



MINUTES FINANCE COMMISSION

Wednesday, November 15, 2023 - 5:00 p.m.
City of Huntington Beach
Council Chambers
Huntington Beach, CA 92648

For the audio recording of the November 15, 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
Billy Hamilton, Vice-Chair
Kelly Gates, Commissioner
David Cicerone, Commissioner
Jamie Craver, Commissioner
Janet Michels, Commissioner
Robert Sternberg, Commissioner

MEMBERS ABSENT: None

STAFF PRESENT Sunny Han, Chief Financial Officer
Serena Bubenheim, Acting Assistant Chief Financial Officer
Thuy Vi, Management Aide, Finance
Shari Saraye, Senior Administrative Assistant, Finance

PUBLIC COMMENTS

None

CONSENT ITEMS

Approval of Meeting Minutes

Motion: Moved by Commissioner Robert Sternberg and seconded by Vice-Chair Hamilton to approve the Finance Commission Meeting Minutes dated October 25, 2023, as presented

The motion carried by the following votes: 4-0-3

Ayes: Gates; Hamilton; Lo Grasso; Sternberg

Noes: None

Abstain: Cicerone; Craver; Michels

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

Chair Lo Grasso started with Discussion Item D2.

D2. Real Estate Ad Hoc Committee – Lo Grasso

Commissioner Cicerone stated that he would like information on the City's liability for property tax that the County of Orange is assessing on the Elan and Breakwater apartments. Han stated that the potential charging of possessory interest by the County on the middle income housing units has not been finalized. If approved, it would be litigated for several years because there are questions about who would owe the tax. Some say that the renters would be liable for the tax, and others say it would be the property owners. The Community Development Department is monitoring the situation for any updates on this issue, and no liability has been determined at this time. Lo Grasso asked that Cicerone find more information and bring the item to the January meeting for discussion.

Han defined possessory interest as being similar to a property tax. For example, with City-owned properties that are leased out to lessees, the concessionaires are charged a possessory interest tax that is partially calculated based on the rental income that we receive. We submit an annual possessory interest form to the County, the County calculates and levies the tax on the lessees, and the lessees pay that possessory interest. The item Commissioner Cicerone is referring to is discussed in an August 2023 Los Angeles Times article that she would share with the Commission. Han stated that she does not know the status of the legislation, and if there would be a resolution by the January 2024 meeting.

Craver stated that while she appreciates this discussion, she was not prepared to discuss this topic. We should inform the public of what topics we are discussing, and agendizing the Real Estate Ad Hoc Committee is too broad.

D3. Financial Metrics and Cash Flow Ad Hoc Committee – Hamilton

Vice-Chair Hamilton stated that the ad hoc committee put together ratios that would provide good insight. The ratios are a snapshot of the 500-page budget and audited financial statements. He noted that we have strong balance sheet. We still have unfunded pension liabilities, which the Commission addressed with the letter to the City Council. Our General Fund per capita is very good with an 11% growth per year in revenue. The most concerning trend was in the ratio numbers 8, 9 concerning City employees, and the average cost of an employee to the City. The City of Huntington Beach has been losing population for the last few years, from over 200,000 down to 197,000 and maybe less, but the number of employees is now over 1,000, which is an unsustainable trend. The growth can be seen on the third page of his handouts, which lists the growth of employees per division. It is an alarming trend we have been encountering for the last three years.

Michels stated that it would be interesting to know the numbers for pre-Covid 2019 because the City took drastic actions based on expected revenue drops. The City was rebuilding once the revenues were recovering and businesses were open, so 2019 is a better representation of

trend lines. Hamilton stated that information was in last year's budget, and it was higher than 2021 by about 15 to 20 employees. From 958 to 1,003 employees is quite a trend, and revenue is increasing per capita while residents are decreasing. Lo Grasso stated that the assumption is that with a decrease in population and less people to service, there would be less people needed to do the job, but that could be wrong.

Michels stated she has not seen evidence that the per capita equates to services delivered. Revenues may be one indicator, and revenues are going up, but if revenue increase is compared to employee increase, we can conclude something different if per capita was removed. During that time, the City may be identifying other fees and services that they are delivering to the same per capita. You could be doing more for less people. We do not know where the revenue changes are coming from and if they are service based.

