



CITY OF HUNTINGTON BEACH

Finance Board

TO: Mayor and City Council Members

CC: Fred A. Wilson, City Administrator

FROM: Finance Board

DATE: January 20, 2009

**SUBJECT: SUBMITTAL OF FINANCE BOARD ANNUAL REPORT,
CALENDAR YEAR 2008**

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

Frank LoGrasso, Vice Chairman

Members:
Tom Corkett
Steve Garcia
Bob Jones
Stephen King

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INTRODUCTION/OVERVIEW OF 2008

As we have done in prior years, we started 2008 with a Joint Study Session with the City Council to help establish Board priorities for 2008. Our activities during 2008, as described below, followed the priorities set at the start of the year and also included items from our regular calendar of activities.

CITY COUNCIL/FINANCE BOARD JOINT STUDY SESSION – MARCH 3, 2008

The City Council and Finance Board held a joint Study Session on March 3, 2008, to review the Finance Board Annual report and to discuss the Finance Board's potential activities for 2008. The general consensus of the City Council was that the Finance Board would concentrate on (a) creating a Long Term Financial Plan (LTFP) for the City, (b) analyzing proposed recommendations from the LTFP consultant, (c) begin implementing recommendations, as appropriate, and (d) Neighborhood Improvement Districts.

1. Long Term Financial Plan including Unfunded Liabilities

Historically the Finance Board has been concerned about the long-term financial health of the city. The city measured part of its financial health when it examined the long-term cost of infrastructure in the year 2000 with the IIMP study. Since then, the financial situation has continued to evolve. The Board believes a better understanding of the city's financial future is necessary, and will benefit both the City Council and the citizenry. To that end, during 2005 the Board started to work with staff to develop a long-term financial plan for our city. During November of 2005, the Board decided to delay additional effort on the Long Term Financial Plan until the City Council completed their Strategic Planning effort. Our logic was that the LTFP should be supportive of the Strategic Plan.

With the release of the City Strategic Plan on August 21, 2006, the Board began the process of developing the LTFP. At our September 2006 meeting, Rick Amadril, from the Finance Department, gave the Board a presentation on the process for writing a Request For Qualifications (RFQ) for a consultant to help the Board with the preparation of the LTFP. During our December meeting, we reviewed a draft RFQ and gave Rick Amadril our approval to proceed with its issuance.

During 2007, the Finance Board was involved with the process of selecting a consultant to create the long-term financial plan for the City. The selected

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consultant, Public Financial Management (PFM), started work on the LTFP toward the end of the summer of 2007. On March 3, 2008, a draft LTFP was presented to the City Council and to the Finance Board by PFM. After some changes to the draft LTFP, the final LTFP was delivered to City Council on August 6, 2008.

One main finding of the LTFP is that, based upon revenue and expense assumptions contained within the LTFP, the City expects to have \$166.6 million of unfunded infrastructure needs over the next 10 years. Categories for this shortfall include Drainage, Residential Concrete, Residential Pavement, Arterial Highways, Alleys, Lots, Block Walls, Buildings/Facilities and Park/Playgrounds.

While it may not be unusual for a city to have more funding needs than available funding, the Board believes that it is critical for the future of Huntington Beach for the City Council to understand this funding shortfall in order to help make better-informed decisions regarding funding priorities.

PFM then makes a number of recommendations including the following:

- Issue debt (bonds) supported by the General Fund
- Issue debt secured by the Gas Tax
- Create a Stormwater assessment
- Create a Stormwater User Charge
- Increase the Property Tax “override”
- Accelerate repayment of loans from Redevelopment Agency

The Finance Board is in the process of reviewing these recommendations as well as possibly developing additional recommendations of our own.

The Finance Board has always felt very strongly that a Long Term Financial Plan is one of the keys to the future long-term stability of Huntington Beach. It should also play an important role in helping the City Council achieve the City’s Strategic Plan. We look forward to working with City Council and Staff on understanding the findings of the LTFP and on addressing the funding shortfall. We expect this to be a key activity for the Board in 2009.

2. Neighborhood Improvement Districts

The Finance Board first proposed this concept in our January 2003 Annual Report. Subsequently, the City established a program similar to the one recommended by the Finance Board. To date the Board understands that there has been little activity with this program.

In November 2006, city staff made a presentation to the Board on the program and how it could be improved. Everyone agreed that the current program is not working. Until the program is improved, the City should not expend any additional effort in advertising the program.

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The Board believes the program needs to be simplified from the perspective of the resident, possibly tailoring the program to the needs of individual property owners instead of groups of property owners. We should also see if we could learn from other cities that have implemented similar programs.

One suggestion is for the City to consider creating a matching funds-type program, where residents could pay some of the cost of tree replacement, curb/gutter repairs, etc., and the City would pay the balance of the cost. This would allow the resident to have repairs completed sooner than the current backlog of approximately 11 years will allow. From the City's perspective, they would benefit financially from this cost sharing with the homeowners. Though completely voluntary, such a program should be a win-win for residents and the City.

If the City Council is interested, the Finance Board will continue to address this topic in 2009.

PROPOSED 2009 ACTIVITIES

It must be noted that the year 2008 found the national and global economy in a recession that deepened in the final quarter of 2008. While the exact impact on the local economy is not fully known, the budget of Huntington Beach will likely not avoid the recession's impact.

As of this date, the proposed 2009 activities for the Finance Board are:

- Review and comment on the Recommendations from the Long Term Financial Plan
- Review Neighborhood Improvement Districts
- Pursue our normal Calendar of Activities (review of CAFR, etc.)
- Any activities as requested by the City Council

SUMMARY

In summary, the Finance Board's charter is to serve the City Council, and through the City Council, the citizens of Huntington Beach. We welcome City Council comment on our proposed 2009 activities and we look forward to working with the City Council to address the City's financial challenges.