

# CITY OF HUNTINGTON BEACH

## Strategic Planning Session Budget Update



January 31, 2014



# Summary

- FY 2012/13 Year-End Performance  
(Preliminary Unaudited)
- Governor Brown's FY 2014/15 Budget
- FY 2013/14 General Fund Overview

# **FY 12/13 Year-End Performance**

## **(Preliminary Unaudited)**



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# FY 2012/13 GF Expenditures (Preliminary Unaudited)

Description	In Millions
Citywide Departmental Expenditures	\$ 189.1
DOF Payment (GF Share)	4.7
PARS Liability Payoff	3.1
<b>Estimated General Fund Actual Expenditures:</b>	<b>\$ 196.9</b>



# FY 2012/13 GF Revenue

## (Preliminary Unaudited)

Description	In Millions
General Fund Recurring Revenue	\$ 194.8
One-Time Property Tax Increase (DOF Payment)	1.7
One-Time Reimbursement for W/C Claim	0.6
One-Time Development and Other Fees	1.6
<b>Estimated General Fund Revenue:</b>	<b>\$ 198.7</b>
<b>Estimated GF Year-End Fund Balance (Unaudited)*:</b>	<b>\$ 1.8</b>

\*This amount is only an estimate and is still subject to change based on final potential adjustments by the City's independent auditors.



# FY 2012/13 GF Year-End Fund Balance Potential Uses

## Option One:

- Use Unassigned Fund Balance to fund Economic Uncertainties Reserve
  - Policy: Two months of Expenditures = \$33.0 million
  - Current Economic Uncertainties Reserve = \$24.0 million
  - Shortfall = \$9.0 million

## Option Two:

- Assign the Available Fund Balance to:
  - Senior Center Project;
  - Unfunded Liabilities; and/or,
  - Other (e.g., Workers' Compensation)

# Senior Center Financing

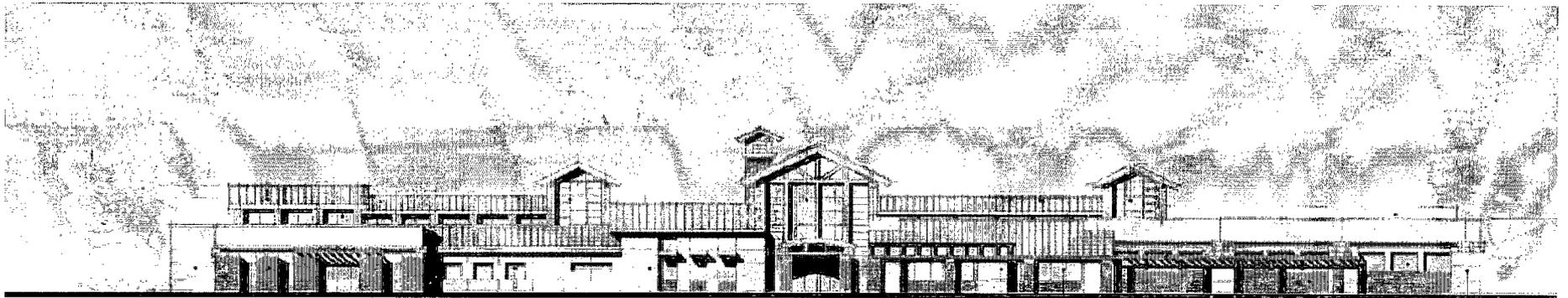


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# Senior Center Financing Options

- ❑ Construction costs are estimated at approximately \$21.5 million as of December 2013
- ❑ FY 2013/14 Adopted Budget included an appropriation of \$1.5 million in the Infrastructure Fund for start-up funding
- ❑ Additional funding sources need to be identified to address the remaining funding gap of \$20.0 million



Concept Rendering of East Elevation view looking  
from Goldenwest Street



# Potential Bond Issuance

- ❑ A General Fund bond issue is a viable option
  - For a \$15 million bond, annual payments would equal \$1.2 million
  - However, \$5.0 million would still need to be identified
- ❑ To address the remaining \$5.0 million funding gap, the following funding sources may be an option:
  - Capital Improvement Reserve (\$5.9 million unencumbered balance)
  - Park Acquisition and Development Fund
  - Senior Center Capital Campaign Initiative and/or Private Donations
  - **FY 2012/13 General Fund Year-End Balance**

