



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA - Final

100 Civic Center Drive - Crystal Cove Conference Room, Bay 2D

Thursday, September 15, 2016 - 4:00 PM

Finance Committee Members:

Tony Petros, Chair / Council Member
Diane Dixon, Mayor
Keith Curry, Council Member
Patti Gorczyca, Committee Member
William C. O'Neill, Committee Member
Larry Tucker, Committee Member
John Warner, Committee Member

Staff Members:

Dave Kiff, City Manager
Dan Matusiewicz, Finance Director / Treasurer
Steve Montano, Deputy Director, Finance
Marlene Burns, Administrative Specialist to the Finance Director

The Finance Committee meeting is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee agenda be posted at least seventy-two (72) hours in advance of each regular meeting and that the public be allowed to comment on agenda items before the Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Chair may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

The City of Newport Beach's goal is to comply with the Americans with Disabilities Act (ADA) in all respects. If, as an attendee or a participant at this meeting, you will need special assistance beyond what is normally provided, we will attempt to accommodate you in every reasonable manner. Please contact Dan Matusiewicz, Finance Director, at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible at (949) 644-3123 or dmatusiewicz@newportbeachca.gov.

NOTICE REGARDING PRESENTATIONS REQUIRING USE OF CITY EQUIPMENT

Any presentation requiring the use of the City of Newport Beach's equipment must be submitted to the Finance Department 24 hours prior to the scheduled meeting.

I. CALL MEETING TO ORDER

II. ROLL CALL

III. PUBLIC COMMENTS

Public comments are invited on agenda and non-agenda items generally considered to be within the subject matter jurisdiction of the Finance Committee. Speakers must limit comments to three (3) minutes. Before speaking, we invite, but do not require, you to state your name for the record. The Finance Committee has the discretion to extend or shorten the speakers' time limit on agenda or non-agenda items, provided the time limit adjustment is applied equally to all speakers. As a courtesy, please turn cell phones off or set them in the silent mode.

IV. CONSENT CALENDAR

A. MINUTES OF MAY 12, 2016

Recommended Action:
Approve and file.

[DRAFT MINUTES 051216](#)

B. MINUTES OF JUNE 2, 2016

Recommended Action:

Approve and file.

[DRAFT MINUTES 060216](#)

C. MINUTES OF JUNE 16, 2016

Recommended Action:

Approve and file.

[DRAFT MINUTES 061616](#)

V. CURRENT BUSINESS

A. ANNUAL INVESTMENT PORTFOLIO PERFORMANCE REVIEW

Summary:

Staff and/or one or more investment advisors will describe the performance of the City's investment portfolio.

Recommended Action:

Receive and file.

[STAFF REPORT](#)

B. INVESTMENT ADVISOR RECOMMENDATION

Summary:

Staff will summarize the results of our recent investment advisor RFQ and make recommendations for the contracting of investment advisory services.

Recommended Action:

With Finance Committee concurrence of staff's recommendation to retain the services of Chandler Asset Management (Chandler) as the sole investment manager, staff will proceed with the recommended action and bring the new investment advisor contract to the City Council for approval.

[STAFF REPORT](#)
[ATTACHMENT A](#)

C. INVESTMENT PORTFOLIO RECOMMENDATIONS

Summary:

Staff will present a proposal to further segment the investment portfolio to better align assets with related objectives.

Recommended Action:

Staff recommends the Finance Committee direct staff to return with a proposed segmentation of the investment portfolio including a long-term segment, proposed investment strategies, and an appropriate risk analysis of the proposal.

[STAFF REPORT](#)

D. IMPLEMENTATION OF FINANCE SUBCOMMITTEE RECOMMENDATIONS

Summary:

During the June 16, 2016, Finance Committee meeting, the Committee reviewed the Subcommittee's 16 recommendations to improve the City's general business practices. The Subcommittee members proposed, and the Committee as a whole assigned, each of the recommendations according to one of the following categories: 1) Incorporate into existing or new City Council policy; 2.) Create new or update General Plan policies; 3.) Action items only, no policy required; and 4.) Comment only - no policy or action required.

