

CITY OF HUNTINGTON BEACH CALIFORNIA

POPULAR ANNUAL FINANCIAL REPORT

*For the Year Ended
September 30, 2017*



ABOUT HUNTINGTON BEACH CITY PROFILE

The City of Huntington Beach is located on the Orange County coast, 35 miles south of Los Angeles and 90 miles north of San Diego. With a population of 202,413 residents, it is known as Surf City due to its abundance of beaches; the sunny, warm Mediterranean climate; and its casual lifestyle. With over 10 miles of coastline to boast of, Huntington Beach plays host to over 13 million visitors annually. Listed among the nation's safest cities for decades, Huntington Beach has often been ranked among the "Top Ten Safest Cities by City Crime Rankings" by the Federal Bureau of Investigation. The City boasts an annual median household income of \$85,312, higher than the median household income for the United States, the State of California and Orange County. In addition, more than half of its residents, or 51 percent, have a college education, rendering it one of the top three cities to live within Orange County by the *Orange County Register* (September 2017) and one of the top ten "Happiest Cities in the U.S." by WalletHub (March 2018).

Founded in the late 1880s, Huntington Beach was incorporated as a Charter City in 1909. Huntington Beach has a Council/Manager form of government wherein seven City Council members are elected to four-year terms, and the Mayor is filled on a rotating basis from the incumbent Council Members. The City Attorney, City Clerk and City Treasurer positions are also elected and serve four-year terms.

ELECTED OFFICIALS

From left to right:

City Treasurer Alisa Cutchen

Mayor Mike Posey

City Clerk Robin Estanislau

Councilmember Billy O'Connell

Councilmember Jill Hardy

Mayor Pro Tem Erik Peterson

Councilmember Barbara Delgleize

City Attorney Michael Gates

Councilmember Patrick Brenden

Councilmember Lyn Semeta



Demographically, the City benefits from higher education levels, median incomes and home values as compared with the State. A thriving beach community, consistently ranked in the top 10 best beaches in California, Huntington Beach is also home to numerous national events such as the Vans U.S. Open of Surfing which attracts 300,000 visitors annually and the Surf City USA Marathon with over 20,000 runners. The annual AVP Beach Volleyball Tour also commands a strong presence totaling 12,000 visitors each year. In addition, the City is planning its first Surf City Escape Triathlon in April 2018, which will add to the repertoire of amazing sports events in the City.

In 2017, the City held the second annual Breitling Huntington Beach Air Show, the only beachfront air show on the West Coast, featuring the U.S. Blue Angels, Royal Canadian Air Force's Snowbirds and F-16 Fighting Falcons to an exhilarated crowd of over 450,000. Excitement is already building for the third annual Huntington Beach Air Show, which will bring back the exciting Air Force Thunderbirds to the dramatic lineup. The City also hosts a variety of other exciting events for families and visitors such as the annual Concours d'Elegance, Pacific Islander Festival, Civil War Days, and, of course, the City's most iconic event -- the Fourth of July Fireworks Show and Parade. A proud tradition for over a century, the City's Fourth of July Celebration has over 1 million television viewers and over 500,000 in-person attendees and is known nationally as "the largest Fourth of July Parade west of the Mississippi."

POPULAR ANNUAL FINANCIAL REPORT

This report provides an overview of the City's financial position, including sources of revenues and expenditures, as well as economic information about the community. The Popular Annual Financial Report (PAFR) of the City of Huntington Beach is published to increase public awareness about the City's financial condition. It is our goal that this report is easy to understand.

The PAFR summarizes the financial activities of the City of Huntington Beach's governmental and proprietary funds and draws its information from the 2017 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Davis Farr LLP, Certified Public Accountants. The City received an unmodified (or clean) opinion that the financial statements present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City. The amounts within the CAFR were arrived at by employing accrual and modified accrual basis accounting techniques as prescribed by the GASB (Governmental Accounting Standards Board).



Government-wide data on pages 11-13 is presented similar to a consolidated financial statement for a private business (accrual basis). Governmental funds financial information on pages 14-17 is presented under standard governmental accounting rules (modified accrual basis). Modified accrual accounting is a governmental accounting method based on revenues being recognized in the period when they become available and measurable (known).

This PAFR is unaudited and is presented on a non-GAAP basis. The differences between the GAAP basis presentation in the CAFR and the non-GAAP presentation in the PAFR are as follows: the use of prescribed accounting methods and financial statement formats; the presentation of segregated funds; and the disclosure of all material financial and non-financial matters in notes to the financial statements. Individuals who desire to review the audited GAAP-based, full disclosure financial statements should refer to the City's CAFR, which is available on the City's website at www.huntingtonbeachca.gov, or by contacting the Finance Department at 2000 Main Street, Huntington Beach, California, 92648, phone (714) 536-5630, or e-mail shari.saraye@surfcity-hb.org.

LOCAL ECONOMY

Huntington Beach is one of the leading commercial and industrial centers in Southern California. As the fourth largest city in Orange County, and the 24th largest in California, there are 107,100 people employed by public and private entities in Huntington Beach. With an unemployment rate of 2.8 percent, well below the national and state levels, the City’s labor force is well positioned to maintain the City’s strong tax base.

Huntington Beach has numerous demographic factors in its favor:

- Personal median incomes greater than State or County averages.
- A stable property tax base
- A diversified sales tax base
- A strong tourism & leisure industry
- Low unemployment rate.

These factors have helped the City achieve a AAA underlying credit rating from Fitch Ratings and balanced budgets.

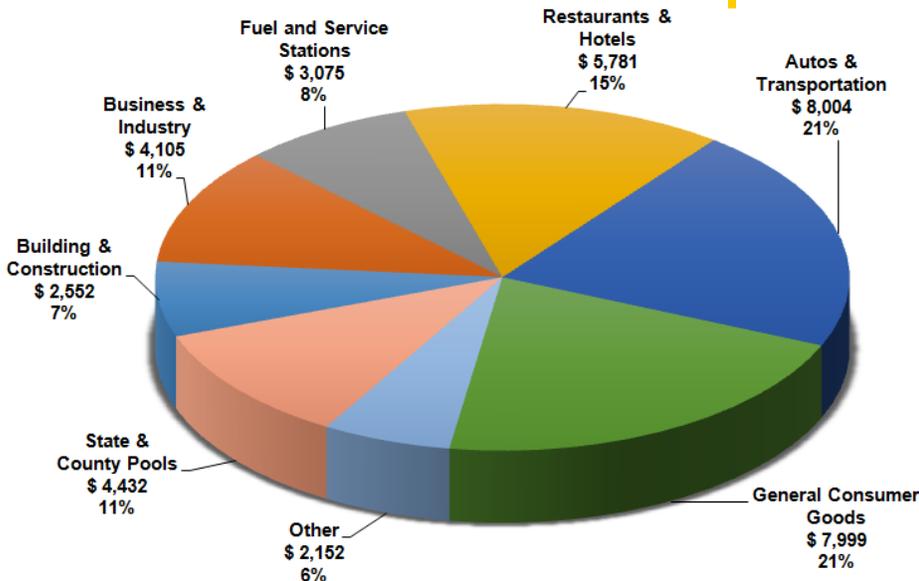
Those accomplishments have earned The City various accolades throughout the year:

- #1 in the nation for “Quality of City Services” (WalletHub, July 2017)
- #15 for “Best Run City in America” (Wallet Hub, July 2017),
- #4 out of 116 cities nationwide for “Best Financial Shape” (Fiscal Times, January 2017).



