

City of Huntington Beach



Popular Annual Financial Report

October 1, 2015 – September 30, 2016

About Huntington Beach

City Profile



ELECTED OFFICIALS

From left to right:

City Treasurer Alisa Cutchen
Mayor Pro Tem Mike Posey
City Clerk Robin Estanislau
Councilmember Billy O'Connell
Councilmember Jill Hardy
Councilmember Erik Peterson
Mayor Barbara Delgleize
City Attorney Michael Gates
Councilmember Patrick Brenden
Councilmember Lyn Semeta

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 201,899 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, 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*.

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.

Demographically, the City benefits from higher education levels, median incomes and home values as compared with the State. A thriving beach community, named "Best Beach in the United States" by Time Magazine in 2015, Huntington Beach is also home to numerous national events such as the U.S. Open of Surfing which attracts 500,000 visitors annually and the Surf City USA Marathon with over 16,000 runners.

The City's most iconic event, however, is its Fourth of July Fireworks Show and Parade ranked "Best Parade in Orange County" by the *Orange County Register's Annual Reader Survey*, with over 1 million television viewers nationally through *ABC News* and 500,000 in-person attendees. The annual AVP Beach Volleyball Tour also commands a strong presence totaling 4,000 visitors each year. Most notably, in 2016, the City held its inaugural Breitling Huntington Beach Air Show, the only beachfront air show on the West Coast, featuring the U.S. Air Force Thunderbirds and F-16 Fighting Falcons to an exhilarated crowd of 560,000. Excitement is already building for the second annual Huntington Beach Air Show which will add the U.S. Navy's Blue Angels and the Royal Canadian Air Force's Snowbirds to the dramatic lineup. The City also hosts a variety of cultural and historical events for families and visitors such as the Japanese Cherry Blossom Festival, Pacific Islander Festival, Civil War Days and the Revolutionary War Living History Event.



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 2016 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 11-14 is presented similar to a consolidated financial statement for a private business (accrual basis). Governmental funds financial information on pages 15-17 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 mloadsman@surfcity-hb.org.



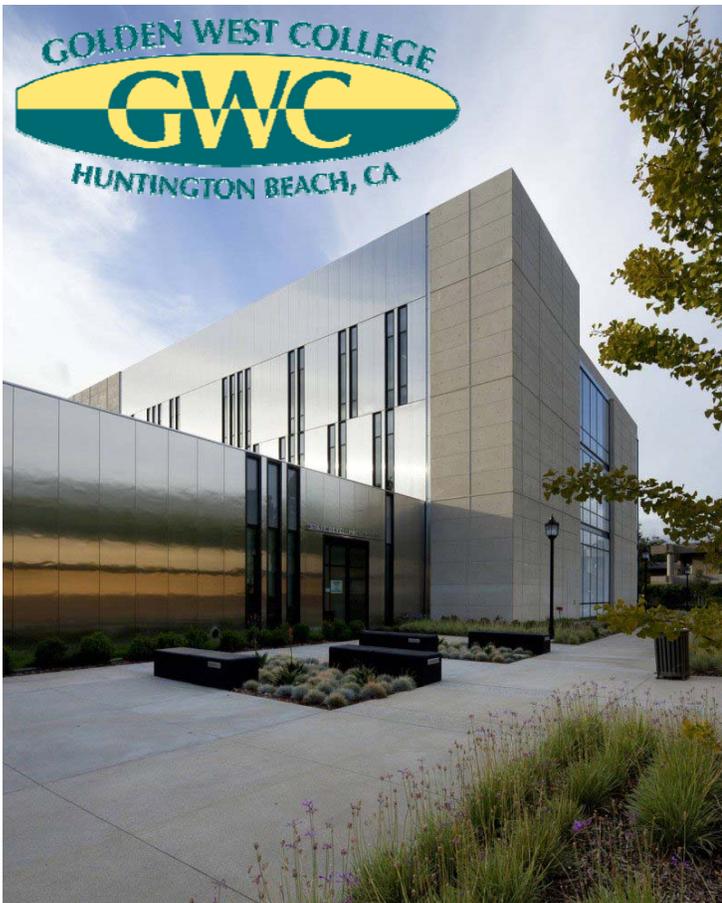
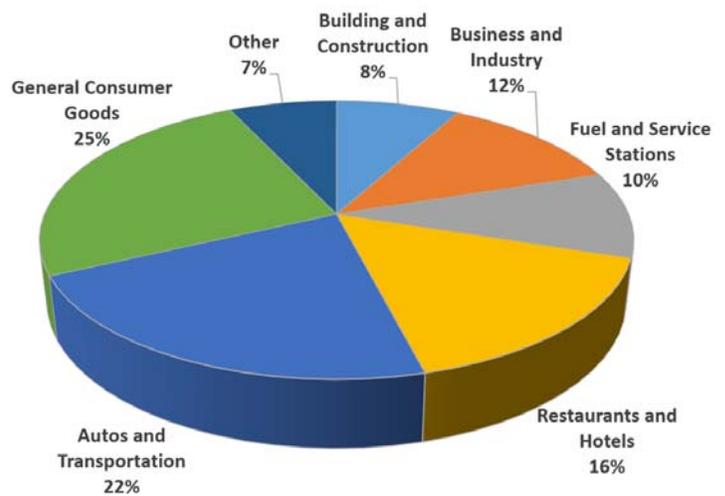
LOCAL ECONOMY

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 in California, there are 107,000 people employed by public and private entities in Huntington Beach. With an unemployment rate of 3.9 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. These factors include: higher personal median incomes than the State or the County; a stable property tax base; a diversified sales tax base; a strong tourism and leisure industry; and low unemployment rate. These factors have helped the City achieve a AAA underlying credit rating from Fitch Ratings, strong and modestly growing reserves, and balanced budgets. In fact, Huntington Beach was ranked 4th in a recent *Fiscal Times* poll of 116 cities nationwide in the “Best Financial Shape”, a significant accomplishment.

