**Revenue**

General Fund revenue for FY 2009/10 is projected to be \$181,345,941, a seven percent decrease from the adopted FY 2008/09 budget. Stemming from a variety of sources such as property, sales, utility, and transient occupancy (TOT) taxes, fees and permits, parking, the State and Federal governments, as well as many others, General Fund revenue has been hit hard by the recessionary climate. The sharp decrease in revenue in the past eighteen months drove the development of a much leaner proposed budget than in years past.

The largest source of revenue for the City of Huntington Beach is property tax. For FY 2009/10, the City is expected to receive \$66,402,000, just slightly less than the \$66.7 million anticipated in FY 2008/09. The slight increase of 0.7% in citywide assessed value is being offset by anticipated decreases in the City's supplemental property tax roll. Statewide, supplemental property rolls are decreasing as tax refunds are issued to homeowners who paid property taxes on properties sold as a short sale for a lower price than they originally paid.

Sales tax continues to be weighed down by the sagging economy. Projected to be \$19,575,000 for FY 2009/10, a six percent decrease from the FY 2008/09 projections and an eighteen percent decrease from the amount received in FY 2007/08, sales tax has declined as consumer confidence has dropped to historically low levels, retail outlets have closed, gas prices have declined, and the State implemented an increase of one percent to the sales tax statewide, further deterring spending.

Transient occupancy tax (TOT), a ten percent tax imposed on lodging facilities within the City, is projected to increase slightly from the current year's receipts of \$5,300,000 to \$5,400,000 due in large part to the recent opening of the Shorebreak Hotel within The Strand retail complex. This projection, however, is dramatically lower than the amount of revenue received in FY 2007/08 when room rates were higher and vacancy rates much lower.

The majority of the other revenue sources are projected to increase slightly over the current fiscal year. In June, the City Council amended the City's fee schedule, increasing several parking and development related fees. These fee adjustments will increase revenue from parking, yet are not anticipated to dramatically increase revenue from permits and licenses due to the continued depression of development related activity.

### **Enterprise and Special Revenue Funds**

Enterprise funds are proprietary funds supported by user fees. The rates charged to customers for these services cover the current costs of operations, and the maintenance and financing of related capital assets. The City of Huntington Beach maintains four main enterprise funds: Water, Water Master Plan, Sewer Service, and Refuse Collection. The expenditures in these funds allow for the operation of essential services and address the City's commitment to protecting public health and safety.

For the City's four largest enterprise funds, expenditures for FY 2009/10 total \$66,657,574, representing a four percent increase from projected FY 2008/09 expenditures. This increase is expected despite the state of the economy as these funds provide funding for the purchase of equipment and extremely large capital projects. Due to the complexity of the work involved and engineering schedules, the annual budget for these funds will often rise and fall according to the number of projects planned for a given year and the amount of continuing appropriations from one fiscal year to the next.

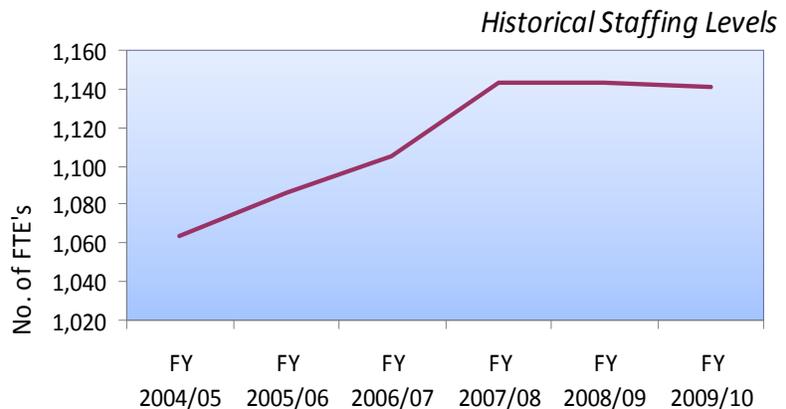
	Actuals FY 2005/06	Actuals FY 2006/07	Actuals FY 2007/08	Adopted Budget FY 2008/09	Projected Budget FY 2008/09	Adopted Budget FY 2009/10
Water	\$17,498,157	\$26,469,142	\$31,136,510	\$44,912,674	\$35,709,760	\$45,342,440
Water Master Plan	10,453,985	6,137,620	2,465,399	2,559,638	5,192,976	3,034,877
Sewer Service	3,879,941	5,765,341	7,121,698	9,133,992	12,578,404	7,450,764
Refuse Collection	10,236,224	10,488,559	10,533,441	10,733,851	10,571,521	10,829,493
<b>Totals</b>	<b>\$42,068,307</b>	<b>\$48,860,662</b>	<b>\$51,257,048</b>	<b>\$67,340,155</b>	<b>\$64,052,661</b>	<b>\$66,657,574</b>

