



MINUTES FINANCE COMMISSION

Wednesday, June 26, 2024 - 5:00 p.m.
City of Huntington Beach
Council Chambers
Huntington Beach, CA 92648

For the audio recording of the June 26, 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 Commissioner David Cicerone led the Pledge of Allegiance.

MEMBERS
PRESENT: Kelly Gates, Vice-Chair
David Cicerone, Commissioner
Jamie Craver, Commissioner
Frank Lo Grasso, Commissioner
Janet Michels, Commissioner
Robert Sternberg, Commissioner

MEMBERS ABSENT: Billy Hamilton, Chair

STAFF PRESENT Michael Gates, City Attorney
Travis Hopkins, Assistant City Manager
Sunny Han, Chief Financial Officer
Thuy Vi, Management Aide, Finance
Shari Saraye, Buyer

PUBLIC COMMENTS

Ellen Riley spoke about her concern for the City's finances, its budget and deficit. She is happy that the Library RFP was withdrawn. She suggested other ways to save costs, such as selling one of our helicopters and replacing it with a drone. Alternatively, the City should consider increasing revenues. She spoke in favor of adopting the Housing Element.

CONSENT ITEMS

Approval of Meeting Minutes

Commissioner Janet Michels questioned the accuracy of a few statements made at the last meeting and asked how to have the minutes corrected. City Attorney Michael Gates stated that a commissioner can make corrections on the record, the minutes can be adopted as amended, and the Finance Department can update the minutes after. If you are not prepared to make the amendment, you can announce that you have observed that corrections need to be made and table the adoption for the next meeting. The proposed changes can be submitted to Finance and

the minutes can be amended for adoption later. City Attorney Gates recommended that the approval of the minutes be tabled for the next meeting and Commissioners can check the recording, propose any changes at the next meeting and vote on approval of the minutes with the proposed amendments.

Motion: Moved by Commissioner Jamie Craver and seconded by Commissioner Janet Michels to table the approval of the Finance Commission Meeting Minutes dated May 22, 2024 for the next meeting

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

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

Noes: None

Absent: Hamilton

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

D1. Finance Commission Role – Gates

Vice-Chair Kelly Gates stated that City Attorney Michael Gates was invited to the meeting to discuss the role of the Finance Commission. City Attorney Gates stated that he wanted to give a reminder to boards and commissions about their role and responsibility as requested by Vice-Chair Gates. It is important to think of commissions and boards as advisory to the Council. The Planning Commission is different because they are designated to make decisions, vote on compliance with proposed projects or zoning amendments and take substantive action. All other boards and commissions do not take substantive actions. They can get together on a concept and vote to make a formal recommendation to the City Council. There are different ways to communicate feedback as advisors. Board members and commissioners may be disappointed to hear that they are not policymakers, but they often get advance notice or information on important issues that will ultimately go before the City Council. They can have informed conversations with their Council member, the City Manager's office or Finance. The input given to Council members is a distinct advantage. Board and Commission members are political appointees and an extension of the Council members. They are not subject to staff and have a lot of freedom and independence. It is rare and a privilege and every member should feel honored to serve in that capacity.

There are two different ways that material can come to the Finance Commission for discussion or recommendation to the City Council. One way is that staff presents issues to the Commission before it is presented to Council. The other way is if there is concern on an issue within the subject matter of the Finance Commission, you can request that it be agendaized. You can share material on your own or material that staff has offered. The Meadowlark study is an example of how something can be considered outside of this forum. There is no limit as to how much time you want to invest in investigating and researching on your own time. An ad hoc committee can gather and bring back information to present to the City Manager's Office or Finance Commission. Not all commissions do that type of activity or have that amount of time on their own to be able to do that. You can engage in discovery of a new concept on your own time, either as an individual or an ad hoc basis.

You want to avoid making a lot of demands on staff because there is a limitation on how much can be demanded of staff. Commissioners and board members often do not realize that staff is working full-

time on projects that are not items and requests of the boards and commissions. You can make requests, but keep in mind to balance the size of the request because staff has full-time jobs and duties and cannot accommodate spending hours on requests from board members and commission members. If a board, commission, or Council member is going to ask staff to do work that is estimated to exceed four hours, it should be approved by the City Council through an H item to direct the Finance Department to engage in this activity. That way, the City Council is being responsible for all City resources, although the caveat to that is the City Manager really is responsible in our form of government. The Council is ultimately responsible and says this is a priority when they give direction to staff to engage in an activity knowing it is going to take more than hours. You can vote to make formal recommendations to the City Council or call your Council member and give them feedback. From the City Council's perspective, they really appreciate the communication.

