



MINUTES FINANCE COMMISSION

Wednesday, November 17, 2021 - 5:00 P.M.
City of Huntington Beach
Zoom Webinar
Council Chambers Caucus Room
2000 Main Street
Huntington Beach, CA 92648

For the audio recording of the November 17, 2021 Finance Commission Meeting, please visit the City's website at: <https://huntingtonbeach.legistar.com/Calendar.aspx>

Chair Stephanie Gledhill called the meeting to order at 5:01 p.m. and led the Pledge of Allegiance.

MEMBERS PRESENT: Stephanie Gledhill, Chair
Robert Sternberg, Vice-Chair
Jamie Craver, Commissioner
Frank Lo Grasso, Commissioner
Lawrence Owen, Commissioner
Tony Strickland, Commissioner

MEMBERS ABSENT: Janet Michels, Commissioner

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

PUBLIC COMMENTS There were no public comments.

CONSENT ITEMS

Approval of Meeting Minutes

(5:03) **Motion: Moved by Commissioner Frank Lo Grasso and seconded by Lawrence Owen to approve the Finance Commission Meeting Minutes dated September 28, 2021 and October 27, 2021, as presented**

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

Ayes: Gledhill; Sternberg; Craver; Lo Grasso; Strickland
Noes: None
Abstain: Owen
Absent: Michels (excused)

DISCUSSION ITEMS AND POTENTIAL RECOMMENDATIONS

(5:50) Chief Financial Officer Dahle Bulosan gave a Year End Review presentation. He provided the City's Financial Update, noting that the City is still undergoing a financial audit, and that the numbers provided in the presentation are still preliminary and subject to change until the end of the calendar year. Bulosan stated that Huntington Beach is in a terrific financial position, noting that with City Council's guidance and the Finance Commission's input on refinancing our pension obligation bonds, the City was able to save \$167 million, which had a huge effect on the City's financial position. Bulosan stated that with the citywide restructure plan/separation incentive, the City saved \$5 million on a go forward basis. Chair Gledhill asked if any other cities have refinanced their pension obligations bonds. Assistant Chief Financial Officer Sunny Rief stated that over 70 cities in California have refinanced over the last two years, and others are in the process of refinancing. Bulosan stated that interest rates are at a historic low and still holding. He noted that the City is able to participate in the high investment earnings, of which CalPERS earned 21.3% for the fiscal year ending June 30, 2021. Vice-Chair Robert Sternberg asked if it was common for cities to offer the early buyout. Bulosan stated that the separation incentive is one of the tools that cities offer to address financial challenges, as is furloughs, salary cuts and layoffs. Rief noted that the cities of Santa Monica and Garden Grove offered similar separation incentives.

Bulosan stated that the City Council made difficult decisions during the past year to pave the way for sizable projected surpluses in FY 2020/21 & FY 2021/22 as the economy continues to recover from COVID. He indicated that the City is currently projecting a \$10.7M surplus in FY 2020/21, primarily due to increased sales tax and hotel tax. Sternberg asked if the City lost transient occupancy tax (TOT) revenues due to low hotel occupancy. Bulosan stated that the City did lose TOT revenues during the peak of COVID in July 2020, but revenues came back stronger than anticipated in 2021. Gledhill stated that it is surprising that we have a surplus with all the extra COVID costs. Bulosan stated much of the COVID costs are covered by the federal government with FEMA monies. Sternberg asked if there would be enhanced property tax revenues due to the higher property prices. Bulosan stated that the City recently met with its property tax consultant, and the numbers show that the City will see strong property tax revenues.

Bulosan stated that the City's FY 2021/22 budget is structurally balanced and with improvements in the local economy, we are conservatively projecting a \$7.2M surplus for the current fiscal year. The General Fund transfer into the Infrastructure Fund for the FY 2021/22 adopted budget, which has historically been set at ~\$5 million in prior years, includes a 130% increase, to \$11.5 million. Lo Grasso asked if that was the required 15%? Bulosan stated yes, pursuant to the City Charter requirement to spend at least 15% of general fund revenue on infrastructure on a five-year rolling basis. The adopted CIP budget, which typically runs at around ~\$25M / year, is set at \$39.3M for FY 2021/22, an increase of greater than 57%. Bulosan summarized the current and prior year surpluses and noted that the City received a \$4.9M restricted one-time money from AES power plant to use on Southeast area projects, such as the Neighborhood Mitigation Program, Homeless Response, Southeast Neighborhood Improvement, Downtown Connectivity Projects and economic development. Lo Grasso asked who was in charge of the \$4.9M funds. Bulosan stated that the Southeast Area Council Committee is having active discussions regarding the funds.

