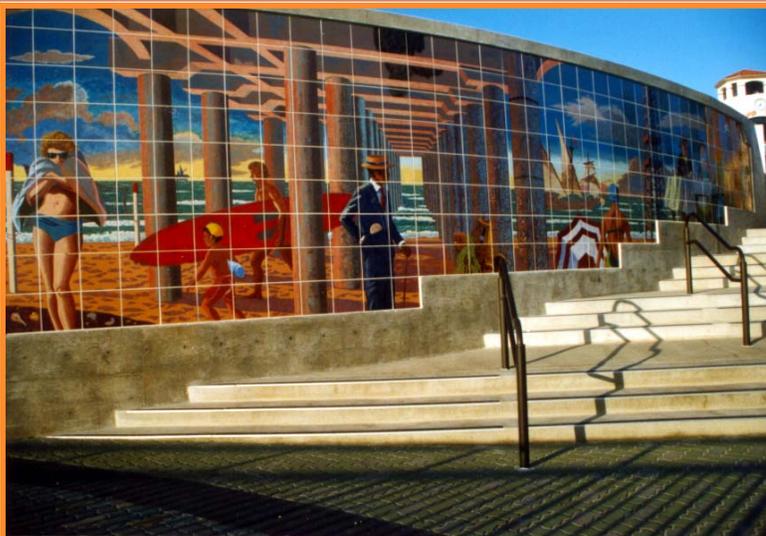


City of HUNTINGTON BEACH PROPOSED BUDGET FY 2010/11



City of Huntington Beach
Proposed Budget
Fiscal Year
2010/2011



Submitted by
Fred A. Wilson, City Administrator

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City of Huntington Beach City Council – 2010/2011