Material that commissioners share among themselves for information is acceptable. Members should avoid preparing formal presentations for display to the public. It is standard practice that presentations at City Council meetings are vetted by staff. For example, if a PowerPoint presentation has numbers in it, the Finance Department vets it. Presentations that involve statements of law are reviewed by the City Attorney's office to make sure that the references to law are accurate. There is an understanding that whatever is displayed or shared publicly is endorsed or is reliable and authoritative as far as the City is concerned. Commissioners want to be careful in preparing their own presentations because they are not reliable. The public may see a presentation and rely on the information in terms of their perception of what is going on with the City. Michels stated that she prepared a presentation for this meeting and is conflicted by this information. She is keen on the Brown Act. She and some of the commissioners did their own research without making demands of staff to better educate themselves and the Commission so that we can form a conclusion on whether to move forward and if so, in what way. She has the time and enjoys doing the research on issues we need to talk about, but to spend hours of research to be vetted by the Finance staff would take more than four hours and seems circuitous. City Attorney Gates noted that if anyone wants to make any references to statements of law or legal authorities, he is happy to review it without time limitation. He stated that he skimmed the presentation that Michels prepared and staff needs verify that it is reliable. Any public presentation that looks official should come from staff. This happens 100% of the time at every other board and commission and at City Council. Michels stated that she did speak to staff outside of the Finance Commission to confirm that the areas that she was looking at were accurate and that she was reflecting them accurately. She asked what the proper mechanism is to present a topic. City Attorney Gates stated that the research material can be presented to staff with a request that staff prepare a presentation. It is sufficient to circulate information with commissioners at the dais during the meeting for discussion and vote to make a recommendation to the Council or share with your Council member. Michels stated that she understood that material she shared at the meeting would be attached to the meeting minutes as an agenda topic. City Attorney Gates stated that staff does a great job with agendas and following the Brown Act. He can work with staff to improve the agenda. The topics for discussion can be put on the agenda without backup. The topic, properly described, needs to be on the agenda to give the public adequate notice of the nature of the discussion. The Brown Act does not require backup materials to be attached with the agenda and it can be brought to the meeting. Craver asked if material brought to the meeting for discussion related to an agenda topic needs to be shared with the public. City Attorney Gates stated that a copy can be given to staff, and it can be made a part of the record. Copies can be brought to the meeting or emailed to the Commission.

Vice-Chair Gates asked how we could see the proposed budget before it is approved because there was public frustration about this topic. Sternberg stated that he drafted letter to the City Council regarding the budget and it is agendaized for discussion as Item D5. City Attorney Gates stated that having been at the City for 10 years, he knows that it is difficult and takes a lot of work to put together a budget and to present it. It requires working weekends and a lot of overtime, and it is hard to get it done early. If resources were not an issue, the Commission would see the budget one or two months before the City Council saw it, could go through it and then make recommendations to their City Council member.

City Attorney Gates stated that commissions should not discuss issues that the City Council has already taken action on because it is a waste of time. The Commission should be reviewing items in advance so that they can advise their Council member before they take action or consider an item.

Cicerone stated that he takes issue with the accuracy and completeness of the budget presentation. City Attorney Gates stated that the budgets have been in the same format and level of detail every year for many years. He suggested that Cicerone talk to his Council member who can bring an initiative to the City Council to direct staff to take a different direction.

Craver stated that in the past, the Commission had a quarterly agenda where we looked at the budget and there were specific topics that we addressed each time. The role has changed with the ability for Commissioners to add agenda items at any time and that has changed the direction and the ability of staff to address and participate. If we were to look at that quarterly agenda that we had, prioritize some of the items and put them on our agenda, we may have a more methodical way that allows the budget to be brought to us earlier and when staff reviews the mid-year budget update.

D2. Housing Element – Michels/Gates

City Attorney Gates stated that she put the Housing Element on the agenda because Commissioner Craver had some questions about the RHNA numbers and not having an adopted Housing Element. She invited City Attorney Gates to come to explain and answer questions in terms of our budget and finances regarding the Housing Element.

