



MINUTES FINANCE COMMISSION

Wednesday, September 28, 2022 - 5:00 p.m.
City of Huntington Beach
Zoom Webinar
Civic Center – Lower Level Conference Room B-7
2000 Main Street
Huntington Beach, CA 92648

For the audio recording of the September 28, 2022 Finance Commission Meeting, please visit the City's website at: <https://huntingtonbeach.legistar.com/Calendar.aspx>

Chair Jamie Craver called the meeting to order at 5:02 p.m., and led the Pledge of Allegiance.

MEMBERS
PRESENT: Jamie Craver, Chair
Tony Strickland, Vice-Chair
Stephanie Gledhill, Commissioner
Frank Lo Grasso, Commissioner
Robert Sternberg, Commissioner

MEMBERS ABSENT: Janet Michels, Commissioner
Lawrence Owen, Commissioner

STAFF PRESENT Dahle Bulosan, Chief Financial Officer
Sunny Rief, Assistant Chief Financial Officer
Linda Wine, Administrative Assistant, Finance
Thuy Vi, Administrative Aide, Finance

PUBLIC COMMENTS There were no public comments.

CONSENT ITEMS

Approval of Meeting Minutes

(3:37) Motion: Moved by Chair Craver and seconded by Commissioner Lo Grasso to approve the Finance Commission Meeting Minutes dated July 27, 2022, as presented

The motion carried by the following votes: 4-0-1-2
Ayes: Craver; Lo Grasso; Sternberg; Strickland
Noes: None
Abstain: Gledhill
Absent: Michels; Owen

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

(4:47) Chief Financial Officer Dahle Bulosan presented the City's FY 2022/23 Investments, Debt, and Refinancing Opportunities.

Bulosan provided an update on the City's investments. He stated that the the City's elected City Treasurer, Alisa Backstrom, manages the investment of all City funds with the oversight of the Investment Advisory Board, and that they work closely together, with Bulosan focusing on the operational side, and Backstrom focusing on investing City funds. The City's Investment Policy guides how the City's money is invested with the following primary goals: safety is of prime importance, so that there are no principal losses; liquidity, so that we have sufficient funds for operating needs; prudently managed, so that there are no compliance issues; and a reasonable rate of return within policy and legal parameters. It is not our policy to invest City funds in stocks. We invest in bonds that are "A" rated and higher for a 5-year maximum term, held to maturity, so not to be subject to market fluctuations. We regularly invest in US treasuries, Local Agency Investment Fund (LAIF), and the Orange County Investment Pool. The total portfolio value as of the end of our fiscal year 6/30/2022, was \$316.6 million, the portfolio earnings was \$3.5 million, the effective rate of return was 1.19%, and the benchmark rate based on the 12-month moving average 1.5 year Treasury was 1.06%.

Lo Grasso asked if there was any real property included in the \$316.6 million. Bulosan stated that it is only cash and investments such as bonds, no real property.

Bulosan discussed the Economic and Market Overview, noting that the federal government has been increasing interest rates. The 2-year US Treasury rate is 2.92% at 6/30/22, and 5-year US Treasury rate is 3.01% at 6/30/22, which is not yet realized in our portfolio because rates were just recently increased. More of our investments will have these types of returns as the current bond portfolio investments mature, and we will be able to utilize some of the higher rate returns, so there is an upward trend in our investment returns.

Bulosan shared the City's Investment Portfolio. The investments by type include 44% in Federal Agencies, 3% in the OC Investment Pool, 8% in Corporate Bonds, 24% in US Treasuries, 11% in MTN-Supras, 8% in LAIF, and 2% in Commercial Paper.

He summarized our investment goals: safety with no principal losses; liquidity to have sufficient funds for operations; our market rate of return is 1.22%, so we can see an upward trend from the 1.19% for fiscal year-to-date; prudently managed with no compliance issues; and a positive contributor to the City's General Fund of \$3,495,631 in Fiscal Year 2021-2022 to be utilized for operating and other expenses.

Lo Grasso asked with inflation at 8% and the City receiving 1.5% in returns, is that taken into consideration in our investment portfolio? Bulosan stated that we look at what is readily available in the bond market and federal treasuries, and it is the 1%. The prime consideration is safety and liquidity, without risk of losing those funds. Bulosan further stated that a good way to keep up with inflation is to put a large part of investments in equities that are more aggressive. The City's investment policy does not allow investments in equities or bonds that have greater than a 5-year term. Also, bonds are held to maturity, which is more conservative.

Craver asked if State law sets the type of investments that can be made with the City's money, and to some extent, if it dictates the balance of the portfolio. Bulosan stated yes, to some extent, but the City has an internal policy set by the Investment Advisory Board, working closely with the City Treasurer, to establish our investment portfolio. Assistant Chief Financial Officer Sunny Rief stated that the California Debt and Investment Advisory Board sends out an annual guideline that includes all of the allowable investments that local agencies can utilize, however, the City's approach has always been to be more conservative. Within that allowable range and percentage for each investment type, our rules are generally more restrictive to be more conservative, since safety and liquidity have always been our primary concerns.