The Huntington Beach business community is diversified with no single industry or business dominating the local economy. Local businesses include higher education, automobile services, aerospace and high technology, petroleum, manufacturing, computer hardware and software, financial and business services, hotel and tourism, large-scale retailers and surf apparel, just to name a few. The top five principal employers of the City include Boeing, Cambro MFG Co., Zodiac Aerospace, C & D Aerospace and Hyatt Regency Huntington Beach.

The City’s sales tax base is highly diversified, as shown below, with no individual area of over-concentration thereby lessening the impact of industry-specific downturns.



CITY OF HUNTINGTON BEACH
Composition of Sales Tax Revenue
Fiscal Year 2016-2017
(in Thousands)

BUSINESS DEVELOPMENT

The Office of Business Development's (OBD) Economic Development Strategy contains a diverse range of core objectives and goals that support the City's vision to focus on the retention, attraction and expansion of the business community. OBD serves as business advocates for the expansion of not only retail, restaurant and hospitality offerings, but also manufacturing and research and development firms seeking to expand in, or relocate to Huntington Beach.

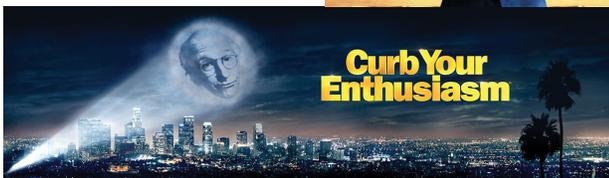


Waterfront Hilton Tower Expansion

The acclaimed Waterfront Hilton Hotel Resort expansion was completed in February 2018. The new Twin Dolphin Tower resort includes 152 suites, a state-of-the-art 20,000 square foot luxury spa, additional Conference Center space, and a Four-Diamond open-air rooftop lounge. In addition to the new tower, the existing Hilton tower underwent extensive renovations including an enhanced pool, a new spa laden with amenities, and restaurant improvements.

Film Permits

The City's pristine miles of coastline offering a variety of amazing scenic landscapes and consistently sunny climate have attracted numerous high-profile film projects to the City including: Curb Your Enthusiasm, Food Paradise, Lucifer, Man vs Food, Ballers, and the Steve Harvey Show. The City's reputation as a film-friendly city was affirmed in 2017 by the receipt of the Orange County Business Council's "Turning Red Tape into Red Carpet" award for its film app.



SpringHill Suites

A SpringHill Suites by Marriot has opened in Huntington Beach, across from the City's popular Bella Terra retail village. This hotel added 127 rooms to the City's lodging availability, 1,287 square feet of meeting space, and a 24/7 market.

SPRINGHILL
SUITES®
MARRIOTT

Transient Occupancy Tax

A 10 percent tax applied to hotel stays within the City totaled \$11.4 million, an impressive growth of 13.2 percent or \$1.3 million for FY 2016/17. Tourism continues to be an economic driver in Huntington Beach as its numerous events, stretch of pristine beach, and relaxed atmosphere attract over 13 million visitors each year to stay in its hotels.

MAJOR INITIATIVES

Energy Conservation

Huntington Beach is known throughout the region for its innovative and ground breaking energy conservation efforts. In 2017, the City acquired over 11,000 streetlights from Southern California Edison, and is in the process of retrofitting the aged high pressure sodium luminaries to LED luminaries saving taxpayers \$10 million dollars over the next 20 years due to reduced energy costs. The project is anticipated to be completed in late 2018.



Pension Rate Stabilization Plan (Section 115 Trust)

The City developed an innovative, three-pronged approach to significantly reduce its pension and Other Post Employment Benefit (OPEB) unfunded liabilities in 10 years. The plan was first included in the FY 2013/14 Adopted Budget and launched a multi-year effort to pay down the pension and retiree medical liabilities ahead of schedule saving taxpayers an estimated \$71.4 million over the next 15 to 25 years. The plan reached its first successful milestone with the elimination of the unfunded liability for the City's OPEB plan for miscellaneous employees. This unique plan received both the prestigious "Innovation Award" from the California Society of Municipal Financial Officers and the "Golden Hub of Innovation Award" from the Association of California Cities-Orange County in 2014 for its insightful approach to reducing unfunded liabilities.

The value of the City's unfunded pension liabilities currently totals \$438.4 million. In fiscal year 2016/17, an additional \$1 million was deposited into the Pension Rate Stabilization Plan, an IRS Section 115 Trust, to further pay down the City's liabilities. Under the new Plan, the City can expedite the prepayment of its liabilities outside of CalPERS providing additional flexibility and local control in terms of investment choices, funding levels and the timing of contributions.



MAJOR INITIATIVES

Budget Development and Monitoring

The City operates on a fiscal year basis. Beginning FY 2017/18, the City's fiscal year will end on June 30. Changing the City to a July to June fiscal year period will allow the City to "opt-in" to CalPERS' prepayment program for unfunded liabilities, saving the City approximately \$1 million in CalPERS cost savings each fiscal year.



Sunday Hours at the Central Library

Beginning November 2017, the City's Central Library reintroduced Sunday hours for its patrons. During the Great Recession, Sunday hours for the Central Library were eliminated due to revenue and personnel reductions. With the improved economy, the City was able to provide Sunday hours for the library's patrons without reducing existing hours on other days.

Central Park Improvements

The City's 356-acre Central Park is the largest city-owned park in Orange County, which includes the recently opened new Senior Center, Central Library, Shipley Nature Center, and three restaurants. Working with the City's newly-established Huntington Central Park Committee, the park is undergoing several improvements, including the rehabilitation of its pathways, removing declining trees and planting replacement trees, and constructing a permanent parking lot in the west side of the park.



