



**AGENDA**  
**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: Vice Mayor Kristen Brown, Councilmember Alexander Pedersen, Chairperson Michelle Coffman, Laura Alioto, Michael Lavigne, 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.*

| <b>Topic</b>   | <b>Who</b> | <b>Min.</b> |
|--|------------|-------------|
| <b>A. Approval of Minutes – Meeting of Nov. 7, 2023</b>            | All        | 5           |
| <b>B. 2024 Meeting Schedule</b>                                    | All        | 15          |
| <b>C. FY 2023-24 1<sup>st</sup> Qtr. Budget vs. Actuals Update</b> | Fin Dir    | 10          |
| <b>D. TOT Audit Update</b>   | Fin Dir    | 10          |
| <b>E. FY 2023-24 1<sup>st</sup> Quarter Investment Report</b>      | Fin Dir    | 15          |
| <b>F. Discussion of Items for Next Agenda</b>                      | All        | 5           |

**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/](http://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 NOVEMBER 7, 2023**  
**6:00 PM**  
**CITY HALL UPSTAIRS CONFERENCE ROOM**  
**420 CAPITOLA AVENUE, CAPITOLA, CA 95010**

**CALL TO ORDER AND ROLL CALL**

Committee Members Present: Councilmember Alexander Pedersen, Chairperson Michelle Coffman, Laura Alioto, Anthony Rovai

Committee Members Absent: Vice Mayor Kristen Brown, Michael Lavigne

**ORAL COMMUNICATIONS**

None

**OTHER BUSINESS**

None

| Topic   |
|---|
| <p><b>A. Approval of Minutes – Meeting of Aug. 15, 2023</b><br/>Minutes moved by Councilmember Pedersen, seconded by committee member Rovai. Minutes unanimously approved.</p>  |
| <p><b>B. Potential Revenue Ballot Measures</b><br/>Staff presented several potential ballot measures including extension of Measure F district sales tax, Utility Users, Tax, and general obligation bonds. The committee also discussed a vacant home tax, tourist tax, and corporate home tax. The committee advanced a recommendation to conduct polling on extending Measure F and general obligation bonds. The committee also requested staff research the corporate home tax and include in the polling if viable.</p> |
| <p><b>C. FY 2023-24 1<sup>st</sup> Qtr. Budget vs. Actuals</b><br/>Staff presented the 1<sup>st</sup> quarter budget vs. actual results by major categories showing that revenues and expenditures are tracking very close to budget projections.</p>   |
| <p><b>D. CalPERS Actuarial Report Update</b><br/>Staff presented an overview and summary of the annual CalPERS actuarial reports. In summary, the City's Unfunded Actuarial Liability increased \$11.6 million resulting in an increased annual payment in FY 2024-25 of \$413,000 for a total of \$2.5 million.</p>  |
| <p><b>E. TOT Audit Update</b><br/>Staff advised the committee that Beach House Rentals criminal court case was continued to Dec. 7<sup>th</sup> and that the appeal hearing with the City was on hold pending the outcome of the criminal case.</p>   |
| <p><b>F. Discussion of Items for Next Agenda</b><br/>2024 meeting schedule, TOT audit update, investment report.</p>  |

**ADJOURNMENT:** Chairperson Coffman adjourned the meeting at 7:24 PM.

# Finance Advisory Committee Agenda Report



**Meeting:** December 19, 2023

**From:** Finance Department, Jim Malberg

**Subject:** 2024 Finance Advisory Committee Meeting Schedule

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**Recommended Action:** Set the 2024 calendar year Finance Advisory Committee meeting schedule.

**Background:** The Finance Advisory Committee advises the City Council on financial matters pertaining to the governing of the City, as well as on the use of fiscal resources. Three of the seven members are appointed by individual Council Members on the basis of their knowledge, experience, and qualifications in financial management and related areas. These appointees must be City residents.

**Discussion:** The Finance Advisory Committee meets on the third Tuesday of every other month at 6 p.m. at Capitola City Hall and additional meetings may be scheduled during budget preparation. Each December the committee members set their schedule for the following calendar year with meetings beginning in either January or February. The table below provides the two meeting schedule options:

| Option 1                                 | Option 2                                 |
|--|--|
| Jan. 16 <sup>th</sup>                    | Feb. 20 <sup>th</sup>                    |
| March 19 <sup>th</sup>                   | April 16 <sup>th</sup>                   |
| April 30 <sup>th</sup> (special meeting) | April 30 <sup>th</sup> (special meeting) |
| May 21 <sup>st</sup>                     | June 18 <sup>th</sup>                    |
| July 16 <sup>th</sup>                    | Aug. 20 <sup>th</sup>                    |
| Sept. 17 <sup>th</sup>                   | Oct. 15 <sup>th</sup>                    |
| Nov. 19 <sup>th</sup>                    | Dec. 17 <sup>th</sup>                    |

*Additional special budget meeting in May/June if necessary*

All meetings will be in-person in the Staff Conference Room located upstairs at 420 Capitola Ave and are scheduled to begin at 6:00 PM.

