City of Huntington Beach

Long-Term Financial Plan

August 19, 2013

Summary

- Five-Year Plan Update
- General Fund Financial Outlook
  - FY 2013/14 Proposed Budget Baseline
  - Revenue Assumptions
  - Expenditure Assumptions
  - Unfunded Liabilities Review
  - General Fund Reserves
  - Risk Factors
  - Strategic Planning Retreat Discussion
- Recommendations

Benefits of a Five-Year Plan

- Build a financially resilient government through long-term financial planning
- Improve long-term financial sustainability as required through the Strategic Plan
- More time to effect change and adapt
- Adds transparency and encourages involvement
- Methods to determine the cost/benefits of decisions over the long-term
- Tool to help leaders balance demanding needs for:
  - Enhanced or new services, infrastructure needs and financial reserves

Basis of Estimates

- Local and National Economic Indicators
- Orange County Assessor’s Office
- Property Tax and Sales Tax Consultants (HDL)
- Economic Forecasts (i.e., Chapman, Fullerton, and UCLA)
- CalPERS’ Actuarial Valuations
- Bartel Associates’ Analyses and Recommendations
- Financial Advisor’s Input and Analysis (PFM)

Five-Year Plan

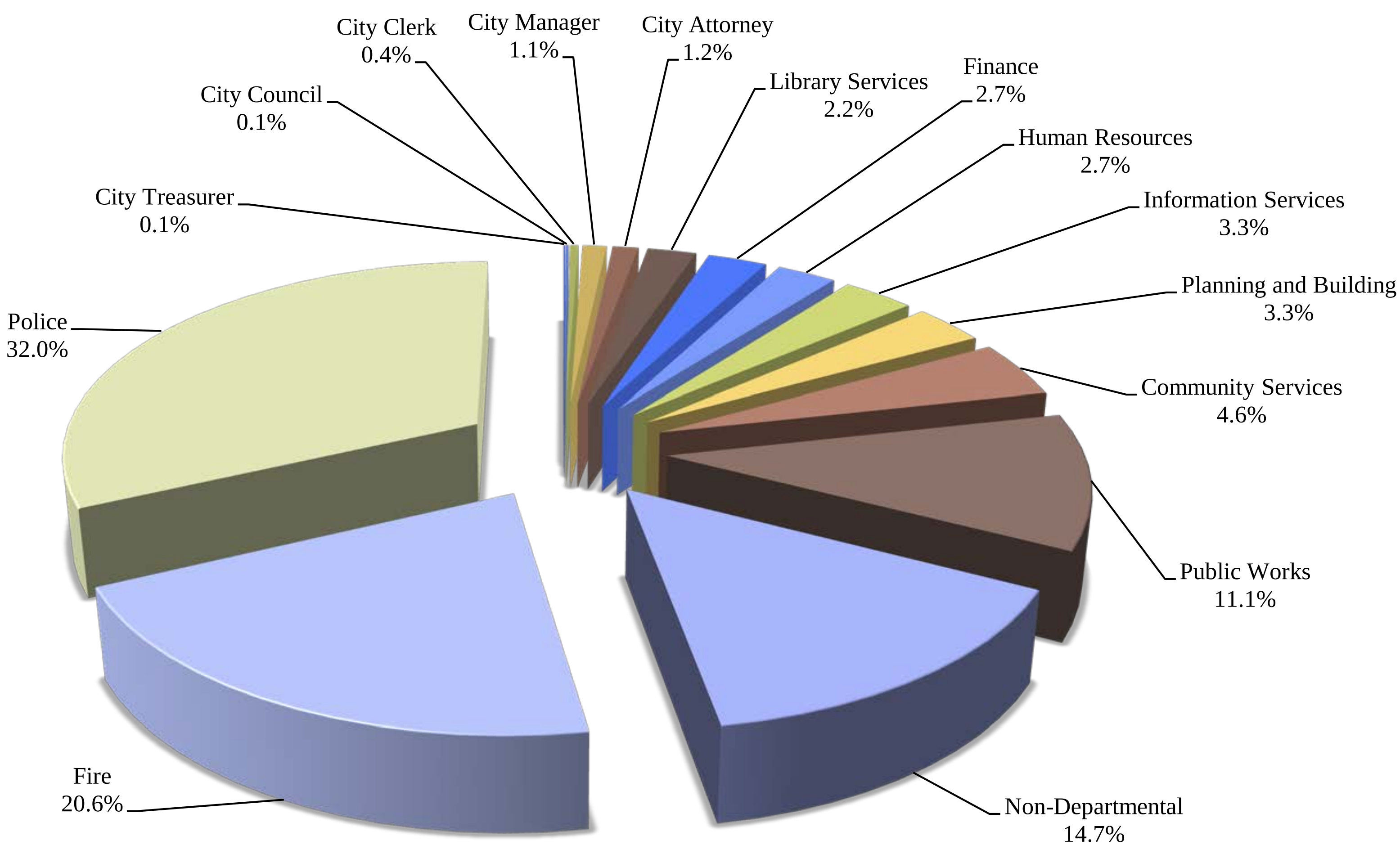
August 19, 2013

General Fund Expenditure Baseline

- The Proposed General Fund Budget totals $193.5 million, a 3.9% increase from the FY 12/13 Adopted Budget
- For the first time in six years, the Proposed General Fund Budget is balanced for FY 13/14 with:
  - No layoffs, position reductions, or defunded positions
  - No departmental cuts
  - No service reductions

FY 2013/14 Baseline

General Fund Budget by Department



Revenue Assumptions

- Property Tax will increase steadily by a modest 3.5% annually in FY 14/15 and thereafter
- Sales Tax will increase by 4.25% in FY 14/15 and FY 15/16, and stabilize at 4.0% in FY 16/17
- Transient Occupancy Tax is estimated at 4.0% annually
- Overall, General Fund revenue will increase on average by 2.8% per year over the next 5 years, or an additional $5.7 million annually on average

