

CITY OF HUNTINGTON BEACH

California



POPULAR ANNUAL FINANCIAL REPORT

*For The Year Ended
June 30, 2020*

REPORT CONTENTS

| | | | | | |
|----------------------|---|------------------------------------|----|---------------------------------|-------|
| CITY PROFILE | 5 | CAPITAL ASSETS | 10 | GOVERNMENTAL FUNDS | 15-17 |
| LOCAL ECONOMY | 6 | INVESTMENT PORTFOLIO | 11 | BUSINESS-TYPE FUNDS | 18 |
| COVID-19 INITIATIVES | 7 | STATEMENT OF NET POSITION | 12 | EXPLANATION OF ACCOUNTING TERMS | 19 |
| CITY HIGHLIGHTS | 8 | STATEMENT OF ACTIVITIES - EXPENSES | 13 | | |
| CITY DEBT | 9 | STATEMENT OF ACTIVITIES - REVENUES | 14 | | |

CITY OF HUNTINGTON BEACH, CALIFORNIA ELECTED OFFICIALS & CITY MANAGER



From left to right:
City Treasurer Alisa Backstrom, Councilmember Erik Peterson, City Clerk Robin Estanislau, City Attorney Michael Gates, Mayor Pro Tem Tito Ortiz, City Manager Oliver Chi, Councilmember Natalie Moser, Mayor Kim Carr, Councilmember Dan Kalmick, Councilmember Mike Posey, Councilmember Barbara Delgleize

MESSAGE FROM THE CHIEF FINANCIAL OFFICER

Dear Reader:

I hope this note finds you well in spite of the adversities that we faced together as community in the past year and continue to overcome one day at a time. Fiscal year 2019-2020 has been an unprecedented year with the challenges brought upon by a global pandemic that we've never seen before, series of large civil unrest cases across our country and also right here in our own City, and record high unemployment rates. These are just some of the issues we weathered together, and in turbulent times like these, transparency and accountability matter more than ever. In an effort to provide the City of Huntington Beach community with relevant financial information, I am pleased to submit the City of Huntington Beach's Popular Annual Financial Report (PAFR) for the year ended June 30, 2020.

This provides an overview of the City's financial position, including sources of revenues and expenditures, based on audited results presented in the Comprehensive Annual Financial Report (CAFR). In addition to key financial data, the PAFR also includes information regarding our local economy, City's efforts to respond to the threats and uncertainties of the novel coronavirus (COVID-19) and important City highlights. My hope is that this year's PAFR reflects our prudent and effective use of your tax dollars in delivering essential services and ensuring that the City continues to be a place where individuals feel safe and businesses thrive in the midst of a pandemic.

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. It has been challenging to navigate the ever-changing landscape of our daily lives, but I have seen the resilience of our community and have hope that the challenges that we faced in the prior fiscal year have not only made us stronger, but have also brought us closer together.

I would also like to thank the City Council, City Manager, and City Departments. Under their tremendous leadership and support, I consistently witness the excellence and hard work displayed by each member of the City's team. Together, we strive to fulfill our duty *"To serve exceptionally, inspiring pride in our Huntington Beach community through a fanatical focus on excellence by being active caretakers of our unique, people-focused Huntington Beach culture,"* especially when times are hard. I am confident that Huntington Beach will continue to be one of greatest cities in which to work, live and play.

Dahle Bulosan, CPA
Chief Financial Officer

Huntington Beach by the Numbers

| | |
|------------------------|------------------------------------|
| Property Tax Rate | 1.10638% (varies by tax rate area) |
| Unemployment Rate | 8.60% |
| Fitch Bond Rating | AAA |
| S&P Bond Rating | AA and AA- |
| Moody's Bond Rating | Aa2 and Aa3 |
| Property Tax Revenue | \$94,263,000 |
| Total City Debt | \$97,999,000 |
| City Net Position | \$682,416,000 |
| Median Age | 41.06 Years Old |
| Average Household Size | 2.59 |
| Average Home Value | \$771,100 |



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 2020 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 12-14 is presented similarly 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 <https://www.huntingtonbeachca.gov/government/departments/finance/budget.cfm>, 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.

ABOUT HUNTINGTON BEACH

CITY PROFILE

The City of Huntington Beach is home to a thriving beach community, located on the Orange County coast, 35 miles south of Los Angeles and 90 miles north of San Diego. With a population of 200,748 residents, it is known as Surf City due to its abundance of beaches; the year-round sunny, warm Mediterranean climate; and its casual lifestyle. With over 10 miles of coastline and iconic pier spanning 1,850 foot in length - one of the longest piers on the West Coast - Huntington Beach plays host to millions of visitors annually. In addition to its internationally recognized beaches, Huntington Beach was hailed as #1 in the nation for “Quality of City Services” and #18 by WalletHub in their “Best-Run City in America Poll,” (June 2020), as well as one of the top ten “Happiest Cities” in the U.S. (March 2020). The City was also ranked #25 and #29 in California and the U.S., respectively, for “Providing Homeowners with an Excellent Return on Investment” by LendEDU (May 2020).

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. The City of Huntington Beach is a full-service city including police, fire, public works, and other key functional departments with a dedicated and talented team of over 900 full-time equivalent employees.

Demographically, the City benefits from higher education levels, median incomes, and home values as compared with the State. The City boasts an annual median household income of \$91,318, 51% higher than the United States, 28% higher than the State of California, and 6% higher than Orange County.



Huntington Beach is normally the destination for numerous national events including the Van’s U.S. Open Surfing, Surf City USA Marathon, and most notably, the Great Pacific Airshow. 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. These events, among many others, attract millions of visitors annually. However, many of the local events in the City have been postponed and cancelled due to State and County Shelter-in-Place regulations to help slow the spread of the virus and prevent local hospitals from being overwhelmed. In addition to numerous public health orders and prohibition of mass in-person gatherings, many nonessential businesses were temporarily shutdown and travel bans were implemented which definitely caused a decline in the City’s economic activity.

