City of Huntington Beach
Financial Health Indicators

5-YEAR TREND AND COMPARABLE CITIES
FISCAL YEARS 2017/18 – 2021/22

INFORMATION OBTAINED FROM AUDITED CITY ANNUAL COMPREHENSIVE FINANCIAL REPORTS (ACFR)

Comparable Cities FY 2021/22

	Huntington Beach	Anaheim	Costa Mesa	Garden Grove	Irvine	Newport Beach	Santa Ana	Orange	Fullerton
Population	197,437	341,245	111,394	170,526	310,250	83,727	308,459	137,676	142,732
Square miles	27	50.27	16.8	17.9	66	23.79	27.3	24	22.4
Business Type	Water, Sewer, Refuse and Hazmat	Electric, Water, Sanitation, Golf Courses, Convention, Sports & Entertainment Venues, ARTIC Management	None	Water Utility, Sewage Collection, Housing Authority	None	Water, Wastewater	Water, Sewer, Refuse Collections, Sanitation, Parking, Transportation Center, and Federal Clean Water Protection	Water, Sanitation	Water, Sewer, Airport, Brea Dam Facilities Recreational, Parking, and Compressed Natural Gas Facility
Full Service	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes	Yes
Year Incorporated	1909	1857	1953	1956	1971	1906	1886	1888	1904
Contract out Public Safety	No	No	No	Yes, Fire to OC Fire Authority	Yes, Fire to OC Fire Authority	No	Yes, Fire to OC Fire Authority and CARE Ambulance Service	No	No
Sales Tax Rate	7.75%	7.75%	7.75%	8.75%	7.75%	7.75%	9.25%	7.75%	7.75%

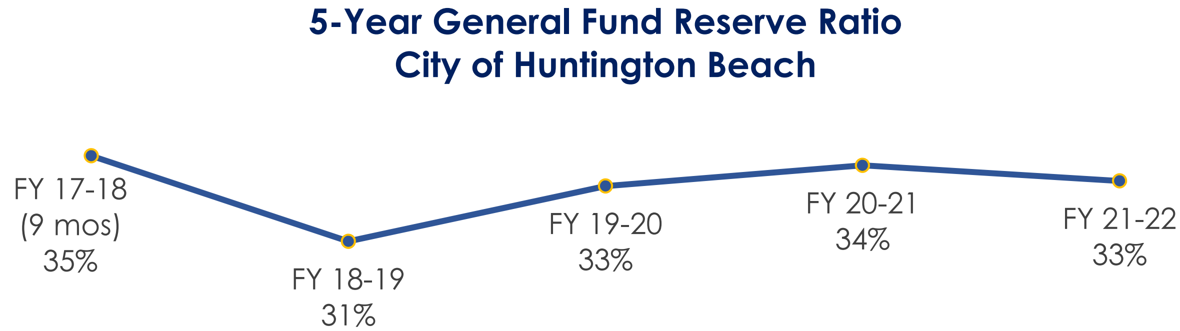
Financial Position

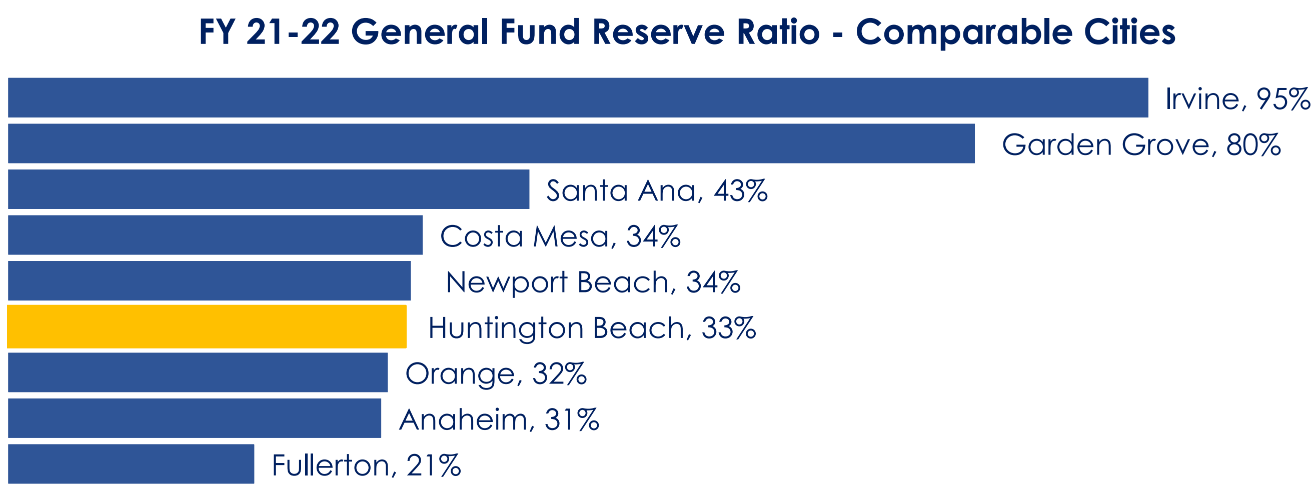
Can the City Pay its Bills Now?

A city has a strong financial position if it has sufficient cash and other liquid resources available. Without those resources, it will have to borrow money, delay payments, or liquidate some of its other assets, all of which carry significant financial costs.

