

Popular Annual Financial Report



October 1, 2013 — September 30, 2015

Huntington Beach, California

About Huntington Beach

City Profile



ELECTED OFFICIALS

From left to right:

Councilmember Billy O'Connell
City Treasurer Alisa Cutchen
City Attorney Michael Gates
Councilmember Barbara Delgleize
Councilmember Mike Posey
Mayor Pro Tem Dave Sullivan
Councilmember Erik Peterson
Mayor Jim Katapodis
Councilmember Jill Hardy
City Clerk Joan Flynn

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 198,389 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 \$84,915, and more than half of its residents, or 51 percent, have a college education, rendering it the "Second Best City to Live In" within Orange County by the *Orange County Register*.

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.



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 read and understandable.

The PAFR summarizes the financial activities of the City of Huntington Beach's governmental and proprietary funds and draws its information from the 2015 Comprehensive Annual Financial Report (CAFR). The CAFR was prepared in conformance with generally accepted accounting principles (GAAP) and includes financial statements audited by Vavrinek, Trine, Day & Co., 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 9-11 is presented similar to a consolidated financial statement for a private business (accrual basis). Governmental funds financial information on pages 12-13 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 mloadsman@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 of 482 cities in California, more than 104,000 people are employed by public and private entities in the City. With an unemployment rate of 3.9 percent, far below the national and state levels, the City's labor force is well positioned to maintain a relatively stable local economy and tax base.

The Huntington Beach business community is extremely diversified with no single industry or business dominating the local economy. Local businesses include aerospace and high technology, petroleum, manufacturing, computer hardware and software, financial and business services, hotel and tourism, automobile services, large-scale retailers and surf apparel, just to name a few. The diversification of the City's sales tax base is enviable, with no particular area of over-concentration thereby mitigating the impact of industry-specific downturns.

Business Development

Business development, attraction and retention are the central tenets of the City's economic development platform. The City of Huntington Beach continues to invest in its local businesses and has created new initiatives to support the business community. The City Council has reconfirmed the commitment to business development through the City Council's Three-Year Goal to "Strengthen Economic and Financial Sustainability."

The Office of Business Development in the City Manager's Office reflects the City's on going commitment to economic development. In 2015, the City amended the Local Business Preference section of the Municipal Code. The amendment removed the existing \$100,000 cap on the five percent local venter preference in the evaluation of bids or proposals for the procurement of goods and services, to allow for greater opportunities to partner with and promote local businesses.

The City continues to promote economic development throughout the City reassuring the community that Huntington Beach remains committed to revitalizing its neighborhoods and enhancing its business development plans.

To that end, significant progress is being made in securing entitlements, issuing permits or finalizing plans for the projects outlined below in FY 2015/16.

- **Pacific City** - an upscale retail village consisting of 191,000 square feet of unique and boutique retail and restaurant space overlooking the Pacific Ocean. The facility will include the Pacific City Hotel and 516 luxury residential units with concierge services. All the penthouses have been leased and the apartments will to open in 2017.
- The second phase of the successful **Bella Terra Regional Center Project** featured the opening of Costco along with 467 luxury apartment units, a 24-Hour Fitness Gym, pool and park area. It will also feature 47,000 square feet of retail space adjacent to an open-space courtyard setting.
- The acclaimed **Waterfront Hilton Hotel Resort** has commenced construction on a second hotel tower along with numerous other permitted commercial and industrial projects. Construction is scheduled to be completed by June 2017.



Strengthen Economic and Financial Sustainability

To help the City of Huntington Beach meet its Strategic Plan Goal to “Strengthen Economic and Financial Sustainability,” the City developed an innovative, three-pronged approach to significantly reduce its pension and Other Post Employment Benefit (OPEB) unfunded liabilities over the next 10 years. These plans were first included in the FY 2013/14 Adopted Budget and have launched a multi-year effort to pay down the pension and retiree medical liabilities ahead of schedule saving taxpayers an estimated \$73.3 million over the next 15 to 25 years.

The “One Equals Five Plan,” the “25 to 10 Plan,” and the “16 to 10 Plan,” respectively, will reduce the unfunded liabilities for each of the City’s retiree benefit plans over the next several years. At the center of each plan is the expedited pre-payment of unfunded liabilities through significant reductions in each plan’s amortization period. This strategy anticipates the elimination or near zeroing of the unfunded liabilities for the City’s OPEB and Supplemental Pension Plans in 10 years; and, a significant decline in the CalPERS unfunded liability for the safety plan as well.