In addition to enterprise funds, the City maintains several special revenue funds. Special revenue funds are funding sources legally restricted to a specific purpose, most often related to infrastructure. For example, the Gas Tax and Transportation Funds (i.e. Measure M), limit expenditures to street and transportation improvements within the public right-of-way. Additional special revenue funds include the Traffic Impact, Park Acquisition and Development, and Air Quality Funds. For FY 2009/10 special revenue funds are anticipated to generate \$9,865,667 in revenue, a significantly lower amount than previous years due to decreased development activity, as well as State takeaways. These takeaways are discussed in further detail below.

**Staffing**

For most departments, the ability to provide quality service is dependent on city staff. Libraries, community centers, public counters, as well as maintaining public safety all rely on staff to operate effectively.

As emphasized by the City’s Strategic Plan, the City is committed to providing the highest level of service to its residents, visitors, and business community. The adopted FY 2009/10 budget reflects this commitment and has made reductions in many areas while preserving existing staffing levels. The adopted



budget includes 1,141.25 full-time equivalent (FTE) positions, with 1011.49 positions funded within the General Fund.

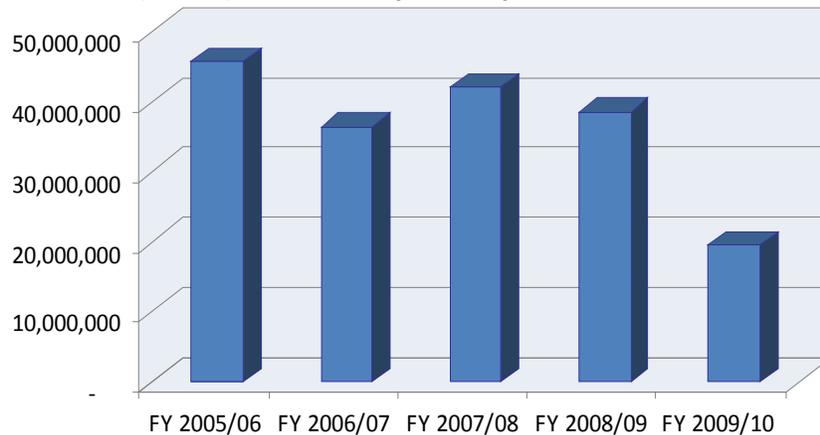
**Capital Improvement Program**

The goal of the Capital Improvement Program (CIP) is to identify and budget for major public improvements to the City’s infrastructure over a five-year period. The program is reviewed and updated annually and identifies funding sources and project schedules, as well as the project’s relationship to the Strategic Plan.

Given the breadth and scope of capital projects, they often span several years and are broken down into numerous phases ranging from design to construction. The portion of the CIP scheduled for FY 2009/10 totals \$19,486,119 and is funded through a combination of grants, Enterprise Funds, Special Revenue Funds, and the Infrastructure Fund.

The adopted CIP for FY 2009/10 represents a 50% decrease over the previously adopted CIP and reflects the substantial decrease in resources available for capital projects due to the shrinking economy.

*Historical Capital Improvement Program Budgets*



Some of the projects planned for FY 2009/10 include energy efficiency improvements, sewer station design, restroom installation at the Shipley Nature Center, construction of a new administrative building at the water yard, and arterial rehabilitation. Detailed information on the Capital Improvement Program and specific

projects can be found within the CIP section of the budget document.