FINANCIAL HEALTH INDICATOR #1 – GENERAL FUND RESERVE RATIO

This indicator identifies changes (increases or decreases) in General Fund reserves from the prior year to the current year and is useful in identifying if the City's fund balance reserve is deteriorating. A declining fund balance reserve can be a sign of fiscal stress. This indicator is important in identifying a trend of a deteriorating fund balance reserve as well as how rapidly it is deteriorating. A **higher** ratio suggests larger reserves for dealing with unexpected resource needs in the long run.





FINANCIAL HEALTH INDICATOR #1 – INSIGHT

The City's General Fund balance reserves increased from 33% to 34% of revenues in FY 2020/21, then decreased slightly to 33% in FY 2021/22. This is attributed in stronger revenue growth in FY 2021/22, which is used to calculate this ratio. The overall General Fund Balance increased by $3.39M in FY 2021/22.

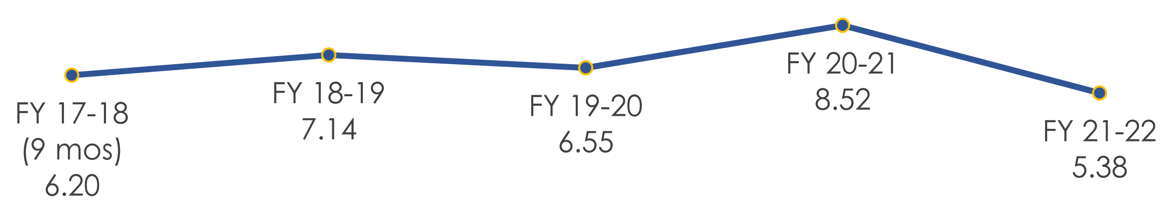
Financial Position (Cont.)

Can the City Pay its Bills Now?

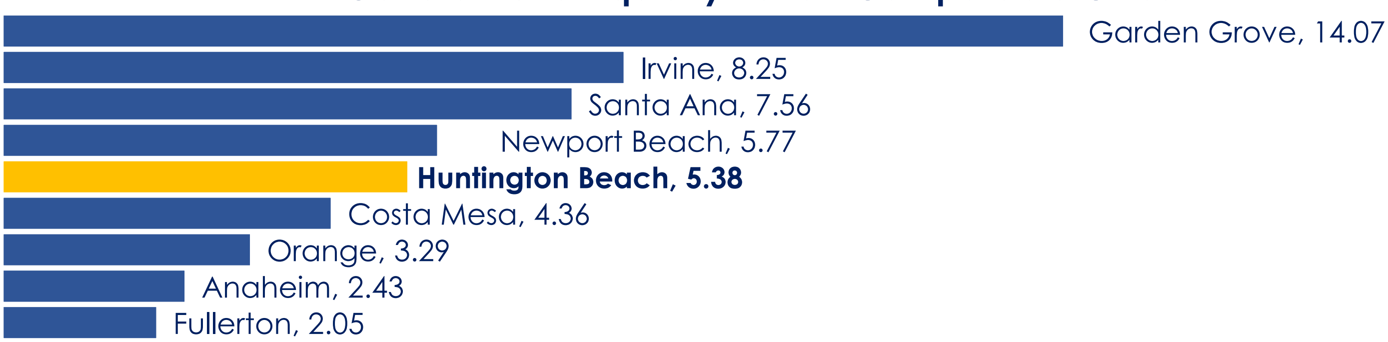
FHI #2 General Fund Liquidity Ratio

This indicator assesses changes (increases or decreases) in available cash and is useful in identifying the City's ability to pay bills on time by measuring readily available cash, such as unrestricted cash and investments. A declining ratio indicates that the City does not have sufficient cash available to meet its current obligations as they come due. This indicator is important in identifying a trend of deteriorating cash as well as how rapidly it is deteriorating. For this measure, a **higher** ratio suggests a greater capacity for paying off short-term obligations.

5-Year General Fund Liquidity Ratio - City of Huntington Beach



FY 21-22 General Fund Liquidity Ratio - Comparable Cities



FINANCIAL HEALTH INDICATOR #2 – INSIGHT

The City's liquidity ratio indicates that the City is able to pay its bills as payments are due by measuring readily available cash, such as unrestricted cash and investments, compared to the total liability obligations, such as payables and accrued payroll.

Financial Position

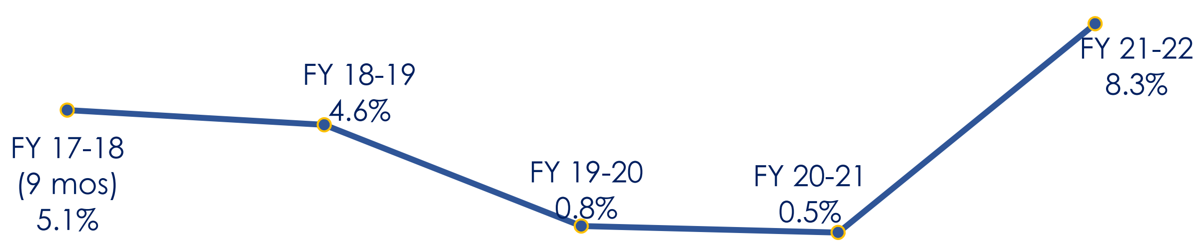
Can the City's Revenues Cover Its Expenses?

A City does not only need to pay bills now, but it needs to make sure that the money it brings in regularly is enough to cover its annual expenses. Missing this mark can negatively affect service levels and the City's credit rating which is important for current loan covenants and any future potential debt financing.

