

# CITY OF HUNTINGTON BEACH

*California*



## **Popular Annual Financial Report**

*For The Nine-Month  
Period Ended  
June 30, 2018*





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## ABOUT HUNTINGTON BEACH

## CITY PROFILE

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 201,761 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 16 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 \$94,281, 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 52.7 percent, have a college education, rendering it one of the top three cities to live within Orange County by the *Orange County Register* (September 2017) and one of the top ten “Happiest Cities in the U.S.” by WalletHub (March 2018).

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, consistently ranked in the top 10 best beaches in California, Huntington Beach is also home to numerous national events such as the Vans U.S. Open of Surfing which attracts 300,000 visitors annually and the Surf City USA Marathon with over 16,000 runners. The annual AVP Beach Volleyball Tour also commands a strong presence totaling 20,000 visitors each year. In addition, the City is hosting the inaugural International Cartoon Festival held by the National Cartoonists Society in May 2019, which will add to the repertoire of amazing events in the City.

In 2018, the Great Pacific Airshow- the only beachfront air show on the West Coast- featured the Thunderbirds flying F-16 Fighting Falcons, performing 40 heart-stopping formation and solo routines to a crowd of over 1.5 million over two days. The City also hosts a variety of other exciting events for families and visitors such as the annual Concours d’Elegance, Pacific Islander Festival, Cherry Blossom Festival, Civil War Days, and, of course, the City’s most iconic event- the Fourth of July Fireworks Show and Parade. A proud tradition for over a century, the City’s Fourth of July Celebration has over 1 million television viewers and over 500,000 in-person attendees and is known nationally as “the largest Fourth of July Parade west of the Mississippi.”



## **ELECTED OFFICIALS**

*From left to right:*

***City Attorney Michael Gates  
Councilmember Jill Hardy  
Mayor Erik Peterson  
City Treasurer Alisa Backstrom  
Mayor Pro Tem Lyn Semeta  
Councilmember Kim Carr  
Councilmember Mike Posey  
Councilmember Barbara Delgleize  
City Clerk Robin Estanislau  
Councilmember Patrick Brenden***

## **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. The City of Huntington Beach has earned the reputation of being among the nation's best run cities. I am confident that Huntington Beach will continue to be the greatest city in which to work, live and play.

**Gilbert Garcia**  
**Chief Financial Officer**

### ***Huntington Beach by the Numbers***

<b>Property Tax Rate</b>	<b>1.11820% (varies by tax rate area)</b>
<b>Unemployment Rate</b>	<b>2.70%</b>
<b>Fitch Bond Rating</b>	<b>AAA</b>
<b>S&amp;P Bond Rating</b>	<b>AA and AA-</b>
<b>Moody's Bond Rating</b>	<b>Aa2 and A2</b>
<b>Property Tax Revenue</b>	<b>\$80,614,000</b>
<b>Total City Debt</b>	<b>\$109,619,000</b>
<b>City Net Position</b>	<b>\$651,807,000</b>
<b>Median Age</b>	<b>40.9 Years Old</b>
<b>Average Household Size</b>	<b>2.60</b>
<b>Average Home value</b>	<b>\$688,700</b>



# 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 2018 Comprehensive Annual Financial Report (CAFR). Per City Council action taken December 18, 2017, the City's fiscal year changed from a September 30 year-end to a June 30 year-end, resulting in a nine-month reporting period for FY 2017/18. 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 12-14 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](http://www.huntingtonbeachca.gov), or by contacting the Finance Department at 2000 Main Street, Huntington Beach, California, 92648, by phone at (714) 536-5630, or by e-mail at [tvi@surfcity-hb.org](mailto:tvi@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 23rd largest in California, there are over 109,900 people employed by public and private entities in Huntington Beach. With an unemployment rate of 2.7 percent, well below the national and state levels, the City's labor force is well positioned to maintain the City's strong tax base.

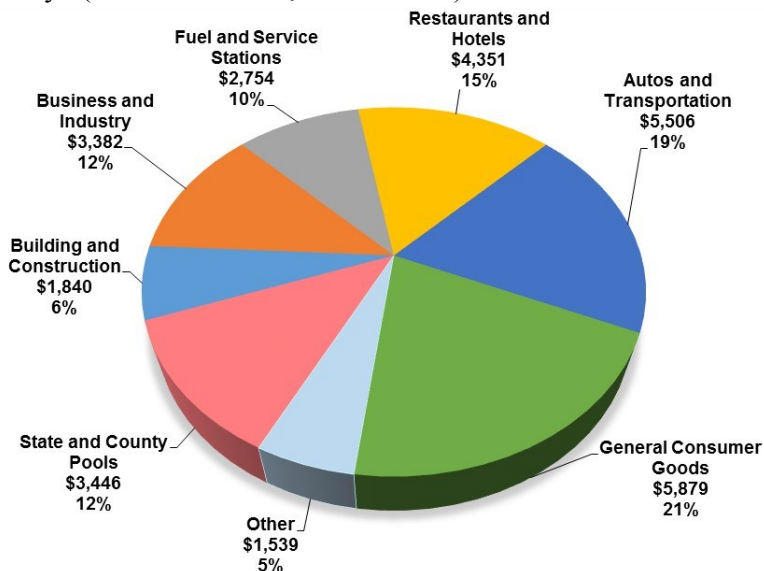
Huntington Beach has numerous demographic factors in its favor:

- Personal median incomes greater than State or County averages
- A stable property tax base
- A diversified sales tax base
- A strong tourism & leisure industry
- Low unemployment rate

These factors have helped the City achieve a AAA underlying credit rating from Fitch Ratings and balanced budgets.

