



CITY OF HUNTINGTON BEACH

To: Honorable Chair and Finance Commissioners
From: Zack Zithisakthanakul, Acting Chief Financial Officer
Date: June 24, 2026
Subject: **Supplemental Communication for the June 24, 2026, Finance Commission Meeting**

Attached is a Supplemental Communication to the Finance Commissioners (Received after distribution of the Agenda):

FINANCE COMMISSIONER ITEMS

- #5. (26-560) - (1) communication received from the Acting Chief Financial Officer – One Attachment
 - Attachment #1 - Responses to Finance Commissioner Questions - 6-24-26

- #5. (26-560) - (1) email received from a commissioner – One Attachment
 - Attachment #1 – EXTERNAL - Notes for meeting today - Supplemental for item 5 – Commissioner Chennault

Questions for Zack on 6/4/26 with notes written by Dave Chennault on 6/5/25

Question From Commissioner Chennault in **Grey** and Response from Finance in *Italics*

Question 1 – Difference in Budget Actuals Revenues in FY 24 /25 and Audited Statements Revenues for FY 24/25

Budget - FY 24/25 for Revenues shown in FY 26/27 Budget on page 22 does not show the same values as the audited statements. Please explain why the actuals shown in the sources of revenues in the budget for FY 24/25 on page 22 and 23 of the budget does not show the same values or total as the audited statement

Answer: The values in the budget entries for investments portion of revenue objects in the General Fund on Page 23 of the proposed FY 26/27 budget for FY 24/25 are stated at fair market value while the values for the investments portion shown in the revenue objects in the audited statements are not shown at market value.

The Budget Book does not include changes in the fair value of investments within the revenue sections. However, under accounting standards, the audited financial statements report these investment gains or losses as positive or negative revenue amounts. As a result, there will always be a difference between the actual revenue reported in the Budget Book and the actual revenue reported in the audited financial statements to the extent investment valuation adjustments are recognized.

What this means in plain language as explained using Chat GPT–

What the budget is doing

In the **proposed FY 26/27 budget**, when they list investment amounts (on Page 23 in the General Fund section), they show those investments at **fair market value** — meaning:

- What the investments are currently worth on the market
- This number can go up or down depending on market conditions

Think of it like checking the current value of your 401(k) or stock portfolio.

What the audited financial statements are doing

In the **audited FY 24/25 financial statements**, the investment amounts in the revenue section are **not shown at fair market value**. Instead, they may be shown at:

- **Cost** (what the city originally paid), or
- **Amortized cost** (cost adjusted over time), or
- Another accounting basis required by government accounting rules

This means the audited statements might show a more stable number that doesn't change with daily market fluctuations.

Why this matters

Because the two documents use **different valuation methods**, the investment numbers:

- **Will not match**, even if they refer to the same investments
- Can look higher or lower depending on market conditions

- *Might confuse readers unless the difference is explained*

● ***Super-simple summary***

The budget shows investments at their current market value. The audited statements do not. So the numbers look different because they're calculated differently.

Audited Statements for FY 24/25

This is page 46 (see below) for the audited report at this url for FY 24/25

https://www.huntingtonbeachca.gov/departments/finance/budget_financial_reports.php#outer-860sub-865