**Fiscal Impact:** None

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

# Finance Advisory Committee Agenda Report

**Meeting:** Dec. 19, 2023

**From:** Finance Department

**Subject:** Fiscal Year 2023-24 First Quarter Budget vs. Actuals Update

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Recommended Action: Receive report from staff.

Background: Each year the City Council adopts an annual budget for the July 1<sup>st</sup> through June 30<sup>th</sup> fiscal year. September 30<sup>th</sup> marks the end of the 1<sup>st</sup> quarter of the fiscal year.

Discussion: Since the committee's meeting on Nov. 7<sup>th</sup> the City has received September sales tax & TOT revenues. The 1<sup>st</sup> quarter report has been updated based on actual receipts showing revenues approximately 3.8% below the prior year while expenditures are 6.8% above the prior year.

Fiscal Impact: None

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

# Finance Advisory Committee

## Agenda Report



**Meeting:** December 19, 2023  
**From:** Finance Department  
**Subject:** TOT Audit Update

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Recommended Action: Receive report from staff.

Background: In March 2022 staff began an audit of Beach House Rentals (BHR) Transient Occupancy Tax (TOT) records for the period of Jan. 2019 – Dec. 2021. BHR was non-responsive to the City’s original record requests and after several months of delays submitted incomplete records for only a small portion of the rental properties subject to the audit.

In July 2022, letters were sent to 37 property owners requesting documentation to conduct the audit. Most property owners were responsive to the records request and the results of the audit were that 8 properties were in compliance, 22 properties under reported approximately \$1.8 million of rental income, while 7 properties remained unresponsive.

On Sept. 22, 2022, the City sent a 10-day payment demand letter, that included estimated amounts for the 7 unresponsive properties, to BHR for the following amounts:

|             |               |
|-------------|---------------|
| TOT -       | \$ 215,534    |
| Penalties - | 43,560        |
| Interest –  | <u>63,166</u> |
| Total -     | \$ 322,259    |

BHR filed for an administrative appeal hearing contesting the amounts stating that they had additional documentation to provide. On Dec. 20, 2022, staff conducted an appeal hearing in which BHR’s attorney provided documentation on 17 of the 29 properties. Additionally, the City received \$50,000 in past due TOT payments directly from property owners. Following the hearing and application of property owner payments, the outstanding amounts were revised as follows:

|             |               |
|-------------|---------------|
| TOT -       | \$ 87,612     |
| Penalties - | 25,674        |
| Interest –  | <u>34,475</u> |
| Total -     | \$ 147,761    |

On Feb. 10, 2023, the City sent a second 10-day payment demand letter for the revised amounts listed above. BHR then requested a hearing with the City Council to request that the City waive the penalties and interest. That hearing is currently pending.

Discussion: Following the letter requests to property owners to provide audit records in July 2022, finance staff and the Capitola Police Department started to receive a high volume of complaints regarding BHR. The complaints were filed by multiple property owners as well as dozens of visitors. This resulted in the Capitola PD opening an investigation that ultimately led to the arrest of Dede Harrington, owner of BHR, on Oct. 6, 2022. Since her arrest, Ms. Harrington has had multiple court appearances and staff has stayed in contact with the Santa Cruz County District Attorney’s Office as they worked on a plea agreement with BHR’s Attorney. The City Council

placed BHR's penalty and interest appeal hearing on hold pending the outcome of their criminal case.

On Dec. 7, 2023, Dede Harrington pleaded guilty to theft & embezzlement charges and will serve one year in jail at an alternate facility (which staff believes is a monitoring program), two years of formal probation, and pay restitution in the amount of \$400,000. The case involved approximately 130 victims and \$1 million of claims of which Capitola is scheduled to receive \$87,600 of TOT with the remaining \$312,400 distributed to the remaining victims.

Staff will work with the City Attorney's Office regarding next steps for the appeal hearing as directed by Council.

Fiscal Impact: The City is scheduled to receive \$87,600 in restitution as a result of the criminal case.

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

# Finance Advisory Committee

## Agenda Report



**Meeting:** December 19, 2023  
**From:** Finance Department  
**Subject:** FY 2023-24 1<sup>st</sup> Quarter Investment Report

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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 September 30, 2023, the City had approximately \$16.7 million of cash and investments as follows:

LAIF - \$8 million

Wells Fargo - \$2.1 million

Certificates of Deposit - \$4.4 million

US Agency Obligation - \$237,000

CalPERS Section 115 Pension Trust - \$1.4 million

Other Post Employment Benefit (OPEB) Trust - \$608,000

During the 1<sup>st</sup> quarter of FY 2023-24 the City earned approximately \$115,800 in interest earnings.

Fiscal Impact: None

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