

City of Huntington Beach
FY 2009/10 Proposed Budget

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



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

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City of Huntington Beach City Council – 2009/2010



Keith Bohr
Mayor



Cathy Green
Mayor Pro-Tem



Joe Carchio
Council



Gil Coerper
Council



Devin Dwyer
Council



Don Hansen
Council

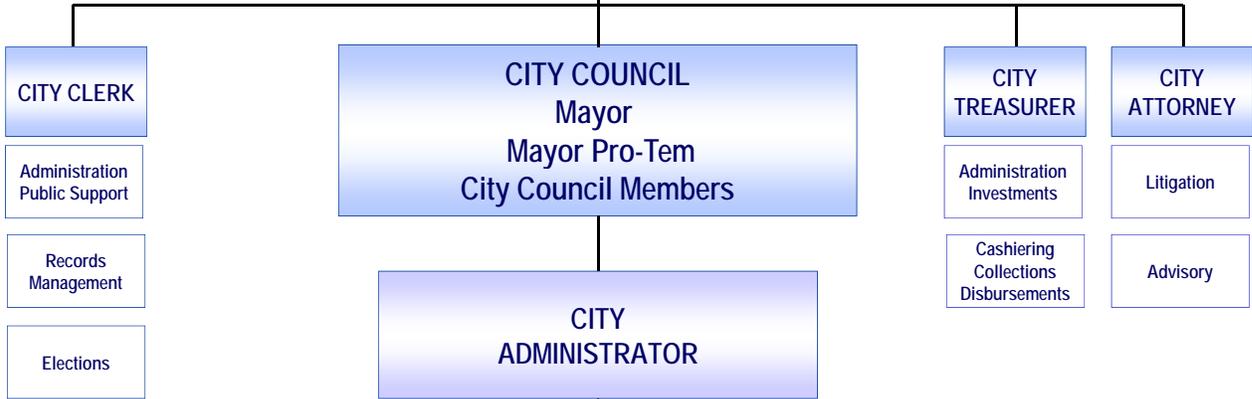


Jill Hardy
Council

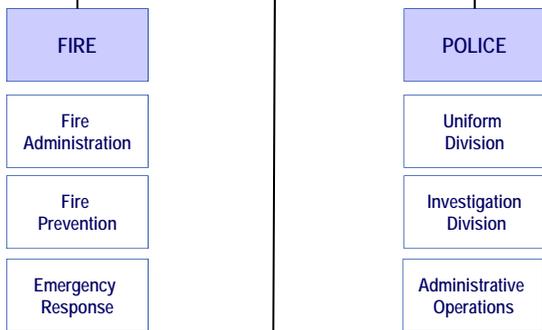
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CITY OF HUNTINGTON BEACH

THE PEOPLE

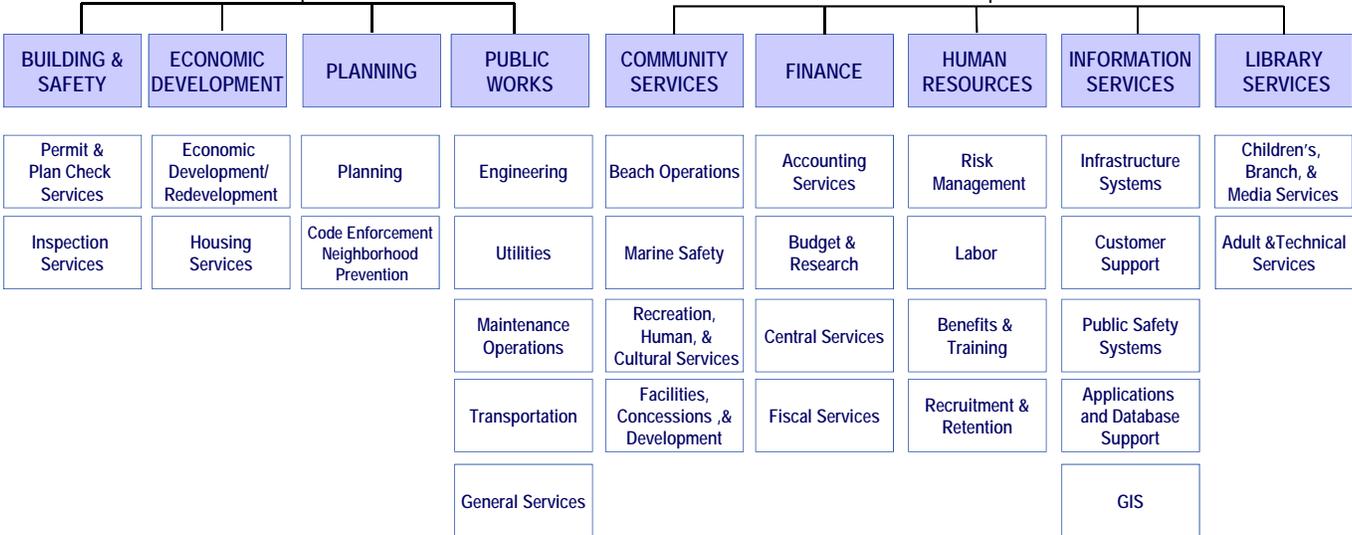


CITY ADMINISTRATOR



DEPUTY CITY ADMINISTRATOR

DEPUTY CITY ADMINISTRATOR



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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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CITY OF HUNTINGTON BEACH