The value of the City’s unfunded liabilities currently totals \$346.3 million. By 2024, the City plans to completely eliminate the unfunded liabilities for two of the City’s three retiree benefit plans. Our unique three-pronged approach addresses the unfunded liabilities for the City’s: 1) California Public Employees’ Retirement (CalPERS) Safety Pension Plan; 2) Retiree Medical Plan; and, 3) Supplemental Pension Plan.

The City’s plans to reduce unfunded liabilities are award winning. Huntington Beach has received the prestigious “Innovation Award” from the California Society of Municipal Finance Officers in 2014 and the “Golden Hub of Innovation Award” from the Association of California Cities – Orange County, as well.

AWARDS

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, 2014. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a coveted 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 nine consecutive years (fiscal years ended 2006-2014). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements.



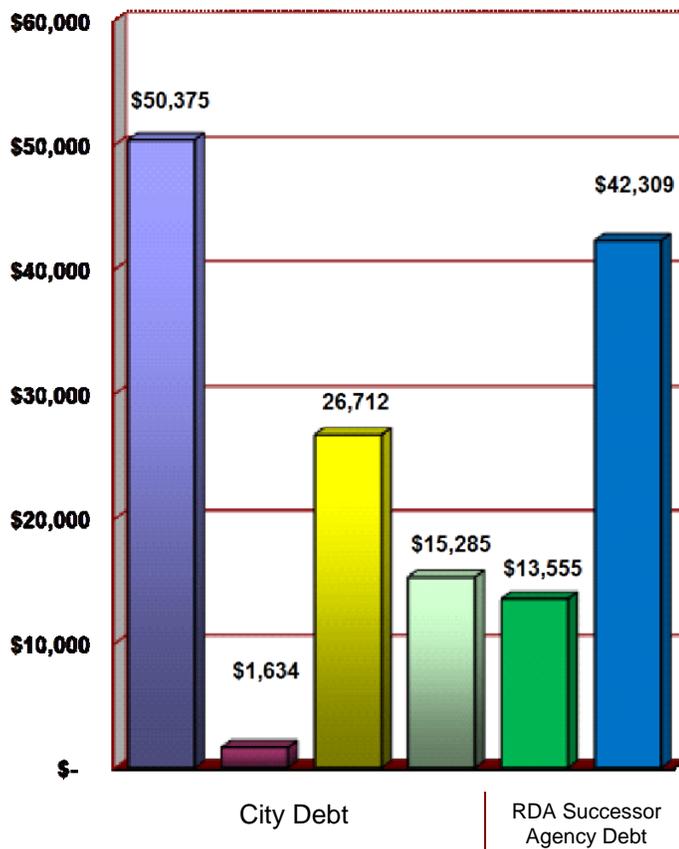
Key Financial Information

CITY DEBT

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 August 27, 2014, Fitch Ratings issued an AAA Implied General Obligation Bond rating to the City. The chart on the right shows the latest ratings as determined by Moody's Investors Service and Standard & Poor's as of September 30, 2015.

Debt Instrument	Moody's	S & P
2004 Judgment Obligation Bonds	Aa3	AA
2010 Lease Revenue Bonds, Series A	Aa3	AA
2011 Lease Revenue Bonds, Series A	Aa3	AA
2014 Lease Revenue Bonds, Series A	Aa3	AA
1999 Tax Allocation Refunding Bonds	A2	A
2002 Tax Allocation Refunding Bonds	A2	A

Total City Debt as of September 30, 2015 (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.
- Judgment Obligation Bonds** – Debt used to pay claims on court judgments.
- Claims** – Workers' Compensation and Liability Insurance claims made to the City.
- Other City Debt** – Miscellaneous long-term debts that include loans, compensated absences, leases, pollution remediation liabilities, and net pension obligations (before GASB 68).
- 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, 2015