Recommended Action:

Staff recommends that the Finance Committee make recommendation(s) to the City Manager as to the next steps related to the report.

[STAFF REPORT](#)

[ATTACHMENT A](#)

E. COMMITTEE DISCUSSION OF FUTURE PENSION OPEB AGENDA ITEMS

Summary:

Provide staff further direction concerning Pension Primer presentation and Pension OPEB management strategy discussions at the October and November Finance Committee meetings.

Recommended Action:

Provide staff direction.

F. QUARTERLY ERP UPDATE

Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.

Recommended Action:

Receive and file.

[STAFF REPORT](#)

VI. FINANCE COMMITTEE ANNOUNCEMENTS ON MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

VII. ADJOURNMENT

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
MAY 12, 2016 MEETING MINUTES**

I. CALL MEETING TO ORDER

The meeting was called to order at 4:00 p.m. in the Crystal Cove Conference Room, Bay 2D, 100 Civic Center Drive, Newport Beach, California 92660.

II. ROLL CALL

PRESENT: Council Member Tony Petros (Chair), Committee Member Patti Gorczyca, Committee Member William C. O'Neill, Committee Member Larry Tucker, Committee Member John Warner, and Council Member Keith Curry

ABSENT: Mayor Diane Dixon (Excused)

STAFF PRESENT: City Manager Dave Kiff, Finance Director/Treasurer Dan Matusiewicz, Deputy Finance Director Steve Montano, Administrative Specialist to the Finance Director Marlene Burns, Administrative Manager Angela Crespi, IT Manager Rob Houston, Budget Manager Susan Giangrande, Budget Analyst Tam Ho, Budget Analyst Katherine Warnke-Carpenter, and Assistant City Manager Carol Jacobs

MEMBERS OF THE PUBLIC: Jim Mosher and Fred Ameri

III. PUBLIC COMMENTS

Chair Petros opened public comments.

Jim Mosher discussed the Council's approval allocating \$280,000 for a Balboa Village archway sign and the generation of sale tax. He stated the merchants did not contribute to the sign program.

Chair Petros discussed the investment in Balboa Village and encouraged residents to attend the BVAC meetings.

Chair Petros closed public comments.

IV. CURRENT BUSINESS

A. FISCAL YEAR 2016-2017 BUDGET DISCUSSION

Summary:

Continue review of the City Manager's Fiscal Year 2016-2017 Proposed Budget.

Recommended Action:

Staff recommends that the Committee (1) direct staff to bring the Fiscal Year 2016-2017 Proposed Budget for City Council for consideration; (2) continue to review the budget at subsequent Finance Committee meetings; or (3) both of the aforementioned options.

Chair Petros thanked the Finance Committee for its work on the budget.

Committee Member Tucker clarified the timeline for the budget.

Deputy Finance Director Montano provided the variances of \$250,000 compared to the prior year budget.

Committee Member Tucker requested a summary of each of the variance items.

Budget Manager Giangrande explained the increase in Contract Recreation Instructions. Budget Analyst Tam Ho stated the revenues were just under \$1 million.

Budget Manager Giangrande explained the increase in Contract Services/Park Facility and Meter Reading Services.

Committee Member Warner questioned the increase in Contract Services/Park Facility. City Manager Kiff explained the price was significantly higher due to additional facilities and increase in price per unit.

Budget Manager Giangrande explained the decrease in Outside Counsel/Special Litigation.

Committee Member Warner expressed concern with forecasting legal expenses downward.

Finance Director/Treasurer Matusiewicz directed the Committee to the forecast for internal services and other fees regarding attorney's fees and settlements.

City Manager Kiff stated the information had to be provided to the public.

Budget Manager Giangrande explained the fluctuations of the expenditure category "Services Professional and Technical" due to the completion of contracts. She stated she could provide a breakdown of the contracts. She continued review of the variances including the expenditure categories of Services Professional, Software Licenses, Special Department Expense, Vehicle Replacement ISF, IT ISF Operating Charge, Rolling Equipment, Library Materials, Backbone Expense, Equipment Not Otherwise Categorized (NOC), Pac set and Mobile Radios, and OPEB Payment.