2000 Main Street, Huntington Beach, CA 92648

CITY ADMINISTRATOR'S OFFICE

August 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 proposed 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 January 2009, the City Council approved a new Strategic Plan, which established priorities for the next three years (2009-2012). The goals are listed below along with examples of specific projects:

Maintain and Enhance 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 three-year horizon to better plan for the impacts of economic changes.

Maintain, Improve and Obtain Funding for Public Improvements

- Evaluate the methodologies the city uses for contracting public improvements and maintenance.

Maintain and Enhance Public Safety

- Evaluate the long-term public safety facility needs of Police, Fire, and Marine Safety.

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

- Establish the Surf City Pipeline web based Citizen Information System making it easier for Huntington Beach residents to interact with City Hall.

Budget Summary

The overall budget totals \$304,459,000, 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 \$181,346,000, a decrease of ten percent over last year's budget.

The proposed 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 retains a seven percent economic uncertainty reserve, as well as a second-tier reserve. The balance of these two reserves combined is \$20,635,000 or eleven percent of the General Fund budget. In addition, the proposed 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.

At the time of printing, the State of California has passed two measures that would take monies from the city during the current fiscal year. Proposition 1A is anticipated to result in the loss of approximately \$5.4 million in property taxes for FY 2009/10. This loss may 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. The State's take of Redevelopment Agency (RDA) funds would result in the loss of approximately \$5.4 million in FY 2009/10 and an additional \$1.1 million the year after. This loss may impact the General Fund as the RDA pays debt service of \$4 million annually. Additionally, the loss of funds would impact 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 take, the State has the ability to take the 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 plan to 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



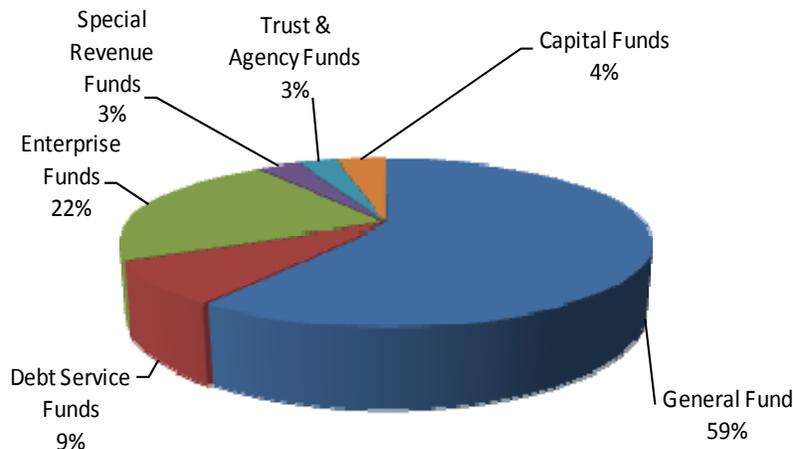
The City of Huntington Beach's proposed budget for fiscal year 2009/10 is a balanced budget, which addresses the challenges of the current economic climate, emphasizes fiscal responsibility, and focuses resources consistent with the City's Strategic Goals. These goals are to maintain and enhance our financial reserves; maintain, improve and obtain funding for public improvements; maintain and enhance 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 proposed 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 proposed budget for fiscal year 2009/10 is \$304,459,262, a decrease of ten percent over the current fiscal year's adopted budget. The most difficult reductions included in the proposed budget were felt

in the General Fund, which is proposed to decrease by nine percent over the current

fiscal year's adopted budget, to \$181,345,941. 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 proposed 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