Those accomplishments have earned The City various accolades throughout the year:

- #1 in the nation for "Quality of City Services" (WalletHub, July 2018)
- #14 for "Best Run City in America" (WalletHub, July 2018)
- #4 out of 10 for "Top Destinations for the Family" (Financial Times, March 2018)



The Huntington Beach business community is 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, large-scale retailers and surf apparel. The top five principal employers of the City include Boeing, Cambro MFG Co., Zodiac Aerospace, C & D Aerospace, 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 2017-2018\* (In Thousands)

\*The City changed its Fiscal Year-End to June 30 effective FY 2017/18.



## 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. 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.

### **Residences at Pacific City**

The eagerly anticipated Residences at Pacific City recently opened in May 2018, with 516 luxury residences, including a limited number of penthouses, spread across seventeen acres that are located next to Pacific City's oceanfront dining, shopping, and entertainment center. Amenities include six themed courtyards, walking paths, a two-acre park, and a pet recreation center.



### **Pierside Pavillion Expansion**

The iconic Pierside Pavillion, recently rebranded as the Huntington Surf and Sport Building, is in the final stages of the expansion and remodeling of the building. This last phase will add a four-story, 30,000 square foot mixed-use building with high-end retail, an upscale restaurant with a rooftop terrace, and two floors of office space with balconies. The project is expected to be completed in early 2020.



### **Boeing Site Sale**

In September 2018, Sares-Regis, an Irvine-based property management company, purchased the 285,000 square foot office, surface parking area, and related 30-acre property that is a part of Boeing's 120-acre Huntington Beach campus on Bolsa Chica. Plans for the area are currently under development.

### **Transient Occupancy Tax**

A 10 percent tax applied to hotel stays within the City totaled \$8.8 million, a strong performance considering the absence of the peak summer months as a result of the nine-month fiscal year. Tourism continues to be an economic driver in Huntington Beach as its numerous events, stretch of pristine beach, and relaxed atmosphere attract over 16 million visitors each year to stay in its hotels.

# MAJOR INITIATIVES

## Energy Conservation

Huntington Beach is known throughout the region for its innovative and ground breaking energy conservation efforts. In 2017, the City acquired close to 11,000 streetlights from Southern California Edison, and is in the process of retrofitting the aged high pressure sodium luminaries to LED luminaries saving taxpayers \$10 million dollars over the next 20 years due to reduced energy costs. The project is anticipated to be completed in early 2019.



## Pension Rate Stabilization Plan (Section 115 Trust)

The City is continuing its innovative, three-pronged approach to significantly reduce its pension and Other Post Employment Benefit (OPEB) unfunded liabilities in 10 years. The plan was first included in the FY 2013/14 Adopted Budget and launched a multi-year effort to pay down the pension and retiree medical liabilities ahead of schedule. Based on actuarial valuations conducted in FY 2012/13, if this contribution is made consistently over a 25 year period, it is projected that taxpayers may save a net \$53.7 million. The plan reached its first successful milestone with the elimination of the unfunded liability for the City's OPEB plan for miscellaneous employees. This unique plan received both the prestigious "Innovation Award" from the California Society of Municipal Financial Officers and the "Golden Hub of Innovation Award" from the Association of California Cities-Orange County in 2014 for its insightful approach to reducing unfunded liabilities.

The value of the City's unfunded pension liabilities currently totals \$420 million, representing a 67.3 percent funded status. During the nine-month period ended June 30, 2018, an additional \$1 million was transferred 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. In accordance with clarifying guidance from the Governmental Accounting Standards Board (GASB), the Section 115 Trust is included in the City's General Fund for financial reporting purposes beginning October 1, 2017.





## MAJOR INITIATIVES

### **Small-Cell Communications Deployment**

The City has contracted with Philips Lighting for the development and replacement of up to 200 City-owned street lights with Smart Poles for purposes of small cell deployments within the Downtown and Pacific Coast Highway areas. The Smart Pole is an integrated unit that will replace the existing street light poles with equipment able to house multiple small cell installations within the pole. The Smart Pole will be available to wireless carriers to sub-license, which will increase wireless coverage in the high demand Downtown area to visitors and residents, especially during world-class events such as the Vans U.S. Open of Surfing. Installation of the Smart Poles is expected to begin in 2019.



### **Police Headquarters Renovation**

The City's current police headquarters, built in the early 1970s, will undergo extensive renovations in order to modernize the building and to address critical structural deficiencies, such as a lack of adequate plumbing, drainage, and ventilation in the bathrooms and lockers. Improvements will include expansion of the 911 Communications Center. Currently, the City is in the design phase of the renovation with construction anticipated to begin in late FY 2019/20.