Michels stated that there only two things that we can do to make the City financially healthy which is grow revenue and manage expenses, and we all have expressed concern with the deficits. She looked at the City's revenue buckets and there are very few active levers that the City has to raise revenue, with property tax being the largest one. Without any housing growth, property tax will only grow by the rate at which people sell their houses and have new rates. She researched the financial implications of not having a compliant Housing Element. The Housing Element has been around since 1969. With some cities that have had compliance issues, they have moved from an every eight-year to every four-year cycle. Huntington Beach could be facing a more frequent, painful process. The current Housing Element covers 2021 to 2029 and requires the City of Huntington Beach to zone for more than 13,000 units. The Southern California Association of Governments (SCAG) determines housing allocations, and handle six counties, 16 tribal governments and 191 cities in four or five different counties. When we received the numbers from SCAG, we appealed and lost. We submitted our first pass in HCD in 2021 and it was rejected in early 2022. We received a preliminary informal approval from HCD in November of 2022. In December, the new City Council was installed, and they tabled the Housing Element vote and the associated zoning changes. There

were a couple study sessions to educate the new City Council members and they opted to not pursue the Housing Element in favor of legal action.

In Orange County, 27 of 34 cities are in compliance with the Housing Element. The cities that are not in compliance are Huntington Beach, Aliso Viejo, Anaheim, Costa Mesa, Fullerton, Laguna Woods, Seal Beach and Villa Park. Costa Mesa appears to have submitted but not finished the zoning and is halfway compliant. Aliso Viejo just completed a new iteration to submit.

The impact on federal funding is not affected by the Housing Element. Many, but not all, California grants are affected, and some are put in abeyance until we get into compliance. The money is ours once we have a compliant Housing Element. Some of this money does go to deal with homelessness and dealing with the unhoused. The Community Development Block Grant (CDBG) is federally funded and not tied to the Housing Element. We have been receiving \$1.15M in an annual allocation and it is a 50-year funding. If the money is there, we will continue to get CDBG funds which are important because there are often City partners who apply for those grants. There is a citizen-lead committee that approves those allocations. The Infill Infrastructure Grant Program is for affordable housing and requires compliance with the Housing Element. The Orange County Housing Finance Trust was established as a joint powers authority in 2019, authorized by the Orange County Board of Supervisor to secure funding for affordable housing units. Their goal was to secure funding for 2,700 affordable housing units throughout Orange County by 2025. Huntington Beach is ineligible to apply due to noncompliance with the Housing Element. As an example, in 2024 they awarded funding for eight of nine projects submitted at an average of \$3M each. With the Affordable Housing & Sustainable Communities Program, Huntington Beach is ineligible and would not apply because our average median income is too high. California SB2 was established in 2017, called the Building Homes and Jobs Act and is also known as the Permanent Local Housing Allocation Program. This is related to the \$75 recording fee on real estate transactions and is used specifically to supply more affordable homes in California. Huntington Beach would be eligible for a \$625,000 grant if we were compliant. For Project Home Key, SCAG is the clearing house for the funding for the Southern California region and Los Angeles. The funds have to be distributed by June of 2026. They have distributed \$2.6B in funds in rounds 2 and 3. Huntington Beach received \$16M before we were out of compliance, and that was specifically for the conversion of the Quality Inn on Beach Boulevard, which was temporary and is now permanent supportive housing. We are currently ineligible to apply for funding. CalTrans Sustainable Communities Grant Program awards an average of \$460,000 for planning transportation routes in the cities and requires compliance.

The impact of Builder's Remedy is where without a compliant Housing Element, it is determined that a city will not control their planning process and projects will get approved. Unless there are environmental issues or other non-housing element zoning problems, projects can be passed through without meeting many of the city's requirements. In a case with La Canada Flintridge, who did not have a compliant housing element, a builder came in through Builder's Remedy and was approved for a project. The city became compliant after but lost the case to reverse that project. With Santa Monica, there were many lawsuits as result of noncompliance.

The penalties for not having a compliant Housing Element after six months are \$10,000 per month and up to \$600,000 per month, which we could be subject to. If cities lose lawsuits, they are generally subject to the payment of attorney's fees of the other party. The housing cycle period will go from every eight years to every four years, and there will be lack of local planning control.

Financially, we are not eligible for a lot of revenues that could be used to deal with homelessness, shelter and affordable housing. Planning control is an issue that is indirectly financial, and the penalties are substantial. Michels stated that she did not find any evidence of any city paying penalties, which indicates that State has not enforced noncompliance but there have been efforts by the State to put more teeth into it. She noted that she included links in her presentation for the sources of her research information.