Cathy Green
Mayor



Jill Hardy
Mayor Pro-Tem



Keith Bohr
Council Member



Joe Carchio
Council Member



Gil Coerper
Council Member



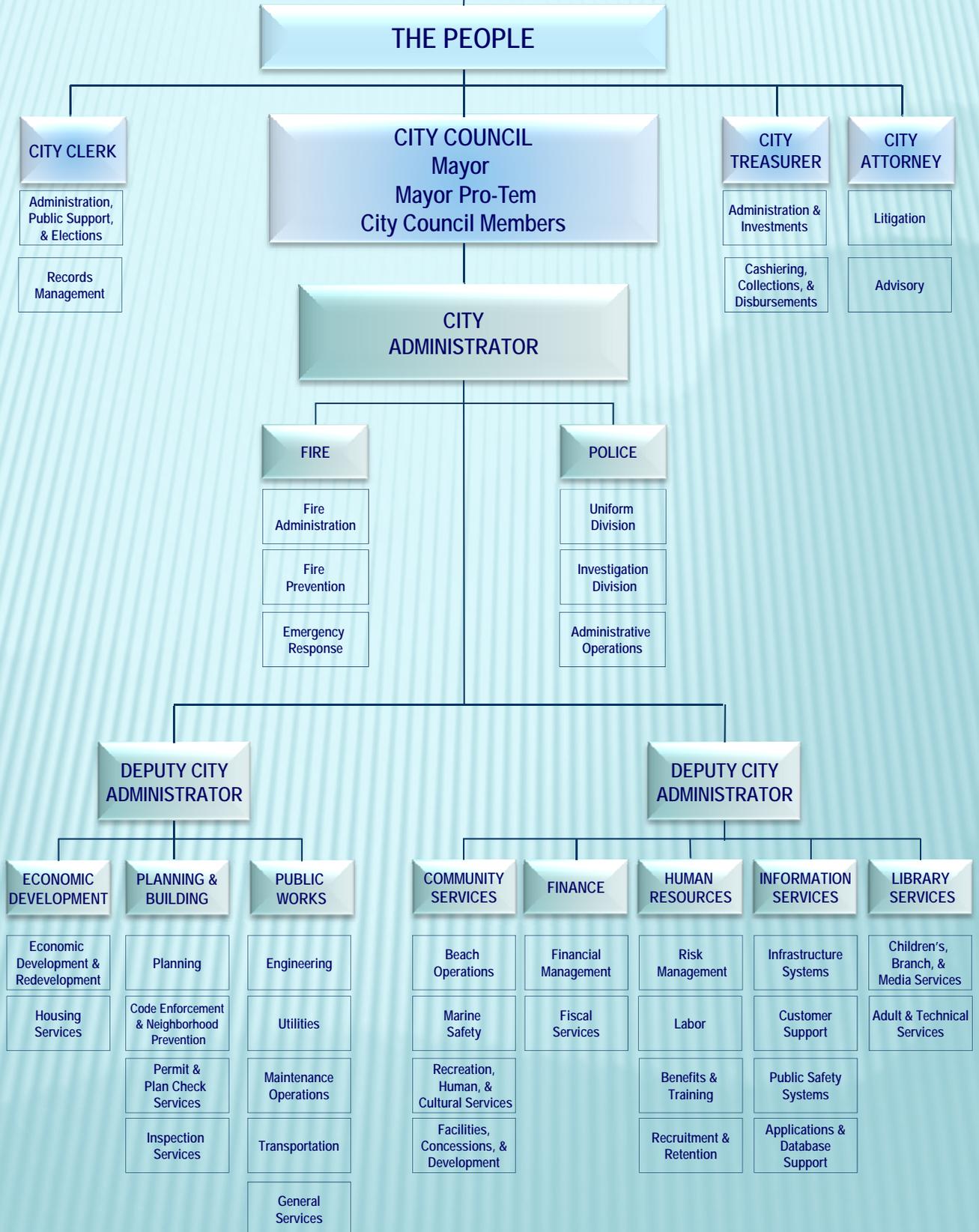
Devin Dwyer
Council Member



Don Hansen
Council Member

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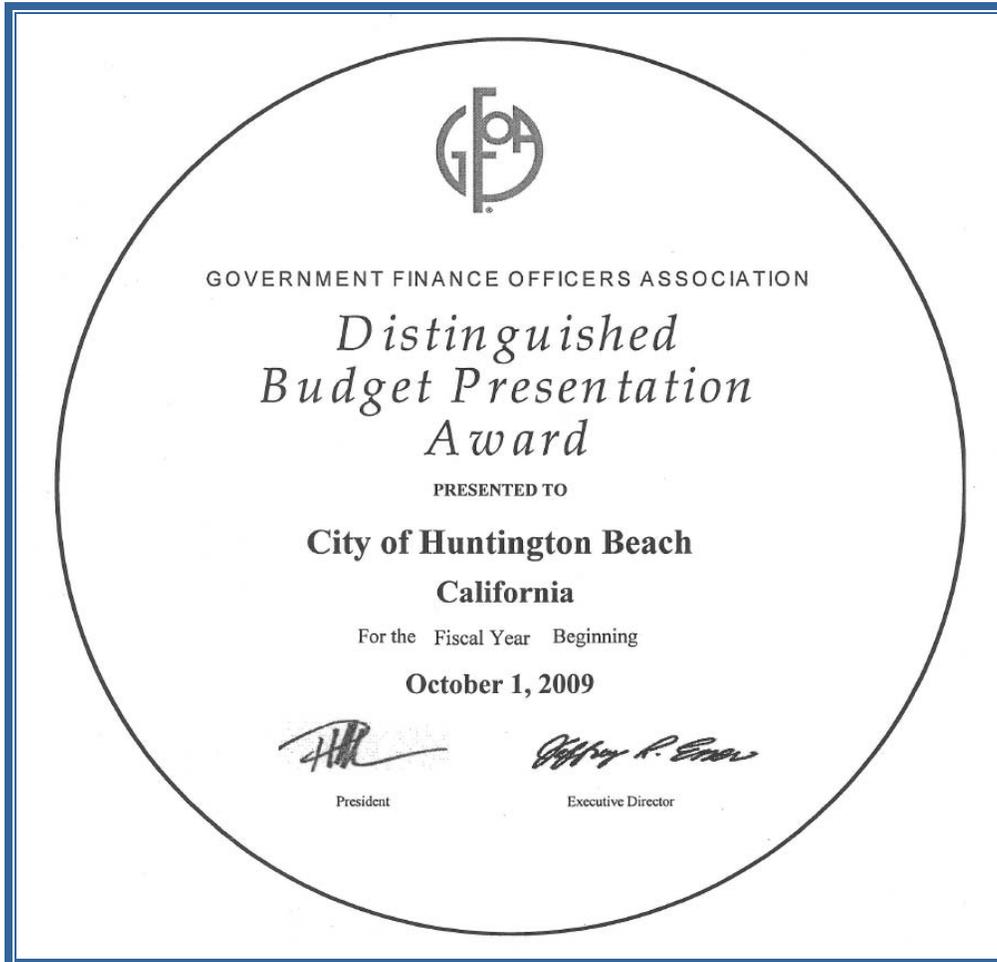
City of Huntington Beach Proposed Budget – FY 2010/11