# Key Financial Information

## CITY DEBT

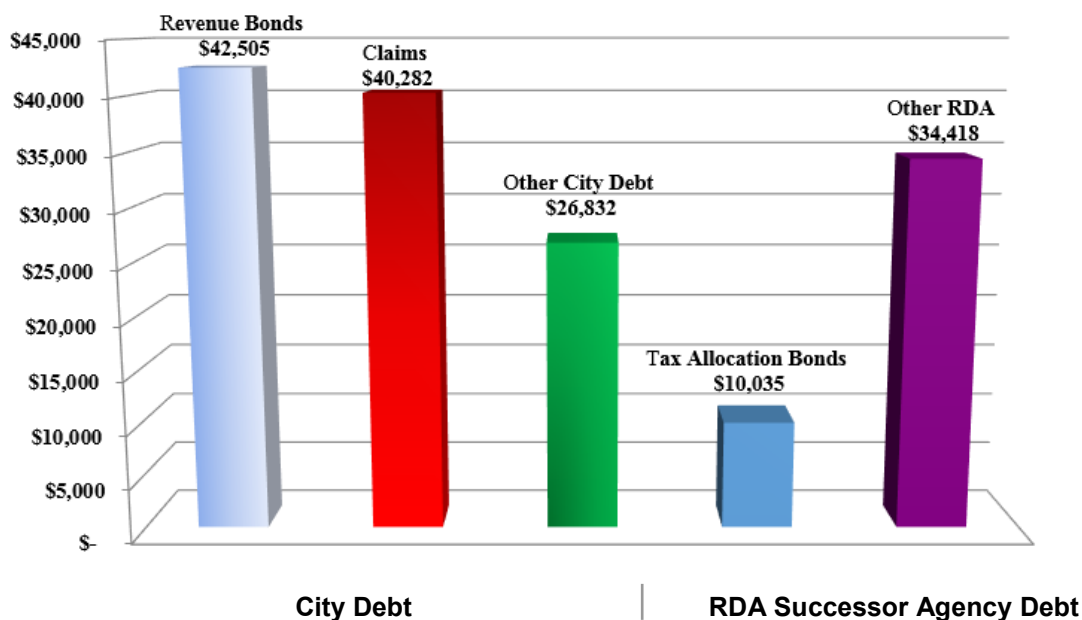
Debt Instrument	Moody's S & P	
1999 Tax Allocation Refunding Bonds	A2	AA-
2002 Tax Allocation Refunding Bonds	A2	AA-
2010 Lease Revenue Bonds, Series A	Aa2	AA
2011 Lease Revenue Bonds, Series A	Aa2	AA
2014 Lease Revenue Bonds, Series A	N/A	AA

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 chart on the left shows the latest ratings as determined by Moody's Investors Service and Standard & Poor's as of June 30, 2018. These ratings are important because it is a barometer of the fiscal strength of an agency. The City continues to maintain strong credit ratings on all of its other debt issues. Most notably, in June 2018, Fitch Ratings reaffirmed the City's AAA Implied General Obligation Bond rating. The high ranking puts the City in an elite group of cities not only in California, but in the entire country, with AAA ratings.

## TOTAL CITY DEBT AS OF JUNE 30, 2018

(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.
- **Claims Payable**– Workers' Compensation and Liability Insurance claims made to the City.
- **Other City Debt** – Miscellaneous long-term debts that include loans, leases, pollution remediation liabilities, and compensated absences.
- **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.





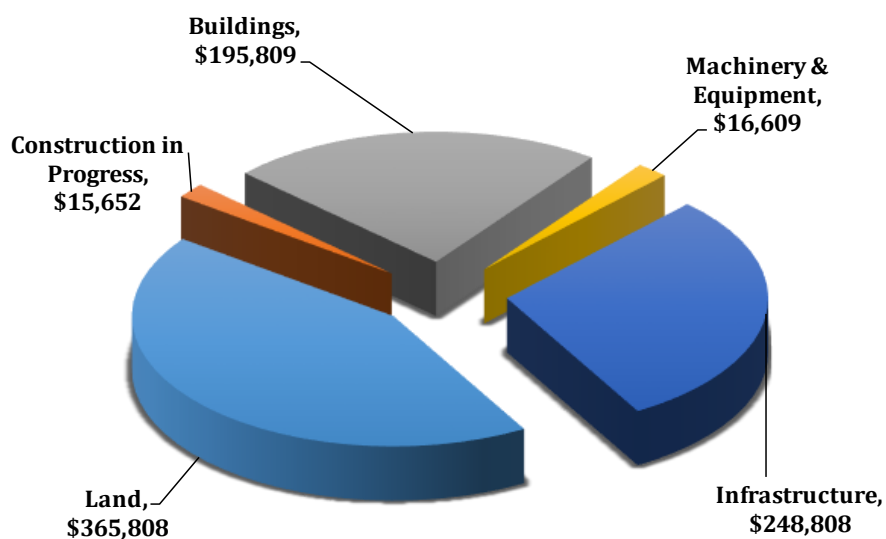
## CITY OF HUNTINGTON BEACH CAPITAL ASSETS

### As of JUNE 30, 2018

*(In Thousands)*

As of June 30, 2018, the City's total capital assets balance is \$842,686,000. This total amount is comprised of Infrastructure, Land, Construction in Progress, Building, and Machinery and Equipment as displayed in the below chart. 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.





## INVESTMENT PORTFOLIO

The City's cash and investment practices and policies as of June 30, 2018, 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 protect principal and maintain liquidity to meet expected operating expenses;
- To ensure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer; 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.



### MARKET VALUE OF THE CITY'S CASH AND INVESTMENTS As of JUNE 30, 2018 (In Thousands)

INVESTMENTS:	Investment Maturities (In Years)					
	Fair Value	Less than 1	1 to 3	3 to 5	More than 5	Total
US Agency Securities*	\$ 148,637	\$ 48,164	\$ 66,439	\$ 34,034	\$ -	\$ 148,637
Mutual Funds	55,745	55,745	-	-	-	55,745
Commercial Paper	19,977	19,977	-	-	-	19,977
Money Market Funds	569	569	-	-	-	569
Medium Term Notes - IBRD	4,997	4,997	-	-	-	4,997
Corporate Bonds	25,746	5,995	19,751	-	-	25,746
Local Agency Investment Fund	59,930	59,930	-	-	-	59,930
California Asset Mgmt Program	2,794	2,794	-	-	-	2,794
<b>Total Investments</b>	<b>\$ 318,395</b>	<b>\$ 198,171</b>	<b>\$ 86,190</b>	<b>\$ 34,034</b>	<b>\$ -</b>	<b>318,395</b>
	<b>Total Deposits</b>					<b>18,710</b>
	<b>Total Deposits and Investments</b>					<b>\$ 337,105</b>