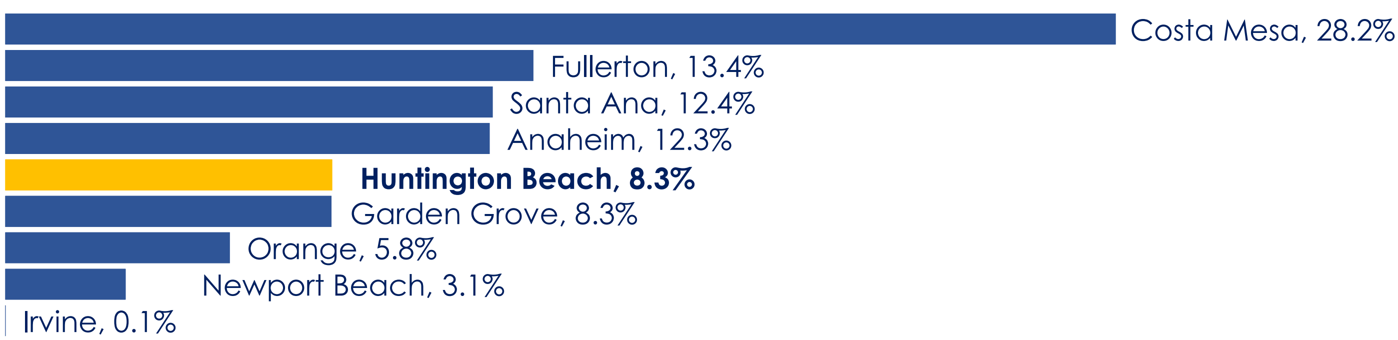
FHI # 3 General Government Growth in Net Position Ratio

A growth in net position indicates that the City can pay its expenses with its revenue and is able to establish appropriate reserves for future allocation. Revenues from the City's programs ideally should cover the expenses that the City incurs for those programs, otherwise reserves may need to be used to meet the needs. A **higher** ratio suggests that annual costs are adequately funded, and the financial condition is improving.

5-Year General Government Growth in Net Position - City of Huntington Beach



FY 21-22 General Government Growth in Net Position - Comparable Cities



FINANCIAL HEALTH INDICATOR #3 INSIGHT

This ratio measures the change in net position compared to the total General Government net position. When revenues exceed expenses and assets exceed liabilities, an increase in the ratio will be seen. The City has shown continued growth in net position. The 8.3% increase in FY 2021/22 is largely attributed to the 21.3% CalPERS investment return, which eliminated the 15% unfunded pension liability remaining with CalPERS after the FY 2020/21 Pension Obligation Bond refinancing of 85% of the City's unfunded pension liability. It is important to note that there will be a new unfunded pension liability created due to the -7.5% CalPERS investment return in FY 2021/22 which will be reported on the City's FY 2022/23 ACFR.

Financial Position (Cont.)

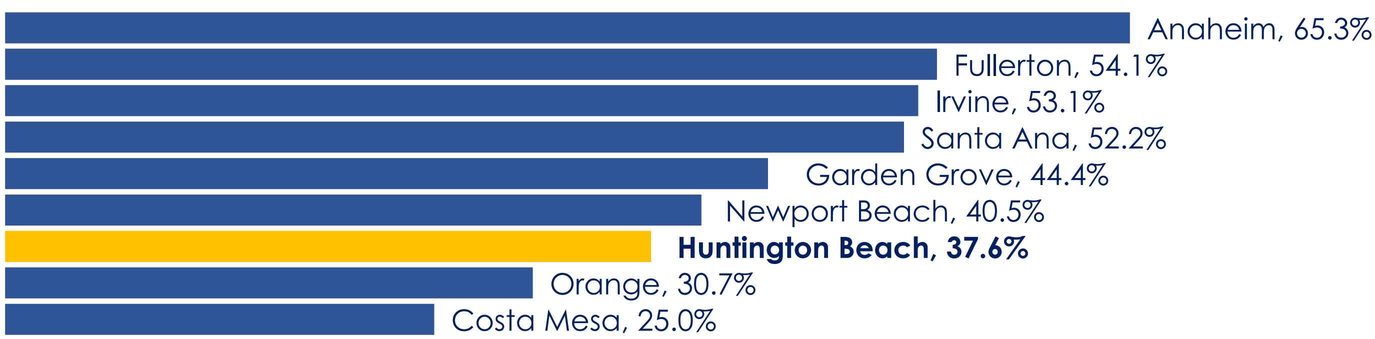
Can the City's Revenues Cover Its Expenses?

FHI #4 General Government Operating Margin Ratio

The City funds certain programs via grants and intergovernmental aid from other government agencies (e.g. Federal and State) and also charges for services that are offered to its residents. This measurement illustrates how much of the City expenditures are funded by charges, fees, and grants rather than general tax dollars to fund program expenditures. For this measure, a **higher** ratio suggests basic government services are more self-sufficient through charges, fees, and grants and less reliant on general tax dollars to fund program expenditures.