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., Ensign United States Drilling, Goldenwest College, 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 2015/2016**



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. The 2017 Economic Development Implementation Plan which focuses on new and innovative strategies, increased partnerships and collaboration, and targeted infrastructure improvements. It sets a path to creating a government that is praised for its customer service, opportunities for development, market-generating programs, flexible industrial spaces, and infrastructure needed for entrepreneurs to start new businesses.

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. The unique and exciting products researched, developed and manufactured in Huntington Beach expand job opportunities and attract complementary businesses to locate in the area as well. In 2017, the City is excited to welcome Newlight Technologies, an innovative organization that converts greenhouse gases into high-performance cost-effective thermoplastics.

Pacific City

The Pacific City development features the new Pasea Hotel and Spa, a high-end boutique hotel from the prestigious Meritage Collection. This hotel added 250 rooms to the City's lodging availability, plus a conference center, and the upscale Tanner's Restaurant. Pacific City has also created a new synergy for the Downtown area by adding a retail village consisting of 191,000 square feet of stylish retail and restaurant space with breathtaking views of the Pacific Ocean. Tenants include Equinox, H&M, Bungalow, Lemonade, Simmzy's, Ways and Means Oyster House, Old Crow Barbeque, Ola, MAC, LUSH, Francesca's, Tommy Bahama, and Sephora. The final phase of Pacific City is underway, with 516 luxury, one-to-three bedroom apartment homes with concierge service. Pre-leasing is underway, and the first residents are scheduled to begin enjoying their new homes in 2017.

Waterfront Hilton Tower Expansion

The acclaimed Waterfront Hilton Resort has commenced construction on a second hotel tower consisting of 151 suites, a state-of-the-art 20,000 square foot luxury spa, conference center space and rooftop lounge/bar. In addition to the new tower, the existing Hilton tower will undergo a renovation with enhanced pool, a new spa and restaurant improvements. Construction is scheduled for completion June 2017.



Major Initiatives



New Senior Center in Central Park

More than 10 years in the making, the new \$21.5 million 37,563-square-foot center opened in 2016 to serve Huntington Beach seniors and citizens from the surrounding community. The new Senior Center has been a huge success generating 4,400 class enrollments, and 700 fitness center memberships in the first 60 days. The Senior Center in Central Park is a vibrant hub of activity focused on active aging as well as aging in place. Volunteers and staff make you feel welcome as you sign up for classes, activities, workshops, computer training classes and more. The Hoag Health and Wellness

Pavilion is fully furnished with state-of-the-art user friendly equipment. Classes, appointments with personal trainers or independent workout times are available. In addition to the active aging, care managers and resource specialists focus on Aging in Place, assisting seniors to remain in their homes for as long as possible; utilizing services such as Home Delivered Meals or transportation. The Center features a travel and resource area, three classrooms including a computer learning center, a game room, a comfortable lounge and the Parkview Room, hosting a daily lunch program, as well as activities and films.



9/11 Memorial

Culminating a five-year effort, Huntington Beach's new 9/11 Memorial symbolically acknowledges all three sites of the September 11, 2001 tragedy and spotlights the two sacred sections recovered by the FDNY and the Port Authority Police Department of New York and New Jersey. With this steel, the Police Officers' Association and the Firefighters' Association were committed to creating a fitting community monument to honor the men and women who lost their lives that fateful day. The 9/11 Memorial Committee designed the memorial, as well as reached out to the greater Orange County community to raise the \$200,000 necessary for its construction.



Major Initiatives (continued)

Energy Conservation

Huntington Beach is known throughout the region for its innovative and ground breaking energy conservation efforts. In 2016, Huntington Beach became only the second City in the State to receive approval from the California Public Utilities Commission to acquire its 11,000 street lights from Southern California Edison. This project will allow the City to purchase its streetlights from SCE and replace the aged high pressure sodium luminaries with LED luminaries saving taxpayers \$10 million dollars over the next 20 years due to reduced energy costs. Huntington Beach was the first City in the State to be awarded a California Infrastructure Bank loan through its CLEEN program allowing the City to partner with the State on a large energy efficiency project of great benefit to the community. The City also received the first California Energy Commission 1 percent loan for a streetlight retrofit, paving the way for other cities to pursue similar projects.



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. 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 \$71.4 million over the next 15 to 25 years.

