



MINUTES FINANCE COMMISSION

Wednesday, January 25, 2023 - 5:00 p.m.
City of Huntington Beach
Council Chambers
Huntington Beach, CA 92648

For the audio recording of the January 25, 2023 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 5:07 p.m., and led the Pledge of Allegiance.

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

MEMBERS ABSENT: None

STAFF PRESENT Al Zelinka, City Manager
Travis Hopkins, Assistant City Manager
Michael Gates, City Attorney
Sunny Rief, Acting Chief Financial Officer
Serena Bubenheim, Acting Assistant Chief Financial Officer
Thuy Vi, Administrative Aide, Finance
Shari Saraye, Administrative Assistant, Finance

PUBLIC COMMENTS

City Manager Al Zelinka welcomed the Finance Commissioners and thanked them for volunteering their service. He stated that he and the Finance team look forward to working with the Finance Commission.

ELECTION OF CHAIR AND VICE CHAIR

Motion: Moved by Commissioner Cicerone and seconded by Commissioner Gates to nominate Frank Lo Grasso as Chair

The motion carried by the following votes: 6-1

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

Motion: Moved by Commissioner Sternberg and seconded by Commissioner Michels to nominate Jamie Craver as Vice-Chair

The motion failed by the following votes: 3-4

Ayes: Craver; Michels; Sternberg

Noes: Cicerone; Gates; Hamilton; Lo Grasso

Motion: Moved by Commissioner Cicerone and seconded by Commissioner Gates to nominate Billy Hamilton as Vice-Chair

The motion carried by the following votes: 5-2

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

Noes: Michels; Sternberg

CONSENT ITEMS

Approval of Meeting Minutes

Motion: Moved by Commissioner Michels and seconded by Chair Lo Grasso to approve the Finance Commission Meeting Minutes dated November 16, 2022, as presented

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

Ayes: Lo Grasso; Michels; Sternberg

Noes: None

Abstain: Craver; Cicerone; Hamilton; Gates

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

Acting Chief Financial Officer Sunny Rief presented the Fiscal Year 2022/23 Mid-Year Budget Review. She was pleased to announce that the City ended FY 2021/22 with a \$3.4M General Fund surplus, primarily due to a stronger recovery in sales tax and transient occupancy tax than originally projected. Economic indicators from 2022 still signal caution when planning for future years. During 2022, the Federal government raised interest rates seven times from 0% up to 4.5%. Inflation, which peaked in June of 2022 at 9.1%, declined to 6.5% in December of 2022, primarily due to decreased energy costs. The gross domestic products (GDPs) showed negative growth in the first two quarters of 2022; however, it rebounded in the third quarter of 2022 with revised numbers of 3.2% growth. The fourth quarter numbers have not yet been released, however, the Atlanta Federal Reserve is projecting GDP growth of 3.5%. Other economists are predicting slightly milder growth of closer to 3%.

Rief stated that 2022 market indexes presented a particularly challenging year for financial markets. U.S. stocks and international stocks experienced the largest losses on record since 2008, with losses of 19.4% for U.S. stocks, and 14.79% for international. Bonds experienced the largest losses in the past two decades with a negative 12% return. Typically, in the past 20 years, the largest loss experienced was closer to negative 2%, so this is a significant change. These economic factors are creating challenges for expansion, investment and consumer demand.

Consumers are saving less, drawing from savings and increasing credit card usage. On a brighter note, State unemployment still remains low at 4.1% at the end of December 2022, down from its COVID peak of 16.1% in May 2020. However, the ratio of job openings to job seekers is starting to decline.

Rief shared an overview of the general fund performance for the last two fiscal years, as well as projections for the current fiscal year. In year 2021, the City had a surplus of \$5.2M, and ended fiscal year 2022 with a surplus of \$3.4M. Currently, the City is anticipating a surplus of \$2M in the general fund for the current fiscal year. The Finance team is still working on updating these numbers, which will be presented to the City Council at the second meeting in February.