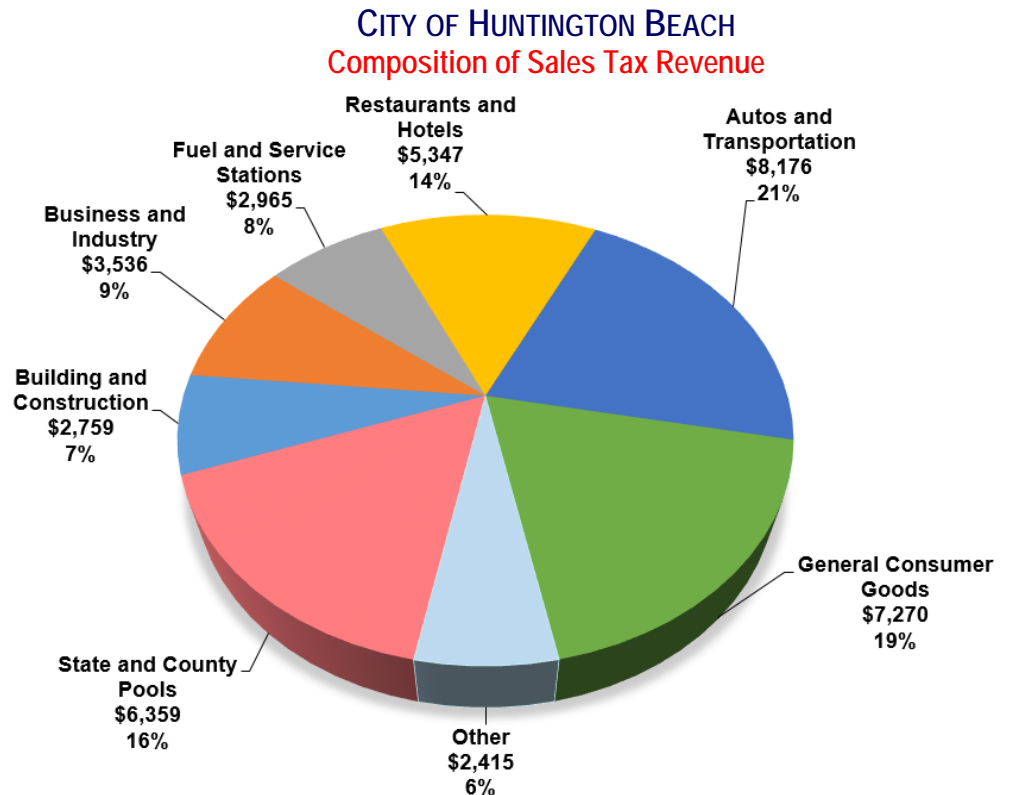
LOCAL ECONOMY

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 in terms of population, there are over 105,200 people employed by public and private entities in Huntington Beach. In light of the novel coronavirus pandemic, COVID-19, the City's unemployment rate rose to 8.6 percent. However, this is still well below the national and state levels. The City's labor force continues to be 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

The Huntington Beach business community is well-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, and large-scale retailers. The top five principal employers of the City are Boeing, No Ordinary Moments, Hyatt Regency Huntington Beach, Safran Cabin Galleys US Inc., and Q S Wholesale.



In spite of the having a good mix of sales tax base, the overall sales tax revenue in fiscal year 2019-2020 dropped due to the multiple stay-at-home orders, decisions to temporarily close businesses, CDTFA's sales tax deferral program and payment deadline extensions. The negative financial impacts of COVID-19 is not limited to just sales taxes. The City's transient occupancy tax, utility users tax, parking and concessionaire revenues also decreased. Being one of the destination cities in the West Coast, the City's transient occupancy tax significantly declined due to the City's TOT tax deferral program, government-imposed travel restrictions, stay-at-home orders, event cancellations and travel anxiety of many tourists. Some local hotel operations were momentarily suspended to allow management to devise proper protocols to ensure the safety of customers and staff. In response to the pandemic outbreak, many utility companies continued to provide services to consumers regardless of whether payments are collected contributing to the drop in users utility tax revenue. Locally, some of the ways City leaders extended help to the community during these unparalleled times are by halting street sweeping citations and giving lessees a rent holiday which caused the reduction in parking and concessionaire revenues.

COVID-19 INITIATIVES

The novel coronavirus has created social and financial uncertainty that has impacted the City's financial standing. Economic engines are struggling in response to the shelter-in-place orders - the unemployment rate has risen, the stock market has experienced volatility, and many businesses ceased operations both temporarily and permanently. There is no question that there has, and will continue to be, economic challenges due to COVID-19.

The Huntington Beach community responded in tremendously positive ways and found creative ways to support the local economy, promote charitable organizations, and protect the most vulnerable. Noted below are only a few of the incredible ways that the community has banded together during these difficult times.

[www. HBready.com](http://www.HBready.com)

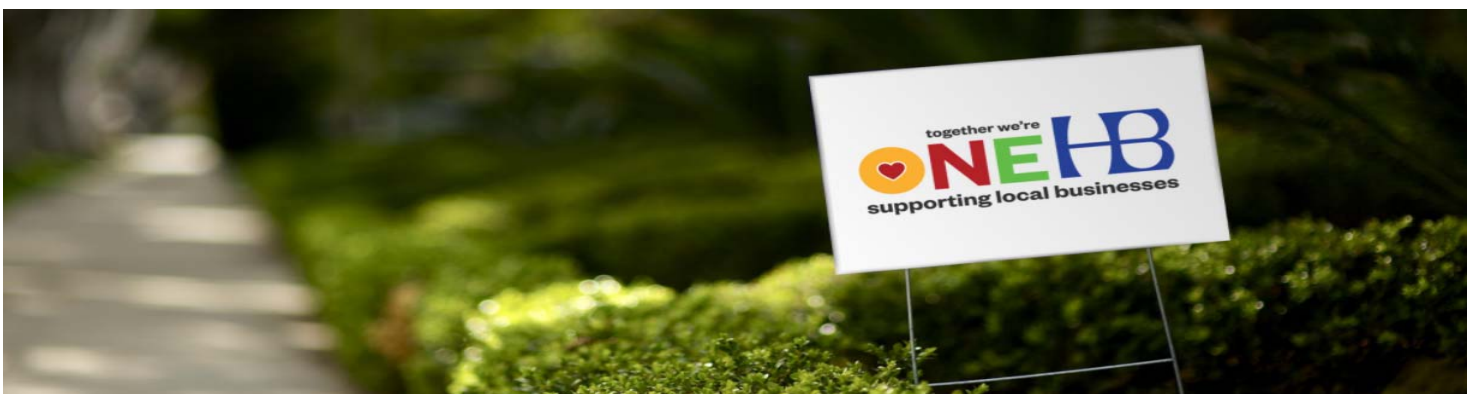
The City of Huntington Beach launched www.HBready.com in March 2020 to provide the community a central place where they can go to better understand the health risk posed by COVID-19, see the City's response plan and other resources offered to residents and businesses to combat the health crisis and financial dilemmas caused by this pandemic. The website aims to limit the amount of misinformation about the virus by making the latest Orange County health risk information, status of city services, schedule of city events, preventative recommendations, number of COVID-19 cases and vaccine updates readily available within a click of a button. Moreover, the website also contains information about business closures, grant opportunities available to local small businesses, assistance for seniors, donation drives and volunteer efforts.

