



MINUTES FINANCE COMMISSION

Wednesday, February 28, 2024 - 5:00 p.m.
City of Huntington Beach
Public Works Utilities Yard, Training Room
Huntington Beach, CA 92648

For the audio recording of the February 28, 2024, Finance Commission Meeting, please visit the City's website at: <https://huntingtonbeach.legistar.com/Calendar.aspx>

Chair Billy Hamilton called the meeting to order at 5:00 p.m. and Commission Jamie Craver led the Pledge of Allegiance.

MEMBERS PRESENT: Billy Hamilton, Chair
David Cicerone, Commissioner
Jamie Craver, Commissioner
Frank Lo Grasso, Commissioner
Janet Michels, Commissioner
Robert Sternberg, Commissioner

MEMBERS ABSENT: Kelly Gates, Vice-Chair

STAFF PRESENT Sunny Han, Chief Financial Officer
Serena Bubeheim, Acting Assistant Chief Financial Officer
Thuy Vi, Management Aide, Finance
Shari Saraye, Buyer

PUBLIC COMMENTS

None

CONSENT ITEMS

Commissioner Lo Grasso requested that his comments regarding the handouts that Commissioner Cicerone brought to the January 24, 2024 meeting be included in the Minutes. He had stated that the documents were in line with the Brown Act and could have been included in Agenda Item E4. Efficiency & Revenue Building Opportunities.

Chair Hamilton requested that his comment regarding following up with the City Attorney be corrected. He was to follow up on the Brown Act question and not the property tax question. He noted that he spoke to the City Attorney and as long as an item is agendaized, we are allowed to discuss it. We are not allowed to discuss extra items not related to agendaized items.

Motion: Moved by Commissioner Janet Michels and seconded by Commissioner Frank Lo Grasso to approve the Finance Commission Meeting Minutes dated January 24, 2024, with amendments in the Commissioner Comments section by Lo Grasso and Hamilton

The motion carried by the following votes: 6-0-1

Ayes: Cicerone; Craver; Hamilton; Lo Grasso; Michels; Sternberg
Noes: None
Absent: Gates

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

D1. Update on Letters to City Council – Hamilton

Hamilton stated that last year, the Commission passed four different letters to the City Council as action items. He apologized that the letter requested a property manager was amended but not sent to Sunny Han and was recently sent to her.

Hamilton stated that the Request for Action regarding Elan and Breakwater was sent to the City Council, discussed and is still being discussed on their agenda. Han stated that the item was brought as an H-Item at the July 18, 2023 City Council meeting by Mayor Pro Tem Van Der Mark and Councilmember McKeon as a proposed Charter amendment. At the September 28, 2023 City Council meeting, Councilmember McKeon stated that because of the details required, he felt that it would be best handled through an ordinance and withdrew the item. The item is still being discussed.

Hamilton stated that the second letter dealt with leases. Han stated that on July 18, 2023, Mayor Pro Tem Van Der Mark and Councilmember McKeon brought this item forward with the previously mentioned H-Item as a proposal to centralize real estate services. The item was moved forward and City staff is still in the process of centralizing real estate. The Lease Coordination letter was sent to the City Council on February 26, 2024. We are looking at having a dedicated real property manager handle a majority of the leases with the exception of mobile homes. The proposed plan is to have our Economic Development Department handle the mobile homes leases, and our Real Property Manager in Public Works would handle the remainder of the leases.

Lo Grasso asked who the Real Property Manager is, how long he has been in the position, if this is a new title, or if there was someone else previously in that position. Han stated that Bill Krill has been in the position for over a year and currently does not have all the leases under his purview. We have had real property managers in the past, historically in the Economic Department when real estate was centralized. When it was decentralized, we did not have real property managers. Lo Grasso asked why real estate was decentralized, and Han stated that it was too much for one person to handle. Lo Grasso asked why we do not have a professional property manager managing the City's approximately 170 leases.

Craver asked for the status of developing policies and procedures related to real estate transactions and leases. Han stated that it is in process by a subcommittee made up of all the different departments that currently manage leases.

Hamilton stated that the last item is the Unfunded Accrued Liabilities (UAL) letter. Han stated that a comprehensive review of the City's UAL is presented twice a year, at budget adoption and during the midyear budget update along with the status of the City's five-year outlook. Craver asked and

Han confirmed that the City Council has received the letter and has not asked for additional reviews or presentations.