Rief discussed CalPERS' financial performance. CalPERS, the City's pension plan, had negative returns of 7.5% in FY 21/22, which results in escalating unfunded pension payments by the City. With those negative returns, the City Council approved an additional \$3M contribution in its restricted Section 115 Trust (115 Trust), which is used solely for pension payments, and cannot be used for any other purpose. The 115 Trust balance as of June 30, 2022 is \$15.4M. With issuance of the City's pension obligation bond (POB) in April 2021, the City Council, with input from Finance Commission, also approved an Unfunded Accrued Liability Policy to address any future pension liabilities. The policy mandated an additional a \$1M contribution to the 115 Trust on an annual basis, as well as 50% of the POB savings, which is approximately \$500K each year to the 115 Trust, adjusted by CPI on an annual basis. Additionally, the City would also take 50% of its unassigned general fund surplus and move that into a pension stabilization reserve in the general fund to address future pension liabilities. The gains and losses that CalPERS experiences are amortized over a 20-year period, and are ramped up over five years to help cities and other agencies absorb escalating pension costs over time. With an immediate amortization, it would result in significant sticker shock to agencies. This ramp-up period helps ease cities into increased costs.

Rief shared the CalPERS UAL payment projection graph, showing three different investment return scenarios for the current fiscal year, assuming a CalPERS target rate of return of 6.8% moving forward. She noted that CalPERS' investment policy focuses on long-term investment returns rather than on short-term gains, so the issuance of the POB still remains financially advantageous, as long as CalPERS' long-term rate of return exceeds 3%.

Michels asked how frequently CalPERS updates their expected return projections, particularly since it has been an unstable time. Rief stated that return projections are issued quarterly, however, given the volatility of the market, CalPERS has expressed reluctance to provide more frequent market return rates, and due to the fact that things can change in a matter of weeks. Michels asked if CalPERS has ever adjusted the 6.8% number. Rief stated that CalPERS has an asset liability management process that is done approximately every four years, where they meet with their board and look at the current investment returns, which were previously 7%. In FY 2021, CalPERS experienced record returns of 21.3% and triggered what is known as a risk mitigation event, which called for CalPERS to reassess the target rate of return. At that point, CalPERS voted to lower their discount rate of return to 6.8% to offset those gains in the market that we experienced. It is assessed on a four-year basis, unless there is a trigger. Should CalPERS achieve an 8.8% rate of return this year, then that would be a trigger.

Hamilton asked what the CalPERS average rate of return has been over the past 10 years. Rief stated that on average, the CalPERS rate of return has been closer to 7%, which was the previous target. CalPERS looks at long-term rates of returns, rather than short-term gains.

Lo Grasso stated that the 115 Trust is strictly for helping out with shortfalls with the CalPERS return rate, and asked what the other portion of the general fund was and how much is in that fund. Rief stated that there were three prongs in the Unfunded Accrued Liability Policy that was adopted by the City Council at the same time that they approved the POB, and that third prong is a pension stabilization reserve. As of June 30, 2022, there is \$2.2M in the reserve. Lo Grasso asked if the \$2.2M could be used for anything else other than pension stabilization. Rief responded that it cannot. Based on the way that the Unfunded Accrued Liability Policy was written, a six out of seven vote by the City Council is required to overturn that policy. Rief stated that the first prong of the policy was codifying the \$1M annual contribution to the 115 Trust, which we had been doing for a number of years, but never formally adopted into policy. The second prong was taking 50% of the first year POB savings and moving it into the 115 Trust on an annual basis adjusted by CPI, or approximately \$500K. The third prong is the pension stabilization reserve, which is in the general fund. Lo Grasso noted that we have about \$18M reserved.