In response to Committee Member Gorczyca, Finance Director/Treasurer Matusiewicz explained that contributions were being made to pay off the unfunded pension liability over an eleven year term.

Budget Manager Giangrande discussed the PERS Employer Contribution for the Miscellaneous and Safety employee groups.

In response to Chair Petros, City Manager Kiff stated Safety percentages could not track with portions paid by Miscellaneous and stated Safety paid 20-25 percent.

Budget Manager Giangrande reviewed the PERS Employer Contribution, Employee Contributions, Salary for Safety employees, Overtime Vacation Relief, Overtime Plan, Salaries Part-Time, Salaries Miscellaneous, and Cafeteria Allowance.

Budget Manager Giangrande discussed the Unfunded Liability for the Miscellaneous and Safety employee groups and also described the changes in water costs.

City Manager Kiff stated ground water was less expensive. He explained that some items were one-time expenses and most were predictably sporadic.

Committee Member O'Neill requested information on the projected negative fund balances presented at the CIP study session.

Finance Director/Treasurer Matusiewicz explained negative funds borrowed from other funds. He reviewed specific funds including the dredging fund.

Chair Petros explained the Council's commitment to repay dredging funds. Finance Director/Treasurer Matusiewicz stated it was a zero percent loan paid back from the Tidelands Fund to the General Fund over 15 years. In response to Committee Member Tucker, Finance Director/Treasurer Matusiewicz stated the total fund balance for the General Fund was \$89 million at June 30, of which \$15 million was an interfund receivable loan to the Tidelands Fund. Committee Member Tucker discussed expenditures in the Tidelands Management Fund. Council Member Curry stated Tidelands Programs were subsidized with General Fund money. Committee Member Gorczyca asked why the LAIF rate was not attached to the loan. Finance Director/Treasurer Matusiewicz explained the Tidelands agreement was identified as a zero interest loan by the Council.

Committee Member Tucker recalled that the \$47 million in contingency reserve funds is available to the City for catastrophic events. Finance Director/Treasurer Matusiewicz stated the General Fund had \$77.8 million in actual cash.

Committee Member O'Neill requested discussion of funding for the sewer fund. City Manager Kiff stated the goal was to continue the Capital Program in the wastewater fund. He questioned the ability to complete projects and refill the sewer fund.

Chair Petros stated he was not opposed to a sewer fund rate adjustment in the Enterprise Fund. He stated sewer and wastewater should not be funded from the General Fund.

Committee Member Tucker expressed concern with funding capital improvements through the General Fund.

Council Member Curry stated the sewer rates needed to be adjusted to get back in balance.

In response to Committee Member O'Neill, City Manager Kiff stated the Council could direct a direct transfer, not a loan, and direct a rate plan based on reserve level.

Chair Petros stated Mayor Dixon hoped that the Committee would vet the pros and cons of whether or not to use \$3.5 million from the General Fund for the Sewer Fund.

Committee Member O'Neill discussed the proposed rate increase from 2009 that did not occur creating the need to backfill the fund.

Chair Petros stated he understood the argument. He discussed his experience with Council's failing to enact ongoing rate increases required for the services rendered.

In response to Committee Warner, City Manager Kiff stated the 2009 proposed rate increase was scaled. Council Member Curry stated it was \$2 and would have been unnoticeable.

Committee Member Tucker stated the obligation runs with properties and now the proper rate needs to be paid. He stated the enterprise fund should remain separate.

Committee Member Gorczyca questioned whether the road improvement fund operated in a deficit. Finance Director/Treasurer Matusiewicz explained that revenue from grant programs often lag, but ultimately align with expenditures.

Committee Member O'Neill asked who paid for sewer spills. He stated he would research the issue.

Chair Petros opened public comments.

Jim Mosher stated the Sanitary District had two enterprise funds, wastewater and trash collection. He asked where Arts Funding was in the budget. He discussed Council Policy I-10 and referenced Pages 272 and 273. He questioned whether the City was paying for its own use of the sewer. He discussed the City's water use. City Manager Kiff recalled \$30,000 net per year. He explained calculation of sewer rates.

Chair Petros requested information on Library funds be provided to Mr. Mosher following the meeting.