# CalPERS & Unfunded Liabilities Update



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# Unfunded Liabilities

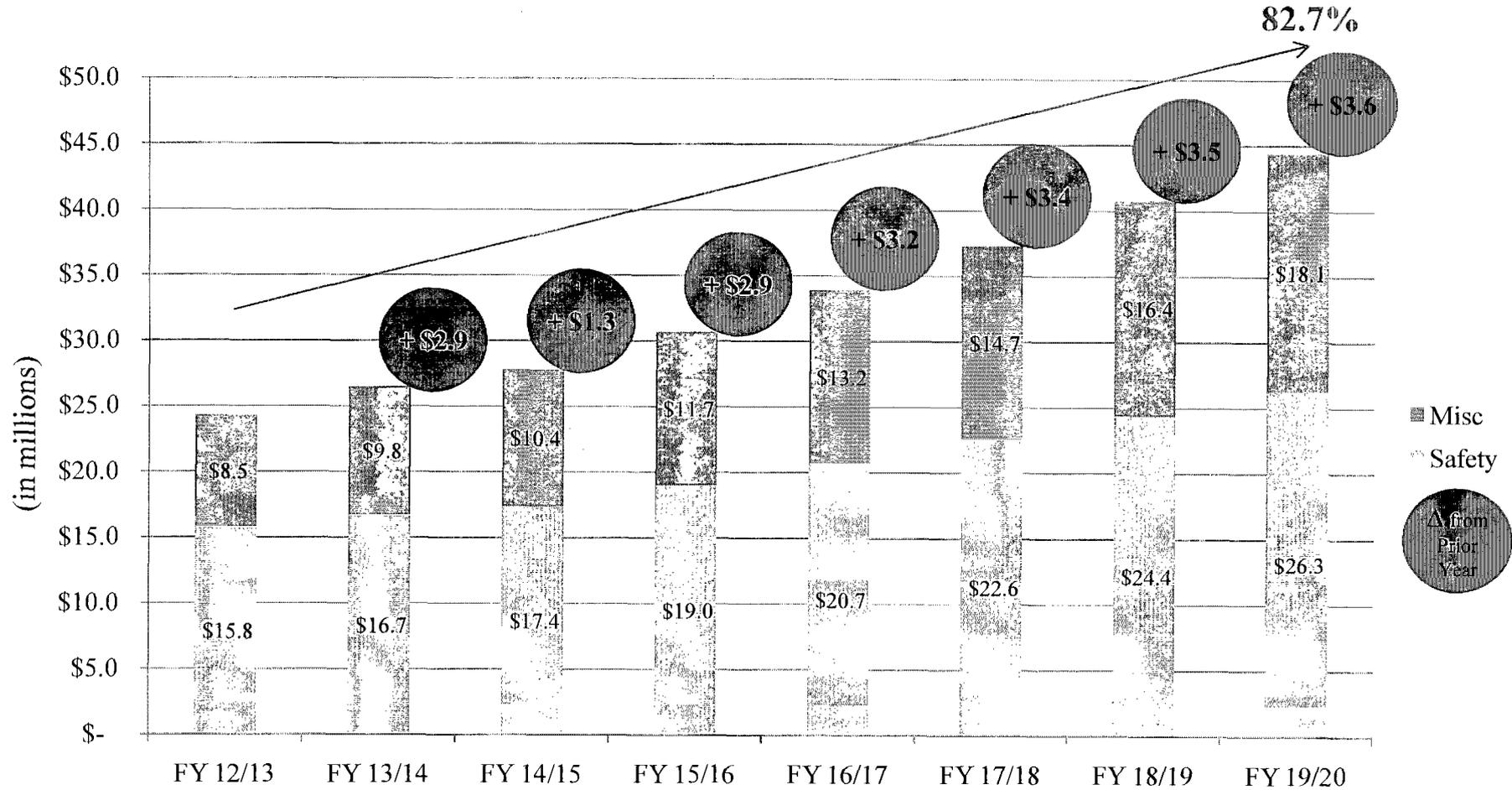
## \$392.4 Million

- ☐ **CalPERS** **\$345.0 Million**
  - Costs will increase from \$25.6 million in FY 13/14 to \$44.4 million in FY 19/20
  - Reflects shift from a 30-year rolling amortization to a 30-year fixed amortization period
  - Reflects a 5-year smoothing methodology versus the original 15-year smoothing
  - Reflects pension cost increases due to longer life spans and earlier retirement ages (Mortality)
  
