MINUTES
FINANCE COMMISSION

Wednesday, March 29, 2023 - 5:00 p.m.
City of Huntington Beach
Council Chambers
Huntington Beach, CA 92648

For the audio recording of the March 29, 2023 Finance Commission Meeting, please visit the City's website at: https://huntingtonbeach.legistar.com/Calendar.aspx

Chair Frank Lo Grasso called the meeting to order at 5:00 p.m., and led the Pledge of Allegiance.

MEMBERS PRESENT:	Frank Lo Grasso, Chair David Cicerone, Commissioner Kelly Gates, Commissioner Jamie Craver, Commissioner Janet Michels, Commissioner Robert Sternberg, Commissioner
MEMBERS ABSENT:	Billy Hamilton, Vice-Chair
STAFF PRESENT	Al Zelinka, City Manager Sunny Han, Acting Chief Financial Officer Serena Bubenheim, Acting Assistant Chief Financial Officer Thuy Vi, Administrative Aide, Finance Shari Saraye, Administrative Assistant, Finance

PUBLIC COMMENTS

City Manager Al Zelinka thanked Commissioners Cicerone and Hamilton for meeting with him last week regarding a range of topics. The open and candid conversations were very meaningful. He stated that he would like to meet with all the Commissioners in the future in order to learn from them and build trust between staff and the Commission, and to reinforce public trust in local government in working with the Commission. Zelinka stated that one of the immediate outcomes after the meeting was that staff has developed an academy that will be offered to all the boards and commissions. Each City department will provide an educational piece during a daylong training, and refreshments will be provided at Cicerone's suggestion. An outline of the program is under review, and will be offered to all the boards and commissions. The training will be recorded for those who are unable to attend.

CONSENT ITEMS

Approval of Meeting Minutes

Motion: Moved by Commissioner Michels and seconded by Chair Lo Grasso to approve the Finance Commission Meeting Minutes dated January 25, 2023, as presented

The motion carried by the following votes: 6-0-1
Ayes: Cicerone; Craver; Lo Grasso; Gates; Michels; Sternberg
Noes: None
Absent: Hamilton

Motion: Moved by Commissioner Michels and seconded by Chair Lo Grasso to approve the Board, Commission & Committee Onboarding Training Special Meeting Minutes of February 16, 2023, as presented

The motion carried by the following votes: 5-0-1-1
Ayes: Cicerone; Craver; Lo Grasso; Gates; Michels
Noes: None
Abstain: Sternberg
Absent: Hamilton

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

Acting Chief Financial Officer Sunny Han presented the FY 2021/22 Audit Results and Review of Financial Health Indicators. She introduced Jon Foster, partner of the CPA firm of Davis Farr LLP, who performed the City's financial statements audit, which also included an evaluation of the internal control structure of the City. Han was proud to note that the City received an Unmodified (Clean) Audit Opinion for FY 21/22, which is the highest audit opinion possible. The City's Annual Comprehensive Financial Report (ACFR) is also award winning, and we have received the Government Finance Officers Association's (GFOA) Excellence in Financial Reporting Award for 36 consecutive years.

Foster thanked the Finance Team for the many hours of work spent preparing for the audit team to do fieldwork at the City. They issued an unmodified Audit Opinion, meaning the auditors made no modifications, and is the highest level of opinion possible. Anytime there is a new accounting standard that impacts a government agency, it is included in the opinion. New this year was an Emphasis of Matter, emphasizing the implementation of GASB 87 leases. In addition, they issued a letter titled "Auditor Communications." Within that letter are results of the audit to the Commission and Council that there were no significant items noted adversely for the City. They also issued an Agreed-Upon Procedures letter for the Appropriations Limit, an AQMD Report, and just completed the unmodified Single Audit Report, which is required any time a City expends more than $750,000 in Federal funding. While at the City, they evaluate internal controls in various areas of the City. Those areas include billing and cash receipting, purchasing and cash disbursements, payroll, banking and investing activities, grant management activity and information systems. They did not note any deficiencies to be reported, nor any material weaknesses in internal controls. Lastly, there were no instances of non-compliance of laws and regulations that were required to be reported. Foster described the audit focus areas, with the first being pension obligation. He noted that the current year financial statements show the City's pension as an asset, not as a liability. This is based on information reported by CalPERS, which is a different year and essentially a year behind. Their measurement date is June 30, 2021, whereas, the City's year-end reporting date is June 30, 2022. He emphasized that this is simply a snapshot in time, and CalPERS reported a 21.3% investment rate of return in the year they reported the pension obligations. Reports are recently being issued for government agencies, and CalPERS is reporting a 7.5% loss. Foster emphasized that these are snapshots and time, and the expectation is that the pension assets will swing the other way next year to a pension obligation. Similar to pension obligations, they do evaluate other post-employment benefit obligations. They evaluate the information reported from third-party actuaries, and make sure they are reported accurately in the financial statements. Every year, they are required to have an unpredictability test and look at an area that they have not looked at in the past. This year, they chose to select a sample of items reported in the Police Department inventory. Foster was happy to note that all those items were present. They performed a physical count of a sample selected, and all items were present on site in the Police Department.

