

January 20, 2005

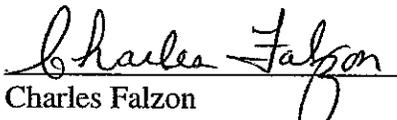
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TO: Huntington Beach City Council

FROM: Finance Board

SUBJECT: Submittal of Finance Board Annual Report, Calendar Year 2004

The City Council created the Finance Board in 1993 to "act in an advisory capacity to the City Council in matters pertaining to financial planning." One duty of your Finance Board is to prepare an Annual Report to the City Council. This report is intended for that purpose.


Charles Falzon
Chairman, Finance Board

Tim Geddes, Vice Chairman

Members:
Gerald Chapman
John DeWitt
Joe Domingo
Nancy Donaven

Study Session Feb. 22, 2005

City of Huntington Beach
Finance Board Annual Report—2004

OVERVIEW OF 2004

The 2004 calendar year was a year of change for the City and for the Finance Board. During the early part of the year the City was searching for a new City Administrator, culminating with the arrival of Penelope Culbreth-Graft in late June 2004. In the later part of 2004 the November elections brought two new members to the Council—Keith Bohr and Don Hansen. Don, who joined the Finance Board in late 2003, is the first member of Council to serve a tour-of-duty on the Finance Board. Finally, the political situation in Sacramento continued to impact our city, from Governor Schwarzenegger's first full year in office to the passage of Proposition 1A.

While the Finance Board continued our annual activities during 2004 (see Appendix A), we also created three subcommittees (see below) to work on issues of interest to both the Finance Board and the City Council. We also spent some time meeting with the new City Administrator to share our thoughts on various City issues and to understand her thoughts and priorities. The Finance Board looks forward to working with the City Administrator and staff as we advise the Council during 2005.

FINANCIAL POLICIES

In early 2004 the Finance Board completed our proposed changes to the City's existing Financial Policies. These proposed changes were presented to Council and were subsequently approved in their entirety, along with two additions made by the Council. During 2005 the Finance Board will continue to work with staff and Council to ensure applicable processes and procedures reflect these adopted Financial Polices.

COUNCIL/FINANCE BOARD STUDY SESSION—JULY 6, 2004

On July 6, 2004, the City Council and the Finance Board held a joint Study Session. This Study Session was prompted by the Finance Board's January 2004 Annual Report which recommended that the City Council consider a modification to the Board's charter, broadening the role of the Finance Board in several areas. At the Study Session, the Finance Board proposed five potential "one-time" areas of study for the Board. During the Study Session the Council selected three of the proposed "one-time" areas of study for the Finance Board to pursue during the remainder of 2004:

- A. The Role of the Finance Board
- B. Grants
- C. Neighborhood Improvement Districts

As a result of this Council direction, the Finance Board established three subcommittees, one for each area of study. As expected, two of the three subcommittees have completed their one-time area of study while the third subcommittee will continue into 2005.

A. THE ROLE OF THE FINANCE BOARD

This subcommittee was tasked with examining the role of our Finance Board and recommending changes to the City Council. The subcommittee met several times during 2004 and completed an initial survey of every city in Orange County. We now plan to contact a few cities that have a Board or Commission with a role similar to our Finance

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Board and ask them more in-depth questions. The study will likely expand beyond Orange County cities. We plan to continue this subcommittee during 2005.

B. GRANTS

This subcommittee focused on our city's ability to maximize Grants as a funding source. The subcommittee worked with staff to evaluate potential commercial software applications that could assist the City with various activities in support of this goal. Based on the findings and recommendations of end users, **the Finance Board recommends:**

1. The City subscribe to the eCivis, Grants Locator Service.
2. The City establish standardized departmental reporting of grant data that can be summarized at a City-side level, to measure and report the following information at least semi-annually:
 - Number of grants submitted
 - Number of grants awarded/denied
 - Number of grants still pending
 - Value of Grants awarded

The Finance Board will continue to monitor progress in this area during 2005.

C. NEIGHBORHOOD IMPROVEMENT DISTRICTS

The Finance Board first proposed this concept in our January 2003 Annual Report. This Subcommittee worked with staff to move this concept forward and we are pleased to report that this concept has progressed to the point of implementation.

As a reminder, Neighborhood Improvement Districts can be any size and can be used by our neighborhoods to advance projects ahead of the City's normal schedule, or to undertake projects not normally done within the City's public right-of-ways. Some potential projects could include:

- Alley resurfacing and monthly sweeping
- Monthly cleaning and removing of litter along arterial street sidewalks surrounding residential tracts
- Regularly scheduled painting of major arterial tract perimeter walls, adding planters to include trees, flowering shrubs & vines, irrigation and maintenance
- Removal and replacement of trees and sidewalks
- Undergrounding utilities

In late 2004 the Finance Board determined that the work of this subcommittee of the Board had been successfully completed. Although this subcommittee will not continue into 2005, the Finance Board as a whole will continue to monitor the City's progress on this important concept.

DEPRECIATION OF ASSETS AND INFRASTRUCTURE

As part of the Council's discussion and approval of the Cost Allocation and Fee Study in August and September of 2003, the issue was raised as to what processes and procedures the City would follow for cost recovery related to depreciation of assets and

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infrastructure. In accordance with the City Charter, these funds need to be tracked to ensure they are expended on future assets and infrastructure. Staff worked on this matter for several months. We now understand this issue has been awaiting an opinion by the City Attorney's office for the remainder of 2004. The Finance Board intends to review staff's approach and make recommendations to Council, as appropriate.