5-Year General Government Operating Margin Ratio - City of Huntington Beach

FY 21-22 General Government Operating Margin Ratio - Comparable Cities



FINANCIAL HEALTH INDICATOR #4 – INSIGHT

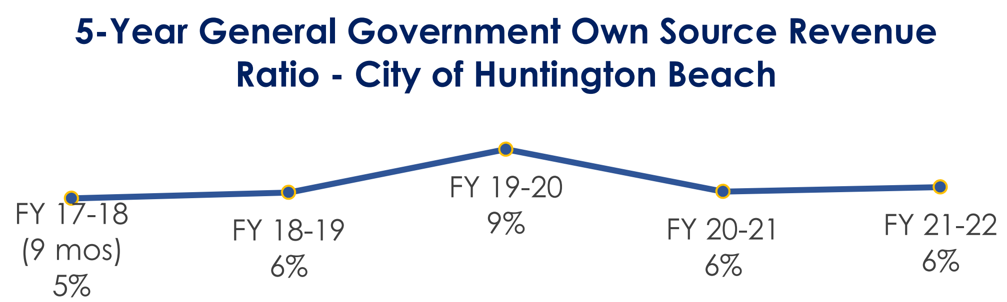
This ratio illustrates how much of the City's expenditures were funded by charges, fees, and grants (37.6%) rather than general tax dollars (62.4%) to fund program expenditures. The other cities appear to fund their operations more heavily by charges, fees, and grants. This could be attributed to the level of cost recovery implemented by each City. While there is no standard we know that most cities do not implement 100% cost recovery.

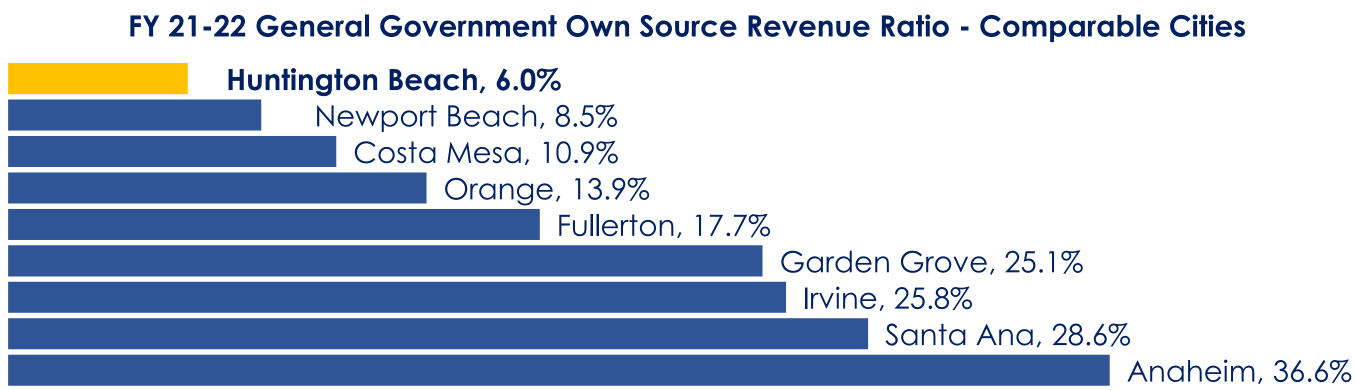
Financial Position (Cont.)

Can the City's Revenues Cover Its Expenses?

FHI #5 General Government Own Source Revenue Ratio

The City receives grants and intergovernmental aid from other government agencies, such as the state and federal governments. While the City welcomes grants and aid to support City services, the less reliant the City is on money from those sources, the more independent the City's financial condition is. Revenues from grants are used to support some City functions. Other functions, such as public safety, are mainly funded by general tax dollars. This ratio illustrates the extent to which general government revenues were supported by grants. A **lower** ratio suggests that the City is not heavily reliant on grants and more reliant on general tax dollars and charges for services.





FINANCIAL HEALTH INDICATOR #5 – INSIGHT

This ratio explains how much of our revenues are from grants (6%) compared to general tax dollars and charges for services (94%). With the addition of the American Rescue Plan Act funding of $29.6 million, this ratio will be higher next year and is not indicative of an ongoing pattern as these funds are considered one-time funding only.