Craver stated that it was explained a couple of years back when that policy was developed, that the 115 Trust has a more aggressive target for investment of funds as opposed to the general fund. One is seeking yield, and one is seeking capital maintenance. Craver asked if that was the difference between the 115 Trust and the general fund. Rief stated that the general fund investments are managed by our elected City Treasurer, but those funds are bound by the City's more restrictive investment policy. Our investment policy, which is approved by our Investment Advisory Board, is also bound by the California Debt Investment Advisory Commission, that generally seeks safety and liquidity over investment gains. Whereas, the 115 Trust is managed by PARS, and offers multiple different investment strategies, which is also overseen by our City Treasurer. We have different options to select a more aggressive approach, or a more conservative approach. It offers more flexibility to have safety and immediate liquidity in the pension stabilization reserve, while also pursuing more long-term gains in the 115 Trust.

Hamilton asked what the unfunded liability amount was. Rief stated that we currently do not have the exact amount for June 30, 2022. CalPERS is working on the actuarial report, which is not released until July 2023. To determine what our UAL will be, CalPERS looks at investment returns, employees' ages, and various other actuarial factors. There is always a year lag in the CalPERS valuation report. In 2021, based on the 21.3% investment return that CalPERS achieved in the prior fiscal year, we are in a super funded status. The rough estimate that we have been given to date, not adjusting for other actuarial estimates, is approximately 88% funded. Hamilton said that for 2021, we were in a funded position last year and had no liability, but asked if there would be liability with the negative 7% return, plus average age of people and employee mix. Rief stated that we do not have that exact number, and our actuary has not yet given us the amount. There is a lot of data that goes into those numbers, but they are not readily available. Hamilton asked if those numbers are audited. Rief stated that the numbers are not audited by the City's auditors. CalPERS prepares the numbers, and they go through various levels of approval. Our pension actuary represents the majority of Orange County that does work on all of our valuations.

Rief shared a graph of what our annual UAL payments would be based on projected FY 22/23 CalPERS return rates under three scenarios ranging from 3.4%, 6.8% and 10.2%. For FY 22/23, after issuance of the POB, the City's annual UAL payment to CalPERS is approximately \$6M per year. In FY 23/24, with the super funded status that we had with the 21.3% return, we have zero UAL costs in in this upcoming fiscal year. However, with the three particular scenarios and the five-year ramp-up period that CalPERS provides to help with increased costs, the costs would peak to \$26M per year. If CalPERS had a 3.4% return in FY 22/23, then it would be \$20M if CalPERS achieved its target rate of return at 6.8%. Rief noted that the graph is only a snapshot point in time and the numbers will change.

Rief discussed the 115 Trust projected balance scenarios and shared a graph illustrating how the three 3.4%, 6.8% and 10.2% return rates would impact the 115 Trust. With the five-year ramp up, we would be able to continue contributing to the 115 Trust in the first few years. However, as those costs escalate, we would begin drawing from the 115 Trust. Beginning in FY 29/30, the 115 Trust would be overdrawn should CalPERS achieve a 3.4% investment rate of return this year. Should CalPERS achieve a 6.8% rate of return this year, then the 115 Trust would be overdrawn in FY 30/31. Rief reiterated that this is only a snapshot, and assumes that CalPERS would achieve a 6.8% return from FY 23/24 going forward. Hamilton asked if these projections include the additions to the 115 Trust. Rief affirmed that they did. He asked if we would go into a negative by 2031 based on the 6.8% scenario and average rate over the last 10 years. Rief stated that the CalPERS average rate over the last few years was approximately 7.7%. Over the last 5 years it was 6.7%, 10 years was 7.7%, 20 years was 6.9% and 30 years was 7.7%.

Lo Grasso asked what we were doing to soften the blow for when we get to 2033. Rief stated that we are encouraging and have recommended to the City Council that when there are projected surpluses in the general fund, that we set aside additional funds into the 115 Trust. Back in October 2022, based on these negative returns, the City Council approved an additional \$3M contribution to the 115 Trust. With the surpluses that we have, we may go back to the City Council with an additional recommendation to fund additional amounts into the 115 Trust.