COVID-19 Telephone Hotline

To extend the availability of information to the population who lack or have limited access to internet, the City also started a COVID-19 telephone hotline 714-536-5511 also known as the HB Ready Call Center that's available from Monday to Friday from 9:00 a.m. to 5:00 p.m. The mission of this group is to provide support, encouragement, useful contact information regarding City services and events and additional resources to City of Huntington Beach residents, businesses and visitors. In addition, this group aims to relieve pressure on the 911 system during these trying times. As of June 30, 2020, the Call Center has successfully fielded close to 7,500 calls.

HB Small Business Grants

In May 2020, the City of Huntington Beach was awarded \$4.75M in federal funding, as a subrecipient of Orange County's Public Relief Funds. Shortly after the receipts of funds, the Huntington Beach Small Business Grant Program was approved by Council. The goal of the Program was to provide immediate relief to qualified local businesses that have experienced hardship due to COVID-19. The grant funds can be used by awardees for payroll, rent or lease payments, utilities, inventory, and other necessary business expenses approved by the City. Together with the Small Business Development Center, the City has successfully met the expenditure deadline of the funds, December 2020, and distributed funds ranging from \$5,000 to \$12,000 to over 700 small businesses.



CITY HIGHLIGHTS

On top of the challenges that the City faced including withstanding a never been seen before disease, protests for racial justice and political polarization, and the upending of societal norms, the City continued to push forward with projects that are geared towards uplifting the community spirit and adapting to the ever-changing needs of the community.

Navigation Center

Addressing homelessness is a top priority for the City of Huntington Beach, which means taking action to ensure that solutions are established to assist those in the community in need of housing. In 2015, the Homeless Task Force was established to connect with the homeless, understand their needs, and provide referrals to resources that will reconnect them with families and provide shelter. In addition to these efforts, the City also engaged in an extensive site selection process to build a navigation center to temporarily shelter the homeless in the community. After an expansive search and comprehensive community outreach, the 174-bed shelter located at 17642 Beach Boulevard was identified to best address the needs of the homeless population. The Navigation Center opened its doors in December 2020, in partnership with Mercy House. The Center can accommodate homeless adults including their animals. This place will provide them access to vital services that will help them on the path towards housing security. Each potential resident will be screened and upon admission to the Center, will receive clean clothes, prepared meals, access to laundry facilities, private restrooms and 24-hour security. Resources for healthcare, dental and behavioral services will also be made available to them. In addition, Mercy House staff will work with them to find employment, permanent housing, and assistance to overcome substance abuse addictions, should it apply. The goal of the Center is to provide opportunities and resources to permanently transition their residents to a more stable and secure way of living and off the streets.



Surf City TV Channel 3

Surf City TV Channel 3, also widely known as HBTB, is now in full swing! Given the current landscape of social distancing and stay-at-home orders, this channel kept residents connected by offering quality streaming content including entertainment, children's shows, city updates, and council meetings. Council meetings are streamed live to provide transparent and real-time information. In addition, city events and highlights are also regularly broadcast. Archived broadcasts of city council and planning commission meetings are also available on this channel. This platform is not only available on cable, but it is also viewable on Apple TV, Roku, and Cablecast.



We Adapted

Even with the challenges presented by the ongoing pandemic and civil unrest, the City of Huntington Beach found ways to continue providing a sense of community through modified programming of the following:

- Summer recreational classes
- Junior Lifeguard Program
- Virtual and in-person services at the Library
- "Front Yard 4th of July"
- Top of the line COVID-19 EMS response practices, replicated by jurisdictions throughout the region

KEY FINANCIAL INFORMATION

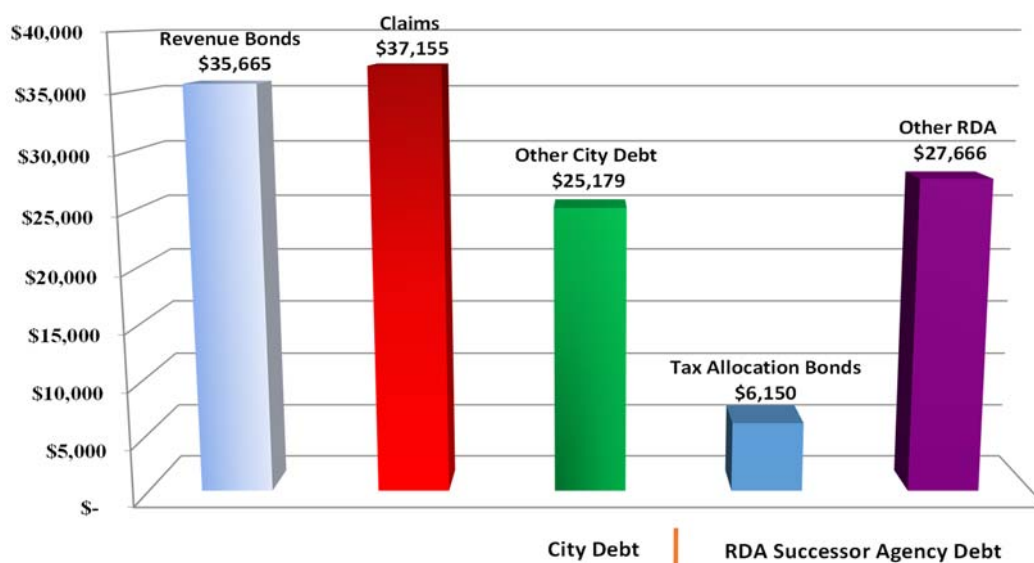
CITY DEBT

| Debt Instrument | Moody's | S & P |
|-------------------------------------|---------|-------|
| 1999 Tax Allocation Refunding Bonds | Aa3 | AA- |
| 2002 Tax Allocation Refunding Bonds | N/A | 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. Since the City has no general obligation bonds outstanding, the limit does not apply. The chart on the left shows the latest ratings as determined by Moody's Investors Service and Standard & Poor's as of June 30, 2020. 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 July 2020, 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, 2020 (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.



