



MINUTES FINANCE COMMISSION

Wednesday, November 20, 2019 - 5:00 P.M.
City of Huntington Beach
Civic Center – Fourth Floor Conference Room #2
2000 Main Street
Huntington Beach, CA 92648-2702

Acting Chair Lo Grasso called the Meeting to order at 5:10 p.m. and Commissioner Van Der Mark led the Pledge of Allegiance.

MEMBERS PRESENT: Lo Grasso; Bunten; Van Der Mark; Gledhill

MEMBERS ABSENT: Sterud; Romero; Hudson

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

ORAL COMMUNICATIONS – Ralph Taboada, Chair of the Costa Mesa Finance and Pension Advisory Committee, spoke regarding his interest in hearing Huntington Beach's Pension Obligation Bonds presentation.

MINUTES

With no quorum to vote, the October 30, 2019 Special Meeting Minutes were tabled to the Finance Commission Meeting on January 22, 2020.

PRESENTATIONS / DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

1. CalPERS ESG Policy Study Update by Finance Commission Subcommittee

Commissioner Gledhill presented the Finance Commission Subcommittee's Report on the Financial Analysis of CalPERS' Divestment Programs. She said the Wilshire Consultancy Group was hired by CalPERS to provide financial performance analysis to CalPERS' Investment Committee, and performed an analysis of CalPERS' Divestment Programs from Inception to FY 2018.

Gledhill presented a chart representing CalPERS' portfolio of all Divestment Programs, active and inactive, which reflects a cumulative negative 2.4% performance, or \$8.5B.

Dahle Bulosan, Acting Chief Financial Officer, explained the impact of the ESG Policy on Huntington Beach's Unfunded Pension Liability. He noted that because of divestment, there was an estimated \$22M loss to the City. Bulosan stated that the City's total pension liability is \$1.3B, the net pension liability is \$414M, and we are currently 68.79% funded. If CalPERS had not divested, the funded percentage would have been at 70.45%; an increase of 1.66%

Commissioner Bunten noted that the \$22M could be classified as a lost opportunity, and could be reduced if the City moves forward with an Unfunded Accrued Liabilities (UAL) refinance. Lo Grasso recommended that the Finance Commission write a memo to the City Council asking where the \$22M loss occurred, what alternate investments were made when CalPERS divested, and what the returns were. Bulosan noted that he had received feedback from City Manager Oliver Chi regarding verification from CalPERS about the validity of our analysis. Chi will reach out to his CalPERS contact, Jason Perez, to have a representative speak to the Finance Commission about CalPERS' ESG policy and impacts of the ESG Divestment Policy.

Lo Grasso thanked the Subcommittee for their work.

Motion: Moved by Lo Grasso and seconded by Gledhill for the Finance Commission Subcommittee to send the ESG Impact analysis to CalPERS to verify information, invite a CalPERS representative to speak at the January 2020 Finance Commission Meeting, and draft a memo and/or make a presentation to the City Council with findings after the January Meeting.

Ayes: Lo Grasso; Bunten; Van Der Mark; Gledhill

Noes: None

Absent: Sterud; Romero; Hudson

Approved: 4-0-3 (Sterud, Romero, Hudson-Absent)

2. PCTA Mediation Update

Bulosan presented a Public Cable Television Authority (PCTA) Mediation Update. He provided background noting that the member cities included Stanton, Fountain Valley, Westminster and Huntington Beach. In April of 2018, the City Council directed staff to look into the operations of PCTA to see if it was working financially and operationally. PCTA retained approximately \$150K annually from Huntington Beach in Franchise Fees to pay for operating and administration expenses. In addition, PCTA received \$605K in PEG (Public, Education and Government) revenues annually from Huntington Beach residents. PCTA was using those two sources of revenue to operate. Bulosan also noted that Huntington Beach was providing two thirds of the PCTA funding, but did not receive two thirds of the benefits in terms of programming or capital funding. In addition, PCTA was not keeping up with best practices and trends in the cable marketplace in regards to programming, such as streaming options.

Based on this analysis, the City Council authorized Huntington Beach's termination of membership in PCTA effective July 22, 2019. However, PCTA's Joint Powers Agreement did not address how assets would be distributed if a member withdraws from the PCTA. As a result, the City had to enter into mediation with PCTA.

PCTA has approximately \$3M in cash and \$434K in capital assets. Based on the mediation with the remaining PCTA members, a \$1M settlement was paid to the City from PCTA on October 31, 2019. In addition, the City received all equipment of PCTA located in City Hall Council Chambers and the Audio-Visual room adjacent to Council Chambers, valued at approximately \$152K.