**GOVERNMENTAL FUNDS
FOR THE YEAR ENDED JUNE 30, 2025
(In Thousands)**

	Major Governmental Funds						Total
	General Fund	Grants Special Revenue	LMIHAF Capital Projects	Pension Liability	Infrastructure	Nonmajor Governmental Funds	
REVENUES							
Property Taxes	\$ 109,379	\$ -	\$ -	\$ 8,858	\$ -	\$ -	\$ 118,237
Sales Taxes	49,310	-	-	-	-	3,074	52,384
Utility Taxes	22,706	-	-	-	-	-	22,706
Other Taxes	25,365	-	-	-	-	393	25,758
Licenses and Permits	10,355	-	-	-	-	388	10,743
Fines and Forfeitures	6,040	-	-	-	-	-	6,040
Use of Money and Property (Loss)	33,440	328	1,204	1,258	1,868	4,916	43,014
Intergovernmental	18,586	18,927	1,719	-	15	11,419	50,666
Charges for Current Services	35,081	-	-	15,727	-	2,931	53,739
Other	7,198	518	-	-	11	108	7,835
Total Revenues	317,460	19,773	2,923	25,843	1,894	23,229	391,122
EXPENDITURES							
Current:							
City Council	492	-	-	-	-	-	492
City Manager	3,810	966	-	-	-	386	5,162
City Treasurer	2,425	-	-	-	-	-	2,425
City Attorney	4,098	-	-	-	-	-	4,098
City Clerk	1,796	-	-	-	-	-	1,796
Finance	6,249	-	-	-	-	17	6,266
Human Resources	2,578	-	-	-	-	-	2,578
Community Development	15,830	3,471	1,206	-	-	1,180	21,687
Fire	77,345	359	-	-	-	153	77,857
Information Services	8,614	-	-	-	-	1,393	10,007
Police	104,277	2,558	-	-	-	230	107,065
Community Services	13,562	331	-	-	160	903	14,956
Library Services	6,949	170	-	-	-	69	7,188
Public Works	28,394	8,580	-	-	19,688	17,028	73,690
Debt Service:							
Principal	4,761	-	-	12,724	-	2,295	19,780
Interest	480	-	-	8,360	-	660	9,500
Total Expenditures	281,660	16,435	1,206	21,084	19,848	24,314	364,547
Excess (Deficiency) of Revenues Over (Under) Expenditures	35,800	3,338	1,717	4,759	(17,954)	(1,085)	26,575
OTHER FINANCING SOURCES (USES)							
Transfers In	543	-	-	1,500	17,539	2,968	22,550
Transfers Out	(22,077)	-	-	-	-	(530)	(22,607)
Total Other Financing Sources (Uses)	(21,534)	-	-	1,500	17,539	2,438	(57)
Net Change in Fund Balances	14,266	3,338	1,717	6,259	(415)	1,353	26,518
Fund Balances - Beginning of Year	132,319	2,712	7,910	36,119	29,397	79,750	288,207
Fund Balances - End of Year	\$ 146,585	\$ 6,050	\$ 9,627	\$ 42,378	\$ 28,982	\$ 81,103	\$ 314,725

Question 2 – Expenses Shown in Budget

The actual expenses for each department for FY 24/25 are known from the audited statement above – Why are these not shown in the budget and why are there any entries for previous years up to FY 24/25 in the Non-Departmental categories – there should be none since the audited statements attribute expenses to each department.

Answer:

This is a stylistic choice made by the finance department to keep using non departmental values in previous years. The finance department could eliminate the non departmental entries for previous years and use audited actual values in each department but they choose not to do so. Commissioner Chennault asked them to consider using audited values allocated into each department for previous users but the acting director CFO said he would not do so unless directed to do so by the city manager

This appropriation is budgeted centrally and allocated across all departments based on the relative size of each department's expenditures. The largest components of this allocation consist of debt service payments for principal and interest, transfers between funds, taxes, and other Citywide costs that cannot be directly attributed to a single department.

Budgeting these costs centrally and recording the actual expenditures in the Budget Book provides a transparent and consistent method for monitoring Citywide obligations and ensuring that sufficient appropriations are available throughout the fiscal year. This approach also prevents individual departmental budgets from being distorted by costs that are incurred for the benefit of the organization.

For financial reporting purposes, these Citywide costs are proportionately allocated to departments based on the relative size of each department's expenditures. This methodology more accurately reflects the full cost of providing departmental services and ensures that the audited financial statements present expenses in accordance with generally accepted accounting principles while maintaining a clear and transparent budgeting process.

Question 3 – Items Other Expenses - General Fund FY 26/27

A - You combined Permanent Salaries (\$1,000,000) and Other Pay for (\$1,000,000) into a single object called Salaries – why?

Answer:

This is a stylistic choice made by the finance department. Commissioner Chennault asked them to consider separate entries for salary and another for other pay to add clarity to the budget, but the acting director CFO said he would not do so unless directed to do so by the city manager.

This is an appropriate and commonly used budget presentation method because the Budget Book is intended to provide a clear, readable summary of the City's financial plan rather than serve as a full accounting transaction detail report. The City has thousands of account combinations, and listing every salary-related object separately for each department would make the document significantly longer, harder to read, and less useful for policy-level review. Grouping Permanent Salaries and Other Pay under a broader Salaries category provides a reasonable summary of total compensation costs while still allowing Finance to maintain and provide the underlying detail when needed. This approach supports transparency at the budget-book level while preserving readability for the City Council, Finance Commission, and public. Finance is not opposed to revisiting groupings where there is a clear purpose or policy need; however, any change should be considered consistently across the entire budget structure rather than adjusted selectively for one line item.