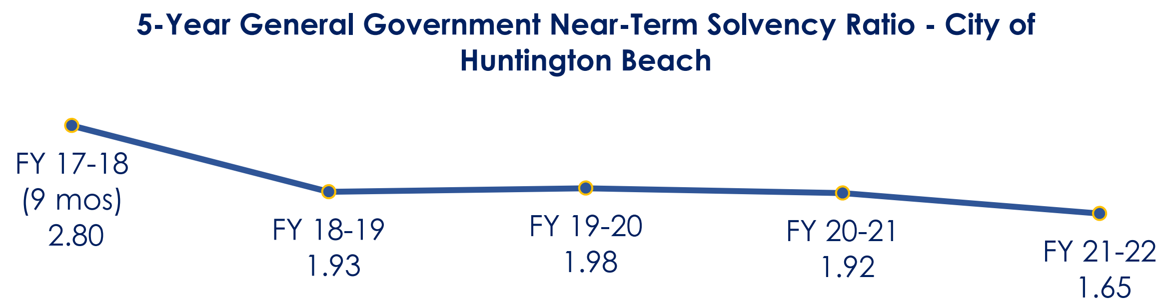
Long-Term Solvency

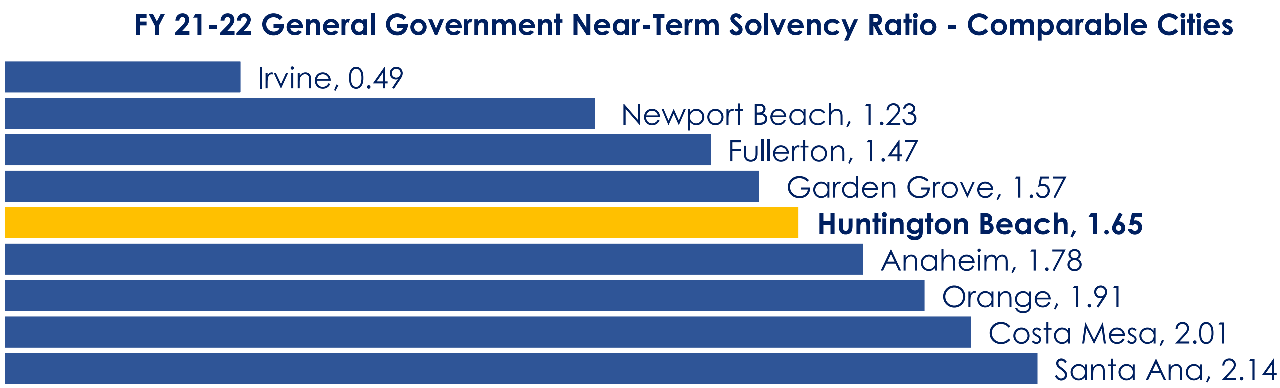
Can the City Pay Its Bills in the Future?

A city will have bills in the future and its current financial condition will influence its ability to pay them. For the long-term future, a city needs to ensure that its revenue sources can cover long-term spending needs and provide services to a growing and changing population.

FHI #6 General Government Near-Term Solvency Ratio

The City has both short-term and long-term obligations that must be paid in the future. The fewer number of years of annual revenue needed to pay the City's obligations, the stronger the City's financial condition. This ratio demonstrates that the City is able to pay a larger portion of its debts with annual revenues. For this measure, a **lower** ratio indicates a stronger financial condition.





FINANCIAL HEALTH INDICATOR #6 – INSIGHT

The City has both short-term and long-term obligations that must be paid in the future. The fewer number of years of annual revenue needed to pay obligations, the stronger the City's financial condition. The decrease of the City's long-term debt in FY 2020/21 is due to the refinancing of 85% of the City's pension liability with the issuance of Pension Obligation Bonds, as well as refinancing of two of the City's Lease Revenue Bonds (2010A and 2011A) to lower interest rates. The decrease in FY 2021/22 is largely attributed to the 21.3% CalPERS investment return, which eliminated the 15% unfunded pension liability remaining with CalPERS after the Pension Obligation Bond refinancing. It is important to note that there will be a new unfunded pension liability created due to the -7.5% CalPERS investment return in FY 2021/22 which will be reported on the City's FY 2022/23 ACFR.

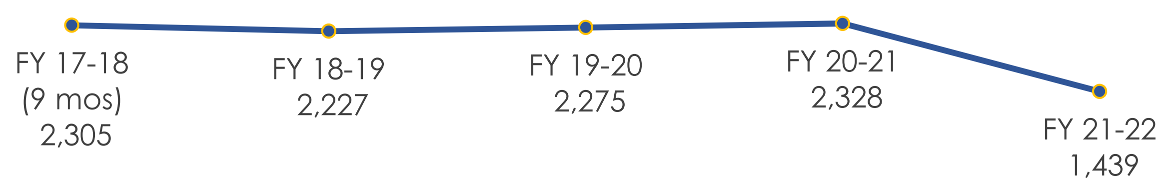
Long-Term Solvency (Cont.)

Can the City Pay Its Bills in the Future?

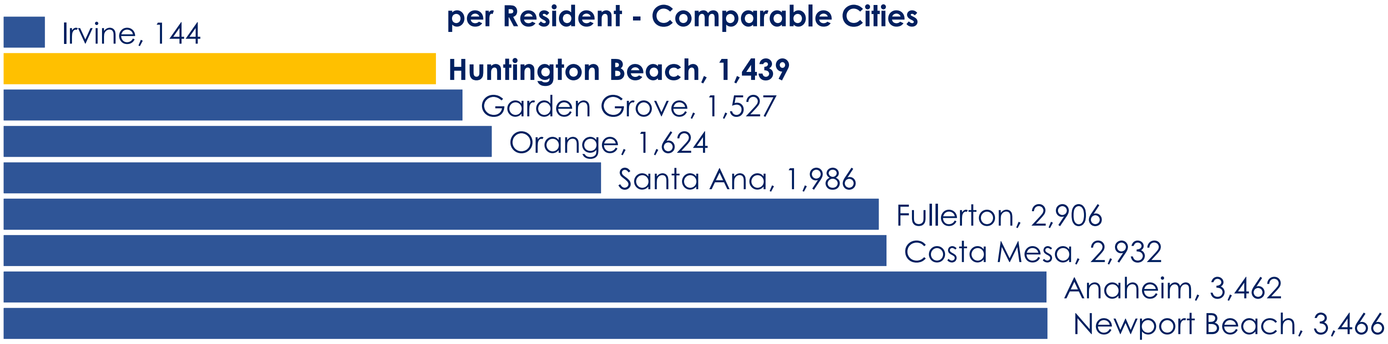
FHI #7 General Government Debt, Pension Liability, & OPEB Burden per Resident Ratio

The City issues debt for a variety of reasons and pays for employees' pensions, including other post-employment benefits. Having a low debt per capita would put the City in a stronger financial position. Lower bonded debts, pension liability, and other post-employment benefits (OPEB) per capita result in a smaller debt burden on taxpayers. For this measure, a **lower** ratio indicates a stronger financial condition.