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

## 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 June 30, 2018 and September 30, 2017.

- Total **Current and Other Assets** increased by 5% for governmental activities due to an increase in the cash balance as a result of the fiscal year change. A large portion of the City debt service payment is due in August and September creating a larger cash balance in June versus September. In addition, there was a \$5,208,000 increase in Park Development Impact fees collected in FY 2017/18.
- **Capital Assets** increased by 1 percent primarily due to street replacement infrastructure costs.
- **Deferred Outflows** and **Deferred Inflows** increased by 40 percent and decreased by 2 percent, respectively. These changes are mostly due to changes in the net differences between the projected and actual earnings of pension plan investments and as a result of CalPERS contributions made subsequent to the measurement date.
- Total **Current and Other Liabilities** increased by 6 percent due to normal fluctuations in the accounts payable and payroll cycle.
- Total **Long-Term Liabilities** increased due to an increase in the City's workers' compensation liability.
- Total **Restricted Net Position** increased by 11 percent primarily due to an increase of restricted Debt Service Funds and an increase in restricted Capital Project Funds related to a new restricted revenue source, Road Maintenance and Rehabilitation Account (RMRA) funding as well as an increase in planned park development projects.
- Total **Unrestricted Net Position** decreased by 14 percent due to reduced expenses as a result of the absence of higher costing summer months in the nine-month fiscal year.

## CITY OF HUNTINGTON BEACH STATEMENT OF NET POSITION

### AS OF JUNE 30, 2018 AND SEPTEMBER 30, 2017

(In Thousands)

	Governmental Activities			Business-Type Activities			Total Primary Government		
	2018	2017 (Restated)	Change	2018	2017 (Restated)	Change	2018	2017 (Restated)	Change
<b>Assets</b>									
Current and Other Assets	\$ 213,270	\$ 198,900	7%	\$ 87,692	\$ 87,021	1%	\$ 300,962	\$ 285,921	5%
Capital Assets	698,732	692,432	1%	143,954	141,973	1%	842,686	834,405	1%
<b>Total Assets</b>	<b>912,002</b>	<b>891,332</b>	<b>2%</b>	<b>231,646</b>	<b>228,994</b>	<b>1%</b>	<b>1,143,648</b>	<b>1,120,326</b>	<b>2%</b>
<b>Deferred Outflows of Resources</b>	<b>93,640</b>	<b>67,180</b>	<b>39%</b>	<b>6,496</b>	<b>4,463</b>	<b>46%</b>	<b>100,136</b>	<b>71,643</b>	<b>40%</b>
<b>Liabilities</b>									
Current and Other Liabilities	15,717	15,561	1%	9,872	8,523	16%	25,589	24,084	6%
Long-Term Obligations	519,147	518,646	0%	30,051	30,489	-1%	549,198	549,135	0%
<b>Total Liabilities</b>	<b>534,864</b>	<b>534,207</b>	<b>0%</b>	<b>39,923</b>	<b>39,012</b>	<b>2%</b>	<b>574,787</b>	<b>573,219</b>	<b>0%</b>
<b>Deferred Inflows of Resources</b>	<b>16,303</b>	<b>16,743</b>	<b>-3%</b>	<b>887</b>	<b>887</b>	<b>0%</b>	<b>17,190</b>	<b>17,630</b>	<b>-2%</b>
<b>Net Position</b>									
Net Investment in Capital Assets	650,466	646,281	1%	143,954	141,973	1%	794,420	788,254	1%
Restricted	58,537	45,676	28%	25,886	30,444	-15%	84,423	76,120	11%
Unrestricted	(254,528)	(284,395)	-11%	27,492	21,141	30%	(227,036)	(263,254)	-14%
<b>Total Net Position</b>	<b>\$ 454,475</b>	<b>\$ 407,562</b>	<b>12%</b>	<b>\$ 197,332</b>	<b>\$ 193,558</b>	<b>2%</b>	<b>\$ 651,807</b>	<b>\$ 601,120</b>	<b>8%</b>

See page 19 for an explanation of accounting terms.



# STATEMENT OF ACTIVITIES

The following graphs 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 PROGRAM EXPENSES

### GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

FOR THE NINE-MONTH PERIOD ENDED JUNE 30, 2018 AND FISCAL YEARS ENDED SEPTEMBER 30, 2017 AND 2016

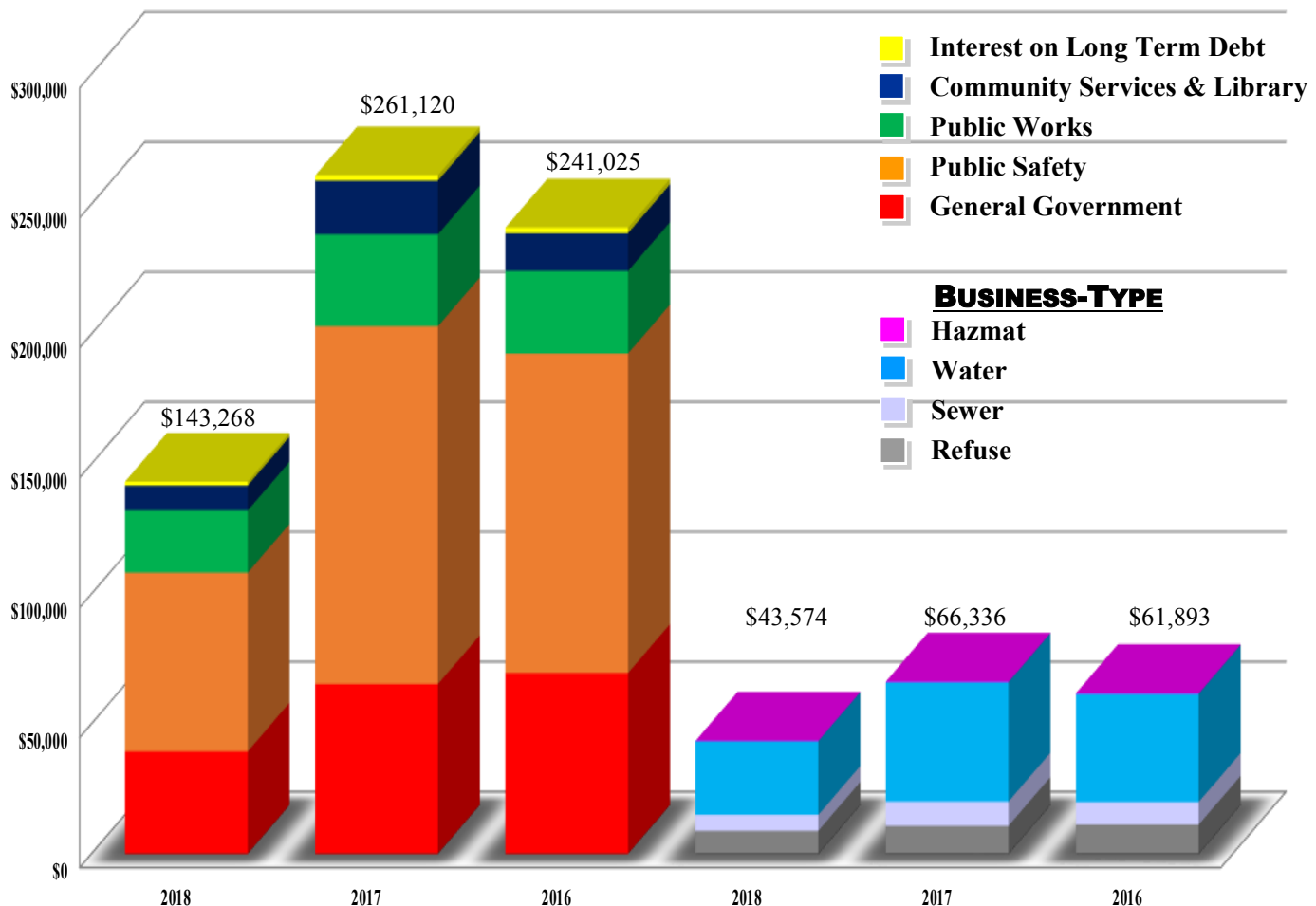
(In Thousands)

#### GOVERNMENTAL

- Interest on Long Term Debt
- Community Services & Library
- Public Works
- Public Safety
- General Government

#### BUSINESS-TYPE

- Hazmat
- Water
- Sewer
- Refuse



Governmental expenses decreased from \$261,120,000 in fiscal year ending September 30, 2017, to \$143,268,000 in the nine-month period ending June 30, 2018, primarily due to the change from the September 30 year-end to June 30 year-end resulting in a nine-month fiscal year which excludes the peak season of July to September. Business-Type expenses decreased from \$66,336,000 in the fiscal year ending September 30, 2017, to \$43,574,000 in the nine-month period ending June 30, 2018, primarily due to the nine-month fiscal year which excludes the summer months when water usage and related maintenance costs are at their highest levels during the year.