Expenditure Assumptions

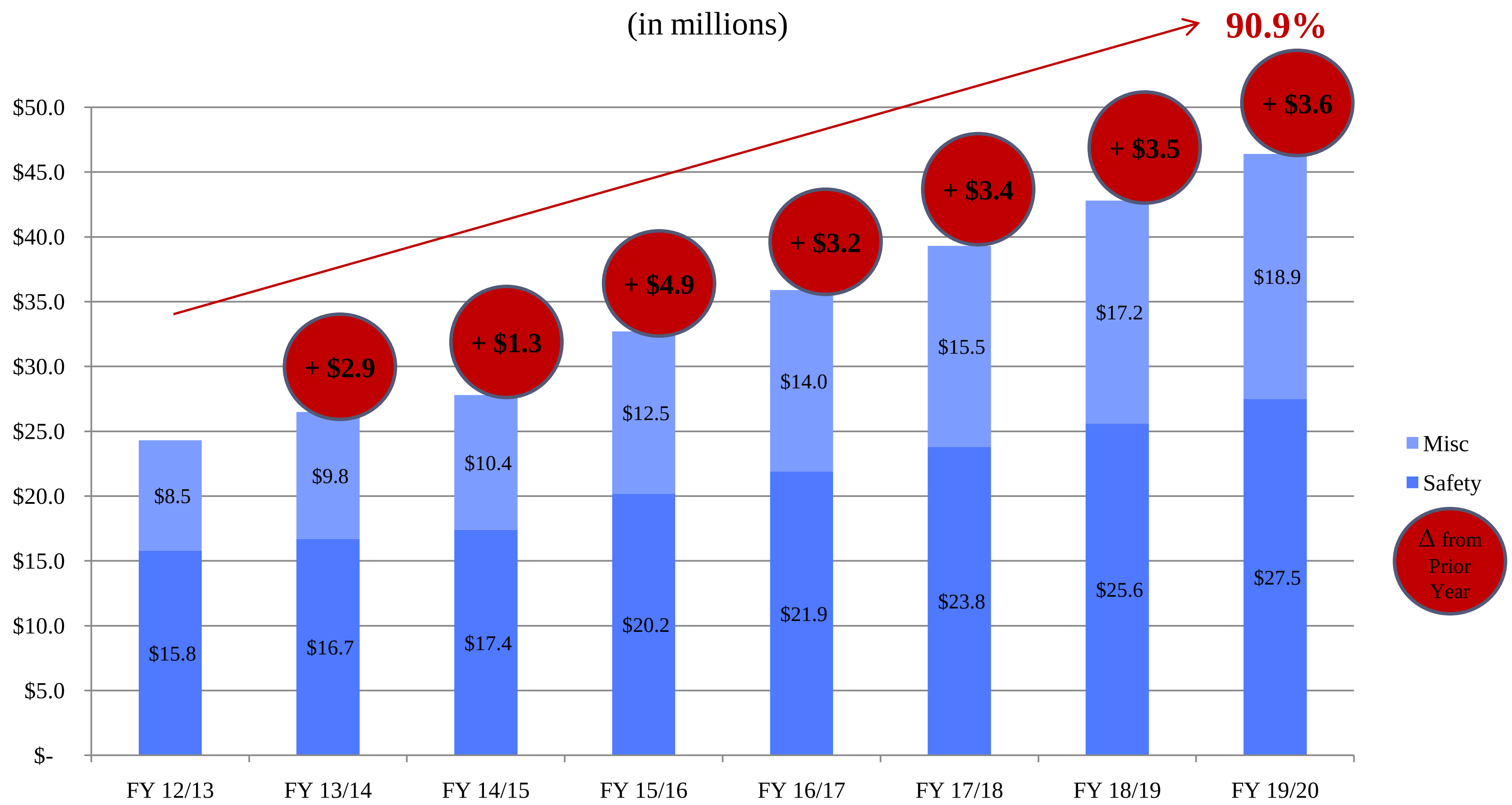
- Baseline labor costs with no changes to the Table of Organization
- Existing employees' PERS pick-ups remain*
- Reflects projected CalPERS rate increases per Bartel Associates' analysis
- $1 million additional for Equipment Replacement for FY 13/14, and $500,000 thereafter until $6 million is reached in FY 17/18
- $500,000 more for Infrastructure in FY 14/15, and thereafter, to meet the 15% infrastructure Charter requirement
- $1 million per year for 800 MHz interoperability project
- $500,000 per year for three years for the General Plan
- $516,000 per year for Affordable Care Act compliance
- $1 million in FY 14/15 and thereafter for the Senior Center Debt Service Payment

*Assumes continuation of HBFA at 6.75% pick-up

Expenditure Assumptions
(CalPERS Rate Increases)

- CalPERS costs will increase from $25.6 million in FY 13/14 to $46.4 million in FY 19/20
  - Reflects impact of discount rate change from 7.75% to 7.50% (no phase-in) in FY 13/14 and a reduction to 7.25% in FY 15/16