5-Year General Government Bonded Debt, Pension Liability & OPEB Burden per Resident - City of Huntington Beach



FY 21-22 General Government Bonded Debt, Pension Liability & OPEB Burden per Resident - Comparable Cities



FINANCIAL HEALTH INDICATOR #7 – INSIGHT

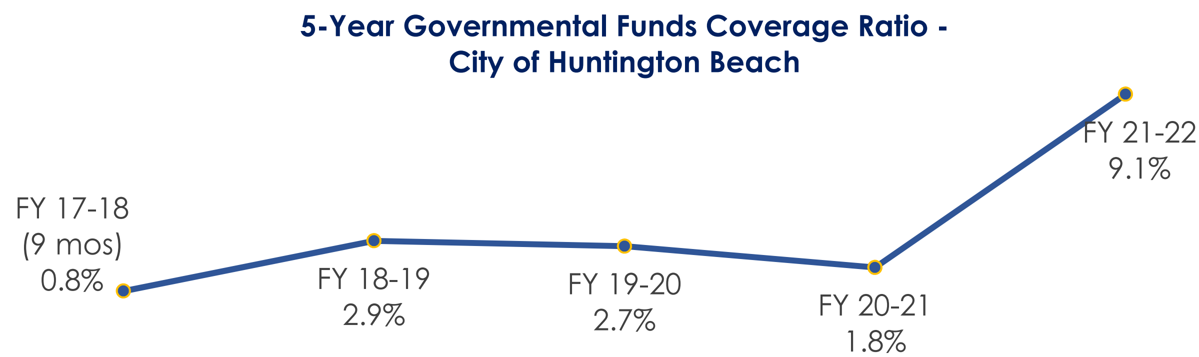
As previously discussed, the sharp decrease in FY 2021/22 is largely attributed to the 21.3% CalPERS investment return, which eliminated the 15% unfunded pension liability remaining with CalPERS after the Pension Obligation Bond refinancing. It is important to note that there will be a new unfunded pension liability created due to the -7.5% CalPERS investment return in FY 2021/22 which will be reported on the City's FY 2022/23 ACFR.

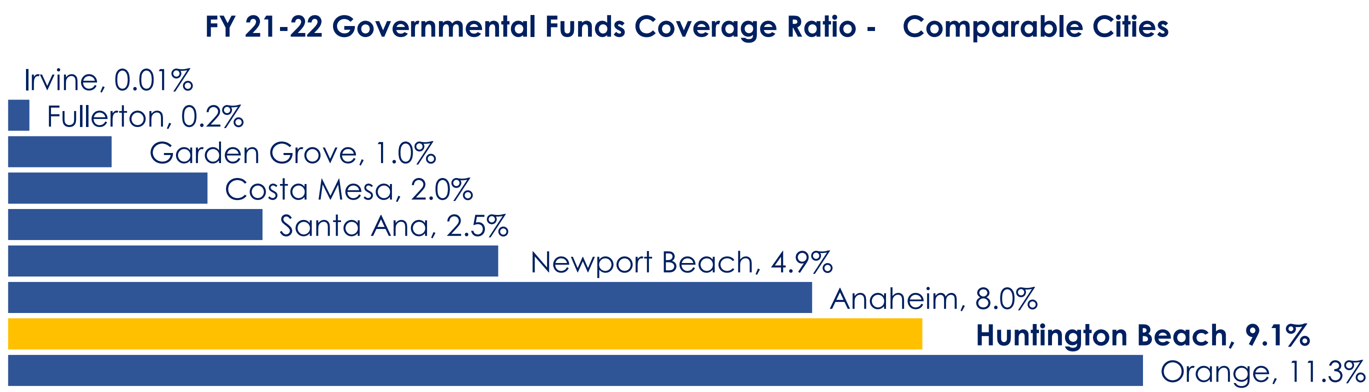
Long-Term Solvency (Cont.)

Can the City Pay Its Bills in the Future?

FHI #8 Governmental Funds Coverage Ratio

If a large portion of the City's expenses go towards paying debt principal and interest, it shows that the City is less able to spend money on services and capital improvements. The City has principal and interest payments on debt. The lower the amount of these payments compared to all the other expenditures it has, the stronger its financial condition. For this measure, a **lower** ratio indicates a stronger financial condition.





FINANCIAL HEALTH INDICATOR #8 – INSIGHT

The City has a higher ratio than most of the comparative cities, implying the City has higher principal and interest payments and more overall long-term debt. The City did have more long-term debt than the comparative cities, primarily as a result of the issuance of a $363.6 million Pension Obligation Bond in FY 2021/22 of which $341.5 million was related to general government funds. However, it is important to note that when aggregating all of the City's bonded debt, pension, and OPEB liabilities as shown in FHI #7, Huntington Beach has one of the lowest debt burdens per resident to comparative cities.

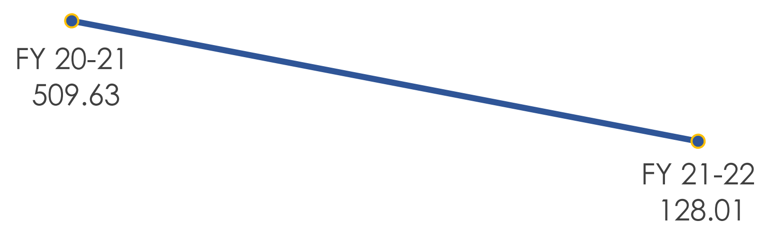
Long-Term Solvency (Cont.)

Can the City Pay Its Bills in the Future?