K. Gates asked if the elected City Treasurer overlooks the investments of these different accounts, if she has the power to contact PARS to recommend a more aggressive way to invest, and if she has a voice in how we invest our money to make it grow. Rief stated that the City Treasurer does have the power to manage the general fund and 115 Trust investments. There is less flexibility with the pension stabilization reserve, which is held in the City's general fund, because we are bound by the City's investment policy, which prioritizes liquidity and safety rather than investment gains. Our investment policy is also set by the California Debt and Investment Advisory Commission. The 115 Trust provides us additional flexibility, since we can achieve a more aggressive investment mix in that 115 Trust.

Sternberg asked if the reserve in the general fund is a policy or a guideline. Rief stated that it is an official policy that was passed by City Council formal action in March of 2021. Cicerone asked if it was possible to make new policy or override a City Council decision. Rief stated that in order to overturn City Council formal actions, a vote of six out of seven City Council members is required. That policy was made so that there would be certain fixed amounts that would be set aside for future market downturn, such as the one that we are currently experiencing, and to make it a little

more difficult for future councils to reassign those funds, or to move those funds to other projects. When we were issuing the pension bonds, we also wanted to make sure that we addressed any other future pension bonds.

Cicerone asked if the CalPERS liability is driven by total head count. Rief stated that our CalPERS obligation is actually driven by past and current headcounts. The current unfunded liability is primarily driven by past employees that are retired and in the system, and we have an obligation to make those pension payments for the previous employees. A pension reform law was passed, known as PEPRRA, that changed the retirement formula for new employees to a lower formula, which helps to reduce future pension obligations. The City is currently at roughly a 50/50 mix of classic members who have a higher pension formula, versus PEPRRA members that have a lower pension formula.

Michels stated that so many organizations are dealing with pension liabilities. The private sector has eliminated pensions that are solely funded by the companies, because the liabilities were so great. She asked if Huntington Beach has the authority going forward to consider going to a 401k plan for new employees where contribution is matched and would change the amount the City contributes to an employee once they are retired. Rief stated that it was a great question and one that has been previously brought up. One challenge is that we have a contract with CalPERS, and an obligation to our retired employees. In order to shift to a different plan, such as a 401k, and to pull out of CalPERS, we would need to do a wind down calculation. CalPERS would project out all of the future pension liabilities that we have at this point in time, apply a very conservative rate of return on that amount, and give us our total bill. Some agencies that have looked at withdrawing from CalPERS in the past have decided that it is not feasible after seeing what the bill would be. Michels asked what the impact would be if we did not add new employees to CalPERS at a certain point, and go to a professionally managed 401k plan. Rief stated that the impact would be the same, because we would still have existing employees, as well as employees that have may have moved on to other agencies or that have retired. We still have the obligation to pay those pension costs, which are fixed costs that CalPERS would need to pay for in the future. Michels stated that the best scenario is if the market performs better than CalPERS has projected. Rief stated that the hypothetical termination liability would be approximately \$1.2B for the Miscellaneous plan alone, based on the actual valuation for June 30, 2021, using a very conservative discount rate to calculate CalPERS' future pension costs, which is a range between 1% to 2 ¼%.

Hamilton asked if that calculation was in the agreement with CalPERS, or if it was just their policy. Rief stated that the calculation is included in the annual valuation report provided by CalPERS, which is when they also provide our official unfunded liability amount and all the actual assumptions that they use. Rief stated she could share the most recent valuation reports, and highlight the section that discusses it. Hamilton stated that he wanted to understand how it is legally structured and how it is being calculated. Rief stated that how the calculation is determined is a contractual obligation.