Lo Grasso asked if Michels did any research on revenue impacts of compliance. By his calculation, if all 13,000 units are built and are occupied by four people per unit in each of those units, it gets us to over 50,000 more people in the city. Huntington Beach's current population is about 200,000 and that would be a 25% increase in population. There will costs involved in dealing with 25% more people. The grants are nice but go away once you get them, and people stay here. He asked if we have done any revenue impacts to balance out the noncompliance. Michels stated that she did not because her research topic was not whether we are compliant but focused on the financial impacts of noncompliance. The bigger question is zoning and if we have zoned and built each Housing Element since 1969. It has been going on for 55 years so there have been many cycles. There are many questions we would need to answer but that was not within the scope of the item that she raised. Lo Grasso stated that we need to talk about revenue impacts because there will be 25% more travel on our roads, 25% more need for services, 25% more cars parked on our streets and it is about the quality of life. The City Council is fighting the good fight because they can foresee what will happen if we put 50,000 more people in the City that is 96% built out.

City Attorney Gates stated that according to Government Code 65589(h) the 13,368 RHNA number in our case has to be planned at a 20% inclusionary rate for the developer. Developers are barred from developing any multi-unit if they aim to include affordable housing to include a higher inclusionary rate than 20%. In order to satisfy the 13,368 units requirement, we have to plan for close to 41,000 units, which is a 50% increase in the City's current housing inventory. At the April 4, 2023, the Council members expressed their concerns about the impact on the environment because 50% is a massive increase. Regarding penalties, once a court deems a Housing Element is not in compliance, the fees, fines and penalties that might be associated are not contemplated until after a court issues an order. Those fees and fines are outlined in Article 14 of the Planning and Zoning Code. Article 14 does not apply to charter cities. If a court were to impose an order on the City to pay fees and fines because we are out of compliance pursuant to Section 65755, which is the Article 14 section governing the fees and fines, that would be appealable to the Court of Appeal because Article 14 does not apply to charter cities. Michels asked City Attorney Gates if he is aware of any non-charter city that has been assessed these penalties and he stated that he is not.

City Attorney Gates stated that RHNA compliance was not a necessary component of a valid Housing Element prior to 2018. For decades, Huntington Beach has been doing its RHNA part when there was no statutory obligation to do so. In 2018, SB1333, specifically Article 10.6 of the Government Code, changed by including charter cities in the housing element. The state legislature has been scrambling to put together legislation that imposes production requirements. According to the State, real development is required or else cities will be punished and this is on the horizon. Community Development Director Jennifer Villasenor is more knowledgeable about the other financial impacts we are experiencing from not having a certified Housing element. We do not get SB2 funding, and the number cited by Michels is cumulative over two years. We are eligible for approximately \$300,000

that is earmarked for homelessness. The financial impact analysis should consider the impact to the general fund versus impact to special projects like homelessness.

Cicerone asked how other noncompliant cities are handling the Housing Element Requirement. Michels stated that she did not do that research. Lo Grasso asked if Michels researched how many housing units the non-compliant cities were required to produce. Michels stated that she only knows that Irvine had a higher requirement than Huntington Beach. Lo Grasso stated that if the State told Huntington Beach they were required to build 13 homes, we would be compliant. City Attorney Gates stated that in the previous RHNA cycle, Huntington Beach was required to build 13,153 units and the City satisfied that requirement. At the same time, Newport Beach's RHNA number was six units and Fountain Valley's was eight units. Huntington Beach has a history of doing more for affordable housing and development than any other city in the region. We presently have 1,750 units of affordable housing in the pipeline for production, which is more than some of our neighboring cities have zoned for.

Sternberg asked for clarification on the number of units Huntington Beach is required to build. City Attorney Gates stated that our number is 13,368. Approximately 60% of that is designated as affordable housing at different levels. Everything above that number is market rate. The 20% inclusionary rate is for affordable housing. If you take 8,300, it is 20% of 41,000.

Lo Grasso stated that we have City zoning in addition to an overlay that would supersede our zoning. City Attorney Gates stated that he is unaware of any overlay but would need to confirm with Villasenor. City Attorney Gates stated that for certain property, once bought and sold and there is a transfer, then the overlay becomes the zoning and our zoning goes away,

Michels asked for clarification regarding in-lieu fees. She understands that this started many years ago that if a builder wanted to build only market rate housing and did not want to build the required housing, they could pay a fee to the City. The City would use those funds for affordable housing of which we have \$9M in that fund. Over a long period of time, builders preferred to build profitable homes and opted to build market rate housing while paying the penalty. This accumulated into part of the housing problem, and not just for Huntington Beach. It seemed like a good idea at the time, but we would be in less trouble if everybody had just built the affordable housing. City Attorney Gates stated that Michels is correct. The laws have been recently updated to no longer allow this. Villasenor would be a good resource for this question. City Attorney Gates stated that his understanding is that builders could pay the in-lieu fee but would have to work with the City to physically find a new location for that affordable housing. The State laws may have been updated but he is unsure where it stands right now.