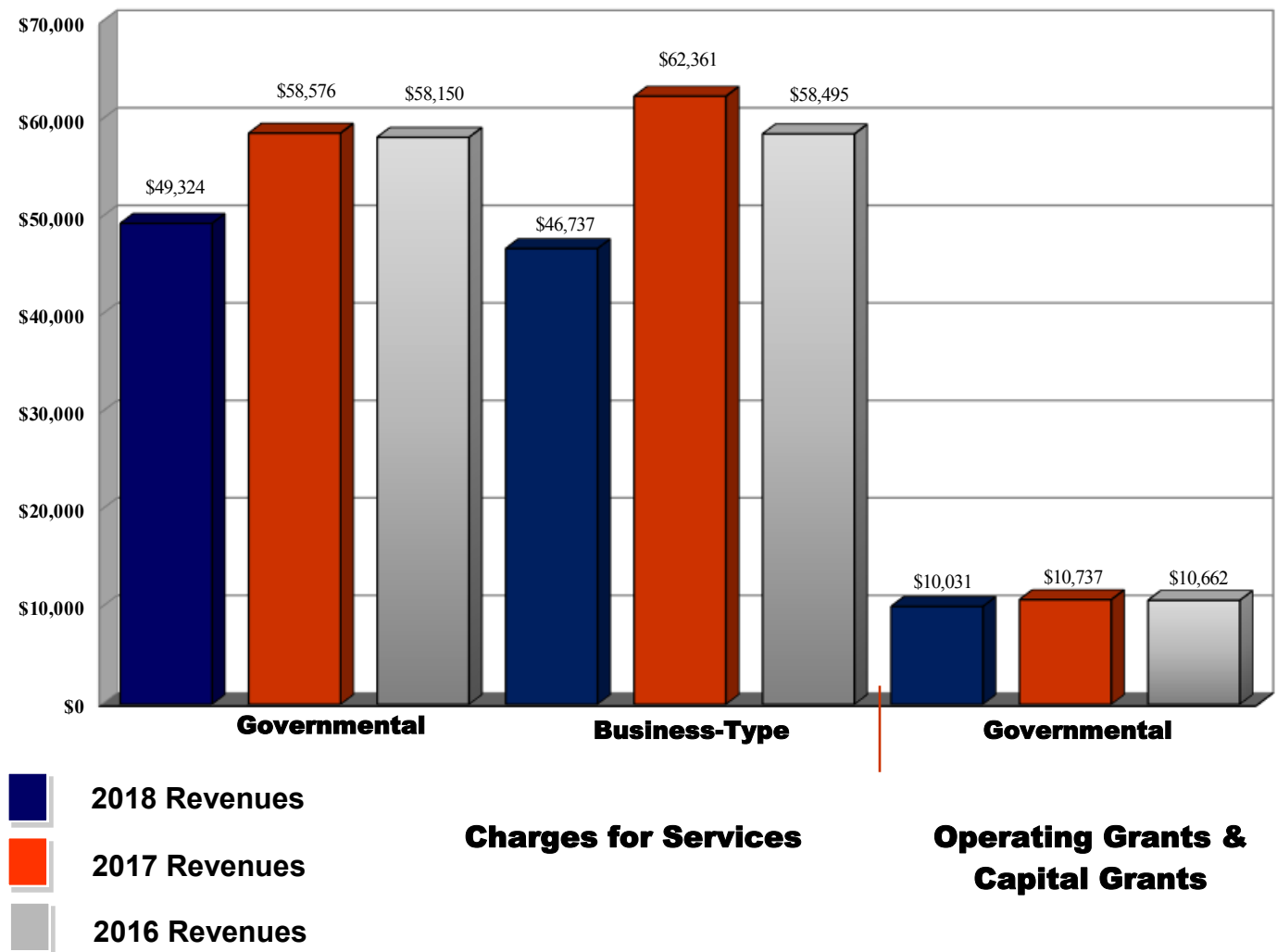
# STATEMENT OF ACTIVITIES

## CITY OF HUNTINGTON BEACH PROGRAM REVENUES

### GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES

**FOR THE NINE-MONTH PERIOD ENDED JUNE 30, 2018 AND FISCAL YEARS ENDED SEPTEMBER 30, 2017 AND 2016**  
(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 decreased from \$58,576,000 in the fiscal year ending September 30, 2017, to \$49,324,000 in the nine-month period ending June 30, 2018, primarily due to the truncated fiscal year. Business-type charges for services decreased from \$62,361,000 to \$46,737,000 also primarily due to the nine-month fiscal year. Operating Grants and capital grants decreased by \$706,000 primarily due to a decrease in Housing and Urban Development Grants, Supplemental Law Enforcement Services, and Office of Traffic Safety Grants from the prior year.



## GOVERNMENTAL FUNDS

The City maintains 23 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 \$208,422,000 from various funding sources for the nine-month period ended June 30, 2018.

#### CITY OF HUNTINGTON BEACH STATEMENT OF REVENUES GOVERNMENTAL FUNDS

FOR THE NINE-MONTH PERIOD ENDED JUNE 30, 2018  
AND FISCAL YEAR ENDED SEPTEMBER 30, 2017  
(In Thousands)

REVENUE BY SOURCE	2018	2017
Property Taxes	\$ 80,614	\$ 80,826
Sales Taxes	33,844	43,551
Utility Taxes	14,014	19,303
Other Taxes	18,409	17,991
Licenses and Permits	6,293	8,812
Fines and Forfeitures	3,048	3,995
Use of Money and Property	11,600	17,210
Other Agencies	10,384	15,293
Charges for Services	28,582	29,682
Other	1,634	2,669
<b>Total</b>	<b>\$208,422</b>	<b>\$239,332</b>

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.

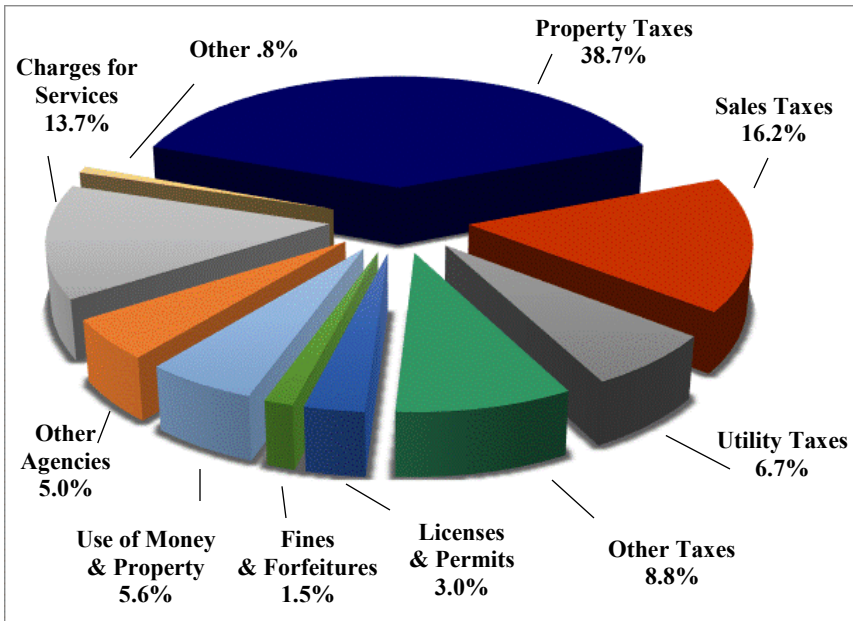
Revenue from the **use of money and property** includes interest on City investments, leases, parking fees, and concessions.