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City of Huntington Beach Proposed Budget FY 2010/11



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, 2009. 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 ADMINISTRATOR'S OFFICE

August 1, 2010

Honorable Mayor and Members of the City Council:

In accordance with the City Charter, I am pleased to present to the City Council the proposed FY 2010/11 budget. Reflecting the priorities and goals of the City Council, the budget serves as a financial road map for the City. The proposed FY 2010/11 budget continues the practice of conservative and prudent fiscal planning in the face of a challenging economic climate.

The FY 2010/11 budget was developed with continuing emphasis placed on the provision of quality municipal services in the most efficient and cost-conscious manner possible.

Our Vision: Guided by Strategic Goals

In January 2010, the City Council revisited and refined the Strategic Plan, which includes three-year goals through 2012. These goals are listed below, along with examples of specific projects from the most recent six-month update:

Maintain Financial Viability and Our Reserves

- Investigate various, long-term strategies for reducing personnel costs and enhancing revenues;
- Refocus the long-term financial plan to a three-year horizon to better plan for the impacts of economic changes.

Maintain, Improve and Obtain Funding for Infrastructure and Equipment

- Provide to the City Council an outline of infrastructure activities and long-term funding requirements.

Maintain Public Safety

- Present to City Council a plan that maintains public safety in light of current and future budget constraints.

Enhance Economic Development

- Completed the Beach-Edinger Corridor Specific Plan.

Improve Internal and External Communication

- Improve HBTB 3 programming using PEG (Public Education Government) funding.

Budget Summary

The overall, proposed budget totals \$301,451,077, an approximate one percent decrease from last year's adopted budget. The General Fund budget, which provides for the majority of public services to our community, totals \$178,188,548, a decrease of almost two percent over last year's budget.

The proposed budget for FY 2010/11 is built on a strong foundation established by recently approved and updated fiscal policies. These prudent fiscal policies have allowed the City to meet the challenges presented by the current economic downturn. This balanced budget retains an economic uncertainty reserve of \$18,040,000, approximately ten percent of the General Fund budget. In addition, the proposed budget retains \$9,883,000 in reserves for capital projects and equipment replacement, and has set aside \$1,500,000 as a litigation reserve.

Even with this strong foundation, the prolonged economic downturn has presented great challenges. The continued decline in revenues projected for FY 2010/11 has made it necessary to present a spending plan that maintains expenditure reductions from prior fiscal years, as well as proposing additional, new reductions in spending.

Overall, General Fund departments have reduced personnel expenses by \$5.7 million from last fiscal year. This reduction was realized through the continuation of the hiring freeze and other budget reductions including targeted staffing reductions. The hiring freeze, in place for a third fiscal year, is currently at 104 vacant positions citywide. A retirement incentive program, which was approved by the City Council on May 3, 2010, resulted in 103 employees electing to participate. Of these 103 vacated positions, the proposed budget assumes that 28 will be replaced full-time; 20 will be replaced by contract; six will be replaced on a part-time basis with other adjustments for three other positions. Forty-six (46) positions will not be replaced. An operational and organizational review, independent from the proposed budget process, will help identify efficiencies from these additional vacancies.

Operating expenses have also been reduced, by approximately \$2 million over last year's adopted budget. These personnel and operating reductions have required all departments to review service delivery, improve efficiency, and adapt their services to fit the resources available.

In recent years, General Fund equipment and capital purchases have been minimized in an effort to contain costs. However, recognizing the need to replace essential capital and equipment, the proposed FY 2010/11 budget includes \$2 million for this purpose.