KEY FINANCIAL INFORMATION

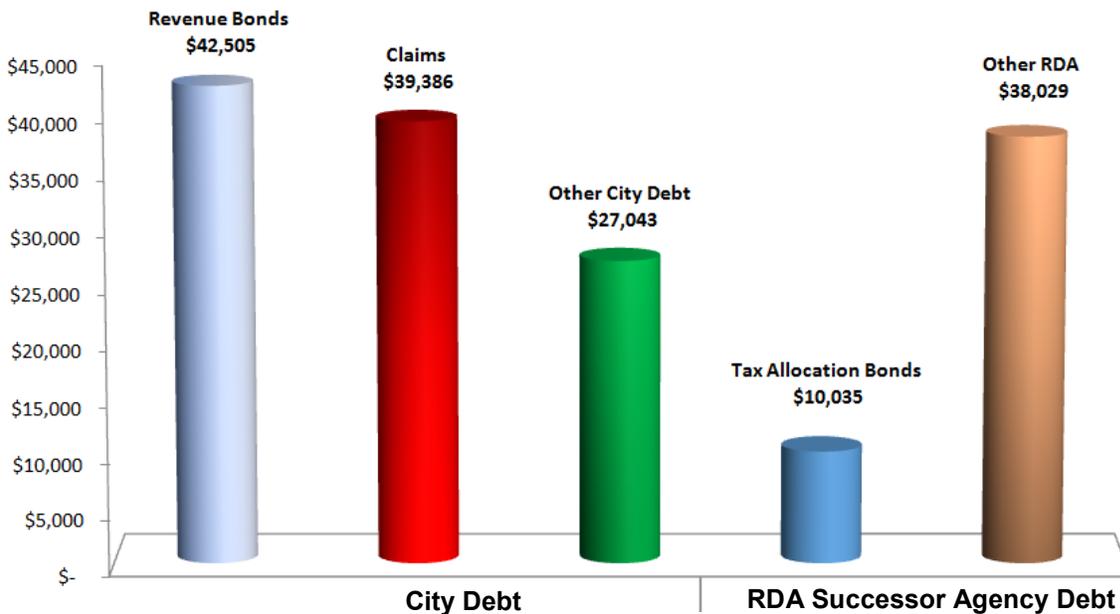
CITY DEBT

Debt Instrument	Moody's	S & P
1999 Tax Allocation Refunding Bonds	A2	AA-
2002 Tax Allocation Refunding Bonds	A2	AA-
2010 Lease Revenue Bonds, Series A	Aa2	AA
2011 Lease Revenue Bonds, Series A	Aa2	AA
2014 Lease Revenue Bonds, Series A	N/A	AA

The City of Huntington Beach is legally restricted to issuing general obligation bonds to 12 percent of its assessed valuation. The City has no general obligation bonds outstanding. The City continues to maintain strong credit ratings on all of its other debt issues. Most notably, on June 24, 2016, Fitch Ratings reaffirmed the City's AAA Implied General Obligation Bond rating. The chart on the right shows the latest ratings as determined by Moody's Investors Service and Standard & Poor's as of September 30, 2017.

TOTAL CITY DEBT AS OF SEPTEMBER 30, 2017 (In Thousands)

- **Revenue Bonds** – Long-term bond issues used to finance civic improvements. The bonds are repaid from revenues generated from the lease on the buildings that were improved.
- **Claims Payable**– Workers' Compensation and Liability Insurance claims made to the City.
- **Other City Debt** – Miscellaneous long-term debts that include loans, leases, pollution remediation liabilities, and compensated absences.
- **Tax Allocation Bonds** – Debt used for the former redevelopment agency's project improvements. This debt is repaid by property tax revenues.
- **Other Redevelopment Successor Agency Debt** – Primarily loans taken by the former Redevelopment Agency.





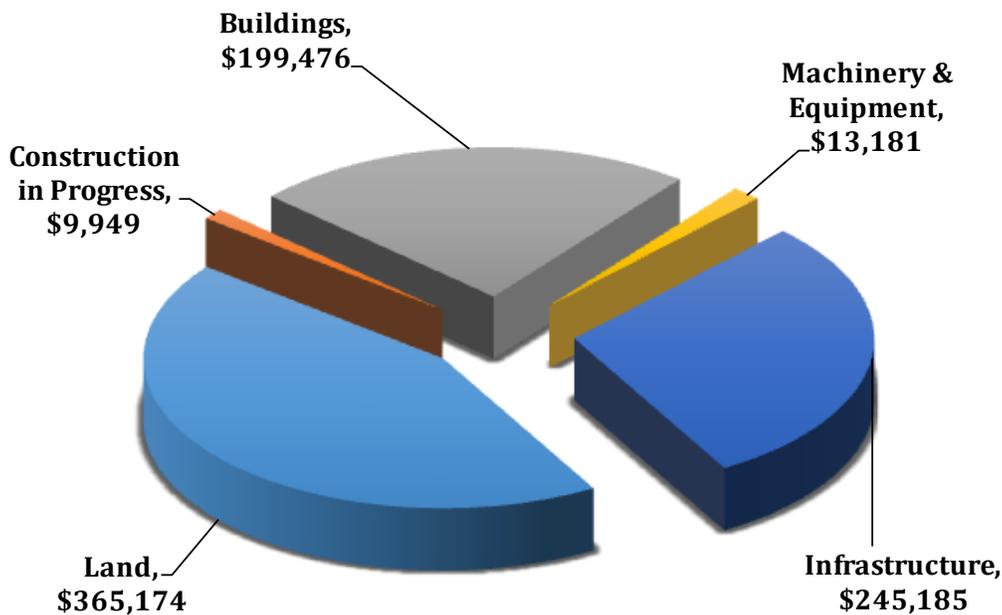
CITY OF HUNTINGTON BEACH CAPITAL ASSETS

AS OF SEPTEMBER 30, 2017

(In Thousands)

As of September 30, 2017, the City’s total capital assets balance is \$832,965,000. This total amount is comprised of Infrastructure, Land, Construction in Progress, Building, and Machinery and Equipment as displayed in the below chart. The amounts shown are net of depreciation.

Depreciation is the reduction in the value of an asset with the passage of time. In the financial statements for the entire government, or for the government’s business-like activities, the City records depreciation on the straight-line method (equal annual amounts) over the estimated useful life of the assets.



INVESTMENT PORTFOLIO

The City's cash and investment practices and policies as of September 30, 2017, are based upon State law and prudent investor rules. Totals also include investments for the Supplemental Pension Retirement Trust Fund. The primary goals of these investment practices and policies are:

- To protect principal and maintain liquidity to meet expected operating expenses;
- To ensure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer; and
- Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.