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 FUNDS



Governmental Fund Revenues decreased by \$30.9 million or 12.9% from the prior fiscal year due to the shortened nine-month fiscal year. The following details the significant changes from the prior fiscal year:

- Property Taxes decreased only .3% despite the nine-month fiscal year. This was primarily due to the recognition of December 2017 property tax receipts in FY 2017/18 in accordance with GASB modified accrual accounting standards.
- Utility taxes decreased by \$5.3 million or 27.4% due to conservation efforts and bundled telecommunication packages.
- Licenses and Permits decreased \$2.5 million or 28.6% due to a slowdown in new development in the city from the prior year.

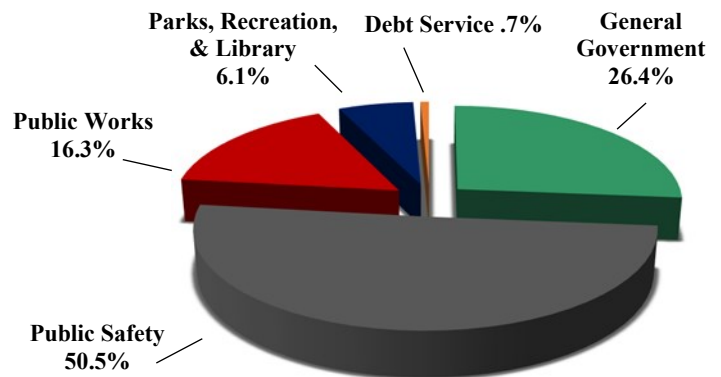
## EXPENDITURES/SERVICES (WHERE THE MONEY GOES)

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, 2017, to June 30, 2018, the total expenditures incurred by the City were \$186,555,000 (excluding transfers and other financing sources).

### CITY OF HUNTINGTON BEACH STATEMENT OF EXPENDITURES GOVERNMENTAL FUNDS

**FOR THE NINE-MONTH PERIOD ENDED JUNE 30, 2018 AND FISCAL YEAR ENDED SEPTEMBER 30, 2017**  
(In Thousands)

EXPENDITURES	2018	2017
General Government	\$ 49,265	\$ 61,792
Public Safety	94,263	121,846
Public Works	30,357	38,635
Parks Recreation, & Library	11,394	18,546
Debt Service	1,276	7,157
<b>Total</b>	<b>\$ 186,555</b>	<b>\$ 247,976</b>



## GOVERNMENTAL FUNDS

**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.

**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.

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

Expenditures for **Public Works** are those related to the design, construction, maintenance, and operation of public facilities and infrastructure within the City.

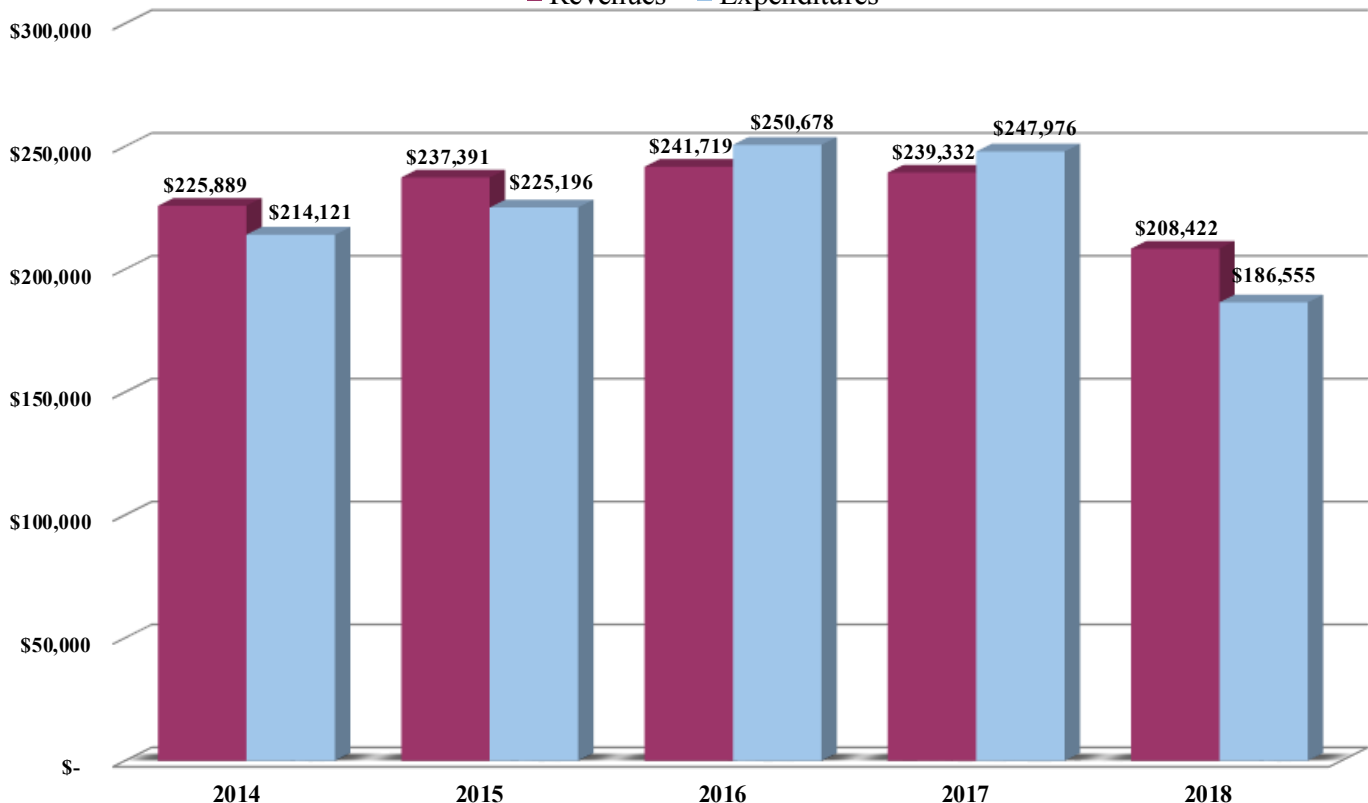
Governmental Fund Expenditures decreased by \$61.4 million or 24.8% from the prior fiscal year. The following details the significant changes from the prior fiscal year:

- Debt service expenditures decreased primarily due to the City's debt service payments are made in August and September, which is outside the City's new fiscal year.
- Public service expenditures decreased primarily due to the exclusion of the summer months of July through September when demand for services and overtime requirements are higher.

### GOVERNMENTAL FUNDS REVENUES AND EXPENDITURES - FIVE YEAR TREND

(in Thousands)

■ Revenues ■ Expenditures



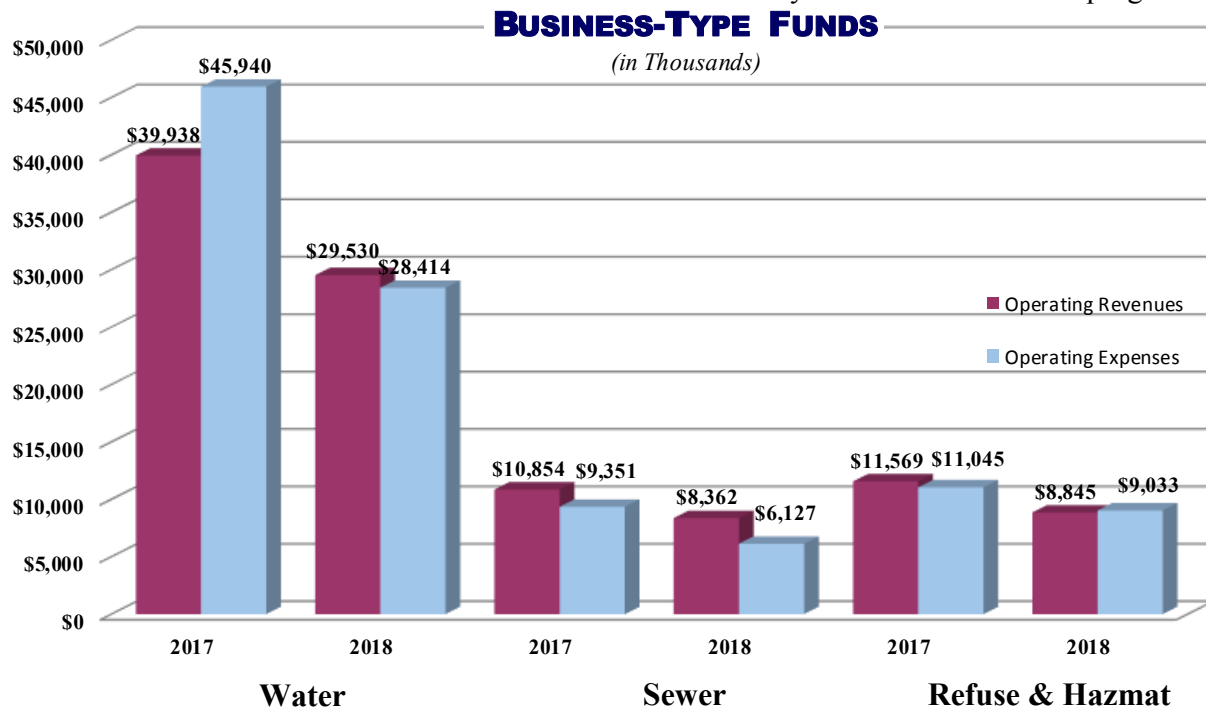


## BUSINESS-TYPE FUNDS

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 June 30, 2018.

The **Water Fund** accounts for water sales to customers and costs incurred to maintain its infrastructure. The **Refuse Fund** accounts for the activities of the City's refuse collection program.

The **Sewer Service Fund** accounts for user fees charged to residents and businesses for sewer services. The **Hazmat Service Fund** accounts for user fees charged for the City's hazardous materials program.

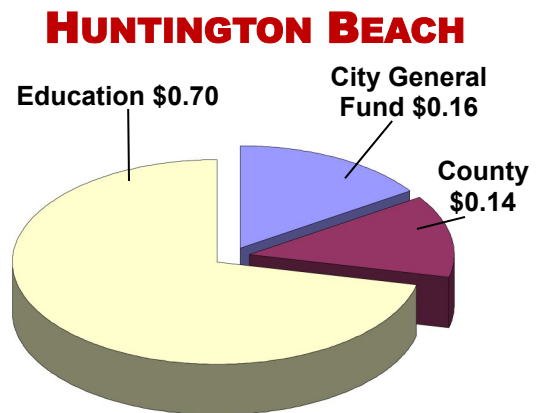


## WHERE DO THE TAXES GO?

**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.



# 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.

**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.

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

**Deferred Inflows of Resources** – Represents an acquisition 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.

**Net Position** - This represents the City's total assets and deferred outflows of resources less the total liabilities and deferred inflows of resources.

**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.





# AWARD

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, 2017. The Award for Outstanding Achievement in Popular Annual Financial Reporting is a prestigious 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 twelve consecutive years (fiscal years ended 2006-2017). 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, 2017**

*Christopher P. Morrell*  
Executive Director/CEO



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