CAPITAL ASSETS

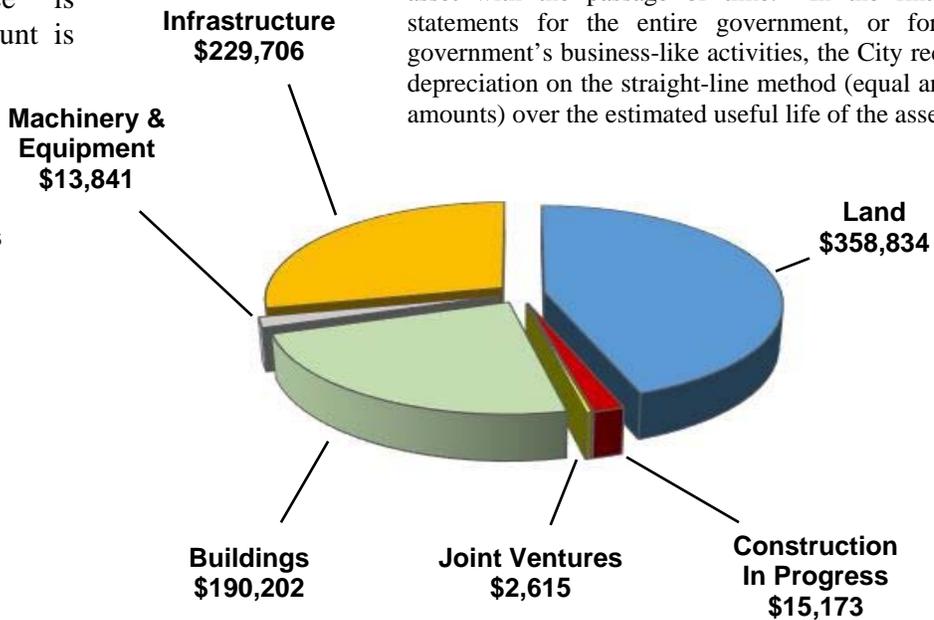
(Property, Plant, and Equipment)

(In Thousands, Net of Depreciation)

As of September 30, 2015, the City's total capital assets balance is \$810,371,000. This total amount is comprised of the following:

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.

- Land
- Construction in Progress
- Joint Ventures
- Buildings
- Machinery & Equipment
- Infrastructure



Key Financial Information (continued)

INVESTMENT PORTFOLIO

The market value of the City's cash and investments as of September 30, 2015, is as follows (in thousands):

INVESTMENTS:	Investment Maturities (In Years)					
	Fair Value	Less than 1	1 to 3	3 to 5	More than 5	Total
U.S. Agencies	\$ 125,232	\$ -	\$ 65,159	\$ 59,062	\$ 1,011	\$ 125,232
Mutual Funds*	41,681	41,681	-	-	-	41,681
Money Market Funds	5,308	5,308	-	-	-	5,308
Corporate Bonds	40,728	3,002	31,637	6,089	-	40,728
Local Agency Investment Fund	44,375	44,375	-	-	-	44,375
Total Investments	\$ 257,324	\$ 94,366	\$ 96,796	\$ 65,151	\$ 1,011	257,324
Total Deposits						25,326
Total Deposits and Investments						\$ 282,650

* Supplemental Retirement Trust Fund Defined Benefit Plan.

The City's cash and investment practices and policies as of September 30, 2015, 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 ensure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer;

- To protect principal and maintain liquidity to meet expected operating expenses; 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.



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, 2015 and 2014.

City of Huntington Beach Statement of Net Position As of September 30, 2015 and 2014

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2015	2014	Variance	2015	2014	Variance	2015	2014	Variance
Assets									
Current and Other Assets	\$ 218,670	\$ 180,886	21%	\$ 87,539	\$ 89,383	-2%	\$ 306,209	\$ 270,269	13%
Capital Assets	667,755	659,195	1%	142,616	140,770	1%	810,371	799,965	1%
Total Assets	886,425	840,081	6%	230,155	230,153	0%	1,116,580	1,070,234	4%
Deferred Outflows of Resources	10,444	-	N/A	771	-	N/A	11,215	-	N/A
Liabilities									
Current and Other Liabilities	24,019	18,130	32%	6,349	6,170	3%	30,368	24,300	25%
Long-Term Obligations	408,549	79,584	413%	23,836	2,096	1037%	432,385	81,680	429%
Total Liabilities	432,568	97,714	343%	30,185	8,266	265%	462,753	105,980	337%
Deferred Inflows of Resources	21,098	-	N/A	1,708	-	N/A	22,806	-	N/A
Net Position									
Net investment in Capital Assets	615,512	618,825	-1%	142,616	140,770	1%	758,128	759,595	0%
Restricted	52,270	34,018	54%	28,096	27,951	1%	80,366	61,969	30%
Unrestricted	(224,579)	89,524	-351%	28,321	53,166	-47%	(196,258)	142,690	-238%
Total Net Position	\$ 443,203	\$ 742,367	-40%	\$ 199,033	\$ 221,887	-10%	\$ 642,236	\$ 964,254	-33%