The value of the City’s unfunded pension liabilities currently totals \$401.2 million. By 2024, the City plans to eliminate the unfunded liabilities for two of the City’s three retiree benefit plans (medical benefits and the supplemental pension plan). In FY 2015/16, the City raised its efforts to reduce pension liabilities to the next level and established a Pension Rate Stabilization Plan. A total of \$2.5 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.



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 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, 2016.

Debt Instrument	Moody's	S & P
1999 Tax Allocation Refunding Bonds	A2	AA-
2002 Tax Allocation Refunding Bonds	A2	AA-
2004 Judgment Obligation Bonds	Aa3	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

Total City Debt as of September 30, 2016 (In Thousands)



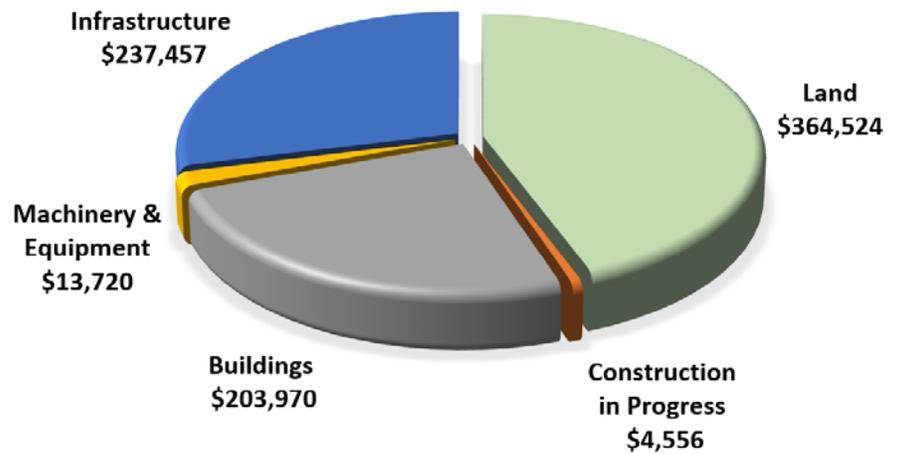
-  **Revenue Bonds** – Long-term bond issues used to finance civic improvements. The bonds are repaid from revenues generated from the lease on the buildings that were improved.
-  **Judgment Obligation Bonds** – Debt used to pay claims on court judgments.
-  **Claims** – Workers' Compensation and Liability 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, 2016 (In Thousands)

As of September 30, 2016, the City's total capital assets balance is \$824,227,000. This total amount is comprised of Infrastructure, Land, Construction in Progress, Building, and Machinery and Equipment as displayed in the chart to the right. 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.



Key Financial Information (continued)

INVESTMENT PORTFOLIO

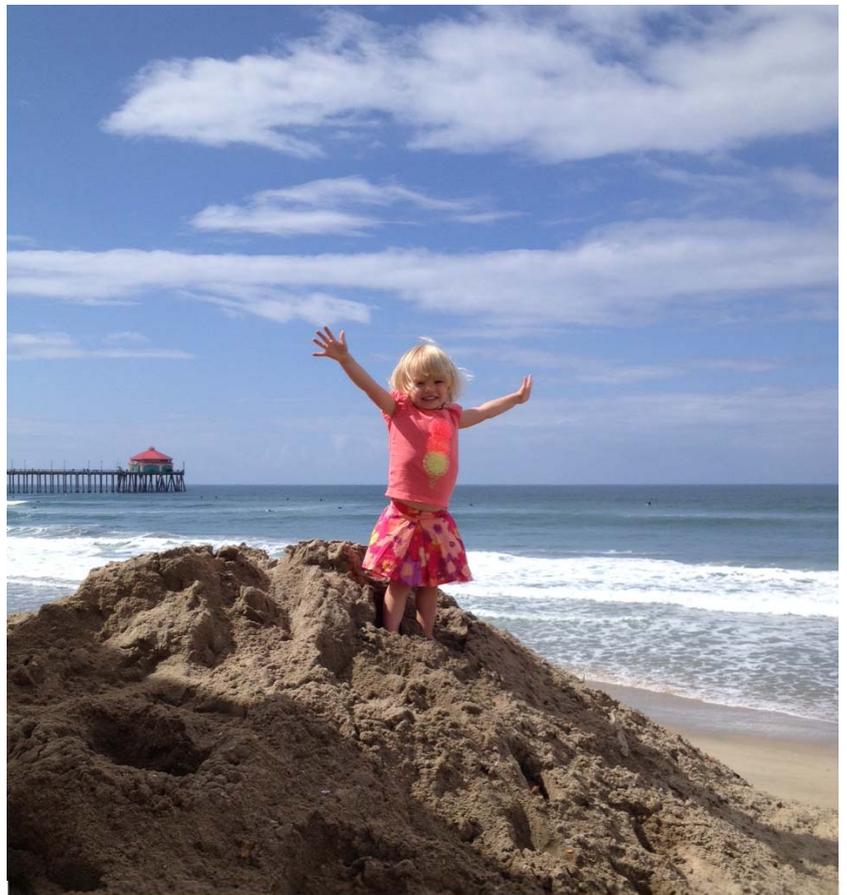
The market value of the City's cash and investments as of September 30, 2016, is as follows (in thousands):