- ☐ **Retiree Medical Plan** **\$10.7 Million**
  - New “25 to 10 Plan” to eliminate unfunded liability in 10 years
  - 47.5 % Funded Status
  - Open to new employees (Goal is to close Plan)
  
- ☐ **Supplemental Retirement Plan** **\$36.7 Million**
  - New “16 to 10 Plan” to eliminate unfunded liability in 10 years
  - 42.9 % Funded Status
  - Closed Plan



# 7-Year CalPERS – All Funds

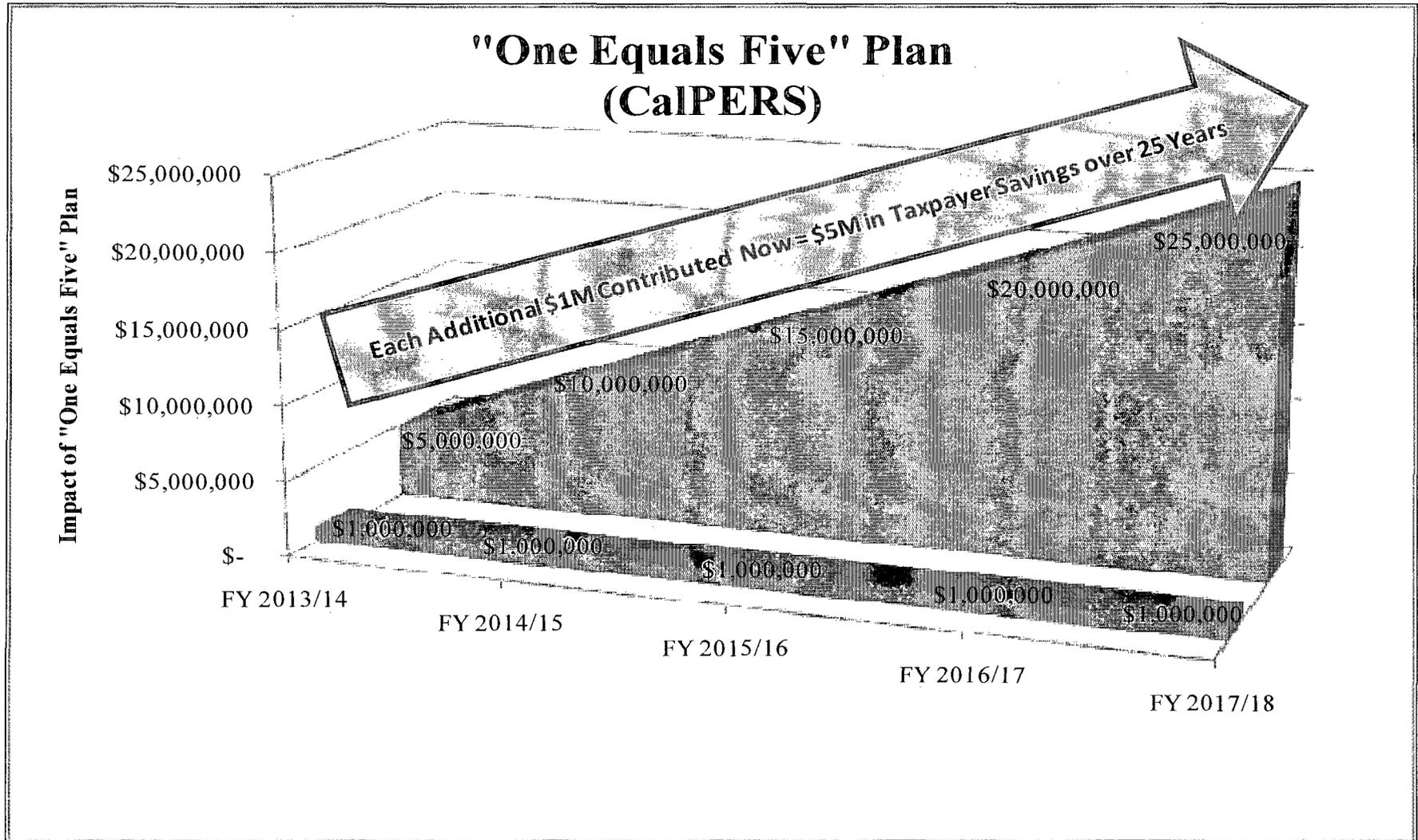
## Estimated Employer Contribution Increases



Summary considers 30-Year Rolling to Fixed Amortization, Direct Rate Smoothing and Mortality Study. Based on actuarial information from CalPERS and Bartel Associates.