Total Net Position decreased by 33 percent when compared to the previous year. The decrease in Total Net Position is due in large part to the implementation of new Governmental Accounting Standards Board Statement No. 68 (GASB 68) during FY 2014/15, which required that the City begin reporting its Net Pension Liabilities on the Statement of Net Position. Although the City’s pension benefits have not changed, the way in which this is accounted for and reported in the financial statements has changed based on the new guidance provided in GASB 68. Total Current Liabilities increased by 25 percent due to normal fluctuations in accrued payroll costs and accounts payable. Total Long-Term Liabilities increased by 429 percent due to the new GASB 68 reporting requirements. Total restricted net position increased by 30 percent due to funds used for public works and community services projects. Total unrestricted net position decreased by 238 percent largely due to the aforementioned GASB 68 net pension liabilities reporting requirement. Deferred outflows and inflows of resources increased due to the GASB 68 implementation.

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.

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

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

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.

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

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.

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.

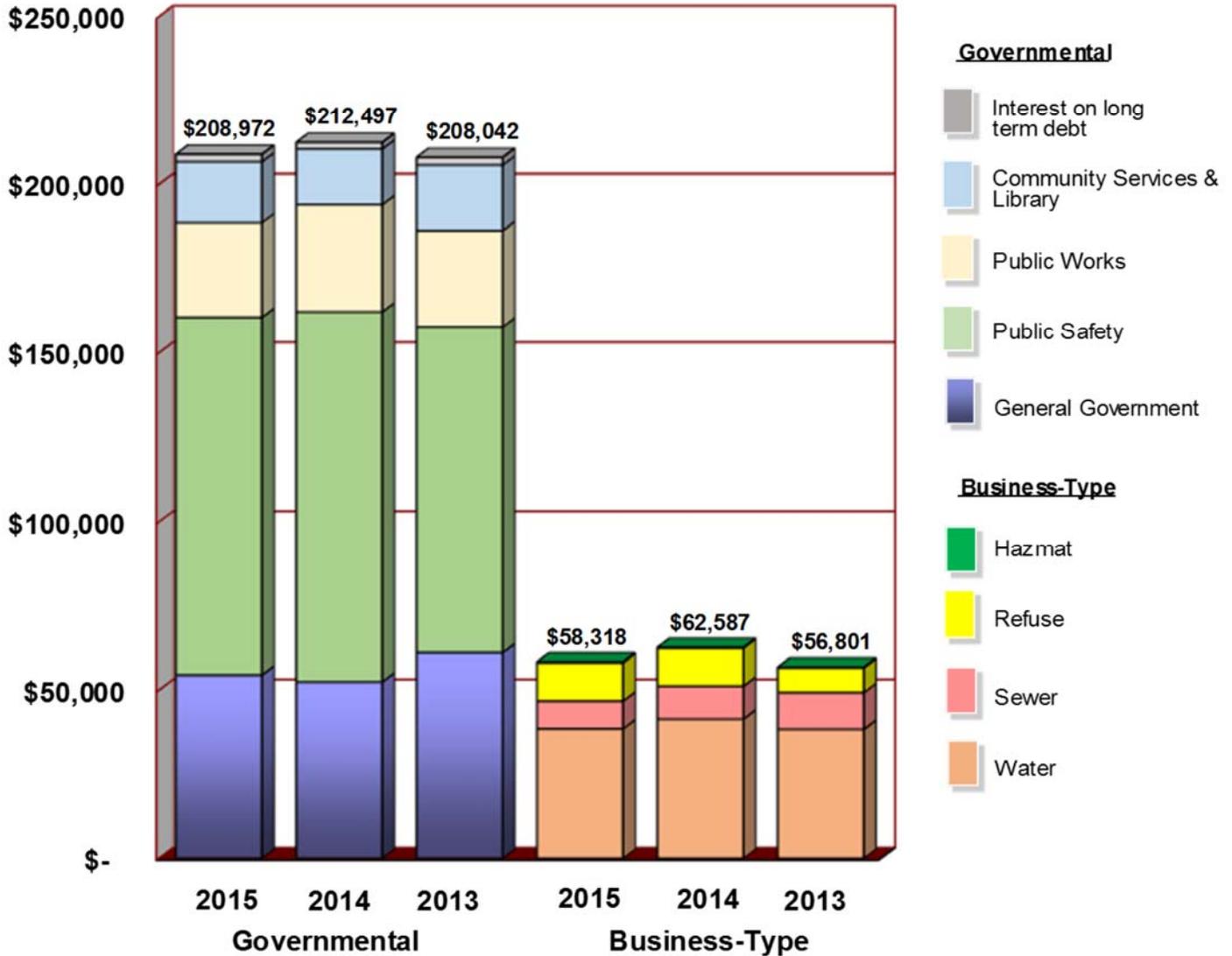
Unrestricted Net Position – These are resources that are accessible to the City to provide services to the residents of Huntington Beach if there were no additional revenues or resources available.