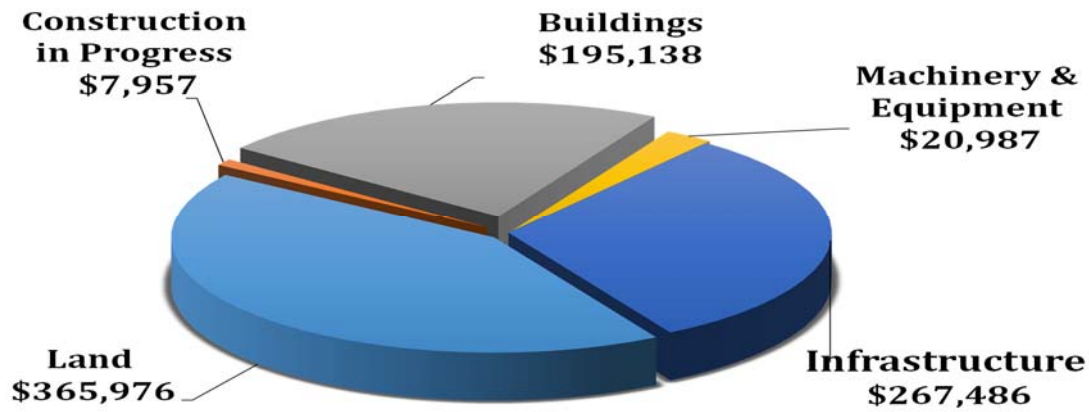
CITY OF HUNTINGTON BEACH CAPITAL ASSETS AS OF JUNE 30, 2020

(In Thousands)



As of June 30, 2020, the City's total capital assets balance is \$857,544,000. This total amount is comprised of Infrastructure, Land, Construction in Progress, Building, and Machinery and Equipment as displayed in the chart below. 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, 2020, 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, 2020 (IN THOUSANDS)

| Investment Maturities (In Years) | | | | | | |
|---|-------------------|-------------------|------------------|------------------|-------------|-------------------|
| INVESTMENTS: | Fair Value | Less than 1 | 1 to 3 | 3 to 5 | More than 5 | Total |
| US Treasuries | \$ 8,372 | \$ - | \$ 3,106 | \$ 5,266 | \$ - | \$ 8,372 |
| US Agency Securities* | 83,489 | 5,094 | 32,521 | 45,874 | - | 83,489 |
| Mutual Funds | 57,300 | 57,300 | - | - | - | 57,300 |
| Money Market Funds | 2,807 | 2,807 | - | - | - | 2,807 |
| Medium Term Notes - IADB | 20,866 | - | 6,190 | 14,676 | - | 20,866 |
| Corporate Bonds | 55,669 | 12,883 | 37,478 | 5,308 | - | 55,669 |
| Local Agency Investment Fund | 82,794 | 82,794 | - | - | - | 82,794 |
| Orange County Investment Pool | 40,000 | 40,000 | - | - | - | 40,000 |
| California Asset Mgmt Program | 2,787 | 2,787 | - | - | - | 2,787 |
| PARS Pension Rate Stabilization Program | 7,503 | 7,503 | - | - | - | 7,503 |
| Total Investments | \$ 361,587 | \$ 211,168 | \$ 79,295 | \$ 71,124 | \$ - | 361,587 |
| Total Deposits | | | | | | 29,218 |
| Total Deposits and Investments | | | | | | \$ 390,805 |

* 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

- Total **Current and Other Assets** increased by 10 percent for governmental activities primarily due to an increase in cash balance. The City received various Federal, State, and County grants to cover emergency operational costs and economic development assistance to businesses impacted by the pandemic. CARES Act Funds of \$6,500,000 were distributed by the County of Orange to the City in June 2020. Nearly \$4,800,000 of CARES funding was directed to help local small businesses and \$1,700,000 was for other COVID-19 emergency costs. In the last quarter of the fiscal year, the developer of Hermosa Vista and Huntington Pointe Apartments repaid approximately \$7,400,000 in loans issued by the City in 2001 and 2003. The increase in current and other assets by 6 percent for business-type activities is due to an increase in cash balance. A large portion of the increase came from the revenue generated by the Water Fund in excess of actual expenses paid in the fiscal year. In addition, some planned improvement projects were postponed as a result of the pandemic.
- **Deferred Outflows** and **Deferred Inflows** decreased by 18 percent and increased by 7 percent, respectively. These changes are mostly due to the actuarially determined amortization of changes in assumptions and differences between projects and actual earnings on pension plan investments used to determine the net pension and other postemployment benefits liabilities.
- Total **Current and Other Liabilities** increased by 34 percent due to normal fluctuations in the accounts payable and payroll cycle. For governmental activities, the majority of the increase is related to CARES Act Funds received towards the end of the fiscal year that was recorded as unearned revenue.
- Total **Long-Term Obligations** for governmental activities increased by 2 percent primarily due to an increase in the City's workers' compensation claims and pension liabilities. The increase of 3 percent in business-type activities is due to increases in compensated absences and net pension liabilities.
- Total **Restricted Net Position** increased by 17 percent primarily due to the addition of the Pension Liability and Surf City "3" Funds, and the increase in restricted net position of LMIHAF. In addition, restricted net position from business-type activities increased due to an increase in restricted Water Master Plan funds available for capital projects.
- Total **Unrestricted Net Position** decreased by 10 percent largely due to an increase in the net pension and other postemployment benefits liabilities, which was partially offset by the net income from Sewer and Hazmat operations during fiscal year 2019-2020.

CITY OF HUNTINGTON BEACH STATEMENT OF NET POSITION AS OF JUNE 30, 2020 AND JUNE 30, 2019 (In Thousands)