FHI #9 Enterprise Funds Coverage Ratio

This measure compares the interest expense owed on debts annually to the ongoing, typical operating revenues from which that expense will be paid. This is similar to a small business owner making sure that the interest payments on the mortgage for her office aren't too large compared to the revenues she brings in each year. Just like the City's governmental services need to pay their debts (e.g., bonds) in the long-term, the City's Enterprise Funds need to do so as well. The City's Enterprise Funds include Water, Sewer, Refuse, and Hazmat Service Funds. For this measure, a **<u>higher</u>** ratio indicates a stronger financial condition.

5-Year Enterprise Funds Coverage Ratio - City of Huntington Beach



FY 21-22 Enterprise Funds Coverage Ratio - Comparable Cities

FINANCIAL HEALTH INDICATOR #9 – INSIGHT

The City only shows two fiscal years of data as its Enterprise funds did not carry long-term debt prior to FY 2020/21, with the issuance of a $363.6 million Pension Obligation Bond in FY 2021/22 of which $22.1 million was related to Enterprise funds.

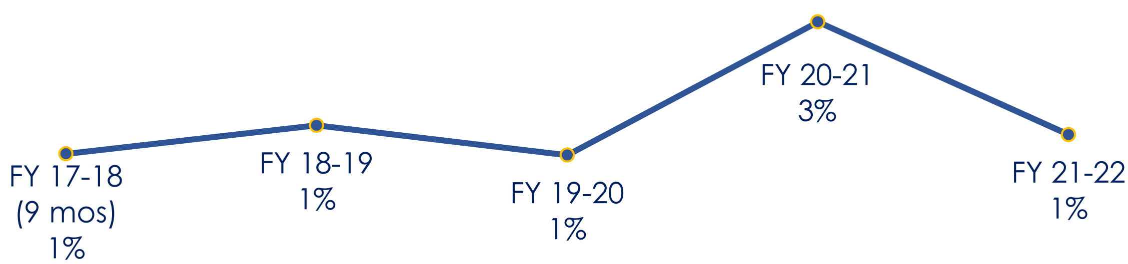
Long-Term Solvency (Cont.)

Can the City Pay Its Bills in the Future?

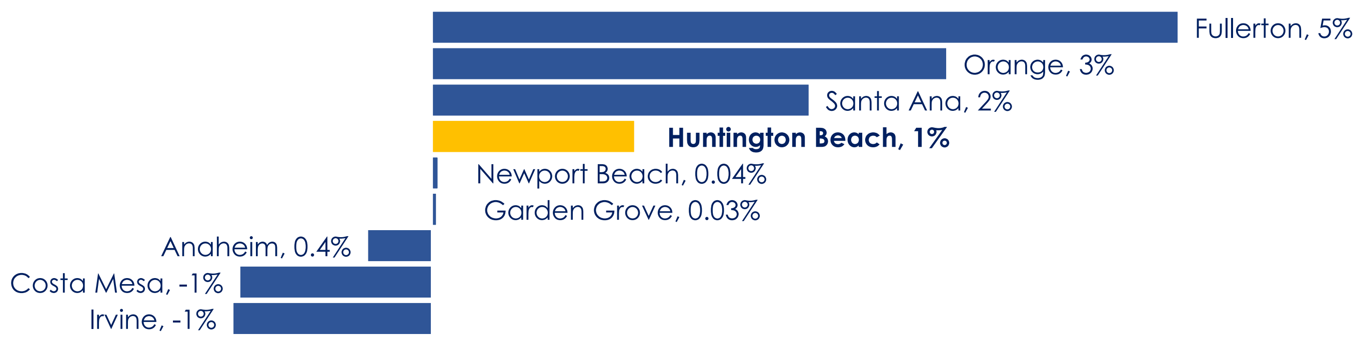
FHI #10 General Government Capital Asset Value Ratio

A negative ratio indicates that the City's capital assets decreased in value— that is, the value at the end of the year was less than the value at the beginning of the year. This indicates that the depreciation of capital assets was greater than the value of capital assets added, and that some capital assets may need to be renovated or replaced. Most of the City's capital assets decrease in value over time due to depreciation. The City needs to make sure that as capital assets age, it is renovating or replacing them. Capital assets include land, buildings, vehicles, and public infrastructure. For this measure, a **higher** ratio indicates a stronger financial condition.

5-Year Governmental Capital Assets Value Ratio - City of Huntington Beach



FY 21-22 Governmental Capital Assets Value Ratio - Comparable Cities



FINANCIAL HEALTH INDICATOR #10 – INSIGHT

The City showed an increase in FY 2020/21 primarily due to the purchase of land which is temporarily being used as the site for a 174-bed Navigation Center.

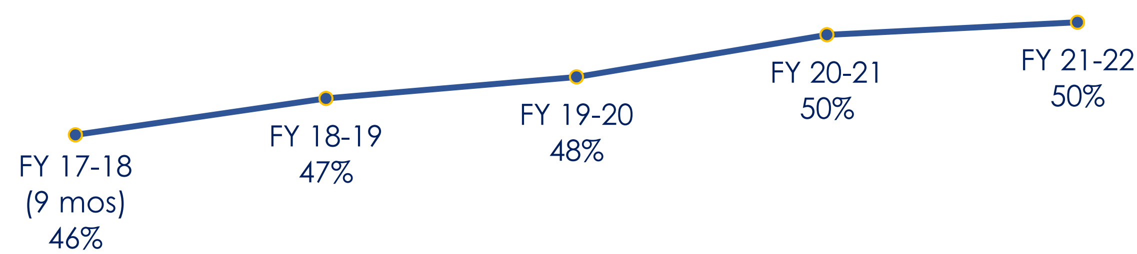
Long-Term Solvency (Cont.)