STATEMENT OF ACTIVITIES

The graphs on this and the following page 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 and Business-Type Activities For the Years Ending September 30, 2015, 2014, and 2013 (In Thousands)

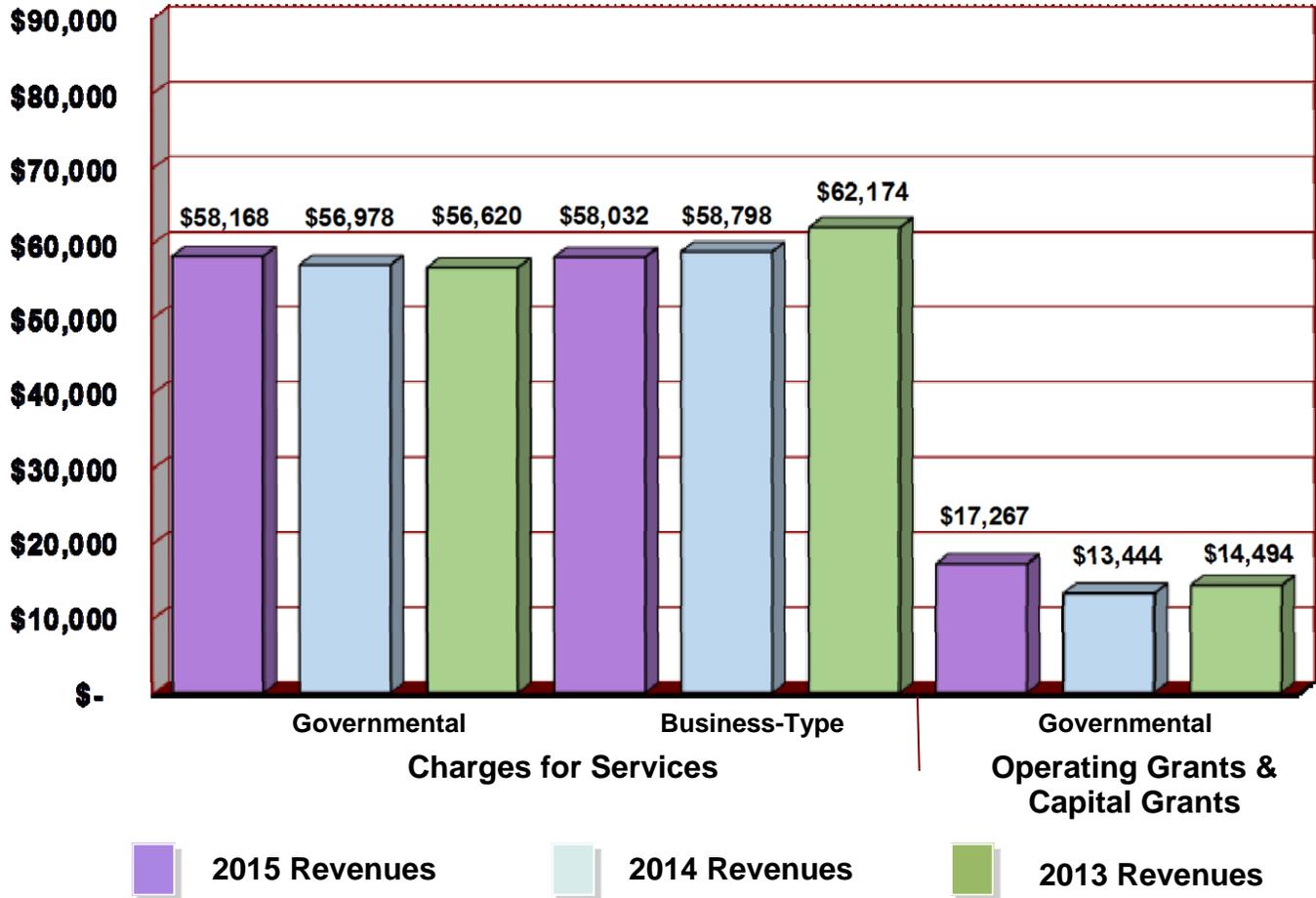


Governmental expenses decreased from \$212,497,000 in the fiscal year ending September 30, 2014, to \$208,972,000 in the fiscal year ending September 30, 2015, due to the implementation of GASB 68. Payments to lower the Net Pension Liability are no longer reported as an expense, but rather as a reduction to liability. Business-Type expenses decreased from \$62,587,000 in the fiscal year ending September 30, 2014, to \$58,318,000 in the fiscal year ending September 30, 2015, primarily due to the GASB 68 implementation related to pension liabilities as well.