| | Governmental Activities | | | Business-Type Activities | | | Total Primary Government | | |
|---------------------------------------|-------------------------|-------------------|-------------|--------------------------|-------------------|-------------|--------------------------|-------------------|-------------|
| | 2020 | 2019 | Change | 2020 | 2019 | Change | 2020 | 2019 | Change |
| Assets | | | | | | | | | |
| Current and Other Assets | \$ 253,795 | \$ 230,456 | 10% | \$ 98,838 | \$ 93,258 | 6% | \$ 352,633 | \$ 323,714 | 9% |
| Capital Assets | 714,759 | 708,469 | 1% | 142,785 | 145,696 | -2% | 857,544 | 854,165 | 0% |
| Total Assets | 968,554 | 938,925 | 3% | 241,623 | 238,954 | 1% | 1,210,177 | 1,177,879 | 3% |
| Deferred Outflows of Resources | 54,499 | 67,019 | -19% | 3,262 | 3,686 | -12% | 57,761 | 70,705 | -18% |
| Liabilities | | | | | | | | | |
| Current and Other Liabilities | 22,200 | 15,137 | 47% | 10,952 | 9,602 | 14% | 33,152 | 24,739 | 34% |
| Long-Term Obligations | 508,578 | 498,810 | 2% | 29,503 | 28,690 | 3% | 538,081 | 527,500 | 2% |
| Total Liabilities | 530,778 | 513,947 | 3% | 40,455 | 38,292 | 6% | 571,233 | 552,239 | 3% |
| Deferred Inflows of Resources | 13,374 | 12,649 | 6% | 915 | 752 | 22% | 14,289 | 13,401 | 7% |
| Net Position | | | | | | | | | |
| Net Investment in Capital Assets | 673,498 | 664,281 | 1% | 142,785 | 145,696 | -2% | 816,283 | 809,977 | 1% |
| Restricted | 79,926 | 66,089 | 21% | 22,248 | 21,153 | 5% | 102,174 | 87,242 | 17% |
| Unrestricted | (274,523) | (251,022) | -9% | 38,482 | 36,747 | 5% | (236,041) | (214,275) | -10% |
| Total Net Position | \$ 478,901 | \$ 479,348 | 0% | \$ 203,515 | \$ 203,596 | 0% | \$ 682,416 | \$ 682,944 | 0% |

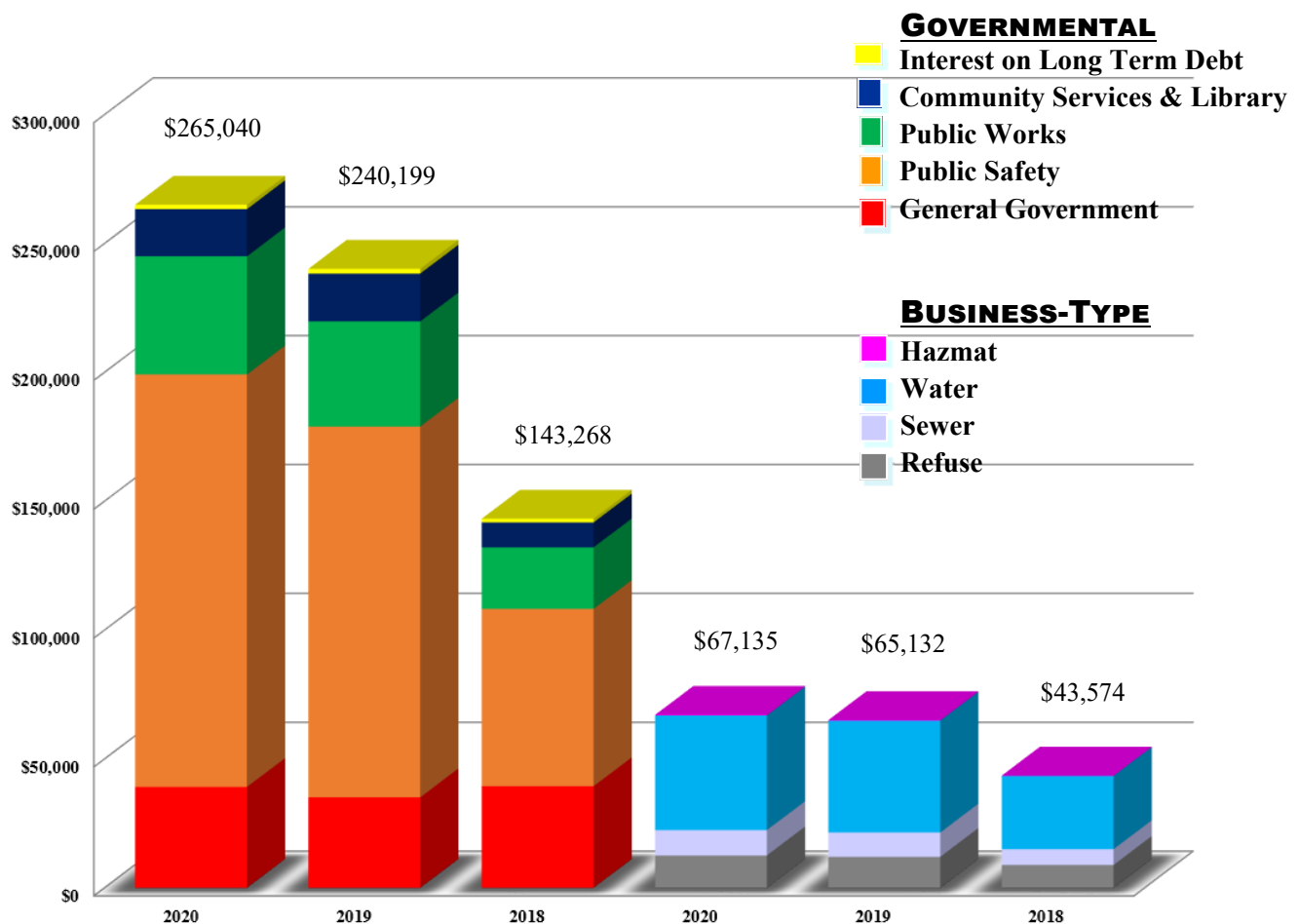
See page 19 for an explanation of accounting terms.

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 FISCAL YEARS ENDED JUNE 30, 2020, JUNE 30, 2019 AND
THE NINE-MONTH PERIOD ENDED JUNE 30, 2018
(In Thousands)