# "One Equals Five" Plan CalPERS



# Workers' Compensation Highlights



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# Workers' Compensation Background

## □ What is Workers' Compensation?

California Workers' Compensation (W/C) law provides benefits to employees for work-related illness or injury. Benefits may include payment for medical treatment, Salary Continuation or Total Temporary Disability (TTD) benefits, and permanent disability. The City is self-insured for our workers' compensation program. All costs are paid for by the City as the Employer.

## □ City's Workers' Compensation Costs Trend

- FY 2004/05 – Total Workers' Compensation costs: \$4.5 million
- FY 2012/13 – Total Workers Compensation costs: \$5.6 million (preliminary unaudited) – a 24% increase from FY 2004/05

## □ Why the Increase?

- Increased costs for medical care is the primary driver of increased Workers' Compensation costs
- Aging workforce
- Presumptive injury and illness claims for safety officers
- The TTD maximum has increased from \$840.00 in 2005 to \$1,074.64 in 2014



# Workers' Compensation Charges by Department

Department	FY 04/05	FY 06/07	FY 08/09	FY 10/11	FY 12/13
Police	\$ 2,024,468	\$ 2,155,452	\$ 2,494,377	\$ 2,369,067	\$ 2,426,703
Fire	1,339,190	1,425,087	1,487,480	1,251,830	1,321,408
Public Works	761,867	818,564	990,593	967,706	1,077,881
Community Services	275,307	269,664	345,341	329,926	350,231
All Other	143,498	141,281	286,257	428,583	438,249
<b>Total</b>	<b>\$ 4,544,330</b>	<b>\$ 4,810,048</b>	<b>\$ 5,604,048</b>	<b>\$ 5,347,112</b>	<b>\$ 5,614,472</b>
<b>% Increase from FY 04/05</b>					<b>24%</b>



# Claims Activity and Liabilities

(in thousands)



	Workers' Compensation Total Liabilities
<b>Balance September 30, 2010</b>	<b>\$ 8,785</b>
Additions	2,979
Reductions	(4,749)
Net Increase (Decrease)	(1,770)
<b>Balance September 30, 2011</b>	<b>7,015</b>
Additions	9,262
Reductions	(5,393)
Net Increase (Decrease)	3,869
<b>Balance September 30, 2012</b>	<b>\$ 10,884</b>
Annual Workers' Compensation Budget	(4,900)
<b>Unfunded Claims (Due in Over One Year)</b>	<b>\$ 5,984</b>



# Workers' Compensation Recommendations

- ❑ Create an Internal Services Fund for proper tracking, planning and transparency
- ❑ Increase W/C charges to Departments to reflect FY 12/13 actuals (Department rates have not been updated since 2007)
- ❑ Develop a plan to fund the long-term claims that are payable - \$6.0 million
  - For example, \$1.0 million over six years to close \$6.0 million gap



# FY 2012/13 GF Fund Balance Recommendations

- Transfer \$1.0 million to Infrastructure Fund for the Senior Center Project
- Deposit \$800,000 into the Workers' Compensation Internal Services Fund to begin a Six Year Plan to properly fund all claims payable
- Re-examine existing Fund Balance designations to better address CalPERS liabilities and other unfunded needs



# General Fund Balance

(in thousands)

Fund Balance Category	FY 10/11 Actual	FY 11/12 Actual	FY 12/13 Estimated
Economic Uncertainties	\$ 23,185	\$ 24,011	\$ 24,011
Litigation Reserve	900	900	900
Budget Stabilization	-	3,100	1,667
PARS Obligation**	4,649	4,701	-
Equipment Replacement	6,913	6,913	7,913
Retiree Medical Unfunded	-	698	698
General Plan Maintenance	-	323	720
Capital Projects	4,270	5,970	6,746
Senior Center	-	-	2,000
CalPERS One Equals Five Plan	-	-	1,000
Other Fund Balance*	14,639	7,819	8,741
<b>Total Fund Balance</b>	<b>\$ 54,556</b>	<b>\$ 54,435</b>	<b>\$ 54,396</b>

\* Includes Pre-paid Insurance, Encumbrances, Non-Spendable and other Restricted Items.

\*\* The PARS Obligation expense was paid from a combination of one-time revenue and vacancy savings in FY 2012/13.