Sternberg asked if every city in California is dealing with pension liability. Rief stated that every city in California that is a member of CalPERS is grappling with the same challenge. Sternberg asked if we were better or worse than other comparable cities, and if we are putting away enough money. Rief stated that we stack up well because we issued a POB to refinance 85% of our pension liability,

which was definitely a great strategy. We were also able refinance when the market was low and issue bonds at 3%, which was great for us because not all agencies did that. Rief stated that she does not have actual comparables, but that data may be best looked at in July or August, after the official valuations have been issued by CalPERS. The data will then show the impact of a negative 7.5%, and how our UAL and pension stack up against comparable cities. The current valuation reports all reflect the 21.3%.

Craver noted that CalPERS did come to a Finance Commission meeting a few years ago, which was before she was on the Commission. Based on the meeting minutes, the CalPERS representative stated that having a 70% funded rate was actually good. Craver stated that we took steps to address UAL, and are receiving awards for doing so.

Rief stated that the creation of the unfunded pension liability policy was also critical in the determination of our AAA rating. When doing their annual review, they were looking at our POBs. The fact that we do have a sound plan for managing future pension liabilities is something that they look at, particularly because it is a problem that all other agencies are facing.

Hamilton asked what we would need to change in the contribution amount in the 115 Trust to eliminate our liability. Rief shared graphs of the general fund long-term financial plan, which projects out our general fund balance through FY 26/27. With a 3.4% return in FY 22/23, assuming 6.8% returns in out years, we would begin drawing from the 115 Trust in FY 25/26. In order to fund that deficit, we would need to include an additional \$1.4M into the Section 115 Trust in that year to make up for the shortfall, or we would need to find additional revenues or some other method. The 115 Trust would be depleted and overdrawn by FY 29/30. With the five-year ramp up, the number increases significantly in FY 26/27. We would go into a deficit of \$1.4M to use of \$7.4M of the 115 Trust in the following year.

Lo Grasso asked if there was data showing the difference of what was being paid out for the 50/50 split of employees on the old versus new pension plan. Rief stated that we do not have the data split out, and it would be something that our actuary could potentially put together. Lo Grasso asked if we would be saving any money after we finish paying for those employees on the original pension plan. Rief stated that since PEPR was enacted only recently in 2014, many of the new members would not retire for a while, and we will not see that number change for many years.

K. Gates asked if the Huntington Beach retirement age was 55. Rief stated that the age varies, but for classic miscellaneous employees, the formula is 2.5% at age 55. K. Gates asked if it would help to raise the retirement age. Rief stated that the formula is set by CalPERS, and the City does not have the ability to change that formula.

Rief stated that with a 6.8% return, there would be significantly less use of the 115 Trust in FY 25/26, but again, there would still be a steep ramp-up to \$5M use of the 115 Trust in FY 26/27. Then with the 10.2% return, which we are all hoping for, we would still need to use the 115 Trust in FY 26/27, but for a far lower amount of \$2.9M.

Rief concluded the Mid-Year Budget Overview by noting that the Finance team is still working on updating its projections, and how we will end this current fiscal year. We will be presenting to the

City Council at the second meeting in February, and then we should have more up to date numbers.

Craver asked for the actual amount of the POB. Rief stated that the bond is \$363M.

Lo Grasso stated that at the January 17, 2023 City Council meeting, the City Council directed staff to facilitate monthly Finance Commission meetings as opposed to every other month, and for the Finance Commission to undertake reviews as it deems necessary. In the past, we were directed by the City Council as to what items we should address. We will need to put together a procedure for bringing items to the meeting and putting them on the agenda, so that we can follow the Brown Act and make sure that the items that we will discuss have been agendized correctly. He suggested that any Finance Commissioner should be able to submit an item for the agenda as long as that item is given to the Finance Administrative Aide before the time limit on the agenda being produced to the public. Once that item is on the agenda, it will be that Commissioner's responsibility to explain the item to the Commission at the next meeting, put it in the form of a motion, get a second on the motion, and obtain a majority vote so see if it is something that the Commission needs to address. The only other way to put something on the agenda is if the City Council has a majority vote and directs the Commission to review an item. The Commission would also have to take into account how much staff time and effort it will take, and that should also be part of the discussion of that item when it comes up on the agenda.

