



AGENDA
FINANCE ADVISORY COMMITTEE
REGULAR MEETING
TUESDAY JANUARY 16, 2024
6:00 PM
CITY HALL UPSTAIRS CONFERENCE ROOM
420 CAPITOLA AVENUE, CAPITOLA, CA 95010

CALL TO ORDER AND ROLL CALL

Committee Members: Mayor Kristen Brown, Vice Mayor Yvette Brooks, Chairperson Michelle Coffman, Laura Alioto, Anthony Rovai

ORAL COMMUNICATIONS *(No action may be taken)*

The Chair may announce and set time limits at the beginning of each agenda item.

The Committee Members may not discuss Oral Communications to any significant degree but may request issues raised be placed on a future agenda.

OTHER BUSINESS *The Chair may announce and set time limits for speakers at the beginning of each agenda item.*

Topic	Who	Min.
A. Approval of Minutes – Meeting of Dec. 19, 2023	All	5
B. Appointment of Chairperson and Vice Chairperson	All	15
C. 2023 TOT Audit Update	Fin Dir	15
D. FY 2023-24 2nd Qtr. Investment Report	Fin Dir	15
E. Discussion of Items for Next Agenda	All	10

ADJOURNMENT

Notice: The Finance Advisory Committee meets on the Tuesday every other month at 6:00 PM in the Staff Conference Room in City Hall located at 420 Capitola Avenue, Capitola.

Agenda and Agenda Packet Materials: The Finance Advisory Committee Agenda is available on the City's website: www.cityofcapitola.org/ on Friday prior to the Tuesday meeting. If you need additional information, please contact the Finance Department at (831) 475-7300.

Americans with Disabilities Act: Disability-related aids or services are available to enable persons with a disability to participate in this meeting consistent with the Federal Americans with Disabilities Act of 1990. Assisted listening devices are available for individuals with hearing impairments at the meeting in the City Council Chambers. Should you require special accommodations to participate in the meeting due to a disability, please contact the City Clerk's office at least 24-hours in advance of the meeting at 831-475-7300. In an effort to accommodate individuals with environmental sensitivities, attendees are requested to refrain from wearing perfumes and other scented products.

Appeals: Any person who believes that a final action of this advisory body has been taken in error may appeal that decision to the City Council. Appeals must be in writing and delivered to the City Clerk's Office within ten (10) working days from the time of the boards' decision. The notice of appeal shall set forth appellant's name, phone number, address to which notices may be sent to the appellant, and the grounds upon which the appeal is made.



MINUTES
FINANCE ADVISORY COMMITTEE
REGULAR MEETING
TUESDAY DECEMBER 19, 2023
6:00 PM
CITY HALL UPSTAIRS CONFERENCE ROOM
420 CAPITOLA AVENUE, CAPITOLA, CA 95010

CALL TO ORDER AND ROLL CALL

Committee Members Present: Vice Mayor Kristen Brown, Councilmember Alexander Pedersen, Chairperson Michelle Coffman, Laura Alioto, Anthony Rovai

Committee Members Absent: Michael Lavigne – Resigned

ORAL COMMUNICATIONS

Gorin Klepich, resident, spoke about graffiti and gang signs in the men’s restroom at Jade St. park.