Lo Grasso stated that it could also mean that the increase in revenue is from employees that make money for the City. Han stated that there are revenue generating departments such as Community Development that generates revenue through building permits, plan checks, and things of that nature. There are also departments that are essential and non-revenue generating. In the most recently adopted budget, the City Attorney asked for four new positions, and one of the arguments is that there is increased work for that department. There is the option of using outside legal firms at a significantly higher cost or adding additional attorneys. It depends on the nature of the work that the City is doing at the time.

Cicerone stated that this is the first step in focusing more on the efficiency and effectiveness of the operation in total. He is continuing to work on the numbers of comparable cities. The issue is how we assure employees that they will have a viable pension program when the unfunded liability numbers jump to \$10M in two years. It will not be sustainable if steps are not taken to begin to address the structure and the organization of the City's government.

Gates asked that with the information provided, what our responsibility is as a Commission. Cicerone stated that it is to advise and make recommendations to the City Council.

Lo Grasso stated this has been phase one of identifying some trends and ratios from 2020 through 2024. Looking at the two divergent lines, the population and the employees are going in two different directions. We have not made any claims as to why that is bad, but it does not look right. With further review of the numbers at future meetings, we can get more information. Cicerone stated that it really comes down to the leadership of the City and where they want to put their priorities and emphasis. Lo Grasso stated that if the subcommittee comes back with more information and shows a trend on where we are spending money in the wrong areas and if we can get a majority vote, we can bring it to the City Council.

D1. Summary of New Revenue and Operating Efficiencies – Sternberg

Commissioner Sternberg stated that at his request, Chief Financial Officer Sunny Han prepared the New Revenue and Operating Efficiencies presentation.

Han stated that on October 3, 2023, the City Council adopted the 2023-27 Strategic Plan, which included eight overarching goals to achieve over the next four years. Within those eight major goals, there are 23 strategies that are spread across those different goals. Those major goals are Economic Development, Fiscal Stability, a High Performing Organization, Homelessness, Housing, Infrastructure Investment, Public Engagement and Public Safety. She noted that additional financial resources are required to successfully implement unfunded plan goals. Some of these examples include the One-Stop Shop, World Class Beach Facilities, the Fleet Capital Replacement Plan, LA28, Public Safety Infrastructure Improvements, a Comprehensive Homeless Response Plan and the results from the Infrastructure Report Card. Discussion ensued regarding the PCH Relinquishment plan goal and pitching Huntington Beach as a Host City for the LA28 Olympics.

Han stated that one of the strategic plan goals of fiscal stability is to consider new revenue sources and opportunities to support the City's priority initiatives and projects. Some of the opportunities identified are to update our fee studies, such as our Citywide fees and charges, our emergency medical service fees as well as our fines, and evaluate the feasibility of implementing updated fees. Our last comprehensive fee study was in 2016, and industry best practices are to perform this comprehensive update every two years. We recently did a CPI adjustment of fees to adjust for inflation. A fee consultant is currently working on the updated fee study, and we hope to have the fee study completed in 2024.

One of the other priorities that the City is looking at is to increase our grant application efforts. We have four on-call grant writing consultants and are working aggressively to pursue grant opportunities. We are also looking to pursue more Federal and State earmarks. We recently retained both Federal and State lobbyists to help us with this effort. We are also evaluating our existing leases and concessionaires, and as leases expire, we will consider adjusting the leases to market rate when applicable.

Han stated that the City is looking to develop a formal policy for attracting and retaining high demand businesses, and the Economic Development Division of the Community Development Department would be leading this effort. We are looking to update developer impact fees in accordance with the Mitigation Fee Act and to ensure that fees are aligned with the impact of development on City services and stakeholders. This item that was brought forward by Councilmember McKeon and the Community Development Department would also be looking into that.

Sternberg suggested that bringing the Olympics to Huntington Beach be added as a revenue source.