INVESTMENTS:	Investment Maturities (In Years)					
	Fair Value	Less than 1	1 to 3	3 to 5	More than 5	Total
U.S. Agencies*	\$ 133,376	\$ 15,031	\$ 62,515	\$ 54,817	\$ 1,013	\$ 133,376
Mutual Funds	46,958	46,958	-	-	-	46,958
Money Market Funds	5,088	5,088	-	-	-	5,088
Corporate Bonds	37,678	5,034	29,641	3,003	-	37,678
Local Agency Investment Fund	29,186	29,186	-	-	-	29,186
Total Investments	\$ 252,286	\$ 101,297	\$ 92,156	\$ 57,820	\$ 1,013	252,286
Total Deposits						34,639
Total Deposits and Investments						\$ 286,925

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

The City's cash and investment practices and policies as of September 30, 2016, 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, 2016 and 2015.

City of Huntington Beach Statement of Net Position As of September 30, 2016 and 2015

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2016	2015	Variance	2016	2015	Variance	2016	2015	Variance
Assets									
Current and Other Assets	\$ 209,181	\$ 218,670	-4%	\$ 86,382	\$ 87,539	-1%	\$ 295,563	\$ 306,209	-3%
Capital Assets	681,661	667,755	2%	142,566	142,616	0%	824,227	810,371	2%
Total Assets	890,842	886,425	0%	228,948	230,155	-1%	1,119,790	1,116,580	0%
Deferred Outflows of Resources	52,692	10,444	405%	4,087	771	430%	56,779	11,215	406%
Liabilities									
Current and Other Liabilities	12,346	24,019	-49%	8,223	6,349	30%	20,569	30,368	-32%
Long-Term Obligations	480,780	408,549	18%	27,818	23,836	17%	508,598	432,385	18%
Total Liabilities	493,126	432,568	14%	36,041	30,185	19%	529,167	462,753	14%
Deferred Inflows of Resources	7,536	21,098	-64%	382	1,708	-78%	7,918	22,806	-65%
Net Position									
Net investment in Capital Assets	624,180	615,512	1%	142,566	142,616	0%	766,746	758,128	1%
Restricted	41,555	52,270	-20%	32,049	28,096	14%	73,604	80,366	-8%
Unrestricted	(222,863)	(224,579)	-1%	21,997	28,321	-22%	(200,866)	(196,258)	2%
Total Net Position	\$ 442,872	\$ 443,203	0%	\$ 196,612	\$ 199,033	-1%	\$ 639,484	\$ 642,236	0%

- Total **Net Position** did not change significantly when compared to the previous year.
- Total **Current and Other Assets** decreased primarily due to \$15,011,000 in restricted cash received in FY 2014/15 from the issuance of the 2014(a) lease revenue bond to fund the construction of the Senior Center that was completed in FY 2015/16.
- **Capital Assets** increased by 2 percent due to the completion of the Senior Center.
- **Deferred Outflows** increased by 406 percent while **Deferred Inflows** decreased by 65 percent. This change is due to changes in the net differences between the projected and actual earnings, changes in assumptions, differences between expected and actual experience, and contributions made subsequent to the measurement date of the City's single-employer plan (Supplemental) and multiple-employer defined-benefit pension plans (CalPERS plans).
- Total **Current and Other Liabilities** decreased by 32 percent due to completion of the Senior Center in FY 2015/16 and normal fluctuations in the accounts payable and payroll cycle.
- Total **Long-Term Liabilities** increased by 18 percent due to the increase in the Net Pension Liability as a result of CalPERS earnings below the plan's expected earnings.
- Total **Restricted Net Position** decreased by 8 percent primarily due to funds used for public works and community services projects.
- Total **Unrestricted Net Position** increased by 2 percent largely due an increase in property tax and sales tax revenues.



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.

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 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.

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.