Can the City Pay Its Bills in the Future?

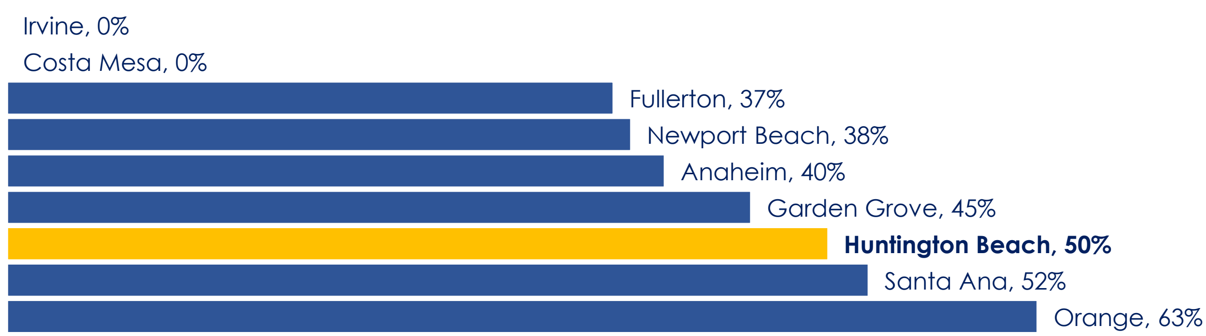
FHI #11 Enterprise Funds Capital Asset Value Ratio

This ratio explains the percentage of Enterprise Funds capital assets that have been depreciated. Depreciable capital assets include buildings, vehicles, and public infrastructure. Assets are depreciated over their useful life as they age, and their value is reduced. A **lower** ratio indicates Enterprise Funds capital assets are newer and may not require as much replacement and/or maintenance costs compared to older capital assets.

5-Year Enterprise Funds Capital Asset Ratio - City of Huntington Beach



FY 21-22 Enterprise Funds Coverage Ratio - Comparable Cities



FINANCIAL HEALTH INDICATOR #11 – INSIGHT

This ratio explains the percentage of Enterprise Fund capital assets that have been depreciated. The City's Enterprise Funds capital assets have aged over the past five years which is evidenced by the annual increase in the ratio. While the ratio is higher when compared to a majority of its comparative cities, the increasing trend in this ratio could be indicative of other issues which require additional analysis.

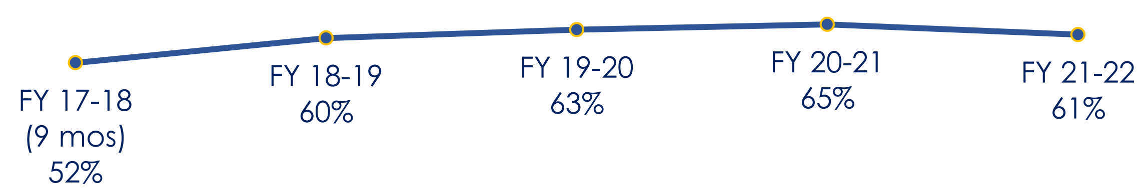
Long-Term Solvency (Cont.)

Can the City Pay Its Bills in the Future?

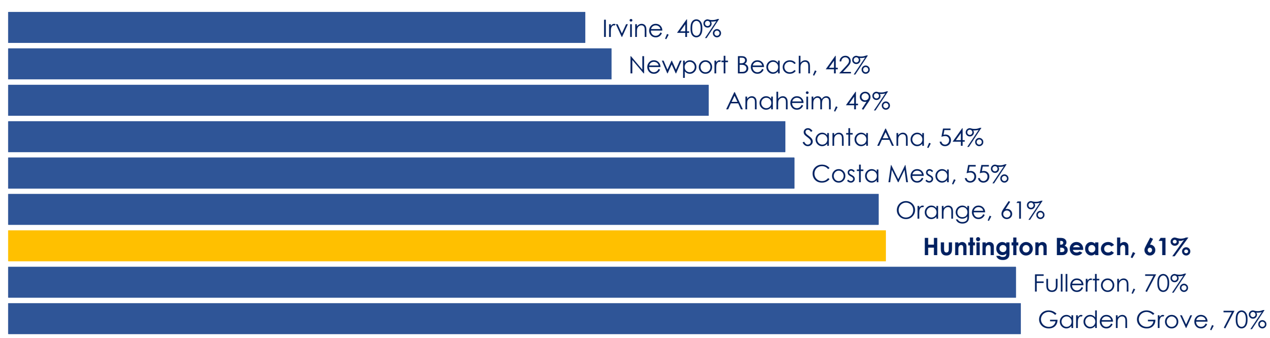
FHI #12 General Fund Public Safety Costs Ratio

This ratio compares the total costs of the General Fund public safety, which includes police and fire, to the total General Fund expenditures. A **higher** ratio indicates more funds are dedicated to public safety.

5-Year General Fund Public Safety Costs Ratio - City of Huntington Beach



FY 21-22 General Fund Public Safety Costs Ratio - Comparable Cities



FINANCIAL HEALTH INDICATOR #12 – INSIGHT

The Public Safety costs ratio increased over the four fiscal years prior to FY 2021/22, then declining primarily due to the refinancing of 85% of the City's pension liability with the issuance of Pension Obligation Bonds in FY 2020/21, with cost savings first realized in the prior fiscal year. It is important to note that the remaining 15% pension liability held with CalPERS may incur increasing annual UAL payments in the future due to the -7.5% CalPERS investment return in FY 2021/22.