Cicerone asked what impacts the UAL. Han stated that UAL is largely impacted by investments, and investment returns are managed by CalPERS. To a lesser degree, the UAL is impacted by other items such as: negotiated raises, employee unions, employee mortality rates, and industrial disability retirements. Cicerone asked if the UAL is separate and distinct from the Section 115 Trust. Han stated that the Section 115 Trust is a savings account to set monies aside to address future pension costs.

Michels noted that we made the recommendation to the City Council that they take action to educate the public and to deal with the UAL, and it sounds like they want to keep it at the two reviews this year. They did not take up our recommendation to do a separate study group with professionals to determine how to address this any differently.

Sternberg stated and Han agreed that we are making efforts to pay down the UAL. Han noted that with the 2022/23 budget adoption, the City's reserve policy was enhanced so that when we receive any unrestricted one-time general fund revenues, 25% would be set aside in the Section 115 Trust. For example, with the Waterfront money that we will be receiving from the Redevelopment win, 25% of that will be set aside in the Section 115 Trust for our future pension liabilities.

Hamilton stated that from the recently issued financial statements, we had a \$100M pension asset last year, and this year we have \$160M liability so we have lost \$260 million in one year, which will be discussed in more detail in the next meeting. We are losing a half million dollars on Elan, and we get \$6.5M a year from Use of Money and Property, but the pension loss is \$260M in one year.

D2. Overtime – Sternberg

Sternberg stated that he, Hamilton and Han met with three Huntington Beach Fire Department Chiefs. It was a very good 90-minute meeting where we asked why Huntington Beach made the list in the August 2023 Orange County Register article about a Fire captain making more money in overtime than his basic salary. One of the Chiefs stated that he was aware that the individual was working a lot. Sternberg stated that the Fire Department has a very good reporting of overtime, keeps tight controls and knows exactly who is doing what. We found out there is a mismatch in revenue when firefighters are sent out on emergency assistance calls for other agencies. Their time gets charged as an overtime line item. The City then gets reimbursed from other cities and from the State, which goes into a line item in the General Fund and does not directly offset the overtime. The mismatch is when you see high overtime and regular pay, but do not see the significant amounts of compensating reimbursements.

Lo Grasso asked if we were given reimbursement percentages or numbers, and Sternberg stated that we did not ask for them. Sternberg stated that we could request the dollar amounts, but he felt that they had good tracking of their overtime. Hamilton stated that the overtime was associated with assistance with wildfires in the Solvang area and we were reimbursed by the State.

Michels asked and Sternberg confirmed that he was confident with their controls. Sternberg stated that this report took a year that was an unusually high year. They have since created policies and procedures to bring that down and showed there was less overtime after six months. A lot of this overtime is called forced overtime, which is when they run four people on a truck and one of them is a paramedic. If they do not have the mandatory number of staff, they used to require staff to stay and work the next shift. They have now taken steps to reduce overtime by starting a new recruiting program to hire more firefighters, are managing who works overtime, and have reduced mandatory overtime, which is all included in their reports. They have also started an Explorer program where they can identify people who are interested, develop them along the way, vet them, put them through background and employ them. They were previously employing lateral transfers from other departments, which is expensive. The in-house internship program was started in the last year and has had good results. The overtime will come down, but they cannot do anything about the mismatch of revenue.

Craver stated that it appears that there are policies and procedures for looking at overtime at the overall Fire Department level as well as at the individual level. Hamilton stated that there is a system in place that identifies the overtime and there is a person in the station that oversees it as well. Sternberg stated that they are tracking all the days worked and that it was mandatory overtime that drove the high overtime number. They have taken steps to reduce and spread that out by increasing the number of fire recruits so that there is not so much mandatory overtime. He stated that he was comfortable that they got a handle on the overtime, and they are working to reduce the mandatory overtime.

Sternberg stated that the Fire Department used to trade out ambulances every seven years. To bring down costs, they went to the Chevy where they can disconnect and trade the cab and the truck parts. They are able to separate the front end of the ambulance if gets ruined, take off the cab, replace it and keep the chassis. They can get longevity use out of the vehicles where before, they would have to trade in the whole ambulance.