The auditors performed extensive testing of the City's capital asset activities. In addition to working with Finance, they also interviewed individuals outside of Finance to make sure the information presented is accurate in the financial statements, whether it be department heads, engineers or individuals involved directly with a project outside of Finance. GASB 87 is a new accounting standard. There is a new presentation within the financial statements activity that was previously reported through the income statement, and now has to be displayed on the face of the financial statements. You will see lease receivables, right-to-use lease assets and lease obligations within the financial statements. This is a requirement of new accounting standards that all government agencies must report now on the face of the financial statements. Lastly, as part of the single audit, they are required to test a major program. This year, it was testing of the Community Development Block Grant. Foster closed with sharing the four upcoming accounting standards: GASB 94, 96, 100 and 101. He noted that GASB 96 is significant. When GASB released GASB 87, they excluded intangible assets, which is essentially subscription-based information technology arrangements. This accounting standard will be required to be implemented in the next audit, and similar to GASB 87 for the presentation of leases, you will now have to present any long-term arrangements for subscription-based information technology arrangements. Software that you have a multi-year agreement will now have to be recorded on the face of your financial statements and displayed separately.

Cicerone asked how much time, staffing and cost was spent on the audit. Foster stated that they are in person and on site for approximately two weeks at the final portion of the audit, and staffing includes himself, a manager, in charge auditor and one to two staff. They also perform an interim audit where they come out before year-end and perform procedures with the same audit team, called the interim planning phase of the audit where they do a walk-through of internal controls and hold meetings with Finance to determine what the risks are for the audit. Afterwards, they continue any remaining outstanding items within the office with the audit team. At the time of review of the financial statements, staffing includes the manager, himself, and a separate secondary partner. They always include a secondary partner in the audit for quality review. Staffing is at least six individuals at any given time. Han stated that for the past fiscal year, the audit cost was $48,540, and includes the financial statement audit as well as the Single Audit of federal grant funds, audit of our West Orange County Water Board, the Appropriations Limit Review, and the AB2766 audit report. Han noted that the City went through a formal request for proposal (RFP) process and requested bids from all interested CPA firms that would be interested in bidding on our financial statement audit. Davis Farr had the best qualifications and the most competitive price. Cicerone stated that the costs are very reasonable. He asked if the City does an internal audit before it has an external one. Han stated that the City does not do a formal internal audit, but the Finance team works closely together throughout the year to make sure that everything is categorized properly. Craver asked if the RFP process takes place annually. Han stated that it takes place every three years. Craver asked if three years is the limit for when an auditor can perform an outside audit for the City. Han stated that it is not. The Municipal Code requires that professional services contracts do not exceed three years, and any extensions beyond that would require City Council approval. This is the City's first year of a three-year contract with Davis Farr LLP, and this contract was approved by the City Council in May 2022.

Han reviewed the Government-wide highlights of the FY 21/22 financials. She noted that our total net pension increased by $63M for prior year, and that is primarily due to the decrease in pension liabilities and with our pension liability flipping to a net pension asset. That is largely due to the CalPERS 21.3% investment return achieved in FY 20/21. The CalPERS negative 7.5% return will be reflected in the FY 22/23 audited financial reports. At that point, there will be a net pension liability, so we will see this number go down.

Han stated that at the previous Finance Commission meeting, there was a request for an estimate of next year's UAL. The preliminary numbers received from our actuary is approximately $168.2M for both our Miscellaneous and Safety plans combined. We would have a funded ratio of 89.1% instead of a super funded, or funded status over 100%. Han noted that there has been interest by some City Council members and upper management in the impacts of the SVB Bank failure last month, and how it would impact CalPERS' investment performance. Our CalPERS actuary advised that CalPERS' investments in both SVB and Signature Bank are minimal. For their entire portfolio, the exposure included: global equities - $12.5M in SVB , $11.3M in Signature Bank; fixed income - $57M in SVB, but all of those positions were liquidated on Friday, March 10; private debt - no exposure to SVB, and they are still looking into Signature Bank. They are still analyzing the impacts on private equity and real assets. Currently, their analysis of the impact on the CalPERS investment return for this fiscal year is a loss of approximately .018%. The impact on our plans would be about $105,000 loss for our Miscellaneous plan, and $140,000 for our Safety plan. We are in constant communication with our actuary, and as the situation continues to develop, we will keep the Finance Commission informed.

Han reviewed the General Fund financial statement on the income statement side. We had total revenues of $257M, and total expenditures of almost $232M. On the revenue side, she was pleased to note that our transient occupancy tax (TOT) increased by over 50% from FY 20/21, so we had a $5.4M increase. Additionally, we had stronger recovery and sales tax, so we had a $5.4M or 12.1% increase from prior year. On the expenditure side, we also realized savings primarily due to cost savings in Public Works and Community Development, who realized over $2.6M in savings. That was primarily due to differences in the projected versus actual timing of design, construction and maintenance projects, maintenance contracts for projects, as well as the deferral of various building and planning contracts and projects. We had a net change or net increase in our General Fund balance of $8.2M. When we net out other restricted changes in General Fund balance for other funds that are required by accounting roles to be rolled up into our General Fund, that amount is $4.8M. Our true General Fund (Fund 100) surplus was almost $3.4M. Our General Fund balance has been increasing over time. Our pension rate stabilization fund category increased to $2.2M, and our Section 115 Trust balance is almost $16M. Our total fund balance is $102.8M as of June 30, 2022.