MARKET VALUE OF THE CITY'S CASH AND INVESTMENTS AS OF SEPTEMBER 30, 2017

(In Thousands)

INVESTMENTS:	Investment Maturities (In Years)					
	Fair Value	Less than 1	1 to 3	3 to 5	More than 5	Total
US Agency Securities*	\$ 148,255	\$ 19,978	\$ 64,104	\$ 64,173	\$ -	\$ 148,255
Medium Term Notes - IBRD	4,980	4,980	-	-	-	4,980
Mutual Funds	53,726	53,726	-	-	-	53,726
Money Market Funds	496	496	-	-	-	496
Corporate Bonds	36,678	15,487	16,053	5,138	-	36,678
Local Agency Investment Fund	14,312	14,312	-	-	-	14,312
California Asset Mgmt Program	2,774	2,774	-	-	-	2,774
Total Investments	\$ 261,221	\$ 111,753	\$ 80,157	\$ 69,311	\$ -	261,221
Total Deposits						26,951
Total Deposits and Investments						\$ 288,172

* Security is callable, but classified above according to original maturity date.

CITY FINANCIALS

STATEMENT OF NET POSITION

The following financial summary is based upon a condensed view of the City's assets and liabilities for all funds as of September 30, 2016 and 2017.

- Total **Current and Other Assets** decreased by 1 percent primarily due to \$6,000,000 in restricted cash received in FY 2015-16 from loans received from the California Infrastructure Economic Development Bank (I-Bank) and the California Energy Commission (CEC) used for the purchase of 11,000 streetlights from Southern California Edison and conversion from high pressure sodium luminaries to LED luminaries.
- **Capital Assets** increased by 1 percent primarily due to 633,300 feet of streets replacements during the fiscal year.
- **Deferred Outflows** and **Deferred Inflows** increased by 24 percent and by 123 percent, respectively. These changes are mostly due to changes in the net differences between the projected and actual earnings and changes in assumptions for the City's single-employer plan (Supplemental) and multiple-employer defined-benefit pension plans (CalPERS plans).
- Total **Current and Other Liabilities** increased by 17 percent due to increased activity in transportation projects as well as the normal fluctuations in the accounts payable and payroll cycle.
- Total **Long-Term Liabilities** increased by 6 percent due to the increase in the Net Pension Liability primarily as a result of a decrease in the accounting discount rate assumption used to calculate the liability.
- Total **Restricted Net Position** decreased by 2 percent primarily due to a decrease in restricted water master plan funds available for capital projects.
- Total **Unrestricted Net Position** increased by 20 percent largely due to an increase in the City's Net Pension Liability as a result of the change in the discount rate used to calculate the Net Pension Liability.

CITY OF HUNTINGTON BEACH STATEMENT OF NET POSITION AS OF SEPTEMBER 30, 2017 AND 2016 (In Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2017	2016	Variance	2017	2016	Variance	2017	2016	Variance
Assets									
Current and Other Assets	\$ 206,835	\$ 209,181	-1%	\$ 87,021	\$ 86,382	1%	\$ 293,856	\$ 295,563	-1%
Capital Assets	692,487	681,661	2%	140,478	142,566	-1%	832,965	824,227	1%
Total Assets	899,322	890,842	1%	227,499	228,948	-1%	1,126,821	1,119,790	1%
Deferred Outflows of Resources	66,255	52,692	26%	4,354	4,087	7%	70,609	56,779	24%
Liabilities									
Current and Other Liabilities	15,561	12,346	26%	8,523	8,223	4%	24,084	20,569	17%
Long-Term Obligations	507,923	480,780	6%	29,293	27,818	5%	537,216	508,598	6%
Total Liabilities	523,484	493,126	6%	37,816	36,041	5%	561,300	529,167	6%
Deferred Inflows of Resources	16,743	7,536	122%	887	382	132%	17,630	7,918	123%
Net Position									
Net Investment in Capital Assets	646,336	624,180	4%	140,478	142,566	-1%	786,814	766,746	3%
Restricted	41,888	41,555	1%	30,444	32,049	-5%	72,332	73,604	-2%
Unrestricted	(262,874)	(222,863)	18%	22,228	21,997	1%	(240,646)	(200,866)	20%
Total Net Position	\$ 425,350	\$ 442,872	-4%	\$ 193,150	\$ 196,612	-2%	\$ 618,500	\$ 639,484	-3%

See page 18 for an explanation of accounting terms.

STATEMENT OF ACTIVITIES

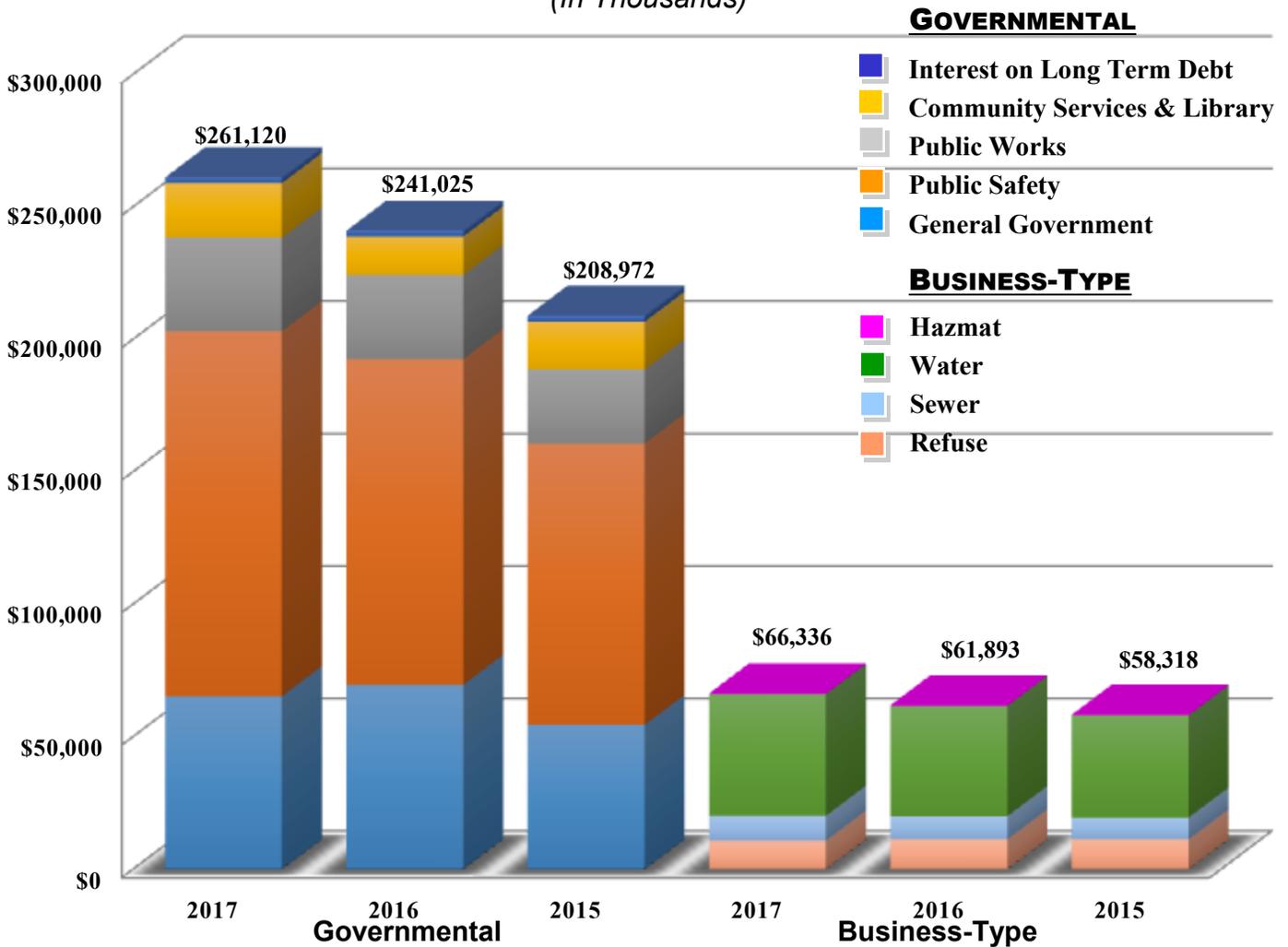
The following graphs show Revenues and Expenses for Governmental and Business-type activities as they relate to the program category in which the funds were collected or expended. Governmental activities include the General Fund, Debt Service Fund, Capital Projects Fund, and Special Revenue Funds. Business-type activities include the Water Fund, Sewer Fund, Refuse Fund, and Hazmat Fund.