  - Reflects impact of a significantly reduced payroll base
  - Accounts for almost 50% of the total increase in the General Fund Budget in FY 13/14
  - 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 lifespans

7-Year CalPERS – All Funds
Employer Contribution Increases



Summary considers 30-Year Rolling to Fixed Amortization, Direct Rate Smoothing, Mortality Study and 7.25% Discount Rate

Five-Year Plan Highlights
(in thousands)

Category	Proposed FY 13/14	Projected FY 14/15	Projected FY 15/16	Projected FY 16/17	Projected FY 17/18
SALARIES	91,331	94,606	96,021	97,101	98,159
CALPERS	25,560	26,760	31,450	34,500	37,750
WORKERS' COMP & OTHER BENEFITS	22,687	22,673	22,860	23,033	23,212
OPERATING & NON-OPERATING	46,963	47,509	47,956	45,843	45,585
INFRASTRUCTURE	3,000	3,500	4,000	4,500	5,000
EQUIPMENT	4,000	4,500	5,000	5,500	6,000
TOTALS	**193,541**	**199,548**	**207,287**	**210,477**	**215,706**

REVENUES	**193,541**	**198,791**	**204,224**	**210,345**	**216,364**
CIR - Senior Center Debt		1,000	1,000		
(CHALLENGE)/SURPLUS	**0**	**(243)**	**(2,063)**	**(132)**	**658**