Developing the FY 2010/11 budget has been challenging. Each department has worked tirelessly to provide innovative and creative solutions to balancing this budget. The Huntington Beach team is *changing* the way it delivers its services.

As Mahatma Gandhi has said:

“We must become the change we want to see.”

It is with your continued leadership and the efforts of our outstanding City staff that I believe we will meet the challenges that lie ahead and develop a resilient and sustainable organization to serve our community today and into the future.

Sincerely,

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

Fred A. Wilson
City Administrator

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City of Huntington Beach Budget Message

The City of Huntington Beach's proposed budget for FY 2010/11 is a balanced budget. Due to the continuing economic downturn affecting all aspects of the local economy, FY 2010/11 represents the third year in which budget reductions have been necessary in order to balance the budget and minimize the impact on fund balance.

The fiscally conservative approach to developing the FY 2010/11 budget seeks to preserve the City's core services while focusing resources in a manner consistent with the City's strategic plan goals:

- Maintain financial viability and our reserves
- Maintain, improve and obtain funding for infrastructure and equipment
- Maintain public safety
- Enhance economic development
- Improve internal and external communication

This approach to developing the budget has minimized the impacts reductions have had on the residents of Huntington Beach. Residents will continue to enjoy the high quality of life they have come to expect through the provision of essential services such as police and fire protection, beach maintenance and safety, recreational opportunities, maintenance of streets and parks, and many more services.

The FY 2010/11 budget was balanced through a combination of strategies: continuing the hiring freeze for the third year, proposing reductions in staffing and operating expenditures, and minimizing purchases of capital to focus on only the most essential and necessary pieces of equipment.

The total proposed budget for FY 2010/11 is \$301,451,077, a one percent decrease from the FY 2009/10 adopted budget. The General Fund proposed budget for FY 2010/11 is \$178,188,548, a 1.7 percent decrease from the FY 2009/10 adopted budget.

The following pages present details on proposed expenditures and revenue for the General Fund, as well as enterprise and special funds. The various Capital Improvement Program (CIP) projects will be highlighted, and a discussion of legislative machinations at the State which could impact the City in FY 2010/11 is included.

General Fund

Expenditures

In an effort to balance the proposed FY 2010/11 General Fund budget, departments were required to continue reductions made in FY 2009/10 as well as identify further reductions. The reductions for FY 2010/11 consist of elimination of staff, cutting back on overtime and temporary staff appropriations, and further reductions to operating expenses.

Presented below are the proposed FY 2010/11 General Fund appropriations – along with historical information – by department:

Department	Total Actuals FY 2006/07	Total Actuals FY 2007/08	Total Actuals FY 2008/09	Adopted Budget FY 2009/10	Projected Actuals FY 2009/10	Proposed Budget FY 2010/11
City Council	\$ 289,580	\$ 294,790	\$ 295,024	\$ 295,850	\$ 292,861	\$ 304,402
City Attorney	\$ 2,438,416	\$ 2,771,022	\$ 2,736,425	\$ 2,635,911	\$ 2,591,621	\$ 2,492,579
City Clerk	\$ 906,565	\$ 991,835	\$ 1,083,846	\$ 956,064	\$ 910,464	\$ 1,023,601
City Treasurer	\$ 1,056,384	\$ 1,357,483	\$ 1,308,311	\$ 1,492,949	\$ 1,454,045	\$ 1,379,285
City Administrator	\$ 1,489,387	\$ 1,587,592	\$ 1,839,369	\$ 1,773,820	\$ 1,739,203	\$ 1,586,040
Building & Safety*	\$ 3,848,353	\$ 3,843,913	\$ 3,958,601	\$ 3,696,183	\$ 3,376,220	\$ -
Community Services	\$ 12,970,638	\$ 13,921,467	\$ 14,042,107	\$ 13,408,348	\$ 12,865,683	\$ 12,939,977
Economic Development	\$ 1,533,273	\$ 1,750,030	\$ 1,776,573	\$ 1,583,820	\$ 2,413,413	\$ 1,484,002
Finance	\$ 11,362,740	\$ 11,808,094	\$ 10,685,108	\$ 10,857,094	\$ 10,624,353	\$ 4,320,489
Fire	\$ 25,424,104	\$ 26,687,055	\$ 33,133,622	\$ 32,240,904	\$ 32,633,536	\$ 32,499,749
Human Resources	\$ 4,202,590	\$ 4,724,873	\$ 4,729,332	\$ 6,469,696	\$ 5,758,311	\$ 6,185,520
Information Services	\$ 6,374,624	\$ 6,741,303	\$ 7,339,358	\$ 7,028,601	\$ 6,896,269	\$ 6,312,847
Library Services	\$ 3,886,480	\$ 4,337,214	\$ 4,587,646	\$ 4,650,003	\$ 4,557,774	\$ 4,556,736
Non-Departmental	\$ 18,929,767	\$ 21,888,303	\$ 17,583,725	\$ 11,533,100	\$ 13,064,431	\$ 19,922,021
Planning and Building*	\$ 2,948,832	\$ 3,855,942	\$ 3,231,674	\$ 3,334,002	\$ 3,490,825	\$ 6,352,318
Police	\$ 54,741,037	\$ 56,014,342	\$ 59,036,474	\$ 60,015,157	\$ 58,345,864	\$ 59,334,233
Public Works	\$ 21,016,913	\$ 21,874,109	\$ 19,623,676	\$ 19,362,381	\$ 18,307,614	\$ 17,494,750
	\$ 173,419,685	\$ 184,449,366	\$ 186,990,870	\$ 181,333,883	\$ 179,322,486	\$ 178,188,548