# Challenges and Opportunities



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# **Governor Brown's FY 2014/15 Proposed Budget \$106.8 Billion**

- **Maintain Long-Term Fiscal Stability**
  - \$1.6 billion to Rainy Day Fund
  - \$967 million to special fund for Economic Uncertainties
  - \$11 billion to payoff debt
- **Invest in Education**
  - \$10 billion for K-12 and \$142.2 million each for UC and Cal State systems
- **Address Climate Change and Water Sustainability**
  - \$850 million to reduce greenhouse gases and \$619 million to expand water storage capacity
- **Strengthen the State's Infrastructure**
  - \$815 million for deferred maintenance projects
- **Implement Federal Health Care Reform**
  - \$670 million for Medi-Cal benefits
- **Workers' Compensation**
  - \$81.1 million increase in Workers' Compensation costs



# FY 2013/14 General Fund Overview

Description	Estimated Amount (in millions)
FY 2012/13 Actual Recurring Revenue*	\$ 194.8
FY 2013/14 Adopted Budget Revenue	\$193.5

*\*Preliminary Unaudited*



# Challenges on the Horizon

Description	Estimated Amount (in millions)
Departmental Staffing Shortages*	5.4 - 8.0
800 MHz Project	10.0
Economic Uncertainties Reserve Shortfall	9.0
Senior Center	2.0
Unfunded Worker's Compensation Claims	6.0
Emerald Cove Bond Litigation	3.6
Lebard Park Funding Gap	2.5
Fire Ladder Truck	1.4
Potential Loss of Sales Tax Revenue	0.7

\* These costs represent salary costs only and are not fully burdened.



# Departmental Staffing Shortages

Department	FY 2008/09 Positions	FY 2013/14 Positions	Positions/Cost Over the next 2 Years*	Positions/Cost Over the next 5 Years**	Positions/Cost Long Term (Ultimate)*
City Attorney	18	11	2 FT <b>\$162,800</b>	No additional	No additional
City Clerk	8	4	1 FT <b>\$79,800</b>	1 FT <b>\$62,500</b>	No additional
City Manager's Office/EDA	9 14.5	7 4.5	No additional	No additional	No additional
Community Services	69.75+	42	3 FT & 2 PT <b>\$142,400</b>	1 FT & 2 Contracts <b>\$205,900</b>	No additional
Finance**	43	30	2.5 FT <b>\$48,000</b>	2 FT <b>\$209,400</b>	No additional
Fire	185	196.5+	4.5 FT & 3 PT <b>\$949,500</b>	1 FT <b>\$116,500</b>	1 FT <b>\$212,900</b>

\* These costs represent salary costs only and are not fully burdened.

\*\* These costs will be offset by new revenue increases.

+ Reflects Marine Safety Operations



# Departmental Staffing Shortages

Department	FY 2008/09 Positions	FY 2013/14 Positions	Positions/Cost Over the next 2 Years*	Positions/Cost Over the next 5 Years*	Positions/Cost Long Term (Ultimate)
Human Resources	20.5	15	1 PT \$20,000	No additional	No additional
Information Services	40	30	2 FT \$286,200	2 FT \$246,600	3 FT \$391,300
Library	37.25	27.75	2 FT \$166,300	3 FT \$239,800	2 FT \$147,000
Planning and Building	58.5	43	2.5 FT \$234,700	3 FT 296,800	TBD
Public Works	258	198	9 FT \$987,500	4 FT \$488,000	4 FT \$557,500
Police	381	333.5	10 sworn 4 non-sworn \$2,298,000	14 sworn 7 non-sworn \$3,547,000	10 sworn 4 non-sworn \$2,298,000
<b>TOTAL FTEs</b>	<b>1,142.5</b>	<b>942.25</b>	<b>42.5</b>	<b>38</b>	<b>24</b>
<b>TOTAL AMOUNT</b>			<b>\$5,375,200</b>	<b>\$5,412,500</b>	<b>\$3,606,700</b>

\* These costs represent salary costs only and are not fully burdened.



# Recap

## Next Steps

- February 18 – Final FY 12/13 Year-End Adjustments
  - \$1.0 million for Senior Center Project
  - Creation of Workers’ Compensation Fund
  - \$800,000 for Workers’ Compensation Internal Services Fund
  - Fund Balance reallocations (e.g., Senior Center, CalPERS “One Equals Five” Plan, 800 MHz)
- Departmental Staffing Shortages
  - To be further discussed during Mid-Year and/or FY 2014/15 budget development process

# CITY OF HUNTINGTON BEACH

**Questions?**



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