Cicerone asked what the Strategic Planning Initiative Assignment was. Han explained that it was a category that the City Council approved a few years ago, and are funds that can be used for specific projects. The fund balance could potentially be used for downtown revitalization projects, and that is still under consideration. We are looking to consolidate some of our fund balance categories. We may bring this item to the City Council to suggest rolling the strategic planning initiative assignment into our economic uncertainties reserve, so that we can strengthen that particular category. Cicerone asked how the American Rescue Plan Act Funds (ARPA) are accounted for. Han stated that the ARPA funds are recorded in a separate fund for FY 21/22 as the Grants Major Fund on page 25 of the ACFR. Han noted that there are certain accounting rules related to ARPA funds. We received the full allocation of $29.6M as of fiscal year end June 30, 2022. However, because we had not spent any of those funds by fiscal year end, we are required to record it as unearned revenue. If we do not spend the funds by the end of the period of performance in 2026, those funds would have to be returned. The City Council approved a plan for those funds this fiscal year. There was some discussion by the State and Federal government of potentially taking back the second tranche of funds because they were not being used. To make sure that those funds were spent expeditiously, a plan was brought before the City Council whereby we would use these funds for public safety costs, which is an eligible ARPA funds expense. Those funds were transferred into the General Fund in this fiscal year, and could be spent for eligible public safety costs. The $29.6M was then allocated into an HB Recovery reserve that can be used for other projects as the City Council directs.

Lo Grasso asked if General Fund expenditures were less because of some Public Works efficiencies and some items that were postponed. Han stated that were some efficiencies, but it was also largely due to timing. There has been a lot of delay in securing supplies or materials for Public Works projects that contributed to some of those savings. Lo Grasso stated that we would be spending this money eventually, so it is considered savings this year, but expense next year which could be a larger number due to delays. Han noted that there is a substantial shortage of materials as well as labor, and we have been seeing markups in some of our Public Works contracts in excess of 20%.

Cicerone asked how the $29.6M is going to be spent. Han stated that a preliminary plan was approved by the City Council during the FY 22/23 budget process, and some of the items that were included are the downtown revitalization improvements, Police technology infrastructure improvements for our CAD RMS system, upgrades of Carr Park, Oakview Community Center Rehabilitation, acquisition of essential public safety equipment, such as a truck and rescue boat for the Fire Department, broadband infrastructure improvements, a joint youth training center for Police and Fire and arterial beautification. Only a portion of the projects was included in the FY 22/23 budget. Any funds that were not approved for projects in the FY 22/23 budget could potentially be reprogrammed for other uses at the City Council's discretion. Cicerone stated that his understanding is that the City budget has $4M shortfall for the coming year, and asked if there is money left from the $29.6M, could the City Council allocate some of that to cover the shortfall. Han stated that they could. Han stated that we always develop our budget with the plan of having a balanced budget. We are still in the budget development process, and with the approved projects, we have a balanced budget. We do not have a shortfall. If there are any unexpected expenses or additional projects that come up, the City Council can approve the use of the HB Recovery Fund.

Michels asked to clarify that for the $29.6M, since the list of recommended items could not all have been completed in one budget year, they were not included in the final budget. Han confirmed that was correct. Michels asked from the $29.6M, what amount has been included in the 22/23 budget. Han stated that $16M has been allocated, but not all of those funds have been spent. For example, a portion of funds that was allocated for a potential DBFOM project was recently approved by the City Council to be redirected towards Zone 2 maintenance.

Han presented the Financial Health Indicators (FHI) Report. She thanked the Accounting Team for the work in preparing both the audited financials and the City's first Financial Health Indicators Report. This report was done by reviewing the data of audited financials from other cities. We looked at eight comparable Orange County cities, and included a couple of key specs that would be useful in comparing each of these cities to Huntington Beach in general. We included the population, total square miles of each city, if they have any business type activities such as water, sewer, refuse, electricity, if they are full service cities, if they have public safety, what year they were incorporated is a useful metric for determining the age of their infrastructure, if they contract out public safety, if they have in-house police and fire or if they contract with the sheriffs or with the Orange County Fire Authority (OCFA), and their sales tax rate. The comparable cities that we looked at were Anaheim, Costa Mesa, Garden Grove, Irvine, Newport, Beach, Santa Ana, Orange and Fullerton.

Han discussed Financial Position - Can the City pay its bills now? The General Fund Reserve Ratio (FHI #1) compares the General Fund unreserved fund balance against its total revenues. A decline in FY 21/22 is representative of the fact that there was stronger revenue growth in that year, which was actually one of the factors used to calculate this ratio. The overall General Fund balance increased by $3.4M in this past fiscal year. When looking at the comparable cities, Irvine has the highest ratio followed by Garden Grove. Garden Grove received a higher ARPA allocation of approximately $48M compared to our $29.6M, and those monies were transferred into their General Fund in FY 21/22. We did not transfer our ARPA money into the General Fund until this current fiscal year. They had not fully spent that money, which is partly why they also had that increase. They also had increases in revenues and experienced significant growth in their transient occupancy tax (TOT). In some years, their TOT revenue is slightly higher than ours due to their proximity to Disneyland. Cicerone asked how Garden Grove received more ARPA funds when they are a smaller city. Han stated that the ARPA allocation was done based on the amount of HUD funding that they received, and that formula is also in part allocated due to the low and moderate-income population that city has. Garden Grove has higher ratio than we do, and they received a higher allocation. Lo Grasso stated that Irvine's number has to do with the amount of construction that is going on there. Han stated that Irvine has strong revenues, strong reserves, and just recently received a Tesla dealership in in town, which contributed strongly to their sales tax revenue. Santa Ana is also high up on the list because they have a sales tax measure in place known as Measure X, so they have an additional 1.5% sales tax that they added.