Effective July 23, 2019, Huntington Beach now operates the cable channel internally through contract production services and current Huntington Beach staff. The City Council established a Communication Subcommittee made up of Council Members Peterson, Semeta and Brenden to make decisions on programing content.

The Federal Communications Council (FCC) instituted Rule 621, effective September 26, 2019, which reduces the amount of revenues the City receives from the cable companies. The Rule allows cable companies to retain funds from cities to cover in-kind contributions to a city's cable channel. The National League of Cities is fighting back via a lawsuit against the FCC (representing more than 19,000 cities, towns, and villages in 49 United States). Huntington Beach is a party to this suit. Our City Attorney's Office is monitoring the FCC proceedings related to this suit.

3. Dark Fiber Study Session Presentation by City Manager's Office to City Council

Lo Grasso recommended tabling this item until the next meeting.

Motion: Moved by Bunten and seconded by Lo Grasso to table this item to the January 2020 Finance Commission Meeting

Ayes: Lo Grasso; Bunten; Van Der Mark; Gledhill

Noes: None

Absent: Sterud; Romero; Hudson

Approved: 4-0-3 (Sterud, Romero, Hudson-Absent)

4. CalPERS UAL Refinancing Update

Bulosan noted that the Finance Commission met regarding this item at a Special Meeting on October 30, 2019, and the City Council met regarding this item on November 18, 2019. Bulosan presented Oliver Chi's video presentation from the City Council meeting of November 18, 2019. The link to the video is located at:
http://huntingtonbeach.granicus.com/Media Player.php?view_id=10&clip_id=1603

Bulosan discussed the highlights of Chi's presentation. He noted that the City Council approved the first steps by approving the Resolution and Trust Agreement necessary to initiate the judicial validation process to allow Huntington Beach the opportunity to refinance our UAL debt through a Pension Obligation Bond (POB). The Finance Commission was in support of this action.

Bulosan noted that refinancing the POBs does not preclude us from having future UAL. Bulosan said if the City takes no action, we would owe an additional \$21M in annual UAL payment, and our UAL could still increase due to changes in mortality rates, underperformance, shortening of the amortization period by PERS, or increase of benefits.

Bulosan stated that the savings realized with the refinancing of POBs could be used to establish a savings fund to pay future UAL. Bulosan discussed bringing to the Finance Commission in February 2020 options for establishing a CalPERS UAL Funding Policy. The City would like to have a policy in place before refinancing POBs. Sunny Rief, Acting Assistant Chief Financial Officer, noted that having a strong funding policy in place would strengthen our selling point when we go out to market for bonds.

Bulosan noted that some options to consider would be to establish a City trust for investments, set aside the funds in a Section 115 Trust, or pre-fund and give the money to PERS so that the money cannot be used for other purposes. He stated that after considering options, the Finance Commission could make recommendations for a funding policy to the City Council for approval.

Motion: Moved by Bunten and seconded by Lo Grasso directing staff to draft a UAL funding policy for the Finance Commission's review at the January 2020 Finance Commission meeting.

Ayes: Lo Grasso; Bunten; Van Der Mark; Gledhill

Noes: None

Absent: Sterud; Romero; Hudson

Approved: 4-0-3 (Sterud, Romero, Hudson-Absent)

5. December 2019 Holiday Luncheon

Discussion ensued regarding the annual Holiday Luncheon. Lo Grasso recommended December 18, 2019 at noon. General agreement was to return to Mario's Restaurant at Five Points in Huntington Beach.

Motion: Moved by Lo Grasso and seconded by Gledhill to cancel the Finance Commission meeting scheduled for December 18, 2019, and to have a luncheon in its place.

Ayes: Lo Grasso; Bunten; Van Der Mark; Gledhill
Noes: None
Absent: Sterud; Romero; Hudson
Approved: 4-0-3 (Sterud, Romero, Hudson-Absent)

6. January 2020 Election of Chair and Vice Chair

Bulosan spoke briefly about the annual Election of Finance Commission Chair and Vice Chair. He noted the item would be on the January 2020 Agenda.

COMMISSIONER COMMENTS

Bunten thanked the Finance Commission Subcommittee for their work on the CalPERS ESG Policy Update.

Motion: Moved by Bunten and seconded by Lo Grasso to adjourn the Finance Commission meeting.

Ayes: Lo Grasso; Bunten; Van Der Mark; Gledhill
Noes: None
Absent: Sterud; Romero; Hudson
Approved: 4-0-3 (Sterud, Romero, Hudson-Absent)

ADJOURNMENT – There being no further business, the meeting adjourned at 6:45 p.m.

Submitted by:

Dahle Bulosan, Acting Chief Financial Officer

By: Linda Wine, Administrative Assistant, Finance Department
Thuy Vi, Administrative Assistant, Finance Department