

Request for Action

From: City of Huntington Beach Finance Commission

To: City of Huntington Beach City Council

In reviewing the recent transactions that converted the properties Elan and Breakwater from privately owned residential income properties to “workforce housing”, the Finance Commission has determined that the scope of these real estate investments is outside of the city’s primary investment objectives.

According to the Huntington Beach Treasurer’s invest policy, the investment practices and policies of the City of Huntington Beach are based upon state law and prudent money management. The primary goals of these practices are:

- 1) To assure compliance with all Federal, State, and local laws governing the investment of public funds under the control of the City Treasurer.
- 2) To protect the principal moneys entrusted to this office.
- 3) Achieve a reasonable rate of return within the parameters of prudent risk management while minimizing the potential for capital losses arising from market changes or issuer default.

Elected and Appointed Public Officials owe a fiduciary duty to their citizens with regard to the officials’ handling of the public’s money. In accepting a fiduciary duty, the City Council accepts a legal commitment to act in the best interests of their beneficiary, the citizens. It is the conclusion of the Finance Commission that Real Estate investments that require the city to forgo property tax collection for any particular property does not represent the “best interest” of the citizens of Huntington Beach, nor does it show prudent money management or prudent risk management.

The City of Huntington Beach Finance Commission, therefore, respectfully requests the City of Huntington Beach City Council to consider proposing an amendment to the City Charter that would restrict this and future City Councils from contracting with any entity for any real estate investment that would require the City of Huntington Beach to forgo regularly collected property taxes on investment property, unless those purchases are approved by the voters of the City of Huntington Beach.

Thank you for your consideration in this matter

City of Huntington Beach Finance Commission

To: Huntington Beach City Council
From: Huntington Beach Finance Commission
Date: June 28, 2023

The City of Huntington Beach Finance Commission (the Finance Commission) respectfully requests the City of Huntington Beach City Council to instruct staff to develop policies and procedures to be followed when the City of Huntington Beach (the City) is involved in transactions of real estate. In reviewing past real estate transactions and in discussions with staff, the City does not have policies and procedures in place for this type of transaction, even though the financial impact of these transactions is material to the City. In order to protect the residents of the City, we believe policies and procedures must be developed.

As part of these procedures, the City should include the performance of due diligence including, but not limited to:

- A legal review of the contract by an attorney that specializes in the subject;
- An accounting review developing the accounting consequences for the entire process;
- A real estate professional review of the closing statements and associated costs; and
- Environmental report and other restricted uses of the property.

Also, as part of these procedures, the Finance Commission expects key controls to be developed that effectively mitigate the risk of entering contracts that are inconsistent with the City's objectives.

Thank you for your consideration in this matter.

City of Huntington Beach Finance Commission

September 27, 2023

TO: Huntington Beach City Council
FROM: Huntington Beach Finance Commission
RE: Unfunded Accrued Liabilities (UAL)

Over the past 10 years, a number of Huntington Beach City Councils have taken action to manage the size of the City's forecasted UAL with the California Public Employees' Retirement System ("CalPERS"). Among other things, the City has funded a Section 115 Trust annually, issued Pension Obligation Bonds, and allocated a portion of its budgetary surplus to address this expected liability.

Despite these efforts, the Finance Commission believes that the City's UAL poses a real and looming threat to the financial health of the City. The size of the threat is so significant, it cannot be prudently managed by budgetary cost-cutting.

We recommend that the City Council take immediate and concrete steps to more fully understand the City's risk, the role that increasing public safety pensions plays in the size of the deficit, the City's position in comparison with other California cities, best practices taken in other cities, and possible legislative solutions.

We urge the City Council to prioritize this matter for research and study sessions.

To: Huntington Beach City Council
From: Huntington Beach Finance Commission
Date: August 30, 2023

The City of Huntington Beach Finance Commission (the Finance Commission) respectfully requests the City of Huntington Beach City Council to investigate the potential efficiencies the City of Huntington Beach (the City) could gain from assigning a dedicated property manager. The City is party to approximately 140 leases that include a wide-range of assets including, but not limited to, parking structures, mobile homes, cellular towers, and oil pipelines. While the Finance Department of the City has access to all the leases for financial reporting purposes, different departments negotiate, coordinate, and manage these leases. The Finance Commission believes that the City's administration of these assets could become more efficient and consistent if these leases were managed under the same department or outsourced to an external property manager. In addition to increased efficiency, the City could realize more lease income, manage lease amendments effectively, as well as identify assets that may or may not fit the City's portfolio objectives.

We acknowledge that the City's staff, at your direction, have started a project to streamline the real estate process, however, this letter is intended to highlight the specific need for a dedicated property manager, internally or externally, as part of this streamlining. Similar to other financial procedures, the Finance Commission expects key controls to be developed that effectively mitigate the risk of entering lease contracts that are inconsistent with the City's objectives.

Thank you for your consideration in this matter.

City of Huntington Beach Finance Commission