The Fire Department receives many lift assist calls from convalescent homes where someone has fallen and cannot get up. They have started developing a program that would require convalescent homes to have proper staffing to assist its residents without having to call for assistance from the Fire Department, or they would pay an additional fee to call the Fire Department for assistance. They are also conducting safety tours in retirement communities to identify trip and fall hazards such as throw rugs. They have had good results as their calls for service have been cut in half. The number one calls for service are medical falls, trip and falls, or accidental falls. The program is trying to reduce the accidental falls.

Lo Grasso asked if there is a charge when paramedics are sent to calls. Hamilton stated the charge is just to cover the cost. Han stated that here is currently no charge for lift assists to residents or convalescent homes. There are charges for transport and supplies during transport.

Sternberg stated that another cost-saving measure is to keep the Fire engine in the City on calls for service that involve hospital transport. Every firefighter is a paramedic and calls for service include a Fire engine and ambulance because they do not know what type of life-saving services that person will need. When a person is transported to the hospital, there is a paramedic in the

ambulance and the Fire engine follows and waits to transport the paramedic back. Now, the ambulance will go alone, and the Fire engine will stay in the City with another firefighter in the engine being designated as the paramedic.

Sternberg stated that the Fire Department is putting policies and procedures and new ideas in place to reduce costs. Hamilton stated it is difficult for them to predict emergencies, but they are putting plans in place to reduce costs.

Cicerone asked why overtime reimbursements are not put back in the Fire Department's budget. Craver asked and Han confirmed that the reimbursement is considered General Fund revenue. Cicerone stated that when a department incurs an expense that is reimbursed, it should be reflected back in that department's budget. Fire's budget reflects that 25% of its salary budget is spent in overtime. Han stated we are not a profit seeking entity, and the City's budget is looked at as a whole. We cannot treat every department the same way as some departments are not revenue generating.

Han stated that forced overtime is coming down however, unplanned emergencies like wildfires and other reimbursable events cannot be accounted for and are not included in the adopted budget. The Fire Chief mentioned that special events throughout the City also incur reimbursable overtime, which are not budgeted for along with offsetting revenue. Revenue is identified by object code in the budget and is not matched to a particular department.

Sternberg stated that he is comfortable that the forced overtime, which is under their control, is definitely coming down.

D4. GASB Reporting Overview – Cicerone

Cicerone discussed the article "Why Governmental Accounting & Financial Reporting Is-And Should be Different." He stated that the takeaway on this article is that GASB focuses on long-term and there is no emphasis on the here and now. He would like to see timely financial reporting that gives the Finance Commission a sense of the current financial situation of the City. GASB's perceived focus and priority is not necessarily reflective of the welfare and the benefit of the citizens. He would like to see implementation of financial reporting that gives better updates on how we are doing financially as a City, when GASB is not an issue.

Michels stated it is an agnostic method of accounting of a governmental entity, not a for-profit enterprise. It has no opinion on whether you are a profitable enterprise or an unprofitable enterprise and go out of business. Michels does not think Cicerone's question is a GASB question, but a want of financial insights to help direct the priorities of the group, which may be different than the things the Commission is talking about.

Cicerone stated that gleaning better insights and being more proactive is how we can provide advice and counsel the City.

Craver stated that we talk about the budget, the \$1.5M we might save in personnel or the \$500,000 we might lose in lease, but the elephants are the difference in the UAL that can come, the surprise

amounts we may need to pay due to litigation settlement or workers' comp or things that are not budgeted or part of a budget that are unexpected. She does not think there is a dearth in the financial reporting or that it solves the issue that Cicerone sees but feels that the discomfort comes from the unknowns that we do not have a good sense of.

Hamilton asked if we do interim reporting. Han stated that that we do not. We do two updates with our annual financial statement and our mid-year budget update.

Michels stated that Cicerone has a good point of wanting a quarterly financial look to see what is happening. The GFOA has given Huntington Beach meritorious awards for financial reporting, so we are doing the same reporting as other cities. The question is how to get insights into those cities on how to manage risks or opportunities that would be more consistent with what a private enterprise would do that is a for-profit. Other than tax revenue, there is only expense. She understands that all cities comply with the same reporting requirements, so Cicerone's frustration is no different from the frustration of others.