Han discussed the General Fund Liquidity Ratio (FHI #2), which compares the General Fund cash investments against the short-term liabilities. This number is better when it is higher, and a liquidity ratio of one or above is a good sign and shows that the city is able to meet at short-term liabilities. Anything below one is a concern. The fluctuations in liquidity ratio are largely due to timing and is really a snapshot in time. At year-end, the amount of accounts payable liabilities can fluctuate based on the number of projects we have at the time, when payroll cuts off, and when we have our payroll liabilities. We are consistently above one, and have retained a strong position, being solidly in the middle of the pack. With Garden Grove, they received their full ARPA allocation, and it was transferred into their General Fund.

Han reviewed Financial Performance - Can the City's revenues cover its expenses? The General Government Growth and Net Position Ratio (FHI #3) looks at the change in net position over the City's total net position. We had an 8.3% increase in FY 21/22 due to the 21.3% CalPERS investment return that was reported in the audit, which changed our net pension liability into a net pension asset. Due to the lag in CalPERS reporting, we will see this number decrease next year. Costa Mesa also experienced a strong increase due to a rebound of their sales tax from pre-pandemic levels, due to more sales at South Coast Plaza. Michels asked if any other cities have refinanced their pension bonds. Han stated that Santa Ana refinanced their pension obligation bond, and refinanced 100% of their liability. Orange also issued a pension obligation bond, and possibly for 100% of their liability. Costa Mesa, Anaheim, Newport Beach and Irvine did not refinance. Han noted that there will be a big shift in all of these numbers next year, because all cities will be impacted by the CalPERS negative 7.5% return.

General Government Operating Margin Ratio (FHI #4) looks at operating revenues against governmental expense. A higher ratio is considered a positive indicator. While the City has other general revenues, such as taxes and investment gains to offset these expenditures, ideally we would like to see this percentage as high as possible so that our operating revenues can cover a majority of the City’s expenditures. Charges for services increased substantially by almost $14M or 26% in the prior year. Part of the reason why that number is large is because we were still coming out of the pandemic, and had modified programs in place during the prior year. Easing of restrictions allowed the City to operate at full capacity in the last fiscal year. Michels stated that the Finance Commission reviewed the City's fee schedule a couple of months ago. She sees that most cities do not implement 100% cost recovery. Part of the conversation we had was that we are administering services, but not charging enough to cover the cost to administer some of those services. She asked if other cities are struggling with the same issue. Han stated that it is a similar issue for other cities, and a number of cities are also looking at updating their fee studies. Our fee study was last done in 2016. For best practices, we would like to do them at least every few years. We are hoping to do a full fee study in late summer to see what our real cost recovery is at this point in time. General practice is that most agencies like to achieve 100% cost recovery for developers and businesses, and building and planning community development fees. Where possible, we would like to try to achieve full cost recovery. The areas where we would achieve less cost recovery or subsidize more fees would be services that impact our residents, like our community services programs because they present a direct benefit to the community.

Craver asked if the process of identifying and writing grants that are available for City projects is done internally or through a third party. Han stated that a third party handles the grants, but in some cases, some of our departments write their own grants, such as the Fire Department. One of the challenges is that competitive grants are extremely competitive and specialized. It behooves us to have a professional grant writer because they tend to have served on the awarding boards before, or have extensive experience and are aware of what each awarding agency is looking for.

Competitive grants are very precise, and an application is not considered unless each requirement is followed to the letter.

General Government Owned Source Revenue Ratio (FHI #5) looks at operating and capital contributions and grants over the City's total revenues. In this case, the number is better when it is lower. This percentage represents how much revenues are generated from contributions and grants as opposed to City-generated revenues. It also represents the City's ability to generate its own revenues as well as a dependency on contributions and grants received from other agencies. There was an uptick in FY 19/20, largely due to the effects of Covid-19 where we saw decline in sales tax, utility tax, and other taxes such as TOT. However, we did see a strong uptick in grants as we received a number of grants through the CARES Act to assist with the Covid-19 pandemic and with homeless response. When this report is published next year, we will see an uptick because the $29.6M in our revenues will be fully recognized. Lo Grasso stated that Anaheim has a large percentage for their income to be based on grants. Han stated that we work with professional consulting firms that are very skilled at grant writing and grants management. She noted that competitive grants also look at need, and they would be more inclined to provide more funding to a city that may have more need. Zelinka stated that the financial health indicators help put us into context. One of the proposals that we will be bringing forward is to have an in-house grants manager and resource developer. Even though departments are doing their own grants, we need somebody to keep their eye on all the grants that are out there, and the ones that we are most competitive to pursue. They can coordinate the internal efforts so that we can be more successful. He noted that we do not want to be overly dependent on grants, and all the strings that are attached.