Bulosan discussed the FY 2020/21 Year End Budget Adjustments requested in 14 separate funds:

General Fund (100) / Narcotics Forfeiture Federal Fund (212) / Police Development Impact Fees Fund (227) / Narcotics Forfeiture Treasury Fund (242) / Retirement Supplement Fund (703) / Section 115 Trust Fund (716) / Energy Efficiency Fund (807) / Senior Mobility Program Fund (963) / Infrastructure Fund (314) / Equipment Replacement Fund (324) / Revolving Loan Fund (215) / Senior Center Development Fund (319) / HOME Fund (854) / Debt Service Mello Roos Fund (406).

Bulosan provided details on the requested General Fund Adjustments. On November 2, 2021, the City Council approved the year-end budget adjustments, transfer, and assignment to the FY 2020/21 Revised Budget.

Bulosan stated that the Community Development Department requested a net-neutral appropriations adjustment of \$135K for preparation of a Mitigated Negative Declaration for the Seacliff Senior Living & Memory Care Facility and Gisler Residential Development. Lo Grasso asked where the projects were going to be located. Bulosan stated that Gisler was the school site that was just sold, and he was not certain of the location of the other project.

The 4th of July Fund requested to close out \$46K and account for the Fourth of July in the General Fund. Bulosan stated that the 4th of July Program is now being managed by a third party, and because it is being managed externally, the City does not manage expenses. Lo Grasso asked if the Fourth of July Board is still in place, and Bulosan stated that the Board is in place. Gledhill asked about the \$46K over budget amount. Bulosan stated that the fund was over budget due to timing. All the work/expenses are done before the fourth of July, and with the fiscal year being from July to June, the revenues do not come in until July.

Bulosan stated that \$4.4M in appropriations was requested to be transferred to the Infrastructure Fund to comply with Section 617 of the City Charter that requires the City to spend 15% of General Fund revenue on infrastructure. The money will go towards capital projects and the Finance Commission will have an opportunity to review in a future meeting.

\$1.32M in appropriations was requested to be transferred to the Equipment Fund to ensure adequate funding for essential capital equipment needs such as public safety vehicles, fire trucks, Public Works citywide fleets and technology replacement for aging infrastructure.

For Litigation Reserves, \$3.65M was requested to be set aside to properly fund legal claims, given unforeseen litigation losses exceeding budgeted amounts due to unfavorable legal judgments against the City related to affordable housing, the Kennedy Commission case and SB35. The City Attorney has filed an appeal, but funds are being set aside to be prudent, in case the negative judgment is upheld. Craver asked who makes the decision regarding litigation reserves. Bulosan stated that the Finance Department works closely with the City Attorney's Office to review current claims quarterly and to set aside reserves for every budget year. Reserves are adjusted depending on the status of cases, and additional funds are requested from the City Council for extraordinary cases.

Bulosan summarized the recommended actions and stated that the remaining surplus is \$1.3 million. 50% of the General Fund surplus, or estimated \$656K, would be set-aside in a Restricted Pension Rate Stabilization Reserve pursuant to the City's UAL Pension Funding Policy. He noted that the numbers are preliminary and whatever the final numbers end up being, half will be set aside in the

Pension Rate Stabilization Reserve, to help pay for any new unfunded liabilities that occur in case CalPERS is unable to make their stated discounted rate of return. Sternberg asked where the other half of the funds would be allocated. Bulosan stated that our financial policy states that with any remaining funds after the Pension Rate Stabilization Reserve, half will go to the economic uncertainties fund, which is considered our rainy day fund, 25% will go into capital reserves and another 25% into equipment.

Bulosan discussed the Other Fund Adjustments, which are administrative adjustments:

- Police: \$50K net-neutral adjustment for additional Federal Narcotics Forfeiture Program revenues from DOJ & \$25K Development Impact Fee to up-fit the Crisis Negotiation Team van
- Finance: \$100K for Retirement Supplemental program adjustment based on actuary report and \$48K for Section 115 Trust Fund administrative fees
- Public Works: \$30K Energy Efficiency street light retrofit expenditures. Sternberg asked if the City would be buying more streetlights and converting them, noting that the City had bought approximately 11,000. Rief stated we are no longer able to buy street lights as that was a one-time offer from Southern California Edison and the CPUC, but we have additional streetlights in the downtown area that were retrofitted from high pressure sodium to LED.
- Community Services: \$43K Senior Mobility Program net-neutral adjustment for additional Measure M revenues
- Community Development: \$806K Revolving Loan Fund transfer to CDBG Fund to properly provide for code funding & \$465K HOME Fund transfer to the proper grant year
- Other: \$17K Senior Center Development Fund transfer of remaining funds for eligible Police Headquarters capital project and \$21K for year-end cleanup of Debt Service Mello Roos Fund