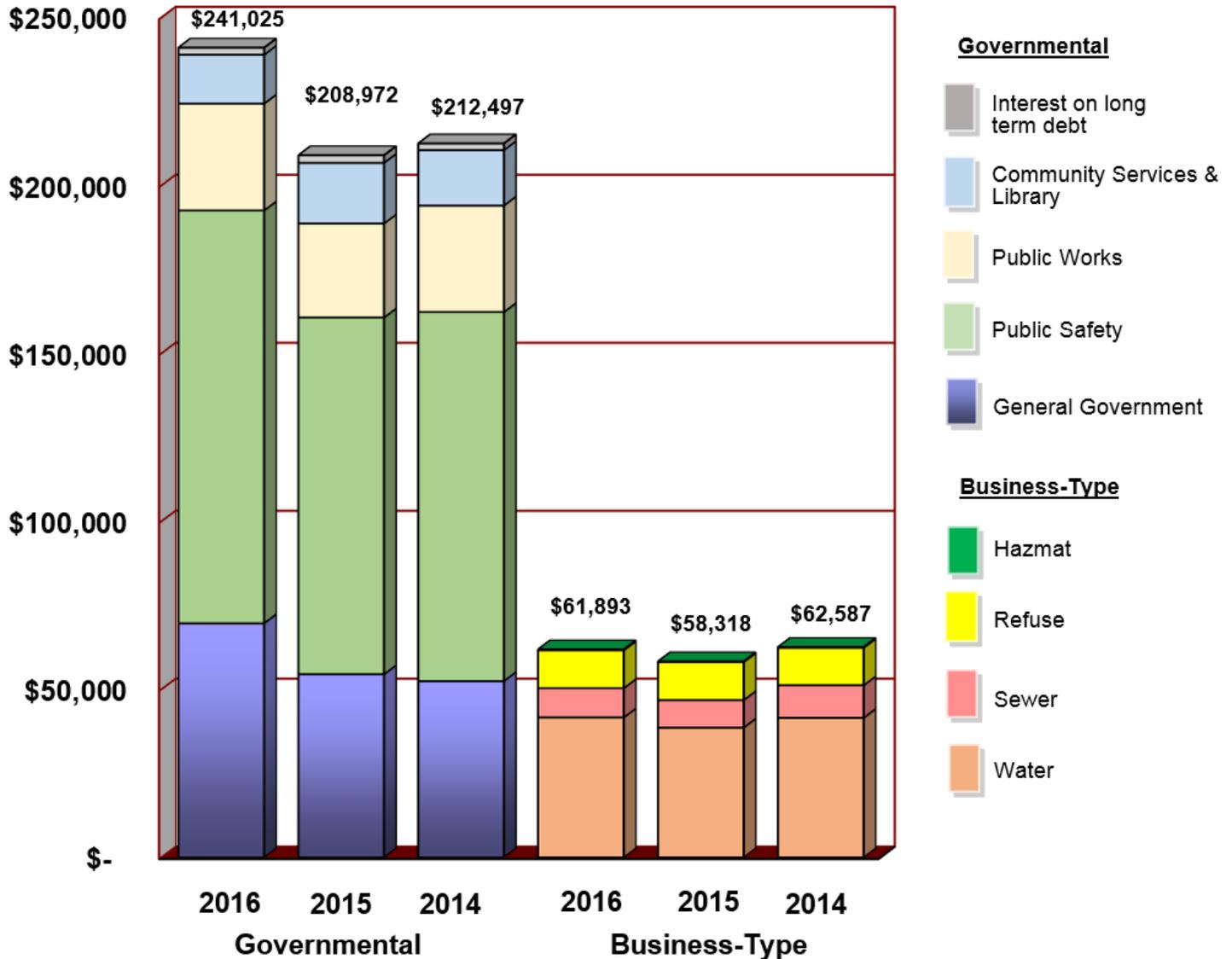
Unrestricted Net Position – These are resources that are accessible to the City to provide services to the residents of Huntington Beach if there were no additional revenues or resources available.