Gates stated that the City Attorney's Office recently won a $30M award, and although those funds are not grants, she asked where would that money be deposited and how it can be spent in the City. Han stated that the money would be considered a transfer and categorized under “Other Revenues.” It is one-time revenue that would be a loan repayment for former redevelopment loans that was achieved. For the original $5.2M that was first awarded by the judge, we placed that in this upcoming year’s Recognized Obligation Payment Schedule (ROPS). It is currently being reviewed by the Department of Finance, and we should receive a determination around April 15-18. At that point, a portion of those funds would be transferred to the General Fund, and another portion would be transferred to the low and moderate-income housing fund. For the General Fund portion, the City Council would determine how that would be spent. Gates asked how the payment would be sent to us. Han stated that it would come through our ROPS, which we submit on an annual basis. Our FY 23/24 ROPS was submitted on February 1. The $29M was not included because we were not aware that it had been awarded at that point in time. There is an amendment period in October, and we can potentially include it at that point. Payment would have to approved by the Department of Finance as an enforceable obligation. The amount that would be paid is dependent on the available tax increment that would be collected from the county. Han stated that she did not know if there will be enough to pay it all in one year, so it may be spread out over a number of years. Once it is listed as an enforceable obligation, it may be two to three years based on the tax increment that is available.

Lo Grasso asked if the City has looked into the cost of contracted grant writers as opposed to hiring a position, and if they would be an added value to the City in revenue. Han stated that the City works with three grant writing and management consultants. One of our Deputy Public Works Directors issued a request for proposal (RFP) to have qualified grant writers on board, and we went through a formal RFP process to select the consultants. Lo Grasso asked how the consultants are paid. Han stated that they are paid hourly. Lo Grasso asked if we were receiving more in grants than what we pay for in services. Han stated that she worked with Avant-Garde for ARPA funds and CARES Act questions, which deals with compliance. She noted that we want to receive the grant money, but also want to make sure that we are using it properly, and that we are compliant with all of the rules and regulations of each grant. The grant regulations are onerous, and in many cases, especially with the Covid relief money, the regulations were changing very rapidly. Having a grant consultant on board to look at all the Rescue Plan and CARES relief regulations for all agencies, help us draft federally compliant contracts and bid procedures, and to make sure that we use that money properly minimizes the risk of any disallowed funds when we undergo an audit by our external auditors or the Federal agency. Lo Grasso asked if the consultant also assists with identifying the proper grants that could be applied for. Han stated that they do, but Finance is a central services department and does not work with the consultant in that aspect. The consultants work with all of the outlying departments, such as Public Works and Community Development, who are better versed in the needs of the City and can identify those grants appropriately.

Han discussed Long-Term Solvency – Can the City pay its bills in the future? The General Government Near-Term Solvency Ratio (FHI #6) determines the City's ability to pay a large portion of its debt with its annual revenue. For this particular metric, a lower ratio indicates stronger financial condition. The City's number decreased in FY 21/22 due to the CalPERS 21.3% return. This number is also rolled into our total liabilities, and since that liability is not reflected in the FY 21/22 audited financials, it decreases our total liabilities. In FY 22/23, this number will go back up, as we will have the unfunded liability reflected on next year's financials.

Han reviewed General Government Debt, Pension, Liability, and Other Post-Employment Benefits (OPEB) Burden per Resident (FHI #7). This looks at the total long-term debt, less compensated absences and claims payable over the total population, and really looks at how much debt is owed by the City per citizen. If the net burden per citizen is lower, then the risk of default is less. The sharp decrease in FY 21/22 is related to the CalPERS 21.3%, and we will see it go back up next year and hopefully, we will remain in the top half.

Governmental Funds Coverage Ratio (FHI #8) looks at the City's governmental debt service payments over its total expenditure. We are lower on this metric because it is just a snapshot, and it does fully look at bonded and long-term debt, but does not include pension liabilities. When combined with the ratio shown in the previous slide, we are much higher, but this is reflective of the fact that we have that large pension obligation.

The Enterprise Funds Coverage Ratio (FHI #9) looks at the Enterprise Fund ratios divided by our interest payments. For this metric, we only have two years' worth of data. Prior to that, we did not have any long-term debt in our Enterprise Funds, so this represents the portion of the pension obligation bonds that was allocated for Enterprise Funds, like water, sewer and refuse. $22M of our $363M POB was related to our Enterprise Funds. Newport Beach's coverage ratio is significantly higher than other comparable cities due to the fact that Newport does not have any enterprise fund long-term debt. Irvine and Costa Mesa do not have any enterprise funds, which is why their number is zero.

General Government Capital Asset Value Ratio (FHI #10) compares prior to year and current year capital assets. This number is better when it is consistent and slowly growing from year to year. There is a spike in FY 20/21, and that large fluctuation is largely due to the acquisition of property and construction that was related to the 174-bed Navigation Center. We had approximately $6M for land acquisition and $6.9M for construction. Han noted that the majority of the funding source for that project was grant funds that were restricted to homeless use. We received $3M of CARES funds from the County that was solely for homeless services, and over $1M in donated equipment from the County. We also received additional CARES relief funding from the State, as well as from the County that was used for this project. The total General Fund portion related to this project was 3.5%.