**The Building and Safety Department is being eliminated in FY 2010/11 and its functions will be combined with Planning, to create the new Planning and Building Department; historical expenditures are shown for trending and tracking purposes.*

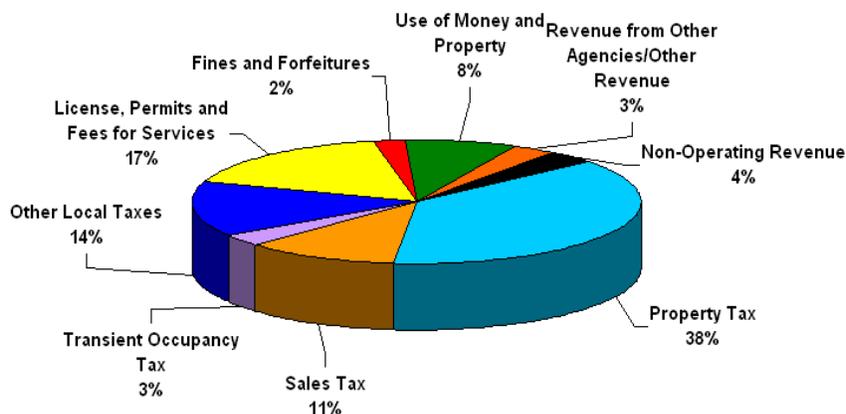
Along with personnel and operating reductions, General Fund appropriations for capital and equipment have been kept at historically low levels. Two million dollars in General Fund appropriations are proposed for equipment replacement and capital purchases. The two million dollars in FY 2010/11 is double what was in the FY 2009/10 adopted budget. This increase recognizes the need to replace essential pieces of capital and equipment.

General Fund equipment replacement reserves remain, but are not proposed to be spent at this time. The City maintains its commitment to upgrading and improving public infrastructure through the five-year Capital Improvement Program (CIP), which is included in this proposed budget and will be discussed in the following pages.

Revenue

General Fund revenue for FY 2010/11 is projected to be \$178,188,548. This is a 1.7 percent decrease from the FY 2009/10 adopted budget. This revenue projection was built around modest growth estimates in all areas: property, sales, utility users and transient occupancy taxes; development related permit and license fees; concession and lease revenue; and revenue from other agencies.

Despite the decline in revenue in recent years, the FY 2010/11 budget shows positive trends in certain areas such as sales and transient occupancy taxes, parking fees, and some development related permit and license fees. On the other hand, secured property tax revenue – a lagging indicator of economic health – is projected to decline one percent over FY 2009/10. This decline is primarily due to the negative consumer price index (CPI), which affects assessed value citywide.



Property tax, the largest single source of revenue, comprises 38 percent of all General Fund revenue. Property tax revenue is projected to be \$67,075,000 in FY 2010/11. While secured property tax is expected to decline one percent, other

categories such as supplemental property tax should increase, helping to lessen the overall decline in property tax revenue.