## **Future Issues**

### ***State Budget***

The State's budget troubles continue to threaten the security of the City of Huntington Beach's revenue in both the current and upcoming fiscal years. After operating for three weeks of their fiscal year without an approved budget, the State announced its plan to address its FY 2009/10 \$26 billion deficit. The plan consisted of three main components that directly impact local governments: borrowing up to eight percent of local agencies' property tax, per Proposition 1A (2004,) taking of the Highway Users Tax (Gas Tax), and taking of funds from Redevelopment Agencies.

Proposition 1A (2004) is anticipated to result in the loss of approximately \$5 million for FY 2009/10. This loss however would not be a permanent loss of funds, as any take by the State of these funds is required to be paid back to cities within three years, with interest. To manage the cash flow implications of the State borrowing these funds, the City has joined with agencies statewide to participate in a loan securitization program. Doing so will allow the City to receive payments as it normally would have, had the State not borrowed the funds.

In the State's adopted budget, legislators voted against taking the gas tax. This move greatly enhances the City's ability to effectively maintain streets and provide service. Had the State approved the taking of the gas tax, the City would have been harmed in two ways. First, the Gas Tax Fund has consistently transferred \$900,000 in revenue to the General Fund to pay for overhead and administrative support. If the State chooses

to take gas tax money in the future, the General Fund would realize a reduction in revenues of just under \$1 million and would need to make additional reductions to balance expenditures. Second, loss of gas tax revenue would decrease the City's ability to maintain streets citywide. Currently, the Gas Tax Fund supports arterial rehabilitation projects, and ongoing street maintenance. A loss of approximately \$3.5 million in FY 2009/10 would result in fewer projects being completed.

The State's take of Redevelopment Agency funds will result in the loss of approximately \$5.4 million in FY 2009/10 and an additional \$1.1 million the year after. This loss impacts the ability of the Redevelopment Agency to enhance economic development throughout the City, provide low-income housing assistance and/ or continue to support and fund a variety of activities on behalf of other departments.

Unlike the Proposition 1A (2004) threat, the State has the ability to take the gas tax and the Redevelopment money from local agencies without the requirement to repay them. Therefore, these threats have the potential to do the greatest harm to Huntington Beach in both the short and long term.

While the State has announced their plans to address their own budget issues, local cities, counties, and redevelopment agencies throughout the State are aggressively seeking ways to prevent the State from raiding local coffers. Several agencies have announced plans to move forward with lawsuits to try to block the takes, and staff is actively monitoring these contests while taking the necessary steps to manage these revenue reductions.

### ***The Consumer Price Index (CPI) and Property Tax***

As part of the City's Strategic Plan goal of maintaining our financial reserves, the Finance Department prepared an updated five-year financial plan. In doing so, a factor that could impact Huntington Beach in future fiscal years was identified and is now being closely monitored.

Under the provisions of Proposition 13, a property's base year value is adjusted annually by either the percentage change in the CPI (as determined by the change from October to October each year) or two percent, whichever is less. Therefore, should the annual rate of inflation be negative come October 2009, as it has been for the past several months, there is a possibility that the adjustment to base year values could be negative, further eroding the property tax base of the City. Should this occur, the effects would not be felt until FY 2010/11, but will influence fiscal decisions in the upcoming fiscal year.

## **CalPERS**

The downturn in the economy has had a direct impact on the market performance of the CalPERS investment portfolio. In July, CalPERS announced a preliminary decrease of 23.4% for their 2008/09 fiscal year. This decrease, on top of the 5.1% loss the previous fiscal year will require an increase in employer contribution rates in FY 2010/11. The CalPERS board voted in June to amend their rate formula to allow for a three-year stepped increase of employer rates to prevent participating agencies from facing increases of up to twelve percent in a single year. Beginning nominally in FY 2010/11 the City's employer contribution will increase by approximately \$1.4 million in FY 2011/12 and continue increasing to \$6.6 million over the current contribution by FY 2013/14.

## **Conclusion**

The City of Huntington Beach's FY 2009/10 adopted budget required difficult decisions and sacrifice throughout all levels of the organization. Yet, through the collaborative efforts of staff from all departments, the resources needed to meet the City's financial obligations and to continue providing quality service to the community have been provided in a balanced budget.

The Finance Department staff will continue to monitor the impact of the dynamic economic climate as well as actions in Sacramento for any future impact on the City of Huntington Beach.