OTHER BUSINESS

None

Topic
<p>A. Approval of Minutes – Meeting of Nov. 7, 2023 Minutes moved by Councilmember Pedersen and seconded by committee chair Michelle Coffman. Minutes unanimously approved.</p>
<p>B. 2024 Meeting Schedule Schedule option 1 moved by Vice Mayor Brown and seconded by committee member Rovai. The committee unanimously approved the 2024 meeting schedule with regular meetings scheduled Jan. 16th, Mar. 19th, May 21st, July 16th Sept. 17, and Nov. 19th. An additional special budget meeting may be scheduled if necessary.</p>
<p>C. FY 2023-24 1st Qtr. Budget vs. Actuals Update Staff provided an updated report that included actual sales tax and TOT revenue amounts through Sept. Sales tax is down \$199,000, TOT is up \$111,000 and parking citations down \$89,000 causing revenues to be slightly below budget projections.</p>
<p>D. TOT Audit Update Staff reported that Beach House Rentals (BHR) owner Dede Harrington entered a plea agreement in her criminal case. The case involved over \$1 million in claims from 134 victims, including the City and resulted in the City receiving \$87,612 in outstanding TOT and \$312,000 distributed to the remaining 133 victims. The City Attorney’s Office has reached out to BHR’s attorney for next steps with their appeal hearing regarding paying penalties & interest.</p>
<p>E. FY 2023-24 1st Quarter Investment Report Staff reported the following balances as of Sept. 30, 2023:</p> <ul style="list-style-type: none">➤ Local Agency Investment Fund (LAIF) - \$8 million➤ Wells Fargo - \$2.1 million➤ Investments - \$4.6 million➤ PERS Retirement Trust - \$1.4 million➤ Other Post Employment Benefits (OPEB) Trust - \$608,000

F. Discussion of Items for Next Agenda

Appointment of Chairperson and Vice Chairperson, FY 2024-25 budget prep and schedule, TOT audit update

ADJOURNMENT: Chairperson Coffman adjourned the meeting at 6:25 PM.

Finance Advisory Committee Agenda Report



Meeting: January 16, 2024

From: Finance Department

Subject: Appointment of Chairperson and Vice Chairperson

Recommended Action: Appoint a Chairperson and Vice Chairperson for 2024.

Background: The Finance Advisory Committee (FAC) consists of two members of the City Council, three city residents appointed by the other three individual Council Members, and two business representatives. Committee Members serve two-year terms while the Council Members may rotate annually. The FAC may also have a youth member, however the youth member is not a voting member.

Since the passage of Measure K in 2018 which changed the position of City Treasurer from elected to appointed, the FAC has nominated two members annually to serve as the Chairperson and Vice Chairperson. Since the FAC advises the City Council on financial matters that often require a vote of the City Council, the two Council Members do not act as Chairpersons.

Discussion: During the April 2023 meeting the FAC appointed Committee Member Coffman as the Chairperson and Committee Member Rovai as the Vice Chairperson. The appointment of the Chair and Vice Chair in 2023 was delayed until April as the FAC transitioned from virtual meetings back to in-person meetings. The FAC may appoint a new Chairperson and Vice Chairperson for 2024, or the current Chair and Vice Chair may continue to serve until December 2024.

Fiscal Impact: None

Report Prepared By: Report Prepared By: Jim Malberg, Finance Director

Finance Advisory Committee

Agenda Report



Meeting: January 16, 2024
From: Finance Department
Subject: 2023 TOT Audit Update

Recommended Action: Receive report and make a recommendation to the City Council.

Background: In January 2022 HdL Lodging Tax began administering the City’s Transient Occupancy Tax (TOT) program. HdL’s services include processing registrations, tax returns and payments, monitoring short-term rental sites, and conducting audits. HdL’s first audit was conducted in 2022.

Discussion: During 2023 HdL audited five hotel properties for the three-year period between January 2020 and July 2023. The hotels were provided with a 3-week notice to gather requested documentation and then meet virtually with HdL following review of the submitted documents.

Four of the hotel operators were responsive to the requests and the auditors were able to complete the audit of those properties. One operator has requested several extensions and HdL and staff continue to work with the operator to complete the fifth audit.