Five-Year Plan Highlights

- The City's General Fund is benefiting from the national economic recovery
- The City is well poised to benefit from this recovery through increased revenue
- However, the City's personnel cost is approximately 72% of the General Fund Budget
- As such, <u>fixed cost increases</u> related to the existing payroll base will largely consume projected revenue increases
- The most significant cost increases projected over the next 5 to 10 years are the City's pension costs due to CalPERS' rate changes

Five-Year Plan Highlights

- Hence, projected revenue increases will primarily assist in funding increased pension costs
- FY 15/16 will be challenging as there is a projected $2.1 million deficit due to the full implementation of PERS' new rate changes
- The Five-Year Plan reflects the "Base Case" and <u>does not</u> reflect enhanced staffing levels or restored positions

Unfunded Liabilities

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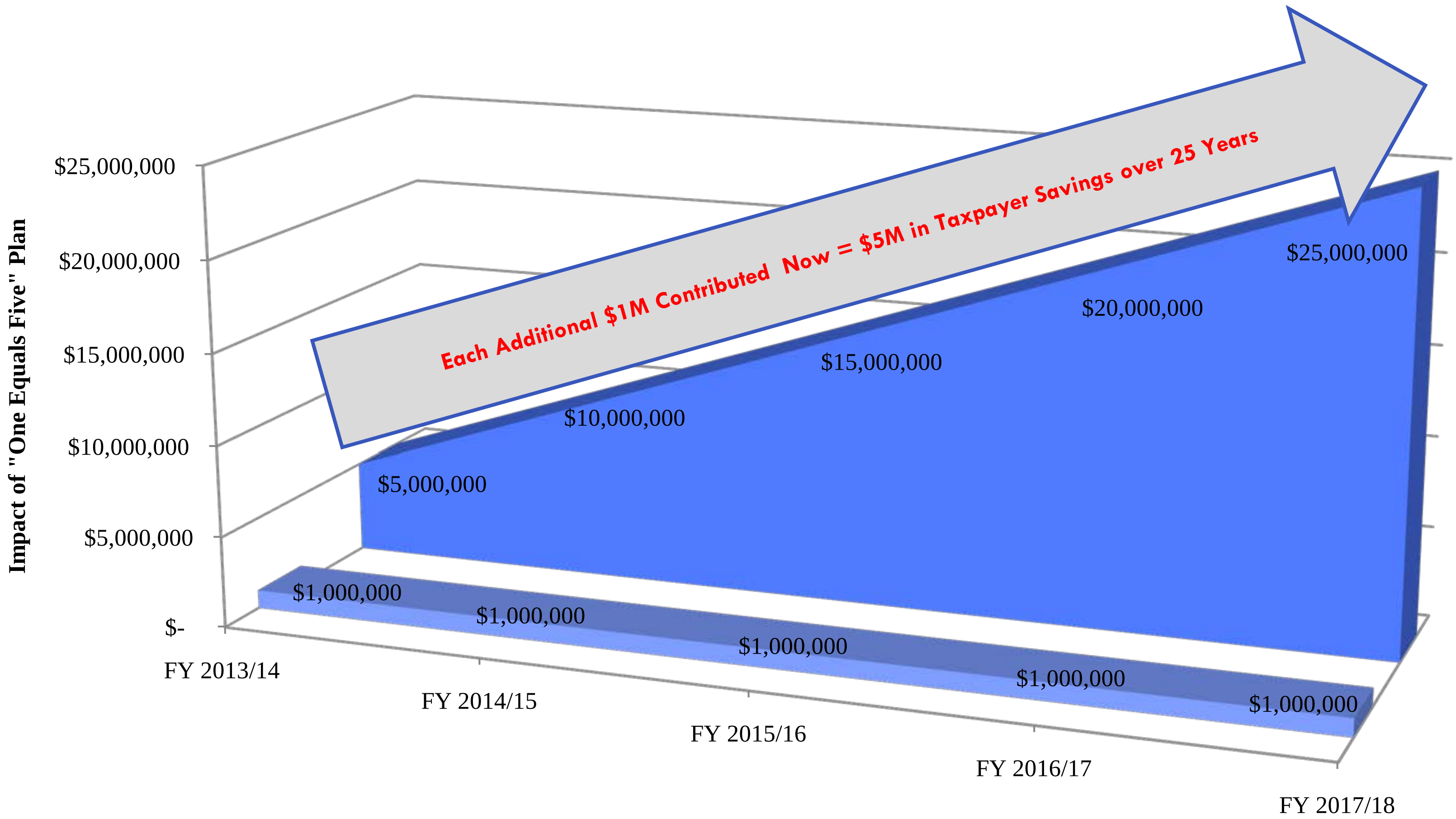
Accomplishments