Hamilton stated that he understands that GASB is a nonprofit that sets the accounting rules for government, and they do not talk about timely reporting. It is the equivalent of the FASB, which is for the public companies. The U.S. Securities and Exchange Commission (SEC) regulates when public companies must report. Microsoft, the biggest company in the world, must report their earnings within 60 days. Their year-end is the same as ours, on June 30th and they report year-end results on July 27th. Accruals are tricky when reporting accruals 27 days after year end. If we report several months after, we have a good handle on what the accruals are for the next year. Craver's concern is mitigated by the way our reporting is done. Governments do not really have an SEC. The SEC is the government impacting private companies. Governments are regulating themselves, and no one enforces reporting which is nine months after year-end. The reporting timeframe affects the City's bonds and credit rating, and we are exceeding that when we reported in six months.

Han noted that December 31 is the deadline to submit for the GFOA award for financial reporting, otherwise there is no other deadline. The single audit deadline is March 31.

Cicerone stated that we do not know we have a problem until the year ends.

Michels stated that each City department has a budget and establishes their priorities and controls, such as what we heard from Fire and previously from City Engineer Tom Herbel in Public Works. What we have to investigate are revenue opportunities. Departments are doing expense management and looking for grants and revenue opportunities.

Hamilton stated that GASB controls the public deliverables, the audited financial statements for the public. To manage the business, he assumes that departments have more timely internal reports than public deliverables. Sternberg stated that Fire has a monthly forced overtime report of things they can control, but not of things out of their control such as calls for other agency assistance. Hamilton stated that there is timely information but only for internal management to see.

Cicerone asked why there is not a line item for revenue received back from costs so that we can get a picture of cost versus expenses. Sternberg stated that it is similar to the street sweeping expense, which is not offset by ticket revenue. Michels stated although Cicerone would like many things to be reported differently, it is not required, and the City is not changing its reporting standards and practices.

D3. Vacancy Report – Cicerone

Hamilton discussed the February 2, 2024 Vacancy Report. He asked if the vacancies that are on the vacancy factors are included in the budget. Han stated that a standard \$4M vacancy factor is built into the budget, in addition to the \$1.5M Managed Hiring target for a total of \$5.5M. Hamilton asked and Han confirmed that we have about 1,000 budgeted full-time employees and are approximately 10% off from our total number of full-time employees with ~103 vacant positions.

Han stated that overtime has increased as a result of the increased vacancies. Additionally, in some cases, especially with essential services, such as permit inspections, we supplement services by increasing use of contractors, the costs of which is not reflected in this report. With Human Resources, the Director position is vacant; however, we have an Interim HR Director who is a retired annuitant (960) employee, which is not reflected in the report. We have other 960 employees throughout the City that assist in various capacities that count against those vacancies as well. Hamilton stated that there are other factors as well that would reduce the amount of savings available.

Hamilton stated that at the last meeting, we approved a different vacancy report that is omitted here, which required the HR department to add information. Han stated that she spoke with Interim City Manager/Police Chief Parra regarding the Finance Commission's request as he directs City staff. Parra made the decision not to include the additional information in the vacancy report due to the fact that the Human Resources Department is particularly lean at this point in time. Han will email the Commission on a monthly basis the standard vacancy report without the additional information.

Lo Grasso stated that one time, we were able to get the vacancy report with the additional information and he found that information to be valuable. Han stated that information was available one time. Parra has the best sense of HR's workload and given their staffing shortages and time constraints, the decision was made to not include the information. Lo Grasso stated that the Performance Metrics subcommittee could meet and draft a letter to the City Council requesting them to direct HR to add those two line items on the vacancy report. Sternberg noted that the Interim City Manager has already decided that the report will not include the HR information. Craver stated the basis and foundation of City is that the City Manager runs the City and is in charge of personnel, and the City Council sets policy.

Han stated that when the additional information was provided on the vacancy report, the Interim HR Director at that point in time was working four to five days a week. The current Interim HR Director works two days at the most, there is no deputy HR Director and the HR Manager was recently appointed.

Sternberg asked what the basis for the request would be, cost versus benefit because it takes staff extra time to prepare the information. Hamilton stated the benefit is the cost savings Cicerone identified at the last meeting.