Chair Petros closed public comments.

B. SUBCOMMITTEE RECOMMENDATIONS

Summary:

An update will be provided regarding the Finance Subcommittee.

Recommended Action:

Receive and file.

Committee Member Tucker stated the recommendations would be provided at the second meeting in May.

V. FINANCE COMMITTEE ANNOUNCEMENTS ON MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

Chair Petros requested the Committee focus on the budget.

VI. ADJOURNMENT

The Finance Committee adjourned at 5:04 p.m. to the next regular meeting of the Finance Committee on May 26, 2016, at 4:00 p.m.

Filed with these minutes are copies of all materials distributed at the meeting.

The agenda for the Regular Meeting was posted on May 9, 2016, 11:54 a.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

Tony Petros, Chair
Finance Committee Chair

Date

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
JUNE 2, 2016 MEETING**

I. CALL MEETING TO ORDER

The meeting was called to order at 4:00 p.m. in the Civic Center Council Conference Room, 100 Civic Center Drive, Newport Beach, California 92660.

II. ROLL CALL

PRESENT: Council Member Tony Petros (Chair), Council Member Keith Curry, Mayor Diane Dixon, Committee Member Patti Gorczyca, Committee Member William C. O'Neill, Committee Member Larry Tucker, and Committee Member John Warner

STAFF PRESENT: City Manager Dave Kiff, Finance Director/Treasurer Dan Matusiewicz, Deputy Finance Director Steve Montano, Budget Manager Susan Giangrande, Revenue Manager Evelyn Tseng, Accounting Manager Rukshana Virany, IT Manager Rob Houston, Administrative Specialist to the Finance Director Marlene Burns, Purchasing Agent Anthony Nguyen, Budget Analyst Tam Ho, Budget Analyst Katherine Warnke-Carpenter, Library Services Director Tim Heatherton, Fire Chief Scott Poster, and Administrative Manager Andrea Crespi

MEMBERS OF THE PUBLIC: Arlene Greer, Jim Mosher, and Carl Cassidy

III. PUBLIC COMMENTS

Chair Petros indicated he needed leave by 5:45 p.m.

Committee Member Warner stated he had to leave early as well.

Council Member opened public comments.

Jim Mosher submitted his written comments regarding unfunded liabilities.

Chair Petros closed public comments.

IV. CONSENT CALENDAR

A. MINUTES OF APRIL 28, 2016

Recommended Action:

Approve and file.

B. MINUTES OF MAY 4, 2016

Recommended Action:

Approve and file.

Mayor Dixon, Committee Members Gorczyca and O'Neill, and Mr. Mosher noted corrections to the minutes of April 28, 2016.

Committee Member Gorczyca moved and Committee Member Tucker seconded a motion to approve the April 28, 2016, Finance Committee Minutes, as amended. The motion carried 6-1, Council Member Curry dissenting.

Committee Member Tucker and Mr. Mosher noted corrections to the minutes of May 4, 2016. Committee Member Gorczyca retracted her amendment.

MOTION

Committee Member O'Neill moved and Committee Member Gorczyca seconded a motion to approve the May 4, 2016, Finance Committee Minutes, as amended. The motion carried unanimously.

Chair Petros expressed frustration with the quality of the minutes and requested comments on minutes be submitted early.

City Manager Kiff explained that the minutes were outsourced and it may be necessary to look for a different vendor.

V. CURRENT BUSINESS

A. AUDITOR RECOMMENDATION

Summary:

Per Council Policy F-15, External Financial Reporting, Disclosure and Annual Audits, the City issued a Request for Proposal (RFP) for audit services dated March 21, 2016, to audit its financial statements for the fiscal year ending June 30, 2016, with the option of auditing its financial statements for four subsequent fiscal years. After a thorough selection process, staff recommends to the Finance Committee the services of White, Nelson, Diehl, Evans LLP as the City Auditor.

Recommended Action:

With Finance Committee concurrence of staff's recommendation, staff will proceed with the recommended action and bring the new auditor contract to the City Council for approval.