Cicerone asked what would happen if a developer invoked the Builder's Remedy and the City responded with not providing water, sewer, infrastructure to the development. City Attorney Gates stated that the City has not seen any Builder's Remedy, but hypothetically, it would result in a lawsuit. Builder's Remedy is an infirm concept as it relates to charter cities. If a Builder's Remedy project came into Huntington Beach, the City Council would authorize him to take action against them. For the State to say that because the City is in noncompliance, they would set aside all of our zoning and allow somebody to come in and build anything anywhere undermines the City's local control over zoning. There is a tremendous amount of wisdom in a local authority's ability to zone its city. There is great value when a city can live in harmony with churches here, grocery stores there and single-

family homes there. The State can weigh in on a general law city because the general law city is a political subdivision of the State, just like a school district is a political subdivision of the State. A charter city is not created by the State and is not a political subdivision of the State. A charter city is created by the people saying we want to form our own government and we are going to adopt a charter pursuant to the California Constitution. Charter cities are very different. The ruling in the City of Redondo case was that SB9 violated a charter city's home rule authority and was struck down as unconstitutional. SB9 does not apply to Huntington Beach either. Craver asked about the City's order in the San Diego Superior Court case. City Attorney Gates stated that when the writ is issued which effectively is the order, the writ will be the instrument that we would base our appeal on.

Vice-Chair Gates asked how much all the different City lawsuits are costing the City. City Attorney Gates stated that everything is done in house. Our cost of engaging in these lawsuits is the cost of the City Attorney's office. It is a fixed cost and with the new budget, it is \$4.5M. There are internal resources committed to this process and we handle a rolling average of 40 to 45 civil cases. That does not include the criminal cases or other matters that we are working on. The City is a plaintiff in only one case and that is the federal housing case against the State of California. Otherwise, we are a defendant on all the other cases. When we get sued, we have to defend the lawsuit. An example is the voter identification case. The City Council took unusual action on that and the voters adopted it. Huntington Beach is the only city out of 482 cities with voter ID, but it is perfectly legal. Craver asked if the need for increase in staff is unrelated to the amount of cases because there has always been a rolling average. City Attorney Gates stated that before COVID, we had eight attorneys and when COVID hit, everything shut down. A couple of people left and to be prudent with taxpayer money, we did not replace those attorneys right away because the courts were shut down. Things were shut down for a long time and ramped back up in 2023. It was a strain for two years to meet the demands of the 40 to 50 cases with the staff that we had. It was a skeleton crew and adding resources was to level things off so that we could meet the demands.

D3. Revenue Enhancement Ad Hoc Committee - Meadowlark – Michels

D4. Real Estate Ad Hoc Committee - Equestrian Center Lease; Meadowlark Golf Course – Cicerone

Michels and Cicerone stated that they would discuss items D3 and D4 together. Michels stated that the ad hoc committee had great meetings and progress on Meadowlark. Southern California Golf Association (SCGA) provided terrific insight along with a resident whose property is near Meadowlark has shared what he has observed. With only three years remaining on the current lease, it would be difficult to undo things that may or may not have been done correctly, both on the City side and the lessee, whether it was American Golf, CNL, Eagle or Arcis because there is complexity around holding companies that occurred in 2014. This was part of the meeting with Assistant City Manager Travis Hopkins yesterday where we discussed that if we are going to expend resources to better protect Huntington Beach's interest, we should look at the remaining three years of the lease, prioritize the things that will yield the most benefit and focus on those. Depending on the results of the audit, there are three items that could be discussed with Arcis to make sure that they are measuring accurately, and we are collecting accurately. Cicerone disagreed with Michels about not undoing what was done incorrectly. If the City is owed thousands of dollars, we should be entitled to that money. Michels stated that it is dependent on the audit results. Han stated that the audit is close to being finalized. It will be presented by the auditor at the July meeting.