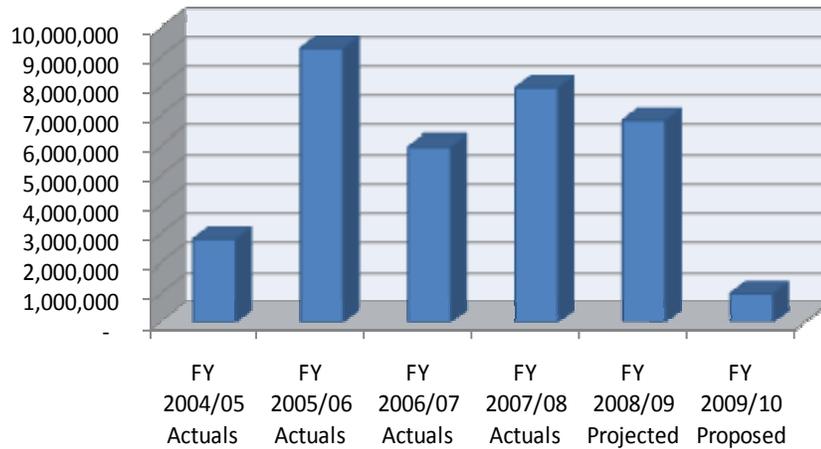
Total proposed General Fund expenditures total \$181,345,941, which are supported by \$181,345,941 in revenues. In order to balance expenditures with significantly lower revenue than the previous fiscal year, departments were required to make reductions to their operating budgets, including reductions 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	Proposed Budget FY 2009/10
City Council	\$270,698	\$289,580	\$294,790	\$316,827	\$296,338	\$307,910
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	3,696,183
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	4,650,003
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
Totals	\$164,562,720	\$173,419,685	\$184,449,366	\$199,151,684	\$187,083,076	\$181,345,941

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.

Historical Capital Expenditures



FY 2009/10 will see further reductions in the amount dedicated to capital, with only \$1 million included in the proposed 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 long-term 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 proposed 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. The expenditures in these funds allow for the operation of essential services and address the City's commitment to protecting public health and safety.

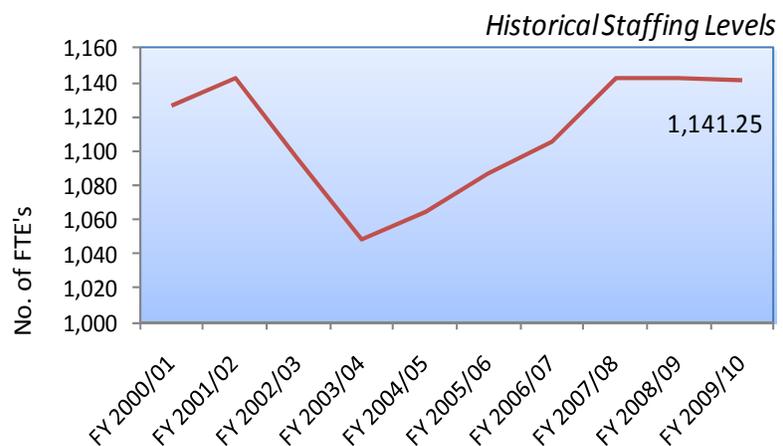
For the City's four largest Enterprise funds, expenditures for FY 2009/10 total \$66,657,574, representing a four percent increase from projected FY 2008/09 expenditures. This increase is expected despite the state of the economy as these funds provide funding for the purchase of equipment and extremely 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	Proposed 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
Totals	\$42,068,307	\$48,860,662	\$51,257,048	\$67,340,155	\$64,052,661	\$66,657,574

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.



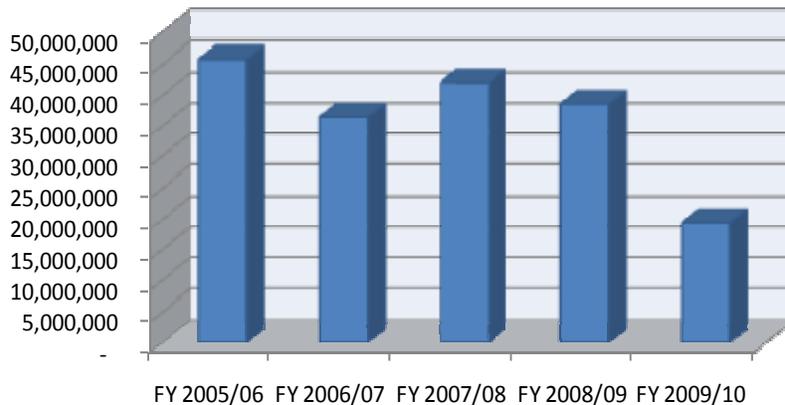
Staffing

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 proposed FY 2009/10 budget reflects this commitment and has made reductions in many areas while preserving existing staffing levels. The proposed budget includes 1,141.25 full-time equivalent (FTE) positions, with 1011.49 positions funded within the General Fund.

Capital Improvement Program

Historical Capital Improvement Program Budgets



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

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 \$26 billion deficit. The plan consisted of three main components that directly impact local governments: borrowing up to 8% 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 \$5.4 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.

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 and enhancing our financial reserves, the Finance Department is currently preparing an updated long-term financial plan. In doing so, a factor that could impact Huntington Beach in future fiscal years has been 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 proposed 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.