

## **Budget FY 2022/23 Frequently Asked Questions**

1. What is included in Non-Operating Expense of \$136.4M in FY22/23?

FY22/23 Non-Operating Expense are for inter-fund transfers of funds for specific projects and uses, such as the 15% Infrastructure Charter Requirement transfer from the General Fund to the Infrastructure Fund for citywide infrastructure improvements, equipment purchases, and debt service payments. FY 2022/23 also includes one-time transfers for the \$29.6M American Rescue Plan funds received.

2. Why is Non-Operating Expenses high (\$136.4M) in FY22/23 compared to prior years?

Non-Operating Expenses increased in FY22/23 due to the one-time transfer for the \$29.6M American Rescue Plan funds received to be used for Council approved purposes. In addition, annual investments into Infrastructure from the General Fund has increased from \$5M to \$13.5M or 170% in the last few years. The City has also increased annual investments into essential equipment from \$5M to \$7.8M or 56%. Costs for general liability claims and insurance have also increased.

3. Why is there a \$29M deficit in FY21/22 and a \$41M deficit in FY22/23?

These are not representative of a structural deficit. Cities regularly set aside revenues in various funds to be spent down in future years on large infrastructure and capital projects, equipment, technological improvements, etc. Some examples include Sewer Lift Station repairs, bridge rehabilitation, upgrade of the Police Department Computer Aided Dispatch/Records Management System (CAD/RMS), and Citywide mobility improvements.

The "Estimated Changes to Fund Balances" in the Fund Summaries section of the Budget Document illustrates the available beginning year fund balance in each fund and how much this fund balance is projected to increase or be spent down. See page 69-70 of the FY22/23 Adopted Budget.

<https://www.huntingtonbeachca.gov/files/users/finance/Proposed-Budget-2022-2023.pdf>

For example, the City has accumulated unspent developer revenues in the Park Development Impact Fee Fund (228) and is spending approximately \$1M of these accumulated funds as part of the FY 2022/23 Adopted Budget for various park improvements such as the addition of dual use tennis and pickle ball courts; parking and hard-scape improvements at Edison Park; replacement of Central Park Slater Playground equipment; and the reconfiguration of Marina Park.

4. Why did professional services more than double from FY18/19 at \$6.5M to FY22/23 at \$14.5M?

Professional services increased due to new programs such as the Be Well Mobile Crisis Response Program and the Mercy House Navigation Center operations funded by various sources including the COVID Community Development Block Grant, State SB2 funding, American Rescue Plan Act HOME grant, and the Substance Abuse and the Mental Health Services Administration (SAMHSA) grant via Senator Feinstein. Additional funds were also budgeted for capital

improvement project design and construction management services, the sewer master plan, general liabilities litigation, and Housing and Urban Development (HUD) Projects.

5. Why was there an increase to \$531M in Personnel Services in FY20/21?

In March 2021, City Council approved refinancing 85% of our pre-existing pension debt at a historically low interest rate of 2.925% allowing the City to save \$166.7 million during the next 24-year period. Personnel Services includes \$363.6M in expenses to pay down the City's pension debt. See slides 23-24 in the link below for a pension update.

<https://huntingtonbeach.legistar.com/View.ashx?M=F&ID=10955440&GUID=31EC45F2-E16B-44A8-8C1D-33EFDE6FAB09>

6. What is included in Non-Operating Revenue \$96.8M in FY22/23?

FY 2022/23 Non-Operating Revenues are for inter-fund transfers of funds for specific projects and uses, such as the 15% Infrastructure Charter Requirement transfer from the General Fund to the Infrastructure Fund for citywide infrastructure improvements, equipment purchases, and debt service payments. FY 2022/23 also includes one-time transfers for the \$29.6M American Rescue Plan funds received.

7. Where does the purchase of Elan and Breakwater show in the City's Financials?

City Council approved the Middle Income Housing Program on 7/20/2021 which would create 649 middle income housing units at the Elan and Breakwater apartment complexes. To fund the Middle Income Housing Program, the City would forgo future property tax revenues for up to a 30-year period, with the first year amount estimated at \$370,655. Assuming a 2% increase in property values annually, the average annual property tax subsidy over a 30 year period would be \$501,225. However, of note, between Year 15 and Year 30 (the end of the life of the bonds), the City, at its sole discretion, may force a sale of the middle-income rental housing projects and the City would receive the sale proceeds. Over a 30-year period the Properties could realize \$647,620,251 in valuation at the end of year 30 (assuming an annual appreciation of 1.8%). The City could realize significant value in owning major real estate assets that could be sold to market-rate buyers, thereby maximizing value to the City. Or the assets could be sold to affordable housing developers to be rehabilitated with new, more deeply restricted affordable housing covenants recorded on the Properties. This decision could be made in the future depending upon the City's needs and policy priorities.

<https://huntingtonbeach.legistar.com/LegislationDetail.aspx?ID=5031015&GUID=1746EFA8-7890-4028-AED4-BC998AD1DA23&Options=ID%7CText%7C&Search=breakwater&FullText=1>

8. What is included in Non-Operating Revenues of \$395.6M in FY20/21? Why did it increase from prior years?

In March 2021, City Council approved refinancing 85% of our pre-existing pension debt at a historically low interest rate of 2.925% allowing the City to save \$166.7 million during the next 24-year period. Non-Operating Revenues includes \$363.6M in proceeds to pay down the City's pension debt. See slides 23-24 in the link below for a pension update.

<https://huntingtonbeach.legistar.com/View.ashx?M=F&ID=10955440&GUID=31EC45F2-E16B-44A8-8C1D-33EFDE6FAB09>

9. What is included in Capital Expenditures?

Capital Expenditures primarily include projects in the Capital Improvement Program for the maintenance and repair of the City's infrastructure. See pages 361-425 of the FY22/23 budget in the link below.

<https://www.huntingtonbeachca.gov/files/users/finance/Proposed-Budget-2022-2023.pdf>

10. What is included in Contribution to Private Agency?

Restricted funding to Community Development Block Grant (CDBG) sub-recipients for community programs, such as Robyn's Nest.