Sales tax is one area that is seeing relatively positive growth compared to prior years. Revenue from sales tax comprises eleven percent of all General Fund revenues. The \$20,115,000 projected in sales tax revenue for FY 2010/11 is almost three percent higher than FY 2009/10. After two years of significantly declining sales tax receipts, there is optimism that the local economy will improve enough to realize this modest increase.

Another area seeing benefits from an improving economy is Transient Occupancy Tax (TOT). This ten percent tax charged on all hotel bookings in the City is projected to grow two percent in FY 2010/11. The \$5,535,000 in projected TOT revenue provides a positive sign that visitors are returning to Surf City for vacation and business related travel.

In yet another sign that Huntington Beach is reaping the benefits of improved economic health, development related revenue is projected to increase 4.6 percent over FY

2009/10. This revenue category includes building permits, planning review fees, and public works plan review and licenses.

Parking revenue is also projected to increase, by approximately 3.6 percent over FY 2009/10. Recent changes to the fee schedule, along with increased numbers of visitors to the beach and downtown, are bringing additional parking revenue to City coffers.

Enterprise and Special Revenue Funds

The General Fund provides funding for a majority of services: police and fire protection, park maintenance, library programming, and development services. However, the City's enterprise and special revenue funds provide funding for numerous other services and projects that are essential to enhancing and maintaining Huntington Beach's public infrastructure.

The table below highlights appropriations in the City's enterprise funds and some major special revenue funds:

	Total Actuals FY 2006/07	Total Actuals FY 2007/08	Total Actuals FY 2008/09	Adopted Budget FY 2009/10	Projected Actuals FY 2009/10	Proposed Budget FY 2010/11
Water	26,469,142	31,136,510	32,905,696	45,342,441	45,164,000	45,076,404
Water Master Plan	6,137,620	2,465,399	1,515,502	3,034,877	3,125,000	974,433
Sewer Service	5,765,341	7,121,698	7,358,551	7,450,764	10,731,000	9,663,769
Refuse Collection	10,488,559	10,533,441	10,551,808	10,829,493	10,559,000	10,860,597
Enterprise Fund Total	48,860,662	51,257,049	52,331,557	66,657,575	69,579,000	66,575,204
Gas Tax	9,976,478	7,081,035	6,331,516	900,000	2,291,000	3,746,000
Measure M	2,440,351	444,997	5,567,560	2,611,221	4,511,000	2,189,316
Highway Safety-Traffic Reduction (Prop 1B)	0	0	1,770,247	0	1,408,000	700,000
Traffic Congestion Relief	0	0	1,506,455	1,350,000	1,987,000	2,631,440
Special Revenue Fund Total	12,416,830	7,526,032	15,175,778	4,861,221	10,197,000	9,266,756

A majority of expenditures in the above funds are related to capital projects in the City's five-year Capital Improvement Program (CIP). Therefore, expenditures vary from year to year based on the number and scope of CIP projects.

The enterprise funds – Water, Water Master Plan, Sewer Service and Refuse Collection – are supported by user fees. The rates charged to customers for these services cover the current cost of operations, as well as the maintenance and financing of related capital assets. For FY 2010/11, \$66,575,204 is proposed for expenditures related to various operating and personnel costs in these four funds.

The Special Revenue Funds highlighted above – Gas Tax, Measure M, Highway Safety-Traffic Reduction, and Traffic Congestion Relief – receive funds from sales and excise taxes on gasoline as well as State bond issues. Given the recent volatility of Gas Tax revenue due to threats from the State to take this revenue stream, FY 2009/10 saw very little expenditures in that fund compared to prior years. Measure M revenue comes from a one-half of one percent sales tax levied in the County of Orange for traffic

improvement projects. The \$9,266,756 in proposed expenditures for these four Special Revenue Funds will be used on various street rehabilitation and improvement projects. Details can be found in the CIP section of this budget document.

Re-Organization and Staffing

Significant changes are being proposed to the City's table of organization in FY 2010/11 in order to restructure the entire organization. The restructuring is occurring through several strategies: continuation of the hiring freeze, which has been in place since FY 2009/10 and has generated over one hundred vacant positions; through the recently approved supplemental retirement program, which will create an additional one hundred vacancies; and through targeted reductions of staff in several departments.