Purchasing Agent Nguyen explained the Planet Bid automated bid system and notification to potential vendors. He stated 74 pre-registered vendors were notified, plus an additional 250 outside vendors. He stated 25 of those expressed interest in bidding and 9 submitted a response. He explained that a qualifications based system was utilized. He discussed the core criteria used to evaluate the submittals.

Committee Member Gorczyca asked if specific firms had submitted bids.

Finance Director/Treasurer Dan Matusiewicz stated Grant Thornton, McGladrey and MGO were notified but opted not to bid.

Purchasing Agent Nguyen stated White, Nelson, Diehl, Evans LLP received the highest score.

Committee Member O'Neill questioned Davis Farr's score based on working on the City of Bells' audit. Finance Director/Treasurer Matusiewicz explained that Davis Farr was still a strong candidate, but required an additional few years to work through the transition as a new company.

Purchasing Agent Nguyen explained the purpose of the reference checks.

Committee Member O'Neill asked if background checks were conducted on Rogers, Anderson, Malody & Scott. Finance Director/Treasurer Matusiewicz stated they were included in reference checks, but had issues delivering on time and negative comments.

Purchasing Agent Nguyen discussed consideration of cost proposals and presented the proposed annual costs from each proposer.

Finance Director/Treasurer Matusiewicz discussed the rationale for five-year contracts and Council Policy F-15 allowing two consecutive five year contracts. He discussed the qualifications of White, Nelson, Diehl, Evans LLP and reiterated reasons for selection.

Committee Gorczyca stated she preferred five-year rotations but White, Nelson, Diehl, Evans LLP appeared to be the best.

Jim Mosher stated he thought there was a promise that a new auditor would be selected. He asked how many auditors would work for the City and how many employees Davis Farr had.

MOTION

Council Member Curry moved and Committee Member Gorczyca seconded a motion to recommend a new contract with White, Nelson, Diehl, Evans LLP be brought to the City Council for approval. The motion carried unanimously.

B. SUBCOMMITTEE RECOMMENDATIONS

Summary:

An update will be provided regarding the Finance Subcommittee.

Recommended Action:

Receive and file.

Chair Petros thanked the subcommittee for its work.

Committee Member Tucker explained the purpose of committee members providing a "businessman's review" of the overall issues. He stated implementation of the suggestions would require modification or creation of policies.

Council Member Curry stated he was impressed by the work of the subcommittee. He suggested forwarding the report to the Council prior to its consideration of the budget.

Committee Member Tucker discussed the suggestions for a performance review and audit of non-salary benefits. He suggested the matters remain non-political.

Mayor Dixon supported the document as a guiding principle. She agreed that it may become political without specific endorsements from the Finance Committee.

Committee Member Tucker stated it was too late to affect the upcoming budget. He suggested it go on the Council's second meeting in June as a receive and file item.

Chair Petros suggested the Finance Committee create an action matrix with recommendations submitted to the Council.

Committee Member Tucker requested the Committee take action prior to November to ensure the current committee members could participate.

Committee Member Warner commended Committee Member Tucker.

Carl Cassidy concurred with the proposal to reduce politicization. He suggested review of legal reserves.

Committee Member Tucker explained that the subcommittee had conducted an overall review of the budget. Mr. Cassidy encouraged the committee to review the legal reserves.

Finance Director/Treasurer Matusiewicz stated the Council Reserve policy was included in the work plan. Mr. Cassidy suggested continual review of the unfunded pension liability.

MOTION

Council Member Curry moved and Committee Member Warner seconded a motion to receive and file with the matter returning to the Finance Committee in September. The motion carried unanimously.

C. FINANCE COMMITTEE FISCAL YEAR 2016-2017 BUDGET RECOMMENDATIONS

Summary:

Continue review of the City Manager's Fiscal Year 2016-2017 Proposed Budget and prepare/discuss Finance Committee recommendations to Council.

Recommended Action:

Staff recommends that the Committee (1) direct staff to bring the Fiscal Year 2016-2017 Proposed Budget to the City Council for consideration and; (2) prepare and/or transmit Finance Committee budget recommendations to Council.

City Manager Kiff presented the staff report.