City of Huntington Beach Program Revenues Governmental and Business-Type Activities For the Years Ending September 30, 2015, 2014 and 2013 (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.



Charges for services increased from \$56,978,000 in the fiscal year ending September 30, 2014 to \$58,168,000 in the fiscal year ending September 30, 2015 for governmental activities primarily due to increases in revenues from large development projects. Charges for services decreased from \$58,798,000 in the fiscal year ending September 30, 2014 to \$58,032,000 in the fiscal year ending September 30, 2015 for business-type activities due primarily to the Governor's Executive Order to decrease water consumption by 25 percent statewide. Operating and capital grants for governmental activities increased from \$13,444,000 in the fiscal year ending September 30, 2014 to \$17,267,000 in the fiscal year ending September 30, 2015 primarily due to capital contribution from the Huntington Beach Redevelopment Successor Agency Private Purpose Trust and a \$2 million donation received from Hoag Hospital for the construction of the new Senior Center.



GOVERNMENTAL FUNDS

The City maintains 24 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.

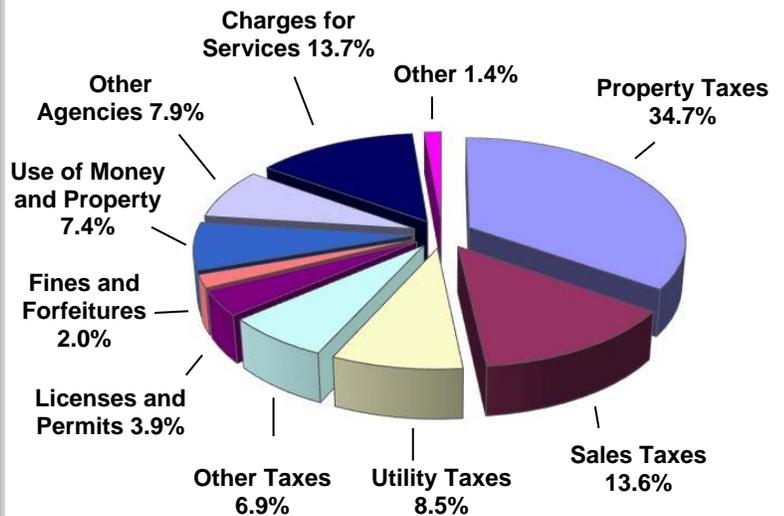
Capital Projects Funds are used to account for and report financial resources for capital outlays.

Revenue/Resources (Where the Money Comes From)

The City received \$237,391,000 from various funding sources for the fiscal year ending September 30, 2015.

City of Huntington Beach Statement of Revenues Governmental Funds For the Year Ending September 30, 2015 and 2014 (In Thousands)

REVENUE BY SOURCE	2015	2014
Property Taxes	\$ 82,472	\$ 79,460
Sales Taxes	32,234	30,454
Utility Taxes	20,229	20,621
Other Taxes	16,464	15,601
Licenses and Permits	9,270	7,976
Fines and Forfeitures	4,746	4,392
Use of Money and Property	17,473	16,695
Other Agencies	18,634	16,804
Charges for Services	32,510	29,375
Other	3,359	4,511
Total	\$ 237,391	\$ 225,889



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.

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.

Other revenues are revenues that do not fall into designated categories, such as refunds and donations.

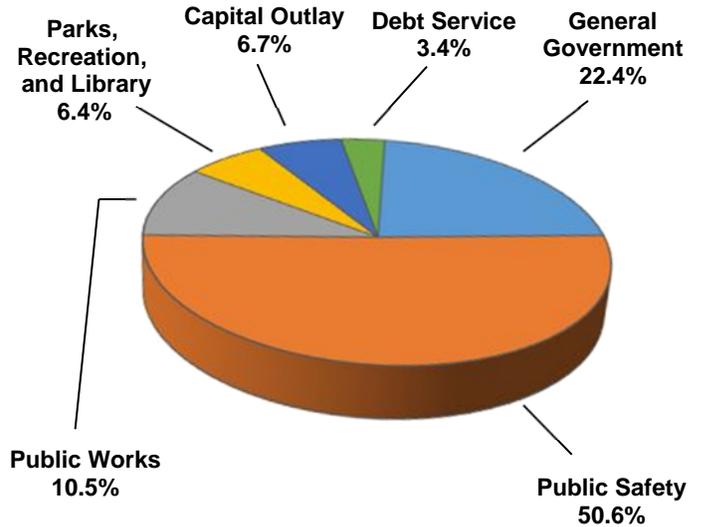


Expenditures/Services (Where the Money Goes)

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, 2014, to September 30, 2015, the total expenditures incurred by the City were \$225,196,000 (excluding transfers).