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, 2016, 2015, and 2014

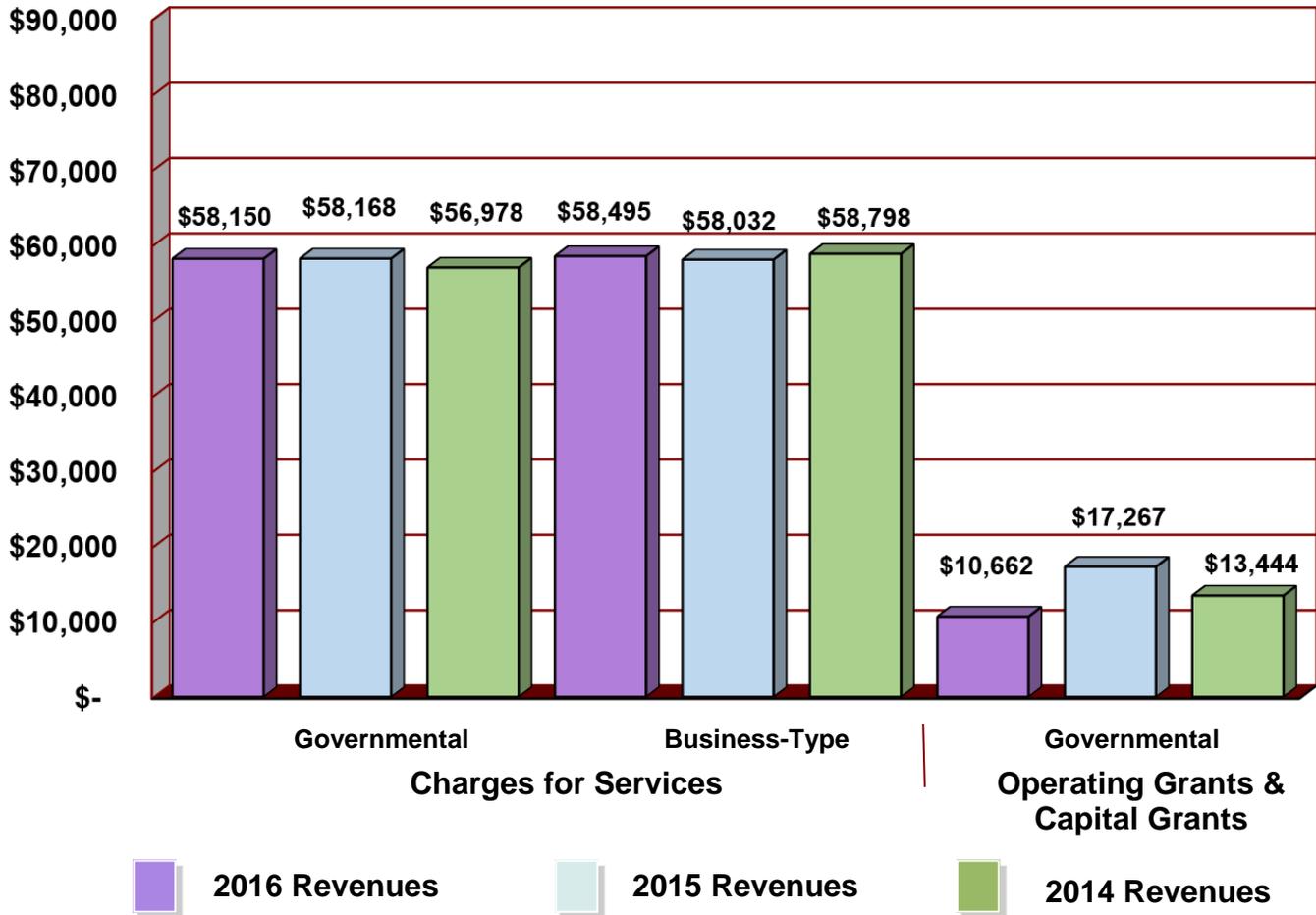


Governmental expenses increased from \$208,972,000 in the fiscal year ending September 30, 2015, to \$241,025,000 in the fiscal year ending September 30, 2016, due to an increase in the net pension liability as a result of CalPERS' pension plan earnings ending the year below expected rates and additional public safety staffing in the current fiscal year. Business-Type expenses increased from \$58,318,000 in the fiscal year ending September 30, 2015, to \$61,893,000 in the fiscal year ending September 30, 2016, primarily due to an increase in water meter maintenance, supplies and operations expenses.



City of Huntington Beach Program Revenues Governmental and Business-Type Activities For the Years Ending September 30, 2016, 2015 and 2014 (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 \$58,032,000 in the fiscal year ending September 30, 2015 to \$58,495,000 in the fiscal year ending September 30, 2016 for business-type activities due to a slight increase in water rates. Operating and capital grants for governmental activities

decreased from \$17,267,000 in the fiscal year ending September 30, 2015 to \$10,662,000 in the fiscal year ending September 30, 2016 primarily due to capital contribution from the Huntington Beach Redevelopment Successor Agency Private Purpose Trust and a one-time donation received from Hoag Hospital for the construction of the new Senior Center in prior 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.

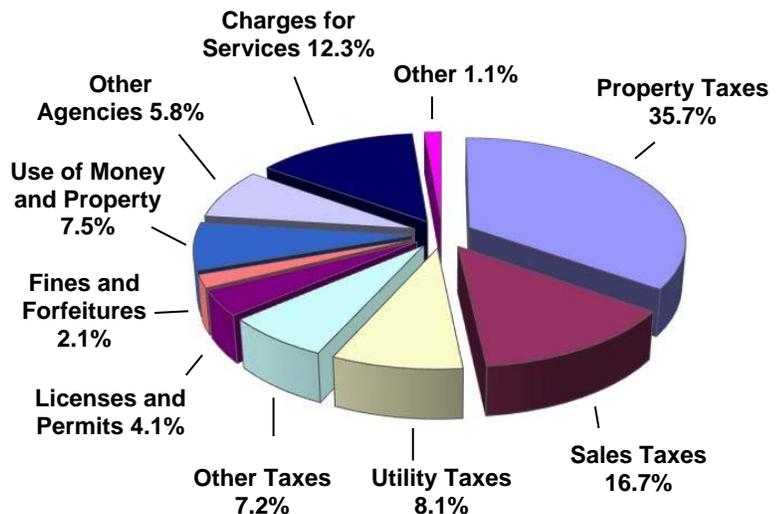
Capital Projects Funds are used to account for and report financial resources for capital outlays.

Revenue/Resources (Where the Money Comes From)

The City received \$241,719,000 from various funding sources for the fiscal year ending September 30, 2016.

City of Huntington Beach Statement of Revenues Governmental Funds For the Year Ending September 30, 2016 and 2015 (In Thousands)

REVENUE BY SOURCE	2015	2016
Property Taxes	\$ 82,472	\$ 86,382
Sales Taxes	32,234	39,305
Utility Taxes	20,229	19,482
Other Taxes	16,464	17,313
Licenses and Permits	9,270	9,820
Fines and Forfeitures	4,746	5,144
Use of Money and Property	17,473	18,055
Other Agencies	18,634	13,712
Charges for Services	32,510	29,811
Other	3,359	2,695
Total	\$ 237,391	\$ 241,719



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.



Governmental Fund Revenues (continued)

Governmental Fund Revenues increased by \$4.3 million or 1.8% from the prior fiscal year. The following details the significant changes from the prior fiscal year:

- Property taxes increased by \$3.9 million or 4.7% primarily due to the City's share of redevelopment property sales.
- Sales taxes increased by \$7.1 million or 21.9% primarily due to the State's unwinding of the Triple Flip, strong auto sales, and a one-time correction by the State Board of Equalization related to use tax revenue.
- Revenues from other agencies decreased by \$4.9 million or 26.4% primarily due to a decrease in Quimby Fund and Traffic Impact Fund revenues.
- Charges for services decreased by \$2.7 million or 8.3% primarily due to a decrease in development in the current fiscal year.