Sternberg asked if a Commissioner should get an estimate from staff of how much time and cost an item would take before putting on an agenda item. Lo Grasso stated that it would be part of the discussion after the item is agendized. Sternberg asked whether a two-thirds vote or a simple majority was required to approve an item after it has been agendized. City Attorney Michael Gates stated that the Finance Commission and staff can agree on the method of how to put an item on the agenda for a future meeting. Once the item is agendized, discussed and voted on, it only requires a simple majority vote to pass. Items that have not been agendized cannot be discussed, and that is to ensure that the public has notification and has the opportunity to participate, to know what will be discussed in advance, to listen, to come and speak, and to be a part of the deliberative process. Once they have had that opportunity, a simple majority is sufficient to move the item. Sternberg asked if we could propose with Chair Lo Grasso's motion to make the vote two-thirds rather than a simple majority. M. Gates stated that the Commission is a classic Brown Act body and an advisory committee, so a simple majority is sufficient. Sternberg clarified that he meant a two-thirds vote in order to go to staff and have them work on an item. M. Gates stated that it is important to get staff feedback. He stated that under a City Manager form of government, which we have in Huntington Beach, Mr. Zelinka is the CEO of all the staff for his departments, and Finance is under his purview. No Commissioner can dictate to staff what they spend their time on, or how much time they spend unless there is a directive from the City Council to direct the City Manager to undertake a task. It is important for advisory boards and commissions to be very sensitive about how much staff time is required for the inquiries that the Commission may have of staff. If the Commission requests staff to research an item that will just take a few hours, that can happen automatically. However, if staff informs that it will take 100 hours of staff time to prepare reports or to do research, that is completely different. If a Commission is interested in pursuing something like that, a Commissioner would need to go to a Council member, the Council member should bring an initiative to the City Council for a vote, and then direct the City Manager. It is a streamlined process for a City Manager form of government, which is what we are.

Lo Grasso clarified that any Commissioner could bring up an agenda item prior to the agenda being posted. The Commission would then talk to staff, and if staff says they can do the research in a short amount of time, we can continue with that project. If staff says the research is time intensive, then we would need City Council approval before proceeding. M. Gates stated that the Finance Department is equipped with data and may already have the information, but it is up to the Commissioners to spend their time, and not staff time, to review and analyze the data. If there are additional questions, staff can be contacted. The Commission should not direct staff to do additional research or prepare reports.

Sternberg asked what type of vote is required for an item to be presented to the City Council. M. Gates stated that a simple majority is all that is required. He also noted that any Council Member could bring an H Item on their own to have a matter approved by the City Council to give the City Manager direction, as an indication that they are willing to go through the expense of having staff spend time on an item.

Craver stated that the City Council direction was to return the Finance Commission to monthly meetings, but was not aware that we were changing how to agendize items. Looking back at the 2015 Ordinance, agenda items were raised during Commissioner Items, and then the Commission majority would decide whether it should be an item on the next agenda. Craver said that she is concerned that the Commission has been given items that are important to look at that they did not have time to review or discuss. Rather than have a Commissioner email the Administrative Aide an item to be agendized for discussion at the next meeting, she proposed a substitute motion to go back to the original way of having items brought up during the meeting, to vote as a Commission on whether we wanted an item for the next agenda, and have that month to prepare to have a thorough discussion at the meeting.

K. Gates suggested that since this item was brought by Council Member Burns, we should request that he provide us with clarification. M. Gates stated that Council member Burns' H-Item was to make a few changes, but not on how to get items agendized. He stated that the method described by Craver is fine and complies with the Brown Act. When an item is brought up for the first time at the end of the meeting so that it may be put on the agenda for the next time, there cannot be a substantive discussion on the merits of the issue at that time because it was not agendized.