City of Huntington Beach Statement of Expenditures Governmental Funds For Years Ending September 30, 2015 and 2014 (In Thousands)

EXPENDITURES	2015	2014
General Government	\$ 50,393	\$ 50,727
Public Safety	113,948	109,230
Public Works	23,820	22,872
Parks, Recreation, and Library	14,369	13,779
Capital Outlay	14,986	10,729
Debt Service	7,680	6,784
Total	\$ 225,196	\$ 214,121



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, Planning and Building, 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.

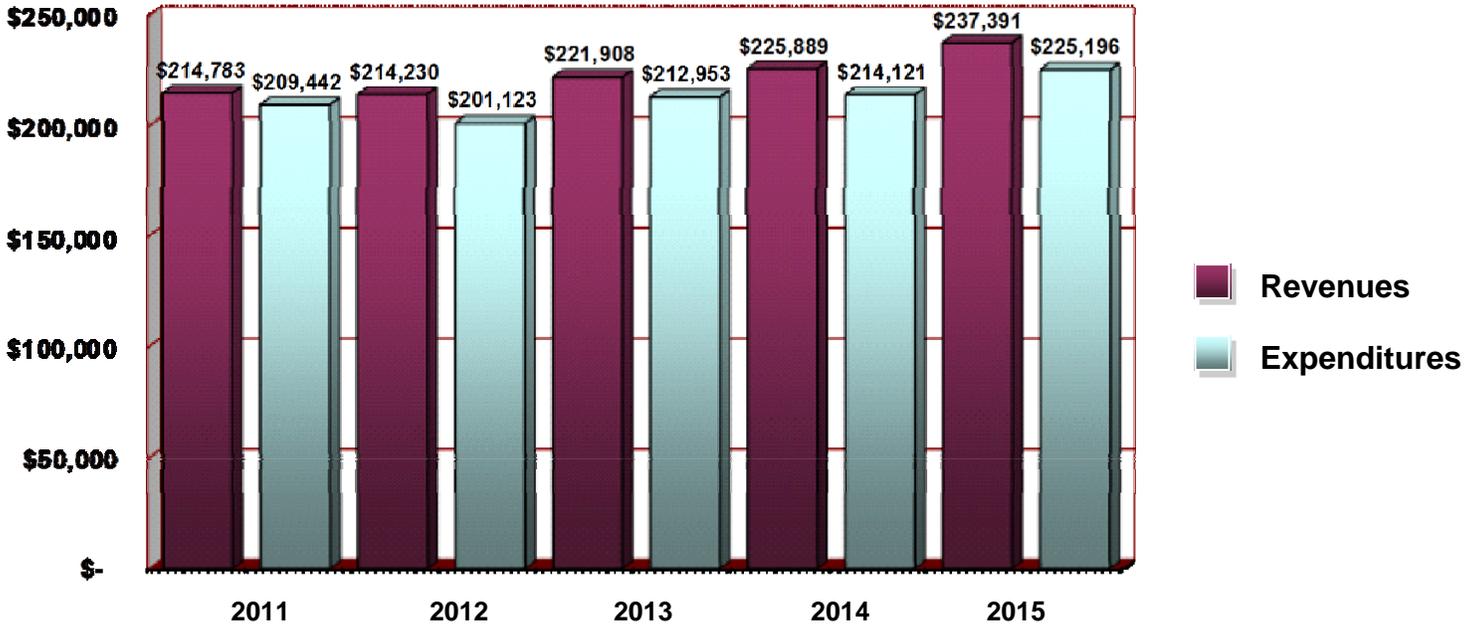
Parks, recreation, and library expenditures are those incurred by the City to enrich the quality of life in Huntington Beach through recreational and cultural activities, as well as to support the educational and informational needs of residents and visitors.

Capital expenditures are expenses related to the purchase of property, machinery, equipment and expenses related to improving the City's infrastructure.