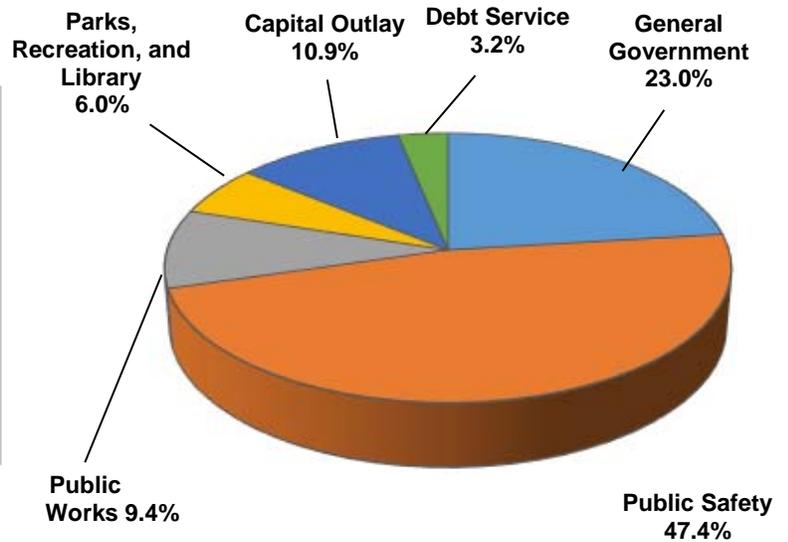


Expenditures/Services (Where the Money Goes)

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, 2015, to September 30, 2016, the total expenditures incurred by the City were \$250,678,000 (excluding transfers and other financing sources).

City of Huntington Beach Statement of Expenditures Governmental Funds For Years Ending September 30, 2016 and 2015 (In Thousands)

EXPENDITURES	2015	2016
General Government	\$ 50,393	\$ 57,852
Public Safety	113,948	118,812
Public Works	23,820	23,659
Parks, Recreation, and Library	14,369	15,015
Capital Outlay	14,986	27,269
Debt Service	7,680	8,071
Total	\$ 225,196	\$ 250,678



Governmental Fund Expenditures (continued)

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.

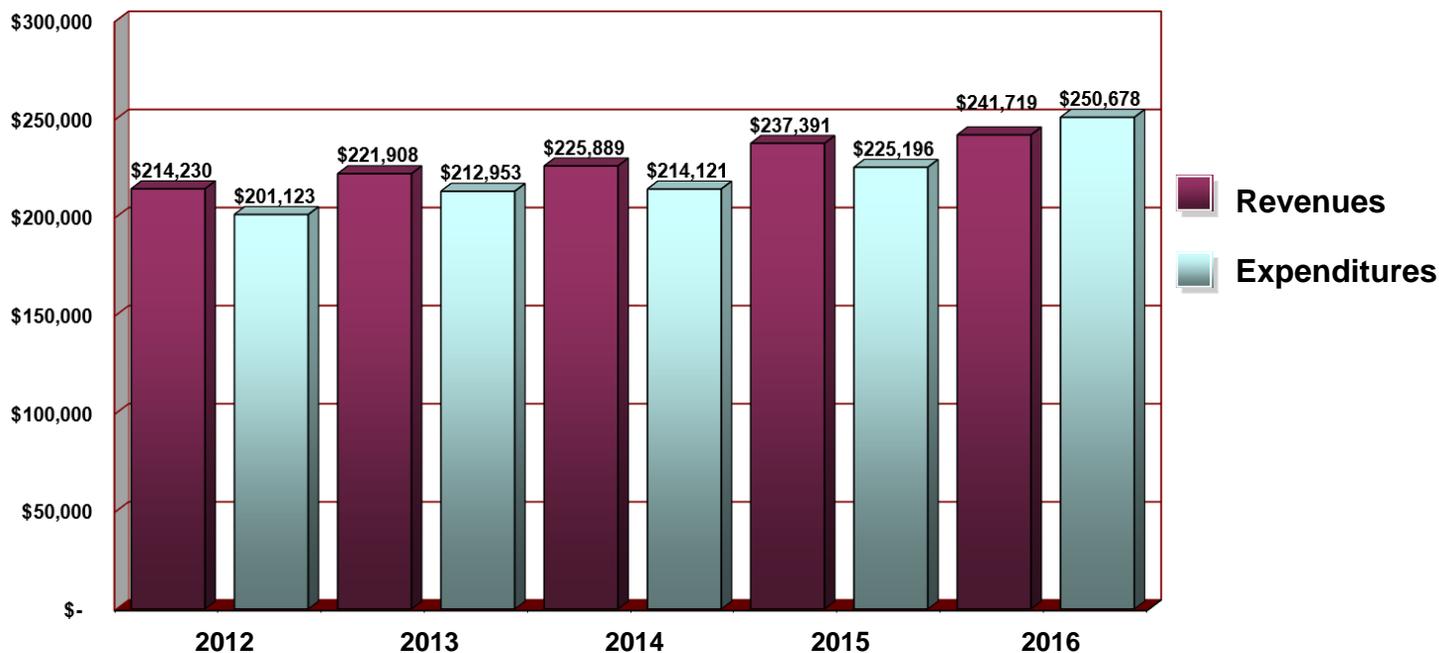
Capital expenditures are expenses related to the purchase of property, machinery, equipment and expenses related to improving the City's infrastructure.