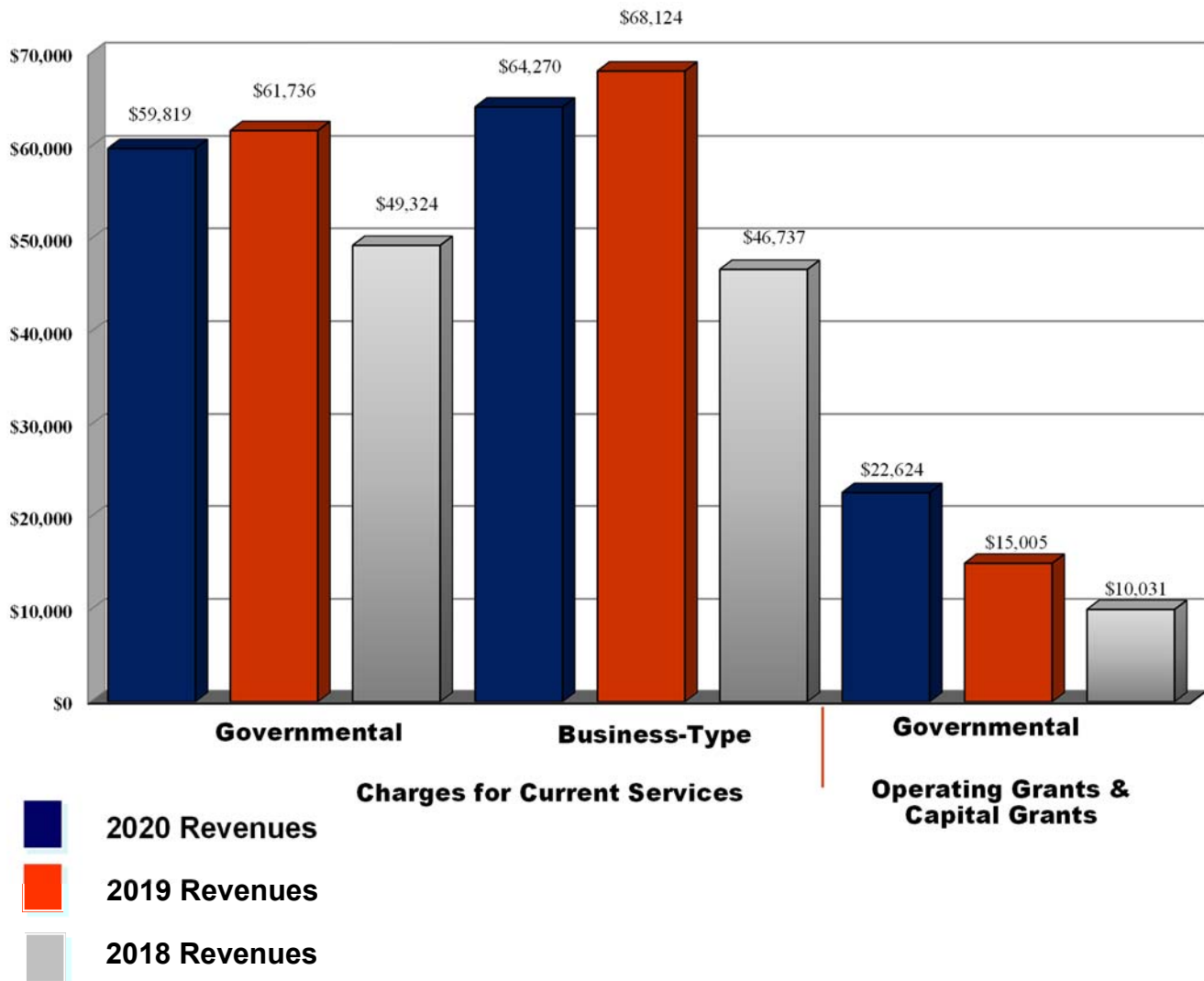
Governmental expenses increased by \$24,841,000 or 10.3 percent due to the rise in pension and workers compensation costs coupled with the increase in spending on Police, Community Development, Fire, and Public Works. Due to COVID-19 and a number of protests that occurred in the latter part of the fiscal year, additional Police and Fire related expenses were incurred. There were also several non-capital improvements that caused the Community Development and Public Works expenses to increase.

STATEMENT OF ACTIVITIES

CITY OF HUNTINGTON BEACH PROGRAM REVENUES

GOVERNMENTAL AND BUSINESS-TYPE ACTIVITIES
FOR THE FISCAL YEARS ENDED JUNE 30, 2020,
JUNE 30, 2019 AND THE NINE-MONTH PERIOD ENDED JUNE 30, 2018
(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 for current services decreased \$1,917,000 or 3.1 percent, primarily due to the absence of one-time revenues sources from large development projects and the City's responses to help mitigate the risks posed by COVID-19 which negatively impacted the City's parking-related revenue and recreational fees. The one-time affordability housing in-lieu fee offset the loss in revenues. Business-type charges for current services decreased by \$3,854,000 primarily due to the change in calculation for water connections and capital surcharge fees which started in July 2019. Operating and Capital Grants increased by \$7,619,000 primarily due to the Hermosa Vista and Huntington Pointe loan repayments.

GOVERNMENTAL FUNDS

The City maintains 25 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 \$270,219,000 from various funding sources for the fiscal year ended June 30, 2020.

CITY OF HUNTINGTON BEACH STATEMENT OF REVENUES GOVERNMENTAL FUNDS FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 (In Thousands)

| REVENUE BY SOURCE | 2020 | 2019 |
|------------------------------|-------------------|-------------------|
| Property Taxes | \$ 94,263 | \$ 89,367 |
| Sales Taxes | 44,616 | 47,437 |
| Utility Taxes | 18,149 | 18,788 |
| Other Taxes | 24,578 | 27,196 |
| Licenses and Permits | 11,266 | 8,574 |
| Fines and Forfeitures | 3,403 | 4,300 |
| Use of Money and Property | 27,863 | 23,276 |
| Other Agencies | 11,309 | 13,072 |
| Charges for Current Services | 29,523 | 32,002 |
| Other | 5,249 | 1,785 |
| Total | \$ 270,219 | \$ 265,797 |

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.

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.

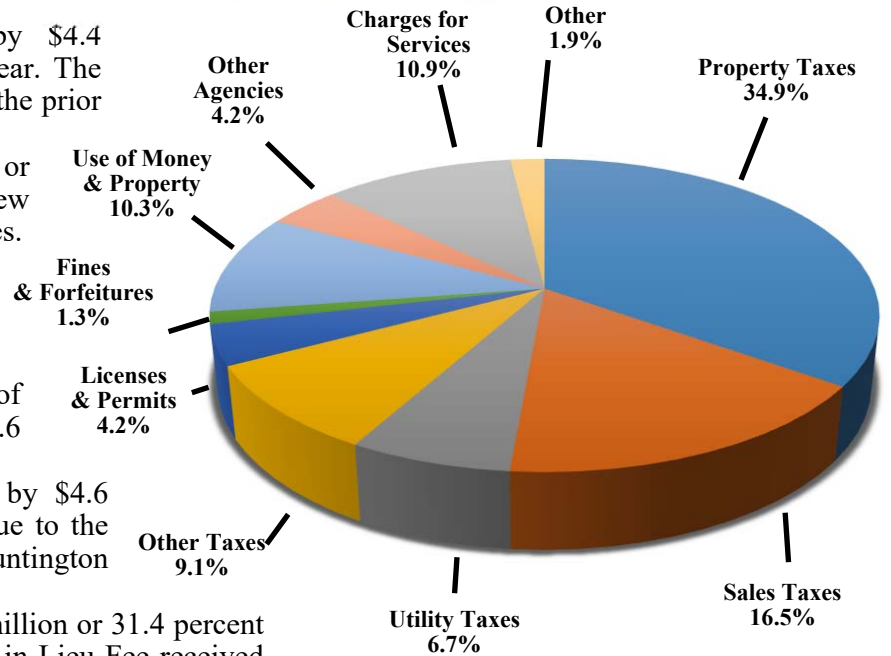
Charges for current services are revenues collected for services rendered to the public such as recreational classes.