Chair Petros suggested the Committee provide a recommendation on the budget as a whole, conduct a straw vote on the eight items and make a recommendation on the \$3.5 million proposed General Fund transfer to the Wastewater fund.

Committee Member Tucker asked if there were changes since the last time the Committee reviewed the budget. City Manager Kiff stated minor changes had been made to the budget checklist. He explained the checklist were changes to the proposed budget that staff proposed subsequent to its original submittal.

Mayor Dixon stated the checklist items were included on pages 31-34.

Committee Member O'Neill suggested the Committee determine if it felt comfortable with the information received and meetings held.

City Manager Kiff suggested examination of a new model for mooring management.

Council Member Curry indicated support for the suggestion.

Committee Member O'Neill asked if the Committee was recommending up or down vote on the budget and/or some or all of the eight items.

Chair Petros stated he would like a recommendation from the Finance Committee that the Council approve the budget as is or with certain amendments and offering an opinion to act on Items 1-8 or abstain for Council decision and what to do with the \$3.5 million proposed transfer.

The Committee confirmed that it had enough information and had met frequently enough to make a recommendation that the budget should be approved by the City Council.

City Manager Kiff reviewed Item 1, whether to ask departments to return annually with 1-3 percent operational savings. He stated he did not think it was necessary because there are always departmental savings at year-end anyway.

Chair Petros stated the current budget was position based and it would be easier to provide operational savings if it were program based. City Manager Kiff confirmed that savings are legitimate and not just due to staffing vacancies.

Committee Member Gorczyca questioned whether unfilled position savings were evenly dispersed. Budget Manager Giangrande stated they were not evenly dispersed and it was difficult to predict.

Mayor Dixon asked if there was a forecast for Fiscal Year 2015-2016. Budget Manager Giangrande stated that savings were estimated at around \$1 million but that a more certain number would be available after the fiscal year end. Council Member Curry concurred that staff was continuing to work towards saving money.

In response to Committee Member Warner, Finance Director/Treasurer Matusiewicz stated money contractually obligated was considered money spent. City Manager Kiff stated the base budget plus the checklist would become the adopted budget. Committee Member Warner suggested reviewing selected departments to determine if additional savings were possible.

Chair Petros clarified that it would be a simple demonstration to ask departments for additional savings.

Committee Member Warner indicated opposition to Item 1.

Committee Member Tucker stated the subcommittee recommendation was to consider combining functions or determining if all functions were necessary through an operational audit. City Manager Kiff concurred.

Chair Petros stated that analysis was necessary as opposed to randomly establishing a savings target.

Committee Member Warner suggested reviewing one department to determine potential cost savings.

Chair Petros stated the Finance Committee supported continued investigations into efficiencies that would render savings across the board and in all departments.

The Committee discussed Item 2, whether to examine a new model for mooring management that may involve greater use of technology and less operational hours for supervision.

In response to Mayor Dixon, City Manager Kiff stated he would like Council direction to move forward.

City Manager Kiff suggested the Council deal with Item 3, whether to sell the former City Hall site, now under construction as the Lido House Hotel.

Mayor Dixon recommended waiting until the hotel was built. City Manager Kiff stated a Finance Committee recommendation was premature.

Committee Member Tucker stated the Finance Committee should analyze the matter. He suggested consider where the money would go if the asset was sold.

Mayor Dixon stated it needed to be analyzed.

Committee Member Tucker recommended referring the matter to the Finance Committee for analysis when the hotel was completed and operational.

Council Member Curry stated the property lease was a long term revenue source to the General Fund.

The Committee concurred to recommend the Council refer the matter to the Finance Committee.

City Manager Kiff expressed concern with Item 4, whether to move to a flat business license fee of \$50 (versus a business license tax).

Mayor Dixon suggested more effectively communicating the benefits of doing business in the City to validate the purpose of the tax.

Committee Member Warner asked the cost of the business license. Revenue Manager Evelyn Tseng explained the cost for business licenses.

City Manager Kiff stated the business owners were not complaining about the cost of business licenses. He stated the tax was to offset public safety.

In response to Mayor Dixon, City Manager Kiff stated the City of Irvine reduced its fee to \$50.