Bulosan discussed the City's Long-Term Obligations, stating that the City has had success in lowering costs with the low-interest rates that we saw in the last couple of years. Unfortunately, those rates have recently increased. City staff continually monitors for opportunities to lower the City's borrowing costs. In August 2020, the City refinanced two lease revenue bonds (2010 & 2011 LRB) to realize \$6.7 million in savings. Rates were lowered from 3.31%-4.13% to 1.08%-1.361%, respectively. On March 1, 2021, the City Council approved to refinance 85% of our pre-existing pension debt at a historically low-interest rate of 2.925% from 7%, to save \$166.7 million during the next 24-year period. In June 2021, all capital equipment leases were refinanced to a low 1.249% from rates between 1.7% and 2.2%, saving \$43,000. In FY 2020/21, the City reaffirmed its AAA Fitch Rating, the highest possible rating that agencies can have, due to the City's strong financial position and prudent fiscal management.

Bulosan listed the City's outstanding debts, which includes three lease revenue bonds (2014(a), 2020(a) and 2020(b), three loans for the purchase and upgrade to citywide LED lighting, and a loan for equipment lease of 3 helicopters, rescue boat, fire engine, Refinance 800MHz, 2 fire engines, 2 ambulances, and our pension obligation bonds. Our balance as of June 30, 2022 is \$395M, which is about \$15.6M less than what we had in the prior fiscal year.

Craver asked if the helicopters and rescue boat were purchased in the last year. Bulosan affirmed, and stated that we initiated the borrowing at the lower rate of around 1.2%, but the time to build large equipment takes quite a while due to supply chain challenges. Rief stated that the average build time is a minimum of one year, but we are now looking at closer to 1.5 to 2 years. Rief further stated that the majority of the leases were included in June 2021.

Bulosan discussed Potential Refinancing Opportunities. He stated that at the current rates, there are no refinancing opportunities at this point in time. He reviewed how Municipal Bond Refinancing (Refunding) works. Municipal governments have a unique opportunity to utilize low cost tax-exempt bonds to borrow funds to meet long-term capital needs. Cities can refinance (refund) higher cost debt with lower cost debt, similar to refinancing your home mortgage, but there are differences. The federal government instituted rules for municipal bond refinancing to prevent municipalities from taking advantage of arbitrage opportunities. Typically, bonds have a 10-year call option and can be refunded within 90 days of the call date to maintain the bonds' tax-exempt status. Bonds can be advance refunded before the 10-year call option, but the bonds are taxable and will have a higher

rate than a tax-exempt bond. A tax-exempt bond can only be advance refunded once. The City works with a financial advisor to help monitor refinancing opportunities.

Bulosan shared a graph reflecting Historical Market Rates. He stated that we are proud that the City took advantage of refinancing at 0-1.5% rates. More recently, at the September 9, 2022 benchmark, rates have increased to 2.5% to 3.5%. The rate changes are based upon the term of the bond, between 1 to 30 years, and the graph shows the range of spectrum of municipal debt financing.

The only bond eligible for refinancing based on the 10-year call-ability is the City's Lease Revenue Bonds, 2014 Series A, which is callable on 9/1/2024, and may be advance refunded on a taxable basis. When we get closer to the 9/1/2024 date, we can be refunded based on a tax-exempt refinance rate. The current advance taxable rate is 4.9%, which is very high. Our current rate is 3.024%, so it does not make sense to refinance at this point. Rates would need to go down to 2.75% to make sense for a taxable advanced refinance rate. The tax-exempt rate, which we cannot utilize now because we are not within the 10-year period, is 3.3%. When we get to 90 days before the 9/1/2024, and the rate is about 1%, then we can take advantage of refinancing. Typically, a 5% net present value (PV) savings is preferred for advance refunding to cover transaction costs for employing different advisors to help us and closing costs.

Bulosan stated that the good news is that we took advantage of refinancing during the low-interest period, and we will continue to monitor refinancing opportunities. He stated that our recommended action is that the Finance Commission direct staff to continue to monitor refinancing opportunities, and to refinance the 2014 Lease Revenue Bonds when the PV savings of refinancing is approximately 5%.

Craver stated that we would check back in next year to review refinancing rates, and thanked Bulosan for the presentation.

COMMISSIONER COMMENTS

(20:19) Lo Grasso stated that he has appreciated being a part of the Finance Commission since it first started in the early 2000s. It is one of the most important committees the City has, because it receives reviews on how responsibly the City invests and spends money. It is important to have a committee that looks at how the taxpayers' money is spent, and if it is spent properly and wisely. He stated that one thing that has bothered him is the City's lack of due diligence when it comes to real estate transactions, such as not reviewing the CC&Rs for the Pipeline property purchase. The explanation from the former City Manager was that the City is unfamiliar with how to perform due diligence because it does not have very many real estate transactions. Lo Grasso stressed that the City needs to improve its real estate purchasing process.

Craver stated that as a lawyer who does large-scale transactions, she was also concerned as to why the City Attorney's office did not review and comment on the Pipeline purchase, and what other City operations were lacking for that transaction. She agreed with Lo Grasso's comments and

stated that she looks forward to continuing oversight. Bulosan stated that at the direction of the City Council, staff is looking at its purchasing policies, including its real estate transactions.

ADJOURNMENT

(24:45) Motion: Moved by Craver and seconded by Sternberg to adjourn the meeting at 5:29 p.m.

The motion carried by the following votes: 5-0-2

Ayes: Craver; Gledhill; Lo Grasso, Sternberg; Strickland

Noes: None

Absent: Michels; Owen

Submitted by:

Dahle Bulosan, Chief Financial Officer

By: Thuy Vi, Administrative Aide, Finance