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



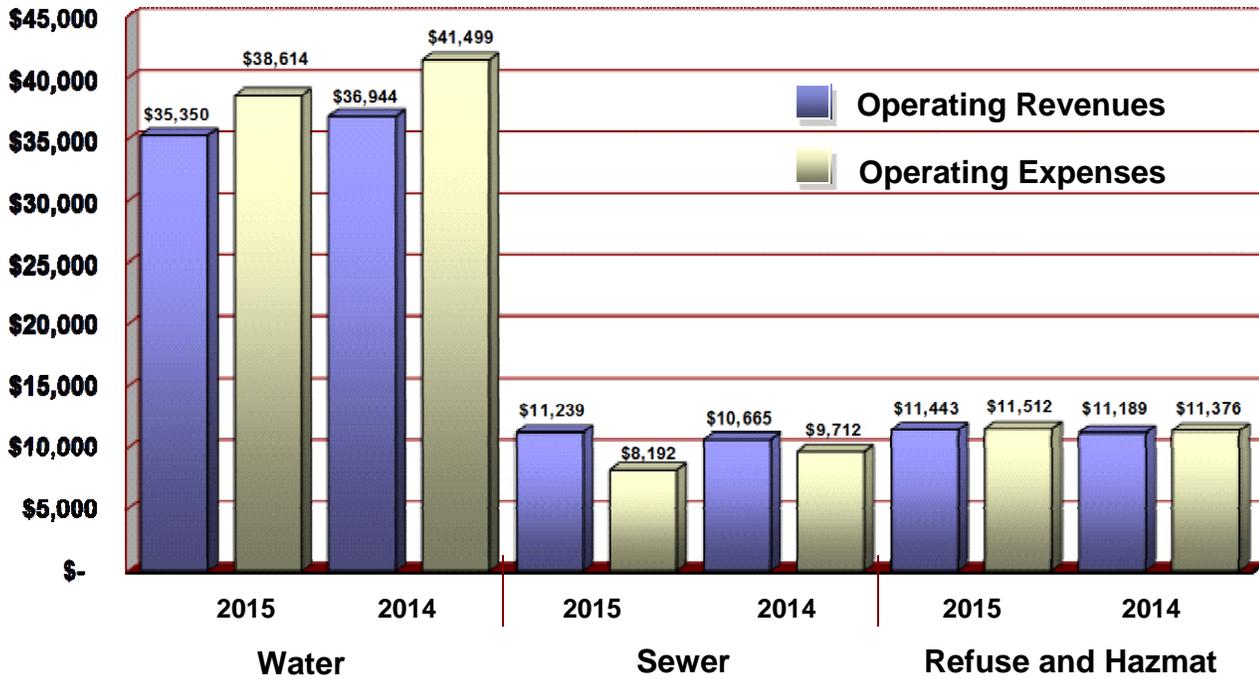
Governmental Funds Revenues and Expenditures - Five Year Trend *(in Thousands)*



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, 2015.

(in Thousands)



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

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

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

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



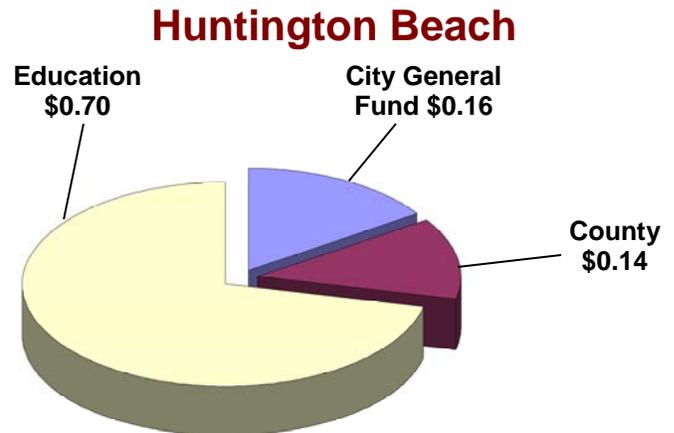
Where Do the Taxes Go?

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.



Message from the Finance Director

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. I am confident that together we are able to ensure that Huntington Beach remains the greatest city in which to work, live and play.



Lori Ann Farrell Harrison
Chief Financial Officer



Huntington Beach Leading Indicators



Huntington Beach by the Numbers

Property Tax Rate	1.09324% (varies by tax rate area)
Unemployment Rate	3.90%
Fitch Bond Rating	AAA
S&P Bond Rating	AA and A
Moody's Bond Rating	Aa3 and A2
Property Tax Revenue	\$82,472,000
Total City Debt	\$94,006,000
City Net Position	\$642,236,000



City of Huntington Beach
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www.huntingtonbeachca.gov