Michels stated that in the meantime, there is a lot of data and extensions which would need to be validated. There is opportunity in three years for the property to undertake a transformation into something far more valuable to the community and to the City. Two weeks ago, there was a meeting that included the Mayor, Mayor Pro Tem, SCGA, Vice-Chair Gates, Cicerone, Michels and two residents that live on the golf course. We discussed that if we do not start preparing now, we will not be equipped to go out for a request for proposal (RFP). Michels stated that she shared with the Commission some history about an interesting case in the City of Montebello that may not apply to us, but in terms of the city having an asset and trying to yield the best benefit for the city and its residents. She asked that the Commission look at that information and what the City of Pasadena did, which were very different approaches. A task force needs to be decided by the City Council, and although it was discussed and the Mayor was supportive, we did not formally ask. Michels stated that she drafted a letter but needs to make corrections. Cicerone stated that he would like to review the letter as there has been follow up with SCGA after that meeting. He stated that with having the Mayor's support, he would like the process to be accelerated because the lease expires in three years. Cicerone suggested that the ad hoc committee meet to discuss the details. Sternberg suggested that we table this letter and for Cicerone to make edits and bring the letter back for a vote at the next meeting or until after the audit presentation.

Lo Grasso stated that Meadowlark is being managed by Arcis and he believes that the complaint is that Arcis is possibly underpaying on the lease because we are not doing a great job of managing the lease. The other complaint is that Arcis may have some deficiencies in managing that golf course. Lo Grasso asked why we could not put out a RFP so that other golf course management companies can tell us how they would run a golf course to make it more profitable. Cicerone stated that the ad hoc committee's main concern is finding ways to enhance this capital asset to the absolute maximum and improve the revenue return. Lo Grasso stated that we do not have the expertise or knowledge of how to manage a golf course. We should gather information to help us decide who can manage it so that they will do a better job and we will do a better job managing the lease we put together. Michels stated we would need to have a very detailed RFP and before putting a RFP together, we need to know what we want such as if we want a high-end restaurant. Other cities have included input from golfers and residents. Meadowlark is a very complicated lease agreement and has changed hands over 10 times in 35 years. SCGA knows all of these golf courses and suggested that we get a task force with stakeholders together, craft our requirements, we may need a professional service to do the RFP, then go out to bid. Lo Grasso asked if we are taking a risk of being too detailed and eliminating good golf management companies who are not willing to do what we are demanding. It may be a good idea to have a general idea of what we want rather than to be too specific. Lo Grasso stated that he is not comfortable with the option to work with experts on the two to four options for property development and management. Michels stated that the property is parkland and needs to be developed and it has irrigation needs as a golf course. We will eventually go out to bid and pick the best bid. We have already started talking to the golf course management companies.

Craver stated that she appreciates the nature of this letter because it is saying that this about creating a task force of experts and prioritization by the City Council and City staff and not by the Finance Commission with our level of expertise. The City Council sets the policy priorities for the City and would determine that this is where we want to spend our time, because this is a valuable asset to the City that has not been prioritized in the way that it should have been over the past 35 years and we need to prioritize that as the lease is coming up. She asked Hopkins what steps an advisory Commission like us should be taking to recommend that the City Council have staff spend time to

look into an RFP process. Hopkins stated that the City has an asset and can find a way to have an agreement with a management company or someone to run their asset. One way is for the City to operate it themselves. The other way is that we currently have an agreement with an operator and the City has the ability to negotiate an extension or a change to the agreement. Other options are to do a RFP which was brought up by some Commissioners tonight. The City could develop a RFP and outline how we would like the services to be provided, or as Lo Grasso suggested, we could ask management companies to propose methods on how they would manage and provide those services, or anywhere in between. The City could have a specific things they would like to have done and then rely on the expertise of others. Those are the types of available options. It is not inconceivable to develop a task force which would be implemented by a City Council. They have the authority to put a task force in place to evaluate and look at those in more detail.

Sternberg asked if the City could meet with Arcis and make sure that they are complying with the obligations of the lease, like any improvements and point out what they have not done. He likes the task force idea but would prefer to hear the results of the audit before we send the letter to the City Council.

Hopkins stated that is one piece that is separate from the options we have for going forward at the end of the lease. We currently have a lease and through the audit, we should figure out if they owe us money and what the City should do about it as well as if they are maintaining our property like the lease required.

Motion: Moved by Commissioner Robert Sternberg and seconded by Commissioner Jamie Craver to table further discussion of Meadowlark Golf Course and the recommendation letter for next month's meeting after review of the audit report

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

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

Noes: None

Absent: Hamilton

D5. Financial Metrics and Cash Flow Ad Hoc Committee

Letter to City Council Proposing Policy for Fee Study and Proposed Budget Review – Sternberg

Sternberg stated that from last month's discussion, he drafted the letter and Chair Billy Hamilton reviewed it. The letter states:

"To: Huntington Beach City Council
From: Huntington Beach Finance Commission

The City of Huntington Beach Finance Commission ('Finance Commission') respectfully requests the City of Huntington Beach City Council to direct the City of Huntington Beach Staff ('Staff') to provide a **draft** copy of the Annual and Semi-Annual Huntington Beach Operating Budget for review to the Finance Commission at least one month **before** it is given to the Huntington Beach City Council. Our request would include any fee schedule(s) or other similar schedule(s) included into the budgeting process. A review and discussion by the Finance

Commission can then be immediately started in order to give timely input to the Huntington Beach City Council for their budget discussion.