- Paid off PARS liability in FY 12/13, two years ahead of schedule
- Increased payments to Retiree Medical Plan by a total of $981,000 over the past 3 years (above the ARC)
- Increased payment to Retiree Supplemental Plan by $969,000 in FY 11/12 (above the ARC)
- Opted to budget full impact of discount rate change in Year One for PERS rate (FY 13/14)

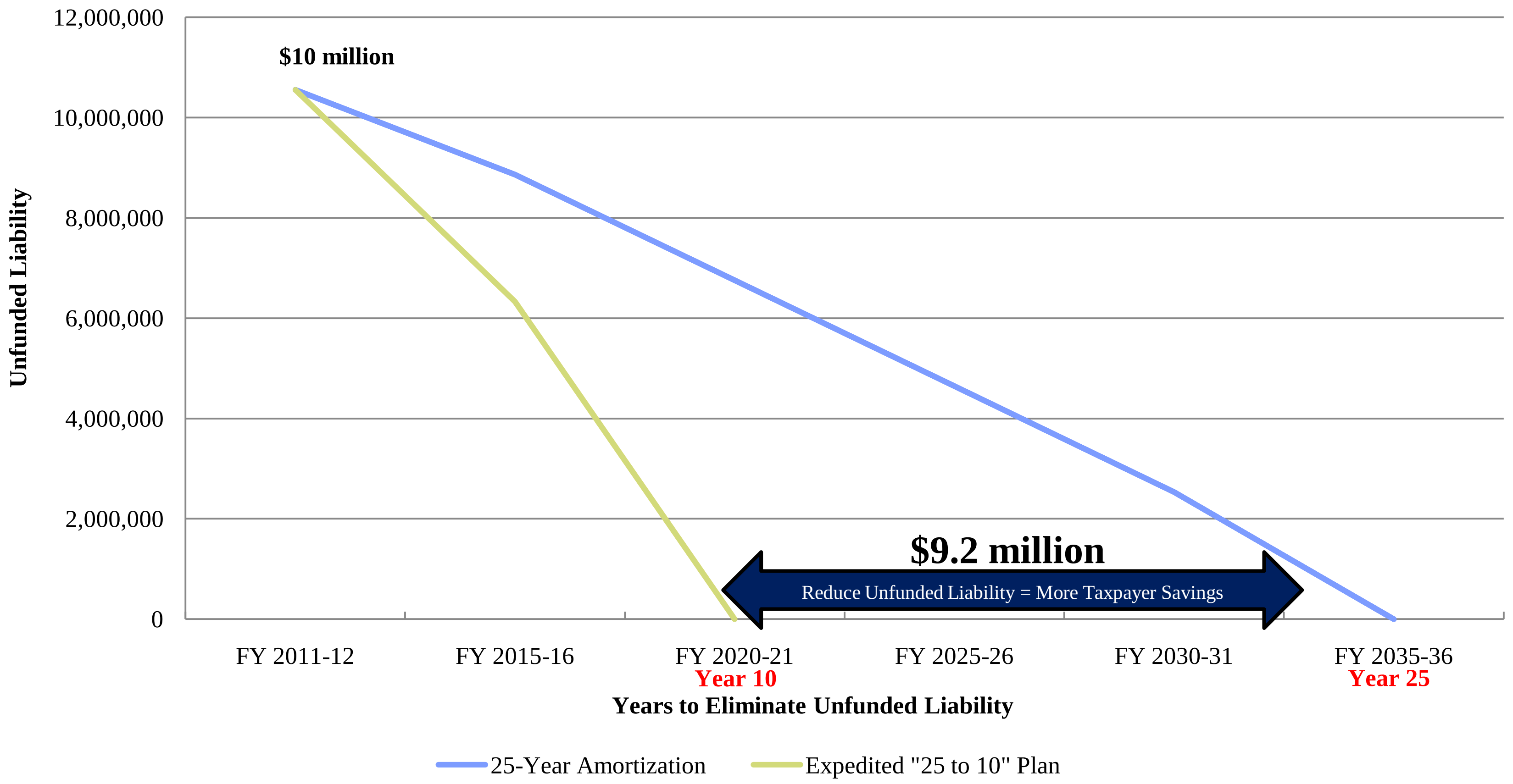
Plan to Reduce Unfunded Liabilities

- The 5-Year Plan reflects a 5-pronged approach:
  - “One Equals Five” Set-Aside for CalPERS
  - “25 to 10” Plan for Retiree Medical
  - “16 to 10” Plan for Retiree Supplemental
  - Consider revision to Financial Reserve Policy as follows:
    - 25% to Economic Uncertainties Reserve
    - 25% to Capital Improvement Reserve (CIR)
    - 25% to Pension Rate Stabilization Fund
    - 25% for Infrastructure Fund
  - As recommended by Bartel Associates, reduce unfunded pension liabilities by $1.9 million year-end, if possible