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

GOVERNMENTAL FUNDS

Governmental Fund Revenues increased by \$4.4 million or 1.7 percent from the prior fiscal year. The following details the significant changes from the prior fiscal year:

- Property taxes increased by \$4.9 million or 5.5 percent, primarily reflecting both new development and increased property values.
- Other revenues increased by \$3.5 million or 194.1 percent. Majority of the increase is attributed to one-time revenue payments — PCTA settlement of \$1 million and proceeds from the sale of 15331 Pipeline Lane property of \$2.6 million.
- Use of money and property increased by \$4.6 million or 19.7 percent predominantly due to the repayment of Hermosa Vista and Huntington Pointe Apartments loans.
- Licenses and permits increased by \$2.7 million or 31.4 percent primarily due to the Affordable Housing in Lieu Fee received for the residential development at 14422 Hammon Lane.
- Other taxes decreased by \$2.6 million or 9.6 percent predominantly due to the reduction of transient occupancy taxes by \$4.4 million. This is partially offset by the increase in cable TV franchise taxes of \$1.3 million.
- Fines and forfeitures decreased \$900K or 20.9 percent predominantly due to the reduction in parking fine revenues as a result of the decrease in parking citation enforcement due to the COVID-19 pandemic.

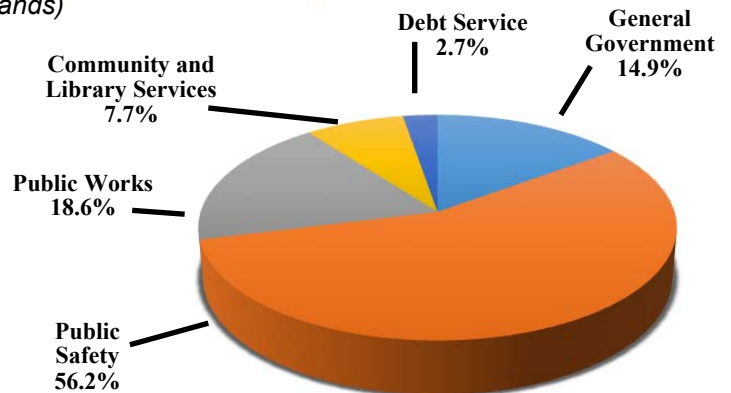


EXPENDITURES/SERVICES (WHERE THE MONEY GOES)

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 July 1, 2019 to June 30, 2020, the total expenditures incurred by the City were \$256,494,000 (excluding transfers and other financing sources).

CITY OF HUNTINGTON BEACH STATEMENT OF EXPENDITURES GOVERNMENTAL FUNDS FOR THE FISCAL YEARS ENDED JUNE 30, 2020 AND JUNE 30, 2019 (In Thousands)

| EXPENDITURES | 2020 | 2019 |
|--------------------------------|-------------------|-------------------|
| General Government | 38,182 | 40,396 |
| Public Safety | 144,159 | 137,977 |
| Public Works | 47,655 | 46,878 |
| Community and Library Services | 19,628 | 16,664 |
| Debt Service | 6,870 | 7,236 |
| Total | \$ 256,494 | \$ 249,151 |



GOVERNMENTAL FUNDS

General Government expenditures are those incurred by the administrative function, including the City Council, City Manager, City Attorney, City Clerk, City Treasurer, Finance, Human Resources, Community Development, and Information Services.

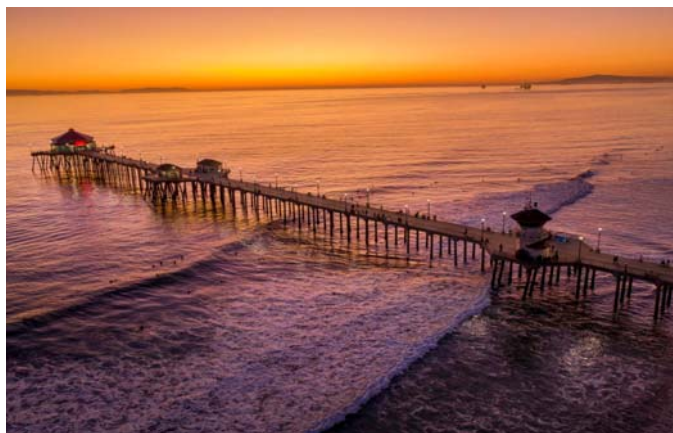
Public Safety expenditures reflect the costs associated with providing police, fire, and marine safety services to residents, businesses, and visitors.