We understand that there may be practical concerns regarding this request, such as staff time and availability. The Finance Commission believes the benefits of a timely budgetary review outweigh the costs, but acknowledge that there are challenges in moving up the timing of the reports.

Thank you for your consideration in this matter.”

Sternberg stated that this is a wish list to make the City Council aware that without the budget in front of us, we cannot have any input. He understands the budgets are a last minute item, but if we could get a draft or a thumbnail copy or at least a fee schedule. Two years ago, we did the fee schedule separate from the budget. Sternberg stated that his Council person asked that he focus on reviewing the budget. City Attorney Gates stated that a Council member told her that if the Finance Commission had the chance to read through the budget and then go to them, he would have found that incredibly helpful.

Craver stated that she commented earlier about the prioritization of the items on the agenda and staff time preceding this process could be helpful. If we sent a similar letter to the City Manager’s Office so that it can be discussed with the Finance Department that certain agenda items could be prioritized and other agenda items can wait a little bit longer. For example, in March, April, May we are going to discuss just the budget so that the Finance Department can spend time preparing and discussing those things with us.

Michels stated that she does believe that anyone is trying not to give us that information. If there are certain elements in the budget that may be a part of the budget like a fee schedule that can be cycled outside of the annual process and done maybe in December and not with the June budget, there may be a more meaningful way for us to participate.

Han reiterated and clarified some comments she made at the last meeting. With regard to the fee study, there was a unique set of circumstances with this fiscal year. The fee study is prepared by a consultant and our fee consultant had a large number of cities that he retained this year. As a result, there were a number of scheduling conflicts, despite the fact that we were scheduled to review and adopt our fee schedule earlier than June. Unfortunately, due to a number of scheduling conflicts, all of the cities were behind and there was a scramble due to various legislative actions that were going up at the time. It was due to an unfortunate set of circumstances that we do not expect to have happen again in future fee studies.

Motion: Moved by Commissioner David Cicerone and seconded by Commissioner Frank Lo Grasso to send the Finance Commission letter to the City Council requesting that the City Council direct staff to provide the proposed budget and fee study to the Finance Commission for review at least one month before being presented to the City Council

The motion carried by the following votes: 5-0-1-1

Ayes: Cicerone; Craver; Gates; Lo Grasso; Sternberg

Noes: None

Abstain: Michels

Absent: Hamilton

Financial Information Dashboard Update – Cicerone

No discussion.

D6. Pension Liability Solutions – Lo Grasso

Lo Grasso read his notes:

“I think we can agree that the City is running headlong into a budget problem. I think we can also agree that the reason we have this problem is our runaway pension obligations. According to the General Fund Long Term Financial Plan for 2022-2023, this City will experience deficits from the years 2025 to 2028 in the amount of \$35M to \$40M, and all of that can be attributed to our pension obligations. We even went as far as financing the entire pension obligation with the bond that was supposed to help us keep on top of these unfunded liabilities, but just a few years later, we are pretty much back in the same situation. This Commission has asked a number of times ‘what, if anything, are we doing as a city to address these deficits?’ We were told last month that the City is looking at new revenue generation ideas and deficiencies, and then we get details about new revenue ideas, but very little discussion about efficiencies. Now when I look at generated revenues from FY21 through projected FY 26/27, I see that revenues have increased by \$40M. So, we can honestly say that the taxpayers in the City are holding up their end and their reward is the City looking at new revenue ideas. For example, new taxes and fees. Well, I want this Commission to explore the efficiencies we've promised. We've been told that removing our city from CalPERS and providing our employees with the defined contribution pension instead of the current defined benefit pension, which would eventually solve the problem, is a nonstarter because apparently getting out of a membership with CalPERS is equivalent to getting out of a timeshare agreement. So if we can't get out of CalPERS' pension scam, then the next logical step would be to limit the number of employees participating in CalPERS. And there are two ways to do this. Number one would be massive layoffs. However, I don't think anyone wants to shut City operations down. So I propose we look at option 2, which is outsourcing. I imagine that there are a number of City departments that would not make good candidates for outsourcing. However, I think there probably are a few that could be, but we'll never know unless that possibility is explored. So to that end, I would ask the Revenue Enhancement Ad Hoc Committee to meet before our next Commission meeting and produce for this Commission a letter to City Council requesting that the City Council begin exploring the outsourcing of every department in the City. I would request that that the letter be presented to the Finance Commission as a whole for a vote at next month's meeting.”