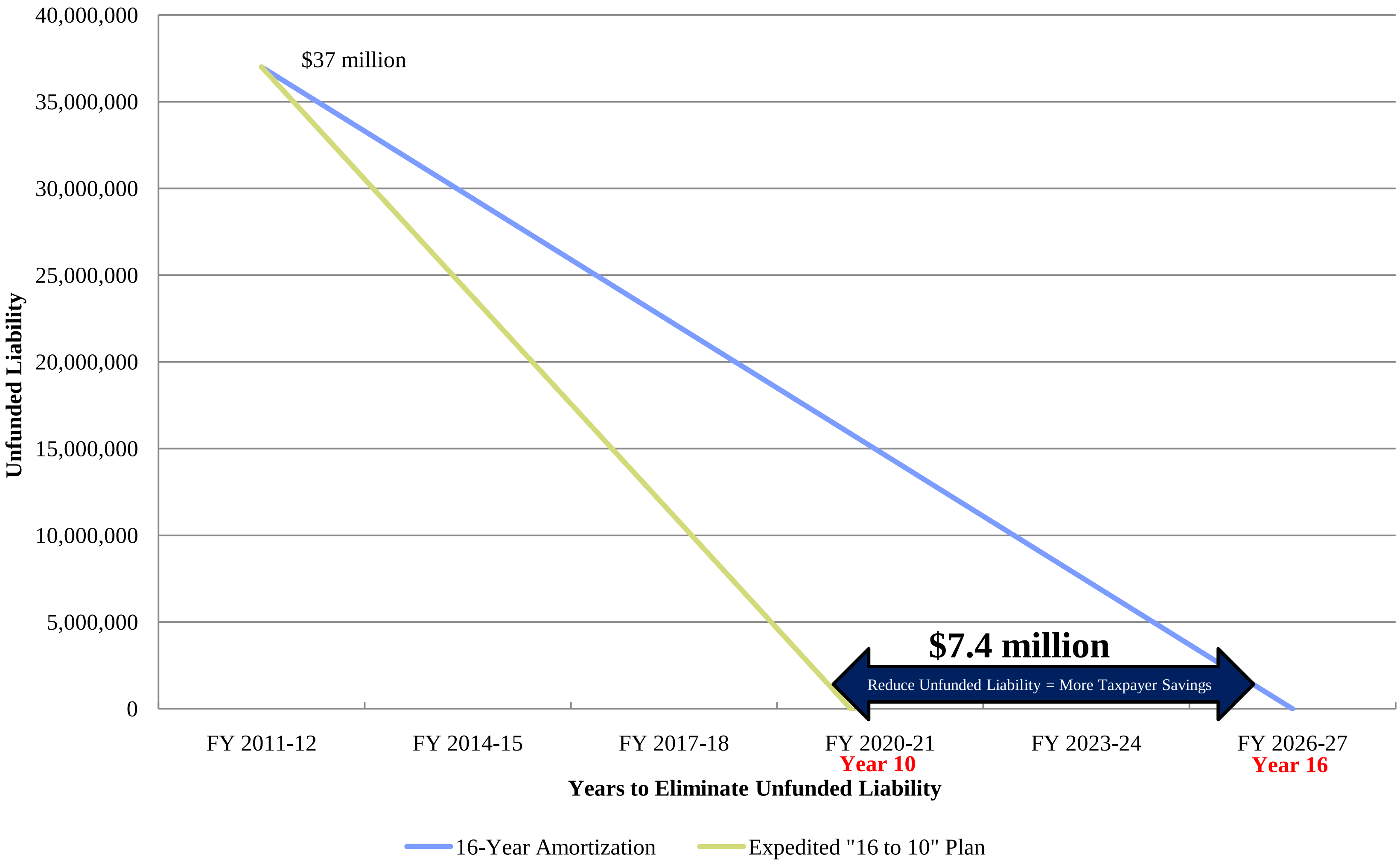
"One Equals Five" Plan
CalPERS



“25 to 10” Plan
Retiree Medical



“16 to 10” Plan
Retiree Supplemental



Recommendations by Bartel Associates

- Budget the full impact of the previous discount rate change (7.75% to 7.5%) in FY 2013/14
- Use extra one-time money to pay down unfunded liabilities
- Options to fund higher future pension costs include:
  - Allocate/Find additional ongoing revenue to fully fund increasing future pension costs
  - Negotiating to have employees pay more
- Utilize long-term financial plan to expedite full funding for increased CalPERS costs

General Fund Reserves

HUNTINGTON BEACH

August 19, 2013

General Fund Balance
(in thousands)

Fund Balance Category	Audited FY 11/12	Estimated FY 12/13	Estimated FY 13/14	Estimated FY 14/15
Economic Uncertainties	24,011	24,011	24,011	24,011
Equipment Replacement	6,913	11,413	11,413	11,413
Capital Improvement Reserve	5,970	5,970	4,970	3,970
PARS Obligation	4,701			
Budget Stabilization Fund	3,100	3,100	3,100	3,100
Retiree Medical Unfunded Liability	698			
Senior Center Debt Service			1,000	1,000
Litigation Reserve	900	1,900	1,900	1,900
Other Fund Balance	8,142	8,253	8,253	8,253
Total Fund Balance	**54,435**	**54,647**	**54,647**	**53,647**

Risk Factors

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Redevelopment Dissolution