Lo Grasso stated that by having it on the agenda, published to the public before the meeting, a detailed discussion of the item can be had before we vote on it, as opposed to voting on it with just surface data. There is no expectation that anyone has to have deep knowledge of the item before the item is discussed, but to have a better knowledge after the item is discussed.

Motion: Moved by Chair Lo Grasso and seconded by Commissioner Cicerone that any Finance Commission member can submit an agenda item for the next meeting agenda to the Finance Administrative Aide prior to the deadline for the publication of the agenda

The motion carried by the following votes: 4-3
Ayes: Cicerone; Gates; Hamilton; Lo Grasso
Noes: Craver; Michels; Sternberg

COMMISSIONER COMMENTS

Cicerone requested that each of the 11 City departments come to a Finance Commission meeting to provide a brief overview of their budget and staffing levels. Rief stated that she could confer with the other departments and possibly make arrangements. She proposed that the Finance Department present a budget overview of the current adopted budget to look at the different departments, which will help the Commissioners get a better understanding of the budget process. Cicerone agreed that would help with the learning curve for the new Commission members.

Rief stated that the current Municipal Code lists topics for Finance Commission discussion, and we are working with the City Attorney's office to prepare a draft ordinance with proposed changes that will be presented to the City Council at the first meeting in February. In May 2023, we will present a study session with the proposed budget to the City Council, which we can also present to the Finance Commission in May, so that the Commission can see the proposed budget and get an in-depth understanding. Cicerone stated that he would like to broach questions before the budget is adopted. Rief stated we would have those discussions prior to the budget adoption by the City Council. Rief also stated that she is available for one on one meetings to assist Commissioners with the onboarding process, and also to address any specific questions or concerns.

Sternberg stated that he was in support of Cicerone's request that each department give budget and staffing presentations, but within time limits to consider staff time.

K. Gates stated that she read the FY 22/23 adopted budget book and found it educational, as it talked about each of the City departments. She recommended that for history, Commissioners review previously adopted budgets. Rief stated that the budget books for previous years are available both online and in hard copy. K. Gates thanked Council member Van der Mark for appointing her to the Finance Commission. She is honored and looking forward to working with all of the Commissioners.

Craver stated she was in favor of a Cliff note version presentation by each City department.

Zelinka stated that he would be happy to get together with the Finance team and touch base with the department heads to see if there is opportunity to give a Cliff note version of what is going on in the departments without a lengthy presentation. He noted that the City Council has given staff direction to do financial and performance audits of every department and office over the next three to four years. Staff will be bringing to the City Council, possibly by March 2023, a work program for the first year. We anticipate recommending to the City Council, with the concurrence of those department leaders, the Finance, Treasury, Human Resources and Information Services Departments. These foundational departments will go through financial and performance audits so that best practices can be identified, and so that there can be a work program for those departments to improve and implement best practices. Then, next year, we will audit the next three or four departments, and so on. When we develop the scope of the financial audit, we will ask the City Council if we can come to the Finance Commission for input, so that when the private auditing firms look at each department, it has the Commission's input about what questions to ask and explore. Zelinka stated that we are committed to the best of financial practices.

Hamilton asked if the auditing firms are outside or inside. Zelinka stated that it would be external firms that are experienced in the performance side of departments, of different disciplines and in the financial dimensions under the Government Accounting Standards Board (GASB) practices.

Michels stated that Rief did a great job on the presentation and thanked her for stepping in as the Acting CFO. She appreciated the robust conversation about pension obligations. Michels asked, based on the City Council meeting, what the frequency of the Finance Commission meeting schedule is, whether all the meetings will be in person or would allow for people who are sick or out of town to be able to electronically connect in the meetings in the future. Lo Grasso stated that when he spoke to his City Council member, he confirmed that all meetings are to be in person. Rief confirmed that in person meetings is applicable to all boards and commissions. Rief stated she was working with the City Attorney's Office to prepare the legislative draft of the new Ordinance for the Finance Commission, which would return us to to monthly meetings. The first reading of the Ordinance would occur February 7, 2023, and the second reading on February 21. Once adopted and approved, we would return to the monthly meeting schedule, which would take effect in March 2023. M. Gates confirmed that the monthly meeting schedule would start in March, but stated the meeting dates and time would not be included in the Ordinance. Lo Grasso stated that we would keep our meetings on the fourth Wednesday of each month.