CITY OF HUNTINGTON BEACH EXPENSES

GOVERNMENTAL & BUSINESS-TYPE ACTIVITIES

FOR THE YEARS ENDING SEPTEMBER 30, 2017, 2016, AND 2015

(In Thousands)



Governmental expenses increased from \$241,025,000 in the fiscal year ending September 30, 2016, to \$261,120,000 in the fiscal year ending September 30, 2017, primarily due to an increase in the net pension liability as a result of changes to the assumptions used to determine the City's CalPERS' net pension liability. Business-Type expenses increased from \$61,893,000 in the fiscal year ending September 30, 2016, to \$66,336,000 in the fiscal year ending September 30, 2017, primarily due to an increase in water meter and sewage maintenance, supplies and operations expenses.

STATEMENT OF ACTIVITIES

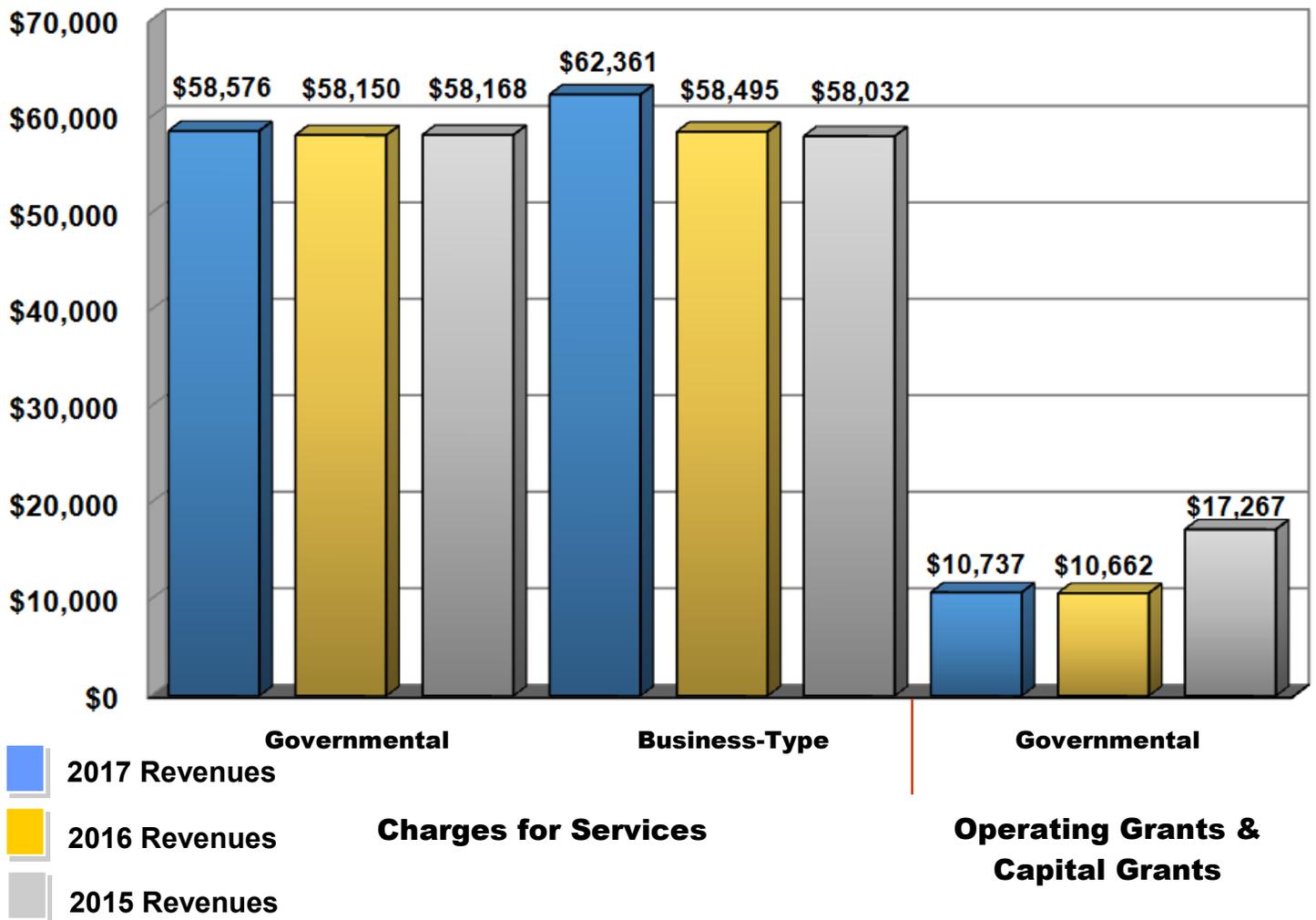
CITY OF HUNTINGTON BEACH PROGRAM REVENUES

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

FOR THE YEARS ENDING SEPTEMBER 30, 2017, 2016 AND 2015

(In Thousands)

Definition of Program Revenues: Revenues that derive directly from the program itself, such as user fees and charges, which reduce the cost of the function to be financed from the government’s general revenues.



Governmental charges did not change significantly when compared to previous year. Business-type charges for services increased from \$58,495,000 in the fiscal year ending September 30, 2016 to \$62,361,000 in the fiscal year ending September 30, 2017 for business-type activities due to water conservation requirements lifted in May 2017 in response to the cessation of the California drought. Operating and capital grants for governmental activities did not change significantly when compared to the previous year.