❑ Disallowed Items – Recurring Costs	**$ 836,000**
❑ Additional disallowances	
➢ Low-Mod Housing DDR*	$ 3,600,000
➢ Non-Housing DDR (Other Funds)	$ 8,813,384
➢ General Fund Impact	$ 5,078,834
	$17,492,218

*City filed litigation against the Department of Finance in FY 11/12 regarding the $3.6 million in Low-Mod Funds.

Strategic Planning Retreat Discussion

August 19, 2013

Strategic Planning Retreat Discussion Funding for 3 Police Officers

At the August 2, 2013 Strategic Planning Retreat, the City Council requested options to fund three additional Police Officers in the FY 13/14 Proposed Budget

Police Officer Costing

Assumptions:

	Year 1		Year 2	
FTE	1	3	1	3
Fully Burdened Cost without PERS	166,110	498,330	166,110	498,330
PERS	63,700	191,100	67,360	202,080
Total Cost*	$ 229,810	**$ 689,430**	$ 233,470	**$ 700,410**

Funding Options for 3 Police Officers

Options	Description	FY 13/14 Proposed Budget
Option 1	800 MHz Interoperability Project	$1 million
Option 2	Affordable Care Act^	$516,000
Option 3	Capital Improvement Projects*	$3 million

- **Staff recommends Option 2**

^One-time delay in Affordable Care Act implementation to January 1, 2015.
*Balance to be funded by the CIR.

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Questions?

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