Bulosan recapped that the City is currently in a great and enviable financial position. In January 2022, the City will have a Mid-Year Update & Budget Kickoff for Finance Commission discussion. The City Council would like the Finance Commission to take on the Design, Build, Finance, Operate and Maintain (DBFOM) capital facilities project, which includes replacing or repairing City buildings, such as the police building at City Hall. The Public Works Director will be working with the City Council subcommittee to come up with a task list for the Finance Commission to consider and make recommendations at our January or February meeting. Commissioner Owen asked if the City would be receiving any money from the recent infrastructure bill. Bulosan stated that the City will receive additional infrastructure funds, but the amount is unknown. The City did receive the \$29.6 ARPA funds, which the City Council has already allocated to different projects.

Bulosan stated that the Finance Department will be working internally with all other departments on the Budget Development Process from January – May 2022. The Finance Commission's suggestions will be incorporated in those discussions. The proposed budget will be presented to the City Council for feedback at the May 17, 2022 study session. The Finance Commission will review the CIP & Infrastructure Calculation at the May 25, 2022 meeting. The FY 2022/23 Budget will be presented for adoption at the City Council Public Hearing on June 7, 2021, with June 21, 2022 being the alternate date for budget adoption. The Fiscal Year 2022/23 begins on July 1, 2022.

Sternberg asked what plans are being made for the old Senior Center. Bulosan stated that the City Council has already approved plans to develop it into a park. Craver asked if the consultant on the DBFOM project has given a presentation, and if the Commission could be provided a copy.

(45:45) Holiday Luncheon

Discussion ensued regarding the annual Finance Commission Holiday Luncheon. The Commission agreed to have a luncheon on Wednesday, December 15, 2021, at a location to be determined.

COMMISSIONER COMMENTS

(49:40) Lo Grasso expressed his disappointment with the City Council majority that made the decision to change the Finance Commission structure, which will limit its effectiveness. He said that he was a commissioner on the Finance Commission when it was first established, which was to provide oversight of the City Council and City's finances. The Commission had the power to make suggestions, and can be credited with recommending that the City Council establish the requirement that 15% of the general fund revenue be spent on infrastructure. The Commission also suggested changing the City's pension program. Lo Grasso said the Finance Commission did a great job on the CCE discussion in providing information to the Commission and the public, without City Council direction. He stated that he is disappointed that the Commission is not going to be able to be proactive for the City's finances, and is only able to do what it is directed to do. He hopes that the future City Council will bring back an effective Finance Commission that has the ability to be independent in its oversight.

Gledhill stated that the Finance Commission is not limited to only what the City Council directs as discussion items, and can make suggestions on items they feel are important. She stated that the City's Ordinance states that the Finance Commission is an advisory committee.

Sternberg stated that since the City has extra money, he would like to recommend that more money be allocated for extra maintenance in City parks. He referenced that the the park in his neighborhood has not been maintained in 10 years. He suggested cleaning storm drains before the rain comes, and noted that cleanup and maintenance of the parks, streets and sidewalks would be appreciated by the taxpayers.

Owen stated that our beaches need better maintenance.

Gledhill stated that she would like to see a recreation center that offers recreation services, such as tennis and pickle ball. Bulosan stated that he understands a recreation center is being built at the Edison Park.

Bulosan stated that any recommendations the Finance Commission would like to make regarding prioritization of additional funding towards maintenance of City parks could be incorporated in the budgetary process and included in the Budget Kickoff discussions. He told Sternberg that he has reached out to the Directors of Public Works and Community Services, and one of the prioritizations is to have additional oversight of the contractors who maintain our parks, as currently there are only two full-time City employees who oversee the park maintenance contractors for the entire City.

Lo Grasso suggested that Public Works staff explain to the Finance Commission the scope and management of the maintenance contract. He stated that before additional funds are allocated, we should review whether the work is being done effectively. Bulosan stated that he understands that additional oversight of the contractors is needed.

COMMISSIONER ITEMS

None.

ADJOURNMENT

(1:21) Motion: Moved by Gledhill and seconded by Lo Grasso to adjourn the meeting at 6:22 p.m.

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

Ayes: Gledhill; Sternberg; Craver; Lo Grasso; Owen; Strickland

Noes: None

Absent: Michels (excused)

Submitted by:

Dahle Bulosan, Chief Financial Officer

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