Council Member Curry discussed the departments that would be impacted by reducing the fee. He stated it would be irresponsible to cut a revenue source.

Chair Petros stated the Committee concurred.

City Manager Kiff recommended deferring Item 5, whether to consider a longer replacement schedule for Newport Harbor's public piers and docks to the Harbor Commission. The Committee concurred.

City Manager Kiff suggested a users group to consider Item 6, whether to consider outsourcing all plan checks for commercial properties' tenant improvement (TI) plans. He explained that Council Member Peotter was suggesting that commercial TI plans be reviewed by an outside contractor.

In response to Chair Petros, City Manager Kiff stated the proposal may allow reducing three-quarters of a position.

City Manager Kiff stated he could further review the matter and report back to Council Member Peotter.

By consensus, the Committee recommended referring Item 6 to the City Manager's office for an efficiency check.

City Manager Kiff explained that Council Member Muldoon had suggested Item 7, whether to conduct a new review of Capital Improvement Projects with a priority on essential efforts versus "wants." He recommended the Council discuss the matter.

Committee Member Tucker agreed that it should be vetted through the Council.

Chair Petros appreciated Council Member Muldoon's concern but the community drove the CIP and the representing Council Member carried it forward.

Mayor Dixon clarified that the Council would consider the budget on June 14.

City Manager Kiff discussed the proposed Fresh Start. He requested the Finance Committee weigh in on Item 8, whether to wait on any pension "Fresh Start" decision until additional Finance Committee review occurred as to alternatives to another Fresh Start.

Committee Member Gorczyca suggested an independent actuary to assist in future decisions on pension related items.

Council Member Curry indicated support for the Fresh Start proposal to avoid negative amortization.

Committee Member O'Neill stated it would save \$10 million over 15 years. Finance Director/Treasurer Matusiewicz stated the City would spend \$6 million in the first couple years to save \$9 million and net \$3 million.

City Manager Kiff indicated support for an independent actuary.

City Manager Kiff explained that the City should have been allocating \$3.1 to the sewer fund. He suggested a wastewater fee without the subsidy of \$3.5 million.

Mayor Dixon stated the rate increase would make up for lost time.

City Manager Kiff suggested determining rates during the winter.

Chair Petros stated it was not uncommon for fee changes to be delayed but it was uncommon to use General Fund to support Enterprise Fund operations. He discussed the subcommittee's recommendation to annually review fees.

Committee Member Tucker stated the improvements were necessary and the fee should have been imposed all along. He suggested not using the General Fund.

Committee Member Warner stated the Council decided to not raise the rates for six years and now the funds were available. He stated he would advocate making it right and raising the rates.

Committee Member O'Neill asked who would pay for a sewer spill. Finance Director/Treasurer Matusiewicz stated it would be covered by the sewer fund. Committee Member O'Neill stated it was not fiscally wise to retain a negative sewer fund balance.

Committee Member Warner asked how long it would take to make the fund right. City Manager Kiff stated \$3.5 million would bring it back to the reserve level and allow expending the programmed capital for the coming year. He explained the assumption that the rate would replenish the reserve.

Mayor Dixon explained the Committee's recommendation for a new rate was to make up for 2009 proposal which was not approved by the Council. She stated the \$3.5 million would normalize the rate level as if the rate increase had been passed in 2009. She stated the proposed rate should be the normal rate, not a catch up rate.

Chair Petros stated he was hearing a majority in support of recommending \$3.5 million for wastewater fund along with the rates being revisited.

Council Member Curry questioned whether the entire City should subsidize the sewer fund but agreed that the fee increase needed to occur.

Mayor Dixon stated the rate increase needed to be approved before the end of the year.

Committee Member Tucker stated he would oppose allocating \$3.5 million but the rate increase should occur. He stated he was in favor of the budget with the exception of the \$3.5 million allocation to the sewer fund.

Committee Member Gorczyca suggested a loan. City Manager Kiff stated staff had discussed that but the Council was not interested.

Jim Mosher stated the budget line items were unclear. He questioned whether the budget presented to the Council on June 14, 2016, would include a performance plan. He stated the checklist was not clear on whether the departments could cut back on