Enterprise Funds Capital Asset Value Ratio (FHI #11) compares the capital assets being depreciated in the Enterprise Funds to the accumulated depreciation of these funds. Our Enterprise Funds Capital Assets have aged over the past five years, which is evidenced by the slow increases in this particular ratio. While the ratio is higher than a number of other comparable cities, the increasing trend in this ratio may be indicative of other issues that would require additional analysis. Public Works recently received authorization to work on an infrastructure report card, which will be led by one of our Public Works Deputy Directors through a 105 member super committee consisting of 15 appointees per Council member. They will be looking at the conditions of the City's infrastructure and making recommendations accordingly.

The final ratio is the General Fund Public Safety Costs Ratio (FHI #12), which compares the total cost of the General Fund for public safety - Police, Fire and Marine Safety, to the total General Fund expenditure. A higher ratio indicates that more funds are dedicated to public safety. We are consistently in the low to mid 60s for this ratio. There is a slight drop in FY 21/22 due to our decline in pension costs, and pension is a large part of public safety cost. We expect that number to change next year. Irvine, despite being full service, has the lowest amount of funds dedicated to public safety because they contract out their fire services to OCFA, and the costs for those services are included on each resident's property tax bill so that is not an expense that is formed by the city itself.

Han recapped stating that we reviewed a snapshot of the City's financial condition and how we stack up against other Orange County cities. We have ongoing challenges, are still in a period of high inflation, are grappling with increasing CalPERS costs, and increased workers' compensation costs due to rising medical costs, as well as an expanded list of injuries that are presumed to be work-related under California law. We also have increased general liability costs due to increased premiums, not necessarily related to our activities, but related to all the events that are happening throughout the country. We want to make sure that we have robust General Fund reserves. Our current reserve requirement is two months of General Fund expenditures, which is the minimum recommended by GFOA. However, we would like to beef up that ratio whenever possible. We also have aging capital and infrastructure needs throughout the City that we do want to address.
In summary, we have healthy, available General Fund reserves and liquidity that is being maintained at strong levels throughout the past several fiscal years, including during Covid-19. We

have a General Fund balance that is equivalent to roughly 33% of FY 21/22 revenues, and a property tax base that provides a stable revenue source with a significant amount of untapped assessed valuation. We also have a diverse sales tax base with no single dominant industry or business. We have an AAA Fitch rating that has been maintained since we first received it in 2014, which we are proud of because only six cities in California have that distinction. As a cautionary note, that credit rating could lower if the City's available General Fund reserves are reduced to weaker levels in the future without a plan to restore balance within two fiscal years. We want to remain proactive and address all of the upcoming challenges that were identified to be able to determine the future of the City's continued financial health.

Cicerone requested more clarity in the data presented and suggested that we refocus some of the data provided, such as adding bullets with key notes that would explain the variances in the charts between one city and the next. Han stated that we welcome any feedback from the Commissioners on improving the report.

Chair Lo Grasso asked to skip to Item No. 3, Commissioner Introductions. The Commissioners each introduced themselves and provided their backgrounds.

Lo Grasso discussed his item regarding hiring incentives and benefits package. He found out last year that the City provides an equity share agreement for purchasing homes as one of the benefits for hiring. Huntington Beach homes are expensive and assisting with a down payment is a good hiring incentive. He asked how many of these incentives the City has offered, and questioned the process from the purchase of the home to the liquidation and the steps in between. Han stated that since 2004, the City has issued four housing loans. Lo Grasso asked if the City was making the loans or just participating in the down payment. Han stated that for the previous City Manager Oliver Chi, the City issued the loan, and that was the only loan that had an equity share calculation. For the other three loans, we provided a down payment, which were for former Police Chiefs Handy and Small. Chief Handy had relocated from Arizona, and Chief Small had relocated from Florida. As an incentive, we provided a $100,000 forgivable housing loan to Chief Handy and a $100,000 forgivable housing loan to Chief Small as hiring incentives and for relocation. While the three loans, were for a lower dollar amount, they were all forgivable housing loans, meaning for each year of employment, a portion of the loan was forgiven by the City, spread out over seven years. Lo Grasso asked and Han confirmed that the $100,000 loan was amortized down to zero. Lo Grasso asked if the City has offered any other equity share loans. Han stated that to her knowledge, only one has been offered since 2004. Lo Grasso stated that since we have only offered one equity share agreement, there is not likely a staff member whose job is to monitor housing loans. Han stated that with regard to the equity share agreement, since Chi left the City, that house has been sold and the equity share calculation has already been completed. Han stated that we issued and directly managed Chi's loan. He paid monthly mortgage payments directly to the City for the time that he was here, and when he went to Irvine. It was not a forgivable loan. When the property was sold, the outstanding mortgage was paid in full, and after deducting closing costs, the remaining equity share was split 50/50 between Chi and the City. Lo Grasso asked if the City was involved in the negotiation on the purchase of the property and what input the City had in the liquidation or sale of the property, or if the individual handled it all when it came to finding the realtor and negotiating the contract on the sale. Lo Grasso also asked to talk to someone that was part of the transaction. He asked if anyone looked at the closing statement prior to the close of escrow and asked any questions about the items on that closing statement. If we are splitting that equity, we should have somebody looking at the closing statement to make sure it is correct.