GOVERNMENTAL FUNDS

The City maintains 26 individual governmental funds. Governmental funds are used to account for tax-supported activities such as: public safety, public works, general government, and community-related services. The major governmental funds are the General Fund, Grants Special Revenue Fund, and the Low-Moderate Income Housing Asset Fund (LMIHAF) Capital Projects Fund.

The **General Fund** accounts for activity not required to be accounted for in another fund.

Special Revenue Funds are used to account for and report the proceeds of specific revenue sources.

Debt Service Funds are used to account for the receipts for and payment of general long-term debt.

Capital Projects Funds are used to account for and report financial resources for capital outlays.

REVENUE/RESOURCES (WHERE THE MONEY COMES FROM)

The City received \$239,332,000 from various funding sources for the fiscal year ending September 30, 2017.

CITY OF HUNTINGTON BEACH STATEMENT OF REVENUES GOVERNMENTAL FUNDS FOR THE YEARS ENDING SEPTEMBER 30, 2017 AND 2016 (In Thousands)

REVENUE BY SOURCE	2017	2016
Property Taxes	\$ 80,826	\$ 86,382
Sales Taxes	43,551	39,305
Utility Taxes	19,303	19,482
Other Taxes	17,991	17,313
Licenses and Permits	8,812	9,820
Fines and Forfeitures	3,995	5,144
Use of Money and Property	17,210	18,055
Other Agencies	15,293	13,712
Charges for Services	29,682	29,811
Other	2,669	2,695
Total	\$ 239,332	\$ 241,719

A **Utility tax** of 5 percent is imposed on consumers of electricity, gas, water, and cable television services and 4.9 percent for telephone services within the City. Utility taxes are the third largest revenue generator for the City.

The “**other taxes**” category is comprised of the following:

- **Franchise fees** – negotiated fee revenue received from local utilities.
- **Transient occupancy tax** – imposed on lodging facilities such as hotels and motels. The City’s tax rate is set at 10 percent.

Licenses and permits represent revenues generated from a variety of activities, such as business licenses and building-related permits.

Revenue from **finances and forfeitures** are generated from various sources, such as court and traffic fines, parking violations, and library fines.

Revenue from the **use of money and property** includes interest on City investments, leases, parking fees, and concessions.

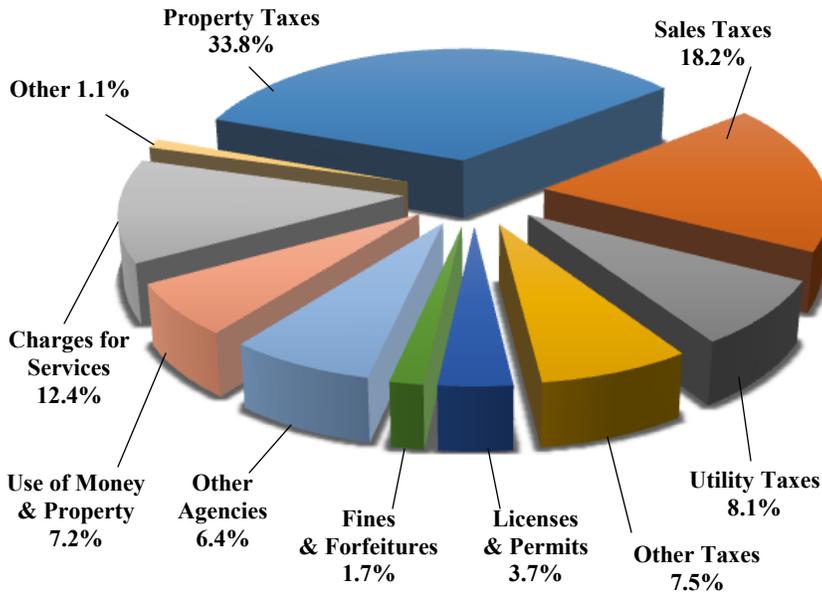
Revenue from **other agencies** is primarily reimbursements from Federal, State, and County sources.

Charges for services are revenues collected for services rendered to the public such as recreational classes.

The largest source of operating revenues for the City is **Property taxes**. Property taxes are levies collected from property within the City based on assessed value and tax rate.

Sales taxes are imposed on retail transactions and are collected and administered by the State. Huntington Beach receives 1.0% of the total taxable sales generated within the City.

GOVERNMENTAL FUNDS



Governmental Fund Revenues decreased by \$2.4 million or 1.0% from the prior fiscal year. The following details the significant changes from the prior fiscal year:

- Property Taxes decreased primarily due to the unwinding of the Triple Flip and a one-time increase in property tax revenue for the city’s share of redevelopment property sales received in Fiscal Year 15-16.
- Sales taxes increased by \$4.2 million or 10.8% primarily due to the State’s unwinding of the Triple Flip Reimbursement and restoration of sales tax revenue from .75% to 1%, effective January 1, 2017.
- Revenues from other agencies increased by \$1.6 million or 11.5% primarily due to increases in Transient Occupancy Taxes from tourism.
- Licenses and Permits decreased \$1 million or 10.3% due to a slowdown in new development in the city from the prior year.

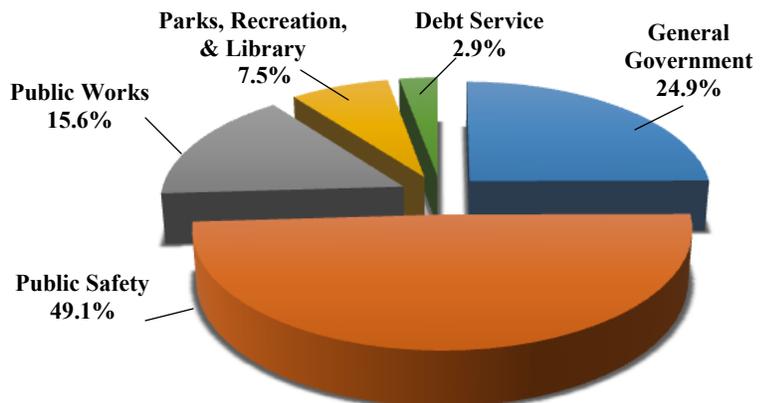
EXPENDITURES/SERVICES (WHERE THE MONEY GOES)

The City incurs expenditures to meet the diverse needs of the community. As a full service city, Huntington Beach provides fire and police services, as well as recreational and cultural opportunities. For the period October 1, 2016, to September 30, 2017, the total expenditures incurred by the City were \$247,976,000 (excluding transfers and other financing sources).