Of the four completed audits, one property was found to be completely complaint while the other three had various charges that were not taxed. The Capitola Municipal Code defines Rent as *“the consideration, whether or not received, for the occupancy of space in a hotel, valued in money, whether to be received in money, goods, labor or otherwise, including all receipts, cash, credits and property and services of any kind or nature, without any deduction therefrom whatsoever.”* The charges that were not taxed included items such as cancellation fees, pet fees, room upgrades, extra person charges, smoking, and cleaning fees as well as exempt and compensated rooms. A summary of the audit findings is as follows:

Property	Finding	TOT	Penalties	Interest	Total
Hotel 1	Untaxed guest charges	6,448	1,290	2,206	9,944
Hotel 2	Untaxed guest charges	14,377	2,875	4,458	21,710
Hotel 3	Untaxed guest charges, exemptions, comp rooms	10,678	2,136	4,324	17,138
Totals		31,503	6,301	10,988	48,792

It should be noted that the TOT was not collected by the hotels and the penalties and interest are calculated from the date the TOT was due if it had been collected as a portion of the rent charged.

HdL has provided three options for the City to consider regarding the audit findings:

1. Require hotels to provide all requested documents to confirm tax-exemptions. Hotels unable to provide all requested documents will have exemptions become taxable rent with uncollected TOT charges, penalties, and interest.
2. Follow option one but waive penalties and interest.
3. Allow hotel exemptions to stand during the audit period. Require hotels to use updated forms with a standard checklist as provided by the City beginning with a specified filing period.

HdL is recommending option 1, however, staff would like to use the audit as an educational opportunity rather than punitive action and is recommending option 3 beginning with the March 2024 filing period due April 10, 2024.

Fiscal Impact: Option 1 would result in additional one-time revenue of \$48,792 and estimated on-going annual revenue of \$10,000; Option 2 would result in in additional one-time revenue of \$31,503 and estimated on-going annual revenue of \$10,000; and Option 3 would result in estimated additional on-going annual revenue of \$10,000.

Report Prepared By: Report Prepared By: Jim Malberg, Finance Director

Finance Advisory Committee

Agenda Report



Meeting: January 16, 2024

From: Finance Department

Subject: FY 2023-24 2nd Quarter Investment Report

Recommended Action: Receive report from staff.

Background: California Government Code §53630 et seq. contains State requirements for the deposit of City funds. Government Code §53635 requires that all money belonging to, or in the custody of, a local agency be deposited in certain allowable instruments. The current Investment Policy was approved by the City Council on August 9, 2001, by adoption of Resolution No. 3149, affirming the City's Investment Policy. This resolution was then incorporated into the City's Administrative Policies. California Government Code requires a city to annually review its investment policy.

Discussion: The California Debt and Investment Advisory Committee annually updates the Local Agency Investment Guidelines which lists the allowable investment options for local public agencies. The City's current investment policy is considered conservative, permitting the City to invest in seven of the twenty-five investment instruments allowable by the California Government Code. Understanding the order of importance, the investment policy shall:

1. Provide for the safety of the funds
2. Assure the liquidity of the funds
3. Acquire earnings of the funds

The City's FY 2023-24 Investment Policy was confirmed by the City Council on August 24, 2023. City investment funds shall only be invested in the following permitted investments:

1. State of California Local Agency Investment Fund
2. U.S. Treasury Obligations
3. U.S. Agency Obligations
4. Negotiable Certificates of Deposit
5. Placement Service Deposits
6. Placement Service Certificates of Deposit
7. Guaranteed Investment Contracts (GIC) of AAA quality, for a term not to exceed fifteen (15) months*

As of December 31, 2023, the City had approximately \$11.9 million of cash and investments as follows:

LAIF - \$4.6 million

Wells Fargo - \$2.6 million

Investments - \$4.7 million

Additionally, the City had the following amounts in Retirement Trust accounts:

CalPERS Section 115 Pension Trust - \$1.5 million

Other Post Employment Benefit (OPEB) Trust - \$686,620

During the 2nd quarter of FY 2023-24 the City earned approximately \$100,000 in interest earnings.

Fiscal Impact: None

Report Prepared By: Report Prepared By: Jim Malberg, Finance Director