Lo Grasso noted that at a Finance Commission meeting last September, former CFO Bulosan gave a presentation and shared a slide which noted that the City had refinanced a lease from 1.2% to 1.17% and saved the City $40,000. The City spends $272M a year, and he was impressed to see that a City Council would look at a line item that saved $43,000. He firmly believes that if you take care of the small stuff, you are taking care of the big stuff too. With this one transaction, we are looking at upwards of $150,000 of expenses that the City could or could not have controlled. Lo Grasso stated that he was not aware that we have only offered one equity share agreement and thought this incentive was offered to all city managers or executives. Lo Grasso suggested that if we are to offer such an agreement again, that controls be put in place. The City previously bought property that it had to sell because the CC&Rs were not read. On the closing statement, questions should have been asked that could have saved the City an estimated $100,000 to $150,000. Craver asked, within City government real estate transactions, which City department would take the lead to ensure that processes and control are in place. Lo Grasso stated that a process needs to be in place where somebody from the City is part of that transaction. If the City is partaking in the profit, it should have somebody who is looking at the information to make sure that the numbers are accurate and fair and approve the closing statement. Han stated that the equity share loan was approved by the City Council, and was negotiated between Chi, the City Council and the recruiter. It was a hiring incentive, so staff was not involved in the negotiating terms. Finance was not involved in the closing statement process as that transaction was being done, but is possible that other departments were included. Lo Grasso stated that this is the third time since he has been on the Finance Commission that a real estate transaction has looked less than professional from the City side. Gates stated that all negotiations and contracts should go through the City Attorney's Office, which is the department that is familiar with all the legalese, wording and contracts, and can find situations in the contracts that would cause problems. Lo Grasso agreed. Zelinka stated that at some point in the past, we decentralized real property. Rather than have a real property manager that is an expert and has spent many years in the private sector doing real estate transactions, we decentralized and left each department to its own devices. He agreed that controls need to be put into place. Lo Grasso stated that another option would be to have someone from the outside assist part-time so that an employee does not have to be hired. A realtor with 10 to 15 years experience would have seen the CC&Rs on the title report. With an equity share agreement, the City needs a realtor on their side to look at the steps involved to get that transaction closed correctly. Lo Grasso stated that he brought to Chi's attention two years ago that the City needed a process in place for real property purchases, and it still has not been addressed. Sternberg stated that controls should be in place where as a part of the equity sharing, somebody from the City should at least review, ask questions and then approve it. It is a good to have all real estate transactions go through the City Attorney's Office.

Han stated that the City is working with an outside consultant to review our procurement policies and procedures and looking at best practices. We took Chair Lo Grasso's suggestion and are looking at policy for real estate purchases. Cicerone stated the City Attorney should review any and all contracts, and have somebody with expertise represent our best interests relative to the details of property sales transactions. Han stated that we are looking at tightening up our controls and refining our purchasing policies to make sure that they align with best practices and are compliant with State and Federal laws. We do have cases that are very specialized, such as procurement for Federal grants that follow very specific guidelines and have different dollar thresholds than our current City limits for each threshold. Part of the reason why we are retaining a consultant is to make sure that we are looking at all aspects of procurement and that each area is addressed since so many of these areas are varied. Our intent is to make sure that we are constantly improving and doing better in the future.

Cicerone stated that he requested two ad hoc committees. One to look into everything that the City has done relative to the homeless initiative and all the money involved, which he understands to be between $20M to 25M. Han stated that was not the amount spent for annual operations. For acquisition and construction, which were one-time dollars, the amount was close to $13M and a lot of that was spent using grant monies, which was Covid relief money, money from the County and the State, and restricted funds that in most cases could not be used for other purposes. We also received donations from the County to help furnish the Navigation Center. A large bulk of those costs were related to one-time costs. As far as the actual Navigation Center operations, we are projecting $2.8M to run the shelter, but a large portion of the costs is being funded through restricted grant money. We have additional CDBG CARES money that we are using to run the operations of the Navigation Center. That money is restrictive, and that is one of the few uses we can use it for. We are using other HUD American Rescue Plan Act money through the HOME Program. An additional funding source is a Permanent Housing Local Allocation (PHLA) or SP2 funding, which is annual funding that we are receiving that is also very restrictive, and generally one of the few allowable uses is for homeless services. Cicerone asked to receive a printout detailing the funds spent. Lo Grasso stated this item is not on today's agenda, and could be further discussed if put on the next agenda.