B – You put \$1,000,000 into Overtime for Fire in the Non-Departmental Salaries overtime – Why did you not identify this and why is this not in the Fire Budget?

Answer:

This is a stylistic choice made by the finance department. The finance department said it was a choice and strategy they make to try and limit the amount of spend by the fire department in overtime. Commissioner Chennault asked them to allocating to overtime for fire within the Fire department budget to make the budget more accurate but the acting director CFO said he would not do so unless directed to do so by the city manager

This approach is intentional and transparent. The Fire Department's overtime budget has already increased by \$2.5 million in recognition of operational demand and historical spending trends. However, overtime can fluctuate significantly based on staffing levels, vacancies, emergency response needs, strike team activity, leave usage, and minimum staffing requirements. Rather than placing the entire contingency directly into the Fire Department's operating budget and increasing the appearance of its base overtime need, the additional amount was budgeted in Non-Departmental as a Citywide safety personnel reserve. This allows the City to maintain oversight and control while still ensuring funding is available if Fire overtime exceeds the increased departmental budget. It also preserves flexibility to address other safety personnel needs, such as Police staffing support or unfunded public safety positions, if those needs become a higher priority during the fiscal year. In short, the funding was not hidden or omitted; it was intentionally placed in a central location to improve control, preserve flexibility, and avoid overstating ongoing departmental overtime costs until actual need is better understood.

C – Vacation Cash Out – \$4.86 million in non-departmental - You know what this will be roughly for each department/employee – why is this not allocated in the budget for each department and instead allocated to the non-departmental budget

Answer:

This is a stylistic choice made by the finance department. The finance department said it was a choice and the finance department did not feel comfortable estimating the cash out values for each department. Commissioner Chennault asked them to work with HR and allocate vacation cash within each department budget to make the budget for each department more accurate but the acting director CFO said he would not do so unless directed to do so by the city manager

This amount is appropriately budgeted in Non-Departmental because it is not limited to routine vacation cash-outs. It also includes separation-related payouts tied to retirements, resignations, and terminations, which are difficult to predict by department with precision. While Finance and HR may have historical trends, the actual timing and amount of these payouts depend on individual employee decisions, leave usage, retirement timing, and separation activity during the year. In addition, the City should be cautious about relying on employee-specific retirement assumptions, since repeatedly asking employees about retirement plans can create employee relations and legal concerns. Because these costs can affect any department and are not fully controllable at the departmental level, budgeting the amount centrally provides a more reasonable and transparent Citywide contingency. As payouts occur, the actual expenses can be charged or allocated to the appropriate department, which preserves accurate reporting while avoiding speculative departmental budgets based on assumptions that may not occur.

D – What department oversees the navigation center?

Answer:

The finance department said all departments manage the Navigation Center and the cost could not be allocated accurately. Commissioner Chennault asked them to identify reasonable estimates for each department within the budget but the acting director CFO said he would not do so unless directed to do so by the city manager

A multitude of municipal departments, including but not limited to Finance, Community Development, the City Manager’s Office, Police, Fire, and Human Resources, actively participate in the operations and shared oversight of the Navigation Center. Because the center’s primary fiscal driver is a centralized, third-party contract, assigning the total cost to any single department would artificially inflate their budget and present an inaccurate picture of their actual operational needs. While the City is evaluating the feasibility of transferring this contract to a specific department in future fiscal years, keeping the Navigation Center’s costs centrally located within the Non-Departmental fund for this year’s budget remains the most accurate, compliant, and transparent approach.

E – You have almost \$1 million in expense budgeted for uncollected bills from the city – what is the issue?

Answer:

The finance department did not identify the issue but said the budget was based upon a review of the last 5 years of AR annual right-offs

The \$1 million budgeted for uncollectible bills does not represent a sudden spike in unpaid accounts, but rather a standard, historical baseline. Over the past four fiscal years, the City’s actual uncollectible debt has averaged \$916,113 annually. This line item represents a combination of but not limited to multi-year, recurring bad debt and time-lapsed accounts that must be formally reclassified from an active receivable to a write-off. Furthermore, budgeting for a Bad Debt Expense, specifically establishing an allowance for uncollectible accounts based on year-end receivables, is a mandatory accounting technique prescribed by GASB (Governmental Accounting Standards Board) pronouncements. Failing to account for this predictable variance would violate GAAP (Generally Accepted Accounting Principles) and misrepresent the City’s true financial position.