Han stated that one of the operating efficiencies that we are looking at are to select new third party administrators to manage our workers' compensation costs more efficiently to reduce costs and to create a safer workplace. Our workers' compensation liabilities have been increasing and we want to ensure that our third party administrator manages our claims by utilizing the City's funds most effectively. Craver asked where the majority of the claims are coming from and if the cost increases are specific to Huntington Beach or across the State or country. Han stated that the bulk of the claims are from public safety due to the nature of the work, and there are also claims from Public Works and other departments. There is an overall increase in costs due to legislation that

was passed expanding the definition of eligibility to include claims for PTSD, Covid and Long Covid costs.

One of the other operating efficiencies is to explore options to collaborate with faith and community-based organizations such as HB Cares, CalOptima and others to provide social services in a cost-effective manner. We are also looking to develop an updated economic development strategy to ensure business retention, local investments and job growth. This item is also listed under new revenue sources. We are also looking to resume revenue audits of our hotels as well as our utilities and lease concessionaires to ensure that we are receiving the full amount of revenue that is due to the City. Hamilton asked if all our leases have an audit provision and how often are they requested. Han stated that the leases do have the audit provision. Previously, audits were performed in-house when the City had more staff, but were later outsourced to outside audit firms. Audits are done in phases and we select a number of concessionaires, hotels, and utilities for review each year. The last audit was in 2019, but was paused during Covid due to a decline in business at that time. We hope to resume the audits in 2024, but one of the challenges is that the auditors are busy performing financial statement audits and do not have staff capacity.

To ensure that the public is informed as to the status of the City Council's Strategic Plan Goals, there will be biannual progress reports to the City Council beginning in January 2024. The Strategic Plan progress reports will be posted online on the City Strategic Plan webpage. Although this is a four-year plan, we also plan to have periodic updates and should be doing workshops every one to two years to revisit the goals to make sure that they are all still applicable and to make adjustments as needed.

D4. Holiday Luncheon – Han

Motion: Moved by Chair Lo Grasso and seconded by Commissioner Michels to cancel the December 13, 2023 Finance Commission Meeting and to have a holiday luncheon in lieu on December 8, 2023

The motion carried by the following votes: 7-0

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

Noes: None

COMMISSIONER COMMENTS

Michels thanked Hamilton for the data he provided, thanked staff, and wished everyone a Happy Thanksgiving.

Sternberg thanked Han for putting together the presentation. He suggested that the Commissioners speak to their representatives about bringing the Olympics to the City for new revenue. Regarding pension and service costs, there was an October 18, 2023 Orange County Register article titled "One city firefighter made \$510,301 in overtime." A Huntington Beach fire captain was listed in the article who made a base salary of \$126,000, overtime of \$179,000, for a total of \$344,000. Sternberg asked if there are any checks and balances for overtime. He

suggested that the Commissioners talk to their representatives to ask if there any type of controls because we do not want our pension costs to go up. He wished everyone a Happy Thanksgiving holiday.

Hamilton and Gates wished everyone a Happy Thanksgiving.

Cicerone stated that at the January 2024 meeting, he would like to review the finances, accounting and lease performance for the Meadowlark Golf Course. He requested that the Accounting Manager for the City be present to answer questions about accounting for revenues and invoices to the golf management company. Han noted that the Meadowlark Golf Course lease is managed by Chris Cole, Acting Deputy Community and Library Services Director, who actively reviews all concessionaire forms that are submitted by Meadowlark Golf Course. Han stated that the Finance Department receives the AR Billing form for any rents received, but does not review any revenues received.

Cicerone asked for the status of the new City website. Han stated that would be a question for Jennifer Carey, Public Affairs Manager. Cicerone asked if there was any progress with moving towards a dashboard for financial reporting that could be put on the website. Han stated that there are no updates at this time.

Lo Grasso thanked Hamilton for his presentation and stated that he is looking forward to part two. He asked that the Commissioners consider who they will be nominating and electing as the new Chair and Vice-Chair at the January 24, 2024 meeting. He wished everyone a Happy Thanksgiving.

ADJOURNMENT

Motion: Moved by Commissioner Craver and seconded by Commissioner Gates to adjourn the meeting at 6:19 p.m.

The motion carried by the following votes: 7-0

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

Noes: None

Submitted by:

Sunny Han, Chief Financial Officer

By: Thuy Vi, Finance Management Aide