CITY OF HUNTINGTON BEACH STATEMENT OF EXPENDITURES GOVERNMENTAL FUNDS FOR THE YEARS ENDING SEPTEMBER 30, 2017 AND 2016

(In Thousands)

EXPENDITURES	2017	2016
General Government	\$ 61,792	\$ 57,852
Public Safety	121,846	118,812
Public Works	38,635	23,659
Parks, Recreation, & Library	18,546	15,015
Capital Outlay**	-	27,269
Debt Service	7,157	8,071
Total	\$ 247,976	\$ 250,678



**Beginning with the fiscal year ended September 30, 2017, capital outlay expenditures are no longer presented separately but are included as part of functional expenditures.

GOVERNMENTAL FUNDS

General Government expenditures are those incurred by the administrative function, including the City Council, City Manager, City Attorneys, City Clerk, City Treasurer, Finance, Human Resources, Business Development, Community Development, and Information Services.

Public Safety expenditures reflect the costs associated with providing police, fire, and marine safety services to residents, businesses, and visitors.

Expenditures for **Public Works** are those related to the design, construction, maintenance, and operation of public facilities and infrastructure within the City.

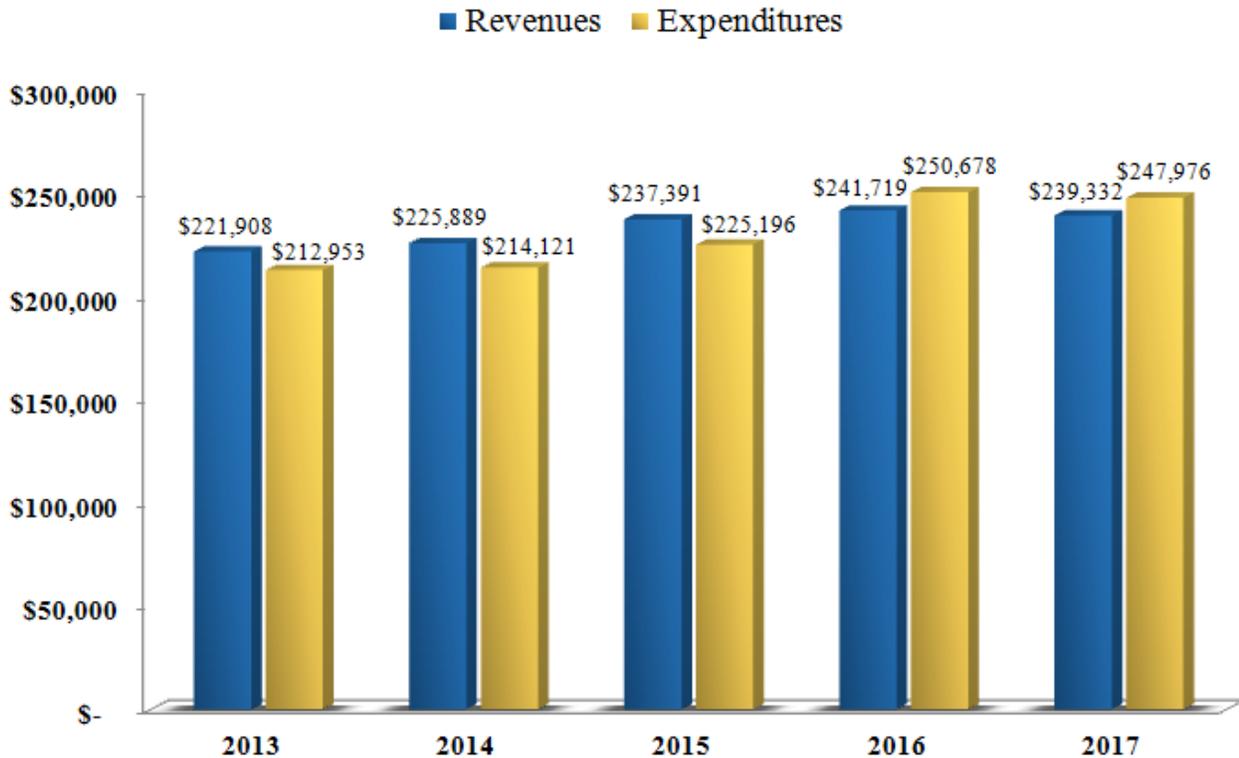
Parks, recreation, and library expenditures are those incurred by the City to enrich the quality of life in Huntington Beach through recreational and cultural activities, as well as to support the educational and informational needs of residents and visitors.

Debt service expenditures are used to retire the City’s debt.

Governmental Fund Expenditures decreased by \$2.7 million or 1.1% from the prior fiscal year. The following details the significant changes from the prior fiscal year.

- There was a reduction in capital costs due to the completion of a major one-time project cost— the Huntington Beach Senior Center in FY15-16.
- The reduction was partially offset by an increase in General government expenditures due to rising pension costs and general claims liabilities.
- Public safety expenditures increased as well primarily due to an increase in labor costs and public safety staffing.

GOVERNMENTAL FUNDS REVENUES AND EXPENDITURES - FIVE YEAR TREND (in Thousands)



BUSINESS-TYPE FUNDS

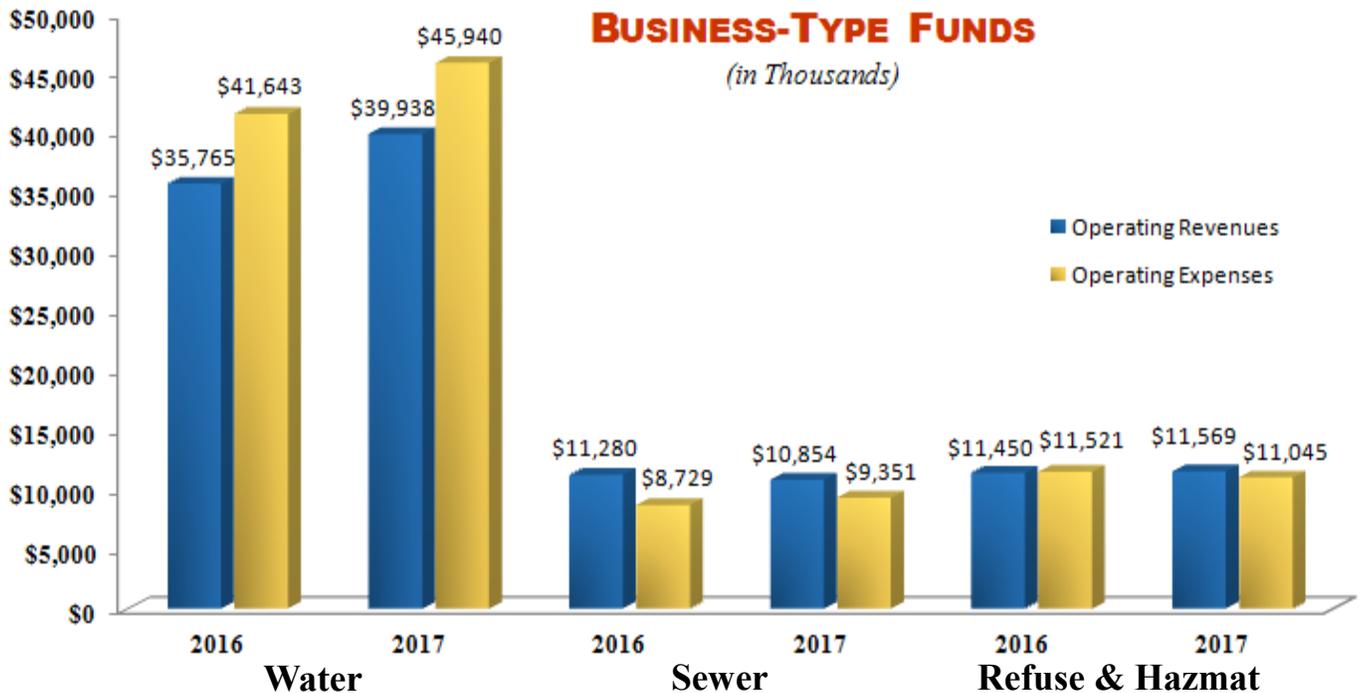
Business-type funds are used to report any activity for which a fee is charged to users for goods or services, similar to private business. Over time, these funds generate enough revenue to cover the costs of their operating expenses. The City maintained four business-type funds as of September 30, 2017.