F – What is the Transfer out of \$3 million to HBPFA in the Non Departmental

The finance department said this was for Bond Payments and was not allocated to any department within the budget

The \$3 million transfer-out to the Huntington Beach Public Financing Authority (HBPFA) reflects the principal and interest required per the City’s established debt service schedule. These payments are tied to the refinancing of the 2011 bonds, which originally funded municipal projects dating back to 1993 and 2001, as well as the ongoing debt service for the 2014 bond issued for the Senior Center project. Because these legacy obligations represent long-term, city-wide capital infrastructure investments rather than ongoing departmental operations, housing this debt service within Non-Departmental is the most accurate and transparent accounting treatment. Allocating these fixed, historical financing costs to active operating departments would severely distort their true annual operational expenses.

Question 4

Please create a reports of the “Other Services” as requested by the Finance Commission for the following Departments in the budget so the council knows what the contract are – Please create a report for all Funds and General Funds

- Treasury
- Community and Library Services
- Police Public Works

- Non departmental

Answer:

The finance department said the reports were ready but they would not deliver the requested reports to the city council unless the city council requested the reports. Council member was called on the phone and he requested the reports to be delivered ASAP. The finance department said they would deliver the reports at some level of detail soon.

Detailed breakdowns of the major components within the Other Contract Services object codes were fully completed by individual departments during the budget development cycle, reviewed by the City Manager's Office, and utilized during individual Council budget briefings. While a comprehensive list of these Other Contract Services was prepared for the Finance Commission's special meeting, the Commission chose not to hear the granular details at that time. Following subsequent coordination with Councilmember Williams, the Finance Department conducted a targeted briefing with Councilmember Williams and Councilmember Gruel. Rather than reviewing every individual department, the briefing focused directly on the Councilmembers' specific areas of concern and covered the major listings within Other Contract Services across the requested funds, fully satisfying the needs and expectations of the Councilmembers.

Question 5

A super El Nino is expected with extensive rainfall this winter in 2026/2027. Meadowlark Golf Course is lined with homes and experiences severe flooding on normal years. Has any budget been set aside to prepare or react to flooding affecting Meadowlark Golf Course residents

Answer:

This question was met with much laughter by the Finance and Treasury staff. The finance department said no budget has been allocated for flood control planning, response, or remediation for anywhere in the city for the expected heavy rains and flooding associated with the predicted Super El Nino this year, including meadowlark golf course, but \$100 million is available in the reserves if needed.

The City's budgeting framework does not allocate localized operational funds based on seasonal weather predictions; rather, it relies on a robust and structurally protected emergency reserve system designed to handle city-wide contingencies. The City maintains a healthy fund balance that significantly exceeds the minimum guidelines recommended by the Government Finance Officers Association (GFOA). Per established City policy, these reserves are strictly restricted from being used for new programs or expanded personnel costs, ensuring capital remains available for catastrophic events that exceed 5% of the General Fund's adopted budget. Furthermore, if reserves ever fall below the baseline of two months of operating expenditures, the Chief Financial Officer is required to submit a comprehensive stabilization plan to replenish the fund within three years. The City is fully aware of municipal emergency preparedness, therefore capital mitigation budgets must be evaluated globally to protect all residents equitably, rather than earmarking base-budget allocations for a single neighborhood.

Request

Budgets for Audits - Financials and Operational – for the following

What should be budgeted for that

- Sports Complex – Never Done
- Equestrian Center – Never true audit - Last reviewed in 2018
- Yacht Club – Never Done
- Meadowlark (Asking as a resident) – Never true audit - Last reviewed in 2023

Answer:

The acting director CFO said he would not request or supply an estimate for the requested audits unless directed to do so by the city manager. The finance department also indicated there was no budget allocated and the cost for the audits would have to come from a reserve account if requested by city council and the city manager.

The Finance Department appreciates the Commission’s commitment to ensuring robust oversight of City assets, including the Sports Complex, Equestrian Center, Yacht Club, and Meadowlark Golf Course. However, to provide a responsible and accurate budget estimate for any audit, the City must first establish a clearly defined scope of work—specifically determining whether the requested reviews will be operational, financial, or both. Following proper municipal governance procedures, the Commission previously agreed to outline this specific scope at a future meeting before presenting the recommendation to the City Council. Until the City Council formally reviews the Commission's recommendation and directs staff to proceed, the Finance Department cannot arbitrarily generate cost estimates or allocate funds. Should the Council ultimately approve and define the scope of these audits, Finance will gladly procure accurate estimates and identify appropriate funding sources, which would likely require an appropriation from contingency or reserve funds as they are not included in the current baseline budget.