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

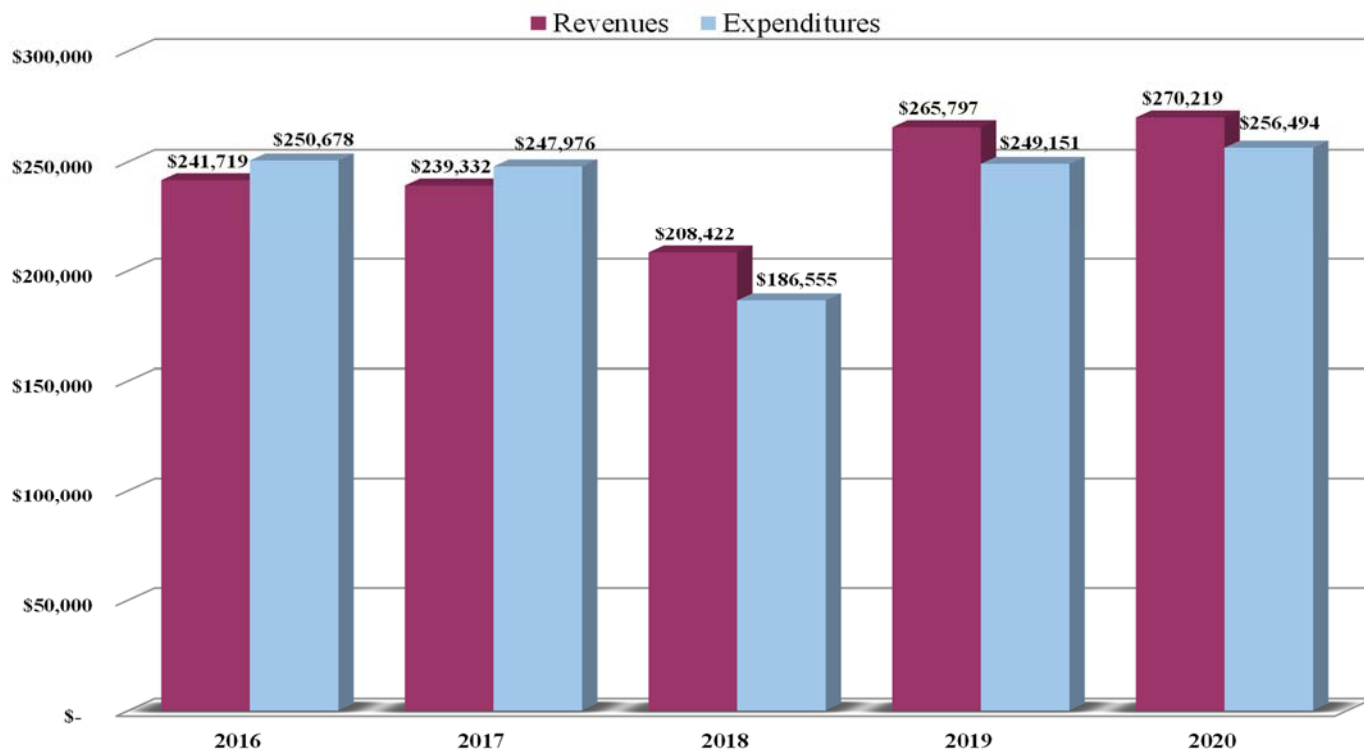
Community and Library Services expenditures are those incurred by the City to enrich the quality of life in Huntington Beach through recreational and cultural activities, as well as to support the educational and informational needs of residents and visitors.

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

Governmental Fund Expenditures increased by \$7.3 million or 2.95 percent from the prior fiscal year, which is consistent with the movement of revenues for fiscal year 2019-2020.



GOVERNMENTAL FUNDS
REVENUES AND EXPENDITURES - FIVE YEAR TREND
(in Thousands)

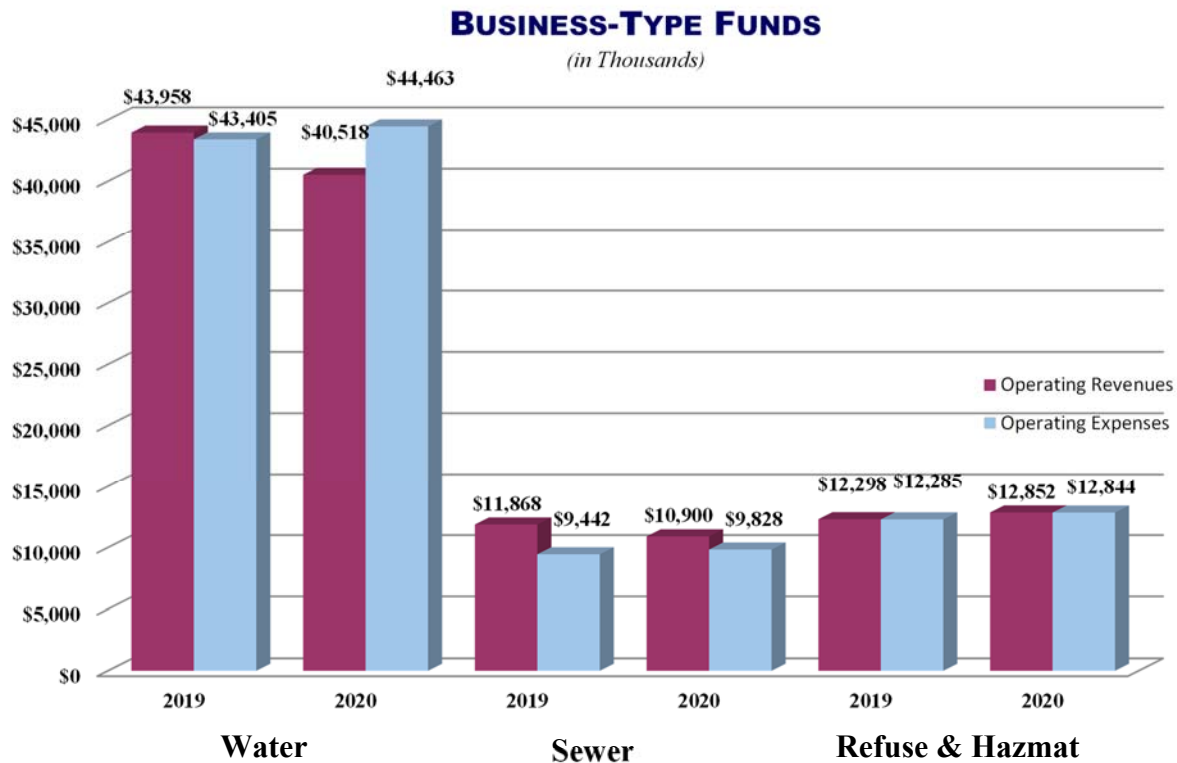


BUSINESS-TYPE FUNDS

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 June 30, 2020.

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.



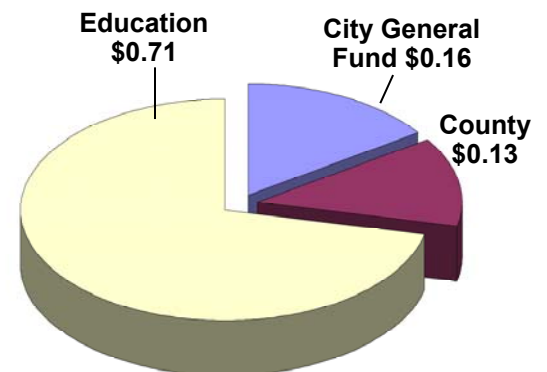
WHERE DO THE TAXES GO?

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 June 30, 2019. 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 fourteen consecutive years (fiscal years ended 2006-2019). We believe our current report continues to conform to the Popular Annual Financial Reporting requirements.



City of Huntington Beach
2000 Main Street
Huntington Beach, CA 92648
(714) 536-5630
www.huntingtonbeachca.gov



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

June 30, 2019

Christopher P. Morill

Executive Director/CEO