The targeted reductions are being done in an effort to refocus the organization on core services, while putting into place long-term savings in personnel costs. To achieve this, twenty-two staff positions are proposed to be removed from the table of organization. This will require departments to reorganize in order to deliver services more efficiently with fewer staff.

The proposed FY 2010/11 budget authorizes 1,124.25 full-time equivalent positions. However, there is the potential for additional reductions once the citywide organizational review is completed and it is determined which positions either currently or soon to be vacant can be eliminated. The combined reorganization and reductions to staffing place the City in a positive position to realize greater salary and benefit savings in future years as well as minimize the City's future and ongoing pension liability.

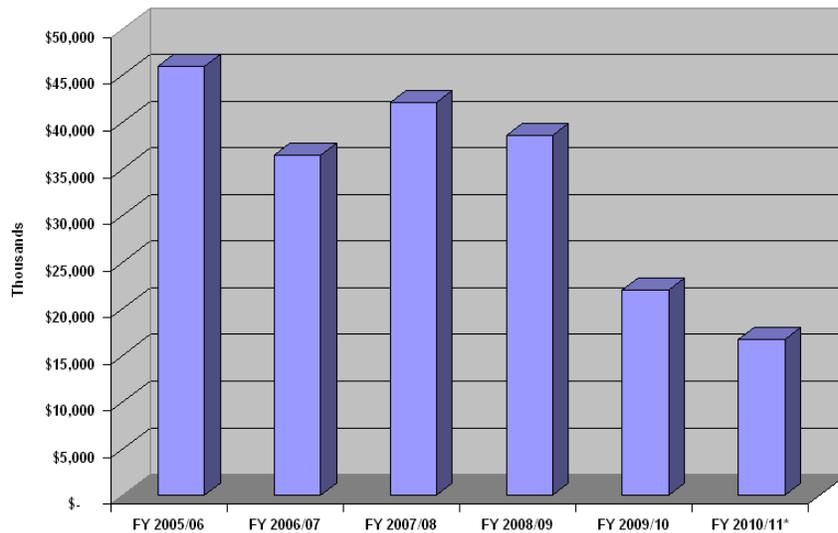
One major reorganization to note is the combination of the Building and Safety and Planning Departments. This restructuring was begun in FY 2009/10, leading to the creation of the Planning and Building Department. The proposed FY 2010/11 budget completes this reorganization by fully integrating both departments.

Savings have already been realized with the elimination of the Director of Building and Safety position. Additional operational savings will materialize as appropriations once necessary for two separate departments are eliminated. This reorganization helps continue the improvements in service delivery and efficiency begun several years ago in the development services area.

Capital Improvement Program

The City of Huntington Beach has a five-year Capital Improvement Program (CIP) that identifies public improvements to the City's infrastructure. The proposed FY 2010/11 budget includes new appropriations of \$16,674,618 for various infrastructure projects. The CIP, reviewed annually, allows Huntington Beach to continue funding public improvements even under difficult economic conditions. There is an additional \$9,499,878 in funding for continuing projects that were begun in FY 2009/10 or earlier.

The \$16,674,618 in projects for FY 2010/11 would be funded through various non-General Fund sources of revenue: Measure M sales tax, State Gas Tax, Water and Sewer Funds, Redevelopment Agency funds, and various State and Federal grants.



A positive change from FY 2009/10 is the relative stability of Gas Tax funding. Last fiscal year, well into the summer, it was unknown whether the State would make good on its threat to take Gas Tax from local municipalities. While Gas Tax funding was eventually untouched in the State's adopted

budget, planning at the local level for any street projects using this source of funding was impossible.

The State continues its practice of apportioning Gas Tax on an irregular basis due to its cash flow issues. However, to date, there have been no discussions in the Legislature to take Gas Tax in FY 2010/11. Even so, only one new major project is proposed for FY 2010/11 that uses Gas Tax funds: the Garfield Avenue arterial rehabilitation.

The American Recovery and Reinvestment Act (ARRA) is providing localities across the United States with Energy Efficiency and Conservation Block Grants (EECBG). Huntington Beach has proven to be a leader in energy efficient improvements and is undertaking approximately \$2.7 million in energy efficiency projects funded by an EECBG award.