Cicerone asked what HR's role is in the recruiting and selection process. Han stated that HR facilitates the hiring process. They post the job bulletin, schedule interviews, coordinate interview panels, run background checks, schedule medical exams and process onboarding of new employees.

Cicerone stated that he would like to see the vacancy report on a monthly basis to see if the overall system of filling vacancies improves. If it does not get better, we need to identify the problem, what issues we need to address, and find out if the problem lies with department heads or in HR. He asked why there two pages of vacancies. Han stated that we have vacancies due to Managed Hiring. Another reason is that in some instances, there has been a challenge with finding qualified talent for certain positions. The Mayor has indicated that there is a challenge with hiring police officers. With all local agencies competing for police officers, we have a high number of police vacancies. With Finance, it is challenging to find talented finance professionals. There has been double digit decline in accounting enrollment, and CPA firms are also having a hard time finding talent.

Michels asked if the Finance vacancies are impacted by Managed Hiring. Han stated that Finance is not currently impacted, and our challenge is finding qualified candidates with government experience. Michels stated that although Cicerone thinks we are not hiring, there are many reasons why we are not. HR can only do so much if you if there are no candidates to select from. Hamilton confirmed with Han that Manage Hiring is not the problem.

Craver understands the desire for the additional information on the vacancy report but does not believe that as a Commission, we are able to direct staff to do something like that for us, which is why she suggested that they give us reporting that they already have.

Hamilton stated that it sets a precedent and there is frustration that we voted on something but were ignored. He stated that the subcommittee will discuss the request to the City Council and bring it back next month.

COMMISSIONER COMMENTS

Cicerone stated that he reviewed three different Finance-Accounting job descriptions and noted that three of the five competencies listed in two of the jobs were humility, social awareness and passion. It appears to present a problem with finding the right kind of people that would be able to help in the Finance Department. His request that a HR person, City Manager or Assistant City Manager to be present at our meeting is so that he can ask and understand why these were incorporated as key competencies for a finance job. He does not know the cause for the vacancies and our inability to fill vacancies and it appears we should revise some of these job descriptions and job titles.

Michels stated that the subcommittee to look at revenue opportunities met on February 16, 2024 and had a very productive meeting to look at the Meadowlark Golf Course. We identified some early investigative work we could do to find comparative golf courses in Orange County. Cicerone will research interest in redesigning the golf course to be more upscale. We are early in that investigative work and do not expect to be ready to talk about a business plan by the next meeting. We identified about a half dozen golf courses. Newport Beach Golf Course was bought out in 2016 and pronounced that they were making big investments, so she will be visiting to see if they made those big investments in the past eight years.

Cicerone stated that they will be meeting with the Southern California U.S. Golf Association and invited anyone who is interested to join. Lo Grasso expressed interest.

Sternberg suggested requesting the Fire Department's forced overtime report if we want to see how well it is doing as well as their recruiting program. Those are two things that we could look at to see if they are doing a good job and if they are implementing that plan.

Lo Grasso asked if unexpected overtime and forced overtime are the only types of Fire overtime. Sternberg stated that forced overtime is the one they can control. Lo Grasso asked if they can control other overtime that is accumulated in the department. Han stated that another type of overtime are special events, which require staffing. Sternberg stated they do not have control of someone whose call went over and they stay to work a few hours of overtime. They have control over scheduled overtime. Lo Grasso asked if firefighters punch a timeclock or if they are exempt. Han stated that they are not exempt, and Sternberg stated that they record their time. Lo Grasso asked about overtime when someone punched in early before their shift or out late after their shift or when they voluntarily work over an hour or two. Sternberg stated and Hamilton confirmed that the only overtime that was explained to him was scheduling to fill up the minimum staffing requirements, special events, and the reimbursable overtime when providing assistance to other agencies. Lo Grasso stated that he was curious to know if there was any other category of overtime other than those three.

ADJOURNMENT

Motion: Moved by Commission Craver and seconded by Commissioner Michels to adjourn the meeting at 6:49 p.m.

The motion carried by the following votes: 6-0-1

Ayes: Cicerone; Craver; Hamilton; Lo Grasso; Michels; Sternberg

Noes: None

Absent: Gates

Submitted by:

Sunny Han, Chief Financial Officer

By: Thuy Vi, Finance Management Aide