The **Water Fund** accounts for water sales to customers and costs incurred to maintain its infrastructure.

The **Refuse Fund** accounts for the activities of the City's refuse collection program.

The **Sewer Service Fund** accounts for user fees charged to residents and businesses for sewer services.

The **Hazmat Service Fund** accounts for user fees charged for the City's hazardous materials program.

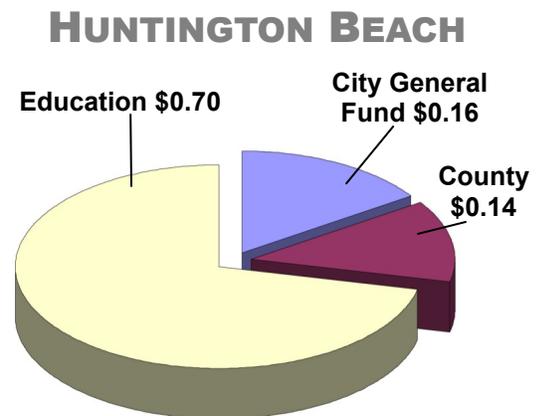


WHERE DO THE TAXES GO?

PROPERTY TAXES The largest source of revenue for the City of Huntington Beach is property taxes. Personal property in California is subject to a basic levy equal to one percent of assessed value. The California Constitution, after passage of Proposition 13 in 1978, fixed valuations of real property at 1975 levels, with a maximum adjustment of two percent per year based on inflation. When a change of ownership or new construction occurs, the property is reassessed to its current value.

The basic levy is allocated to county governments, school districts, cities, and special districts. Additional levies require two-thirds approval by voters and are allocated directly to the specific government.

The chart to the right shows how each dollar paid in property tax in the City of Huntington Beach is distributed to local school districts, County operations, and the City's General Fund.



EXPLANATION OF ACCOUNTING TERMS

Current and Other Assets – Assets that one can reasonably expect to convert to cash, sell, or consume within one year.

Capital Assets – The City's long-term investments in land, buildings, equipment, improvements, infrastructure, and construction in progress. The City uses these capital assets to provide services to citizens; consequently, these assets are not available for future spending.

Current and Other Liabilities – These are primarily debts that can be paid off in one year or less. This includes accounts payable, accrued payroll and accrued interest payable.

Long-Term Obligations – Represents mainly debt obligations of the City. The proceeds from these various debt issues are used to finance large projects such as building construction and renovations, major equipment purchases, and roadway construction.



Net Investment in Capital Assets – This represents the City's investment in its capital assets less accumulated depreciation and any outstanding debt attributable to the acquisition, construction, or improvement of these assets. It should be noted that the resources needed to repay this debt must be provided by other sources, since the capital assets themselves cannot be used to liquidate these liabilities.

Deferred Outflows of Resources – Represents a consumption of net position that applies to future periods.

Deferred Inflows of Resources – Represents an acquisition of net position that applies to future periods.

Net Position - This represents the difference between the City's total assets and total liabilities

Restricted Net Position – Resources whose use is subject to externally imposed restrictions. The City has resources set aside for debt service, public works projects, and community services programs as established by the City Council.

Unrestricted Net Position – These are resources that are accessible to the City to provide services to the residents of Huntington Beach if there were no additional revenues or resources available.

AWARD

The Government Finance Officers Association of the United States and Canada (GFOA) has given an Award for Outstanding Achievement in Popular Annual Financial Reporting to the City of Huntington Beach for its Popular Annual Financial Report for the fiscal year ended September 30, 2016. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious national award recognizing conformance with the highest standards for preparation of state and local government popular reports.

In order to receive an Award for Outstanding Achievement in Popular Annual Financial Reporting, a government unit must publish a Popular Annual Financial Report, whose contents conform to program standards of creativity, presentation, understandability, and reader appeal.

An Award for Outstanding Achievement in Popular Annual Financial Reporting is valid for a period of one year only. The City of Huntington Beach has received a Popular Award for the last eleven consecutive years (fiscal years ended 2006-2016). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements.



Government Finance Officers Association

Award for Outstanding Achievement in Popular Annual Financial Reporting

Presented to

**City of Huntington Beach
California**

For its Annual
Financial Report
for the Fiscal Year Ended

September 30, 2016

Christopher P. Morill

Executive Director/CEO

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

I would like to take this opportunity on behalf of the City of Huntington Beach to thank the citizens of this City for your commitment and dedication. Your contributions to this city inspire us to serve you to the best of our abilities.

I would also like to thank the City Council, City Manager, and City Departments for their leadership and support. Day after day, I personally witness the excellence and hard work displayed by each member of the City's team. The City of Huntington Beach has earned the reputation of being among the nation's best run cities. I am confident that Huntington Beach will continue to be the greatest city in which to work, live and play.

**Gilbert Garcia
Chief Financial Officer**

HUNTINGTON BEACH LEADING INDICATORS



City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
(714) 536-5630
www.huntingtonbeachca.gov



Property Tax Rate	1.08817% (varies by tax rate area)
Unemployment Rate	2.80%
Fitch Bond Rating	AAA
S&P Bond Rating	AA and AA-
Moody's Bond Rating	Aa2 and A2
Property Tax Revenue	\$80,826,000
Total City Debt	\$108,934,000
City Net Position	\$618,500,000

Huntington Beach by the Numbers