UNFUNDED LIABILITIES

In prior Annual Reports the Finance Board has addressed the City's infrastructure situation. Of course, the City's unfunded capital replacement needs (\$471.3 million over the next twenty years according to the Infrastructure Advisory Group) is only one component of our total Unfunded Liabilities. In response to a question from Council, staff reported during Budget Study Session #2 (August 23, 2004) that Unfunded Liabilities facing the City include Supplemental Retirement (\$30.1 million), Equipment Replacement (\$27.0 million), Deferred Maintenance (\$20.0 million), Retiree Medical Subsidy (\$6.7 million), and Accrued Leave (345 FTE).

The Finance Board believes the key question we all need to understand about these Unfunded Liabilities is: What impact will they have on the City's annual budget over the next several years? Consistent with the City Administrator's long range financial planning goals, **the Finance Board recommends** that the Council direct staff to answer this question as soon as possible to ensure that Council decisions involving City funds take into consideration the answer to the above question.

SUMMARY

In summary, the Finance Board's charter is to serve the Council, and through the Council, the citizens of Huntington Beach. While 2004 was a year of changes, we expect no less in 2005. The Finance Board will seat three new members during 2005, and we still expect impacts from the State's budget situation. We look forward to working with the Council to address the City's financial challenges.

City of Huntington Beach
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Appendix A

	Jan	Feb	March	April	May	June	July	Aug	Sept	Oct	Nov	Dec	Jan
Overview Orientation	X												
Fiscal Policies		X											
Initiatives (status update: recommendations)			X	X							X	X	
Annual Financial Audit					X								
Debt Management					X								
Capital Improvement Plans & Capital Improvement Budgets							X	X					
Long Term Financial Plans								X	X				
New and Increased Revenue								X					
Adopted Budget										X			
Proposed State or Federal	X	X	X	X	X	X	X	X	X	X	X	X	X
Finance Board Annual Report												X	
Delivery of Annual Report*													X

* Delivered to City Council

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HB City Council / Finance Board Study Session

Feb. 22, 2005

Presented By: Charles Falzon
Chairman, Finance Board

Purpose of Today's Meeting

- Briefly review where we've been
- Discuss the Finance Board Annual Report
- Obtain Council direction for Finance Board 2005 activities

Finance Board Origination

- Formed by Council action on 3/15/93
- Stated Purpose: "The Finance Board shall act in an advisory capacity to the City Council on matters pertaining to financial planning." (chapter 2.109 of HB Muni. Code)
- Seven member advisory Board: one member appointed by each Council Member
 - Note: Three new Board members this year

Finance Board Duties

- Prepare an Annual Report to the City Council, by Jan. 20th
 - To do so, the Board shall review the adopted Budget, Annual Financial Audits, Capital Improvement Plans/Budgets, and any other financial information determined by the board to be applicable to its annual report. Include recommendations pursuant to:
- Review and make recommendations regarding:
 - (1) Fiscal Policies, (2) Annual Financial Audit (& Management Letter)
 - (3) Debt Management, (4) Capital Improvement Plans & CI Budgets
 - (5) Long Term Financial Plans, (6) New & Increased Revenue Sources
 - (7) Proposed State or Federal Legislation which impacts HB finances
- Other duties or studies as directed by Council

Finance Board: 2003 Activities

- Historically, the Finance Board had not been an active participant in the annual budgeting process
- In 2003, the Board was specifically asked by the Council to make recommendations regarding:
 - Proposed changes to the FY02/03 budget
 - The proposed FY03/04 budget
 - The Cost Allocation Study
 - The HBT letter to Council
- The Board also reviewed the city's existing financial policies and recommended changes

Finance Board: 2004 Activities

- City Council/Finance Board Study Session of July 6, 2004:
 - FB proposed 5 potential one-time areas of study
 - Council selected 3 of the 5 potential areas of study
- Subsequently, the Finance Board formed three subcommittees, one for each area of study.
 - Two of the subcommittees have completed their objectives. The third will continue into 2005.
 - We believe this was a successful approach to identifying & agreeing on FB areas of study

Finance Board: 2005 Activities

- We enter 2005 with 3 new Finance Board members (and 2 new Council members)
- Absent any additional duties or studies from the Council, the Finance Board will:
 - Continue the one subcommittee from 2004 (regarding the role of the Finance Board)
 - Pursue our normal calendar activities (based upon the Municipal code)
 - Continue our involvement with the Cost Allocation Study and the Fee Study

Finance Board: 2005 Activities

- As a Board, we have not yet come to consensus on a new list of potential one-time areas of study
- If the Council has potential areas of study for 2005, early identification will allow more progress during 2005

One-Time Items: Proposed Approach & Deliverables

- In every case, the end result of the one-time items would be recommendations from the Finance Board to the City Council.
- Recognizing limited staff resources, every effort would be made to minimize Staff involvement.
- Board subcommittees would probably be used, to increase our effectiveness
- Our intent would be make recommendations as soon as possible

Conclusion/Next Steps

- The Finance Board will identify potential one-time areas for study
- At a future Study Session, the Finance Board will present the study list for Council approval