Michels stated that she asked for a discussion on the definition and structure of an ad hoc committee, such as the objective and the length of time. Cicerone stated this was his request from January, where three people can form an ad hoc committee with a 60 to 90 day time horizon. The purpose for the committee was to get an understanding of all the financial aspects associated with what City has been doing to address and fight the homeless issue. Michels stated that this topic has been a very rigorously studied by the City Council, and there is a lot of publicly available materials that we can review without adding an ad hoc committee. Cicerone stated that he would be happy if he could receive this information. Craver stated that Michels is correct in that this topic is receiving City Council attention, there have been study sessions on, and Lieutenant Smith just addressed the City Council at the last meeting. Craver stated that from the Boards and Commission training, it is her understanding that an ad hoc committee is a three-person committee created to gather information. When we talk about the criteria for creating an ad hoc committee, she referred to the Finance Commission draft Policy Manual, which says members may at times serve on ad hoc committees, they are created to address a specific issue, it is anticipated they will not be ongoing, and they will be disbanded when that issue has been addressed. Committees can be formed by the Commission or Council, and may include members from Council, other commissions or boards, and the general public. That criteria does not say three or more members. Lo Grasso stated that it is not specific and gives us the ability to form an ad hoc committee if we need one for a specific topic. Michels stated that she did not want this to be a to-do list for the Finance Department. We have heard repeatedly that Han is doing two jobs right now. This information is available to us, and we can source that information. Lo Grasso agreed that it is incumbent upon the Commission to make sure that we do not use too many resources from the Finance Department, but we can still have the ad hoc committee do that work for itself. Lo Grasso stated that he did not want to define a criteria for ad hoc committees so that we have the flexibility to form them organically when we are meeting.

Lo Grasso stated that with Cicerone's item, if we had two other people that wanted to join him pull this information together and come back next month to give us a short presentation on what they found and where they want to go with it, we can put it on the agenda now. Cicerone stated the Comprehensive Review of the Homeless Services in Huntington Beach from March 7 is the starting point. He is looking for clarity and information that can be captured and put on the City website to communicate to the public what we are doing with taxpayer dollars. Craver stated that at the last City Council meeting, Council member McKeon tabled the Homeless Services presentation and asked for more information, so we may learn more at the next City Council meeting on April 4 . She suggested that we pay attention to what information is being shared as Lieutenant Smith would be speaking and answering questions of the City Council. We may be able to participate through our Council member by proposing questions to our appointing Council member, and perhaps they could ask Lieutenant Smith from the dais. The City Council meeting is a public forum and televised to educate the public further. Cicerone stated that to minimize staff work demands and without a duplication of efforts, he would be happy if he could receive a detailed review where the Finance Commission can participate in a question and answer to get a full understanding of the Navigation Center costs.

Lo Grasso asked if Cicerone wanted to put this item on agenda for next month, we can go into a more detailed discussion. Han noted that she provided the agenda and a copy of the PowerPoint from the last study session as soon as it was available. Once the PowerPoint of the 90-Day Plan to Address Homelessness is available, she is happy to provide it to all of the Commissioners so that they will have the opportunity to look at the presentation in advance. Cicerone asked if Lieutenant Smith could give a presentation to the Finance Commission. Han stated that one of the challenges is Lieutenant Smith's availability. His time is limited as he has been fully immersed in overseeing the Homeless Program since Director Austin's departure, and he is also working with the Homeless Task Force. This is a topic of great interest to a number of our residents. The City Council is aware of this and intends to have Lieutenant Smith bring regular updates in the future. Cicerone stated he would like to include the Homeless Services item on next month's agenda, and if he still has questions that have not been addressed, he can revisit this.

COMMISSIONER COMMENTS

Cicerone requested for a second hoc a committee to look into the City's acquisition of real estate, specifically the purchase of two apartment complexes and the motel on Beach Boulevard. He would like to understand the details associated with purchases and requested a condensed version of the legal and financial details, and how the apartments can be exempt from $500,000 in property taxes. Lo Grasso asked and Cicerone confirmed that this pertains to the Elan and Breakwater purchases. Craver stated that this topic was presented to the Finance Commission last year and the information is available to the Commission. Cicerone requested a copy the presentation. Han stated that based on the meeting with Hamilton and Cicerone last week, Assistant City Manager Travis Hopkins was asked to provide a compilation of links to all of the different meetings that have been held regarding this topic, and she would share it with the Commission. Lo Grasso supported giving the Middle Income Housing Program presentation again for the new Commissioners. Craver suggested that the Commission review the available information online before we look at the presentation again.

Michels stated that the comparison to other cities was fantastic, and gave great context to see how we stack up against other cities. She requested a recap of the meeting that the Commissioners had with the City Manager last week. Michels suggested that we prioritize the topics we would like to discuss on an ongoing basis.

Lo Grasso requested that on agenda discussion items, the name of the Commissioner who proposes an item be listed next to the item. He stated that we have three items on the next agenda, which includes Cicerone's two ad hoc committee items and the details of the Commissioner meeting with the City Manager.

Sternberg thanked Han and her team, as it really is a team effort on the audit. The Financial Health Indicators presentation was excellent. We asked for something like that and Finance delivered. He suggested for next year that there be a side-by-side comparison between last year and this year to see how the trend is going. It was very informative and good for Huntington Beach in that we are confident and within the range of other cities. He suggested that with regard to future real estate purchases, that the Finance Commission receive a bullet point summary first because it involves hundreds of thousands of dollars.

ADJOURNMENT

Motion: Moved by Craver and seconded by Michels to adjourn the meeting at 7:38 p.m.

The motion carried by the following votes: 6-0-1
Ayes: Cicerone; Craver; Gates; Lo Grasso; Michels; Sternberg
Noes: None
Absent: Hamilton

Submitted by:
Sunny Han, Acting Chief Financial Officer

By: Thuy Vi, Finance Management Aide