Sternberg stated that we would need to change the way items are agendaized in the Handbook. M. Gates stated that if it is a rule in the Finance Commission Handbook, then it is a rule among the Commissioners and can be changed by vote, as long as they are not in conflict with State law, City ordinances, or the Charter. Aside from that, the Commission decides how the meetings are conducted.

Lo Grasso welcomed the new Finance Commissioners. He requested that at the next meeting, the new Commissioners share their background with the Commission. He stated that for City executive positions, the City has a number of benefits that it offers in the employment packages as incentives. One of the benefits in the past was an equity share agreement for purchasing property in the City, or a residence for the the incoming executive. For the next meeting, he proposed a discussion of the procedures for purchasing property, what the procedures look like from from the beginning purchase to the liquidation of the residence, what steps the City is involved in that timeline, and if there is any oversight in that transaction.

Cicerone stated that government has a different form of accounting than what he is accustomed to in corporations. He asked if an income statement, balance sheet and statement of cash flows exist for this City. Rief stated that an income statement and balance sheet is available for the City, and the cash flows are presented for business type activities, such as our Water Fund and Sewer Fund. Our financial statements are dictated and prescribed by GASB. Rather than using full accrual accounting, which is what most businesses are used to seeing, we use a different form of accounting called modified accrual. In order to achieve clean audits to get an unmodified opinion from our auditors, and to be able to to receive the Government Financial Officers (GFOA) awards that we have been receiving for the past 35 years, we have to adhere to these standards and present our financials in this format. Rief noted that we have government-wide financial statements where we take the different modified accrual financial statements and do a conversion to move them to full accrual. They then look similar to what you are used to seeing, which does include

long-term liabilities and pension liabilities on the balance sheet. She stated that we could walk the Commission through the presentation of the financials in the ACFR, and discuss the various liabilities and different components of the balance sheet that are included in the notes to the financial statement. Cicerone asked if this information is encompassed in the City financial report, and if the Finance Commission could get a copy of it. Rief said she could provide the bound copies of FY 21/22 financials as soon as it is available. Cicerone asked if the report includes a financial ratio analysis, particularly as relates to the overall financial health of this City in comparison to other cities of comparable size and population, similar to a benchmark of best practices. Rief stated that the financial statements do not include ratio information. In order to achieve the GFOA award, we have to follow a strict set of guidelines. There is a very comprehensive checklist that discusses which various components need to be included in the financial statements, in the notes, the management discussion and analysis section, which does not include ratio. In order to keep consistent and comparable with other agencies, GFOA and GASB has required us to to keep a consistent format, so that there is comparable data, but it does not include an analysis. Cicerone asked if any financial ratio analytics were being done that would give him some metrics to begin a comparative analysis. Rief stated that Dahle Bulosan, prior to his departure, was working on an analysis of financial health indicators that compare us against comparable Orange County agencies. At the time, the FY 21/22 data was not yet available for all of the agencies, and so when the data is finalized, we can make that available.

Cicerone stated that he would like to add two items to the next meeting agenda, which included setting up two ad hoc committees of at least three people. One committee to look into the real estate acquisitions over the past year, and the other to look at the homeless initiative funding and the City's contractual obligations.

ADJOURNMENT

Motion: Moved by Vice-Chair Hamilton and seconded by Commissioner Craver to adjourn the meeting at 6:51 p.m.

The motion carried by the following votes: 7-0

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

Noes: None

Submitted by:

Sunny Han, Acting Chief Financial Officer

By: Thuy Vi, Administrative Aide, Finance