Cicerone stated that the financial model that we are looking at is not sustainable and is financially terminally flawed. Lo Grasso stated that there is not one private company that offers the current pension that all cities offer their employees. They used to and American Airlines was the last one that stopped it because it was bankrupting. Cicerone stated that it is unfair to the people that are expecting to get those pensions. It is unsustainable unless there are drastic increases in taxes and fees which then causes another set of problems with the people that have to pay that.

Michels stated that as the Revenue Ad Hoc Committee, she will not look at every department and figure out how to outsource them. That is an expense reduction so a new committee called the Expense Reduction Ad Hoc Committee can be created. This has nothing to do with revenue and Meadowlark is going to consume a lot of time in the coming weeks, which is a good, positive place that she would like to spend her time.

Craver stated that at the last City Council meeting, the Mayor and Lo Grasso's appointing Council member stated that they consider it their fiduciary responsibility to look for efficiencies in every single department and that they are already doing that work. As City Attorney Gates pointed out in discussing the Finance Commission role, this is something that the City Council is already looking at. When the Library RFP was pulled, they stated that this is their responsibility with respect to every department. Lo Grasso stated that they said they were looking at efficiencies but did not specifically say outsourcing, and his request is to look at outsourcing. Cicerone stated that Council member Dan Kalmick made a comment about why we were not looking at outsourcing other departments and not just the library.

City Attorney Gates stated that an ad hoc is a temporary committee for a specific task. When the task is completed, the ad hoc committee goes away. If there is a new task, then there would be a new ad hoc committee. It would be a good idea to propose three new members or propose a new ad hoc committee.

Lo Grasso stated that he would consider bringing the item to the next meeting.

Cicerone stated that Lo Grasso mentioned the UAL next year will be \$12.5M. He proposes that the projection come back and show up in this year's budget. That forces the City, the City Council, the City staff to take action to deal with it. He wants to force action on a future problem.

Craver stated that with regard to pensions, the City Council has taken action in the past with creating the Section 115 Trust and the pension obligation bond but as Lo Grasso mentioned, it is not adequate because the performance of CalPERS still remains. Cicerone stated that we have not achieved anything nor done anything close to resolving the problem. He agrees with Lo Grasso's suggested letter.

Craver stated that Lo Grasso mentioned two solutions: massive layoffs or outsourcing every department. She stated that it appears that outsourcing and layoffs are the same thing as they would remove paid salary pension employees and replace them with contracted employees.

COMMISSIONER COMMENTS

Craver thanked staff for their time and preparation. She appreciates and respects what they do.

Michels stated that she has learned a lot tonight about presentations and will put the suggestions into action. She appreciates the discussion we had today and the issues. Regardless of the format, it is good for us to be educated on all things City-related, although we may differ on how we approach it. Meadowlark has a very bright future, and she enjoyed the conversations that we had with the City yesterday, with the private citizens and the knowledgeable associations because that

will help us have a better outcome going forward. We do not want to have that controversy and it can be so much better. She is looking for a win for the City on this.

Sternberg expressed his gratitude for the staff and acknowledged Han for the budget and getting it done. The letter to the City Council is just to make them aware and maybe they can change things to make it easier for us and hopefully make it easier for them. The discussions today were lively and good. We obviously do not agree on everything, but that is what this commission is for. He hopes that everybody has a happy 4th of July and appreciates the City getting ready for the holiday.

Lo Grasso thanked staff and Vice-Chair Gates for doing a fine job sitting in for Chair Hamilton.

Cicerone thanked Hopkins for taking the time to meet regarding Meadowlark. He is excited that Meadowlark could possibly develop into a positive financial source for the City. He thanked Michels for all her work.

Vice-Chair Gates thanked the Commission for being patient with her as it was her first time running a meeting. She thanked City Attorney Gates for coming to the meeting and answering questions. She wished everyone a fun and safe 4th of July. We have a wonderful country full of freedoms and liberties, and this is worth being on this Commission to serve. It is a little way to serve our country and she thanked the Commissioners for serving.

ADJOURNMENT

Motion: Moved by Commissioner Craver and seconded by Commissioner Michels to adjourn the meeting at 7:32 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, Chief Financial Officer

By: Thuy Vi, Finance Management Aide