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

Governmental Fund Expenditures increased by \$25.5 million or 11.3% from the prior fiscal year. The following details the significant changes from the prior fiscal year.

- General government expenditures increased by \$7.5 million or 14.8% due to an increase in labor costs, general claims liability, and the City's share of the Countywide 800MHz radio interoperability project.
- Public safety expenditures increased by \$4.9 million or 4.3% primarily due to an increase in labor costs and public safety staffing.
- Capital expenditures increased by \$12.2 million or 82% largely due to the completion of the City's new 38,000 square feet Senior Center.

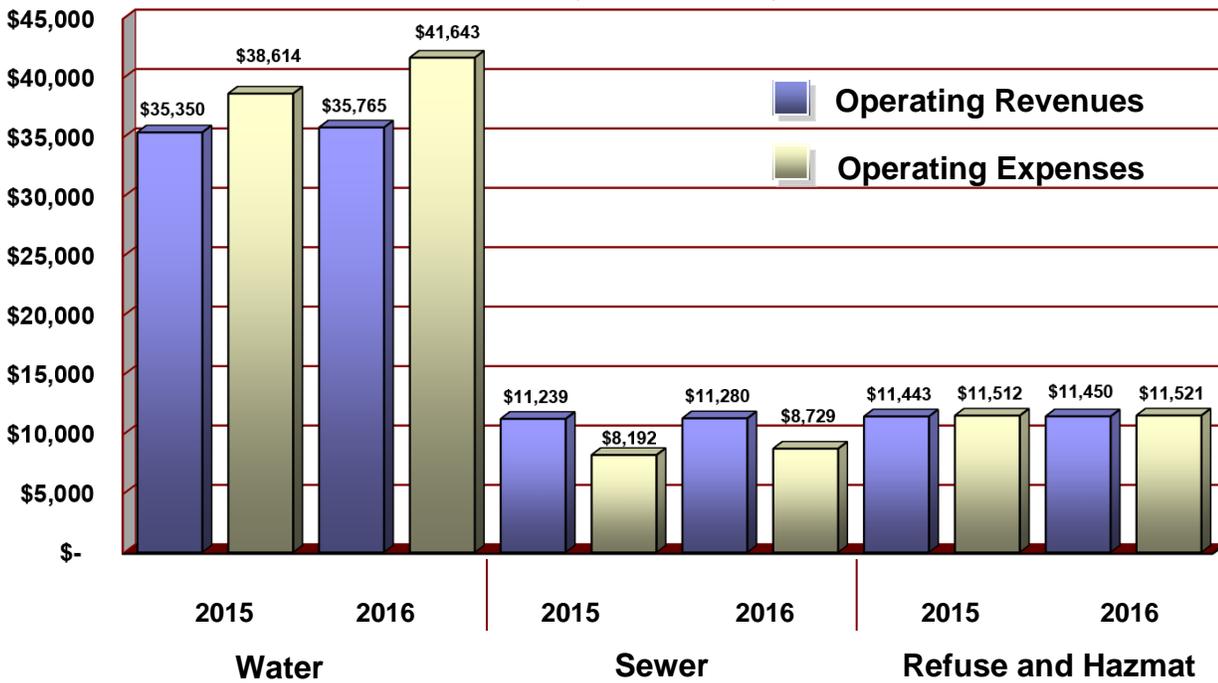
Governmental Funds Revenues and Expenditures - Five Year Trend *(in Thousands)*



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, 2016.

(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.

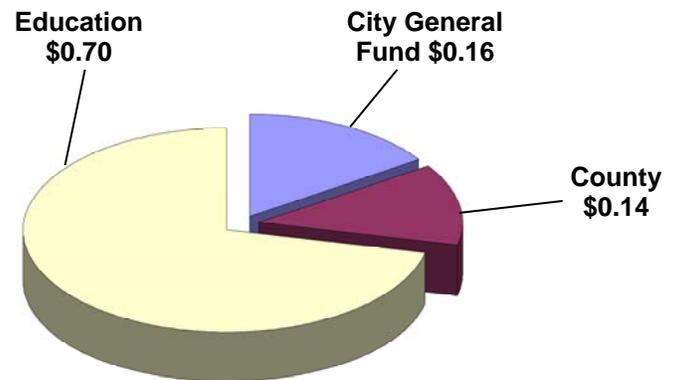
Where Do the Taxes Go?

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.

Huntington Beach



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, 2015. 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 ten consecutive years (fiscal years ended 2006-2015). 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, 2015

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. 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	1.09465% (varies by tax rate area)
Unemployment Rate	3.90%
Fitch Bond Rating	AAA
S&P Bond Rating	AA and AA-
Moody's Bond Rating	Aa2, Aa3 and A2
Property Tax Revenue	\$86,382,000
Total City Debt	\$105,847,000
City Net Position	\$639,484,000



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