State Proposition 1B grants together with Gas Excise Tax funds (formerly the Proposition 42 Traffic Congestion Relief program) are being used for \$1.7 million in

arterial rehabilitation projects. This is in addition to \$200,000 in Measure M funds being put towards the Garfield arterial rehabilitation project.

For FY 2010/11 and beyond, a conservative approach will be taken in regards to initiating new CIP projects given the uncertain nature of State funding, the continued sluggish economic recovery, and the reduction in staff. However, the City retains its commitment to public infrastructure by continuing to plan projects that improve streets, sewers, sidewalks, and public facilities.

Future Issues

State Budget

The old adage “no news is good news” unfortunately does not provide much comfort when discussing the lack of information coming from Sacramento on the FY 2010/11 State of California budget. As opposed to the summer of 2009, there is currently very little news from Sacramento about developing and eventually adopting a State budget, despite being three weeks into the State’s fiscal year.

The good news so far is there appears to be no plan for the State to once again raid local agency funds. The State’s FY 2009/10 budget included the triggering of Proposition 1A (2004), resulting in \$5,065,616 in property tax being taken from the City of Huntington Beach. The City was able to neutralize this loss through a joint powers authority lending agreement, resulting in no net loss of property tax revenue for FY 2009/10. The State is required to repay this amount within three years per the provisions of Proposition 1A (2004.)

The one exception to the State raiding local agency funds has to do with the Redevelopment Agency (RDA). The State’s FY 2009/10 budget plan included a two-year take of tax increment revenue from RDAs across the State. The first year resulted in approximately \$5.4 million being taken from the Huntington Beach’s Redevelopment Agency. The second year (FY 2010/11) includes another planned take of approximately \$1.1 million. Unlike the Proposition 1A (2004) borrowing of property tax, the taking of RDA tax increment revenue will not be repaid. A last-minute court challenge in April 2010, upheld the State’s ability to take tax increment.

There are several proposals floating around Sacramento that seek to balance the State’s FY 2010/11 budget. Of particular interest to municipalities is one proposal that would unwind the “triple-flip” property tax-sales tax swap put into place in FY 2003/04. Should this proposal prevail, it would be a benefit to local agencies. Currently, the City of Huntington Beach only receives three-fourths of the one percent sales tax it is due. Twice a year, approximately eighteen months in arrears, the State back-fills the other one-fourth of the sales tax it held onto. This mechanism makes it extremely difficult to

project local sales tax revenue, and often leads to severe swings in sales tax revenue received depending on State projections and cash flow issues.

Staff will be following the progression of this, and other proposals from the Governor and Legislature to gauge their impacts on local revenue and operations. The current situation of “no news is good news” might prove positive should the State find ways to balance its budget that do not involve local public agencies.

Utility Users Tax Ordinance Modernization

An update to the City’s utility user tax (UUT) ordinance will be placed before Huntington Beach voters in November, 2010. This update will lower the UUT on telephone and cable from 5.0 percent to 4.9 percent. In addition, the update will modernize the ordinance to include current and future technologies not covered by the current ordinance language.

The current UUT ordinance references the Federal Excise Tax (FET). Telecommunication companies have successfully argued in court that the FET does not apply to many of the services they offer. With the advent of new technology – internet, cable, voice over internet protocol (VOIP) – many cities across the United States found themselves being denied revenue based on the court ruling.

The City’s ballot initiative will seek to strengthen the ordinance in order to maintain telephone and cable UUT revenue. This revenue neutral ordinance update will stabilize a major source of General Fund revenue to the City for FY 2010/11 and beyond.

Conclusion

The City of Huntington Beach’s proposed FY 2010/11 budget is the product of hard work and difficult decisions. Faced with another year of diminished revenue, it was necessary to reduce operating expenditures, minimize General Fund capital and equipment purchases, and find creative ways to permanently reduce the size of the organization. The cooperation of all departments in this undertaking yielded a balanced budget that continues to provide essential, core services to residents in the most efficient manner possible.

Finance Department staff will continue to monitor happenings at the State for any proposal which might impact local revenue. In addition, staff will vigilantly monitor revenue and expenditures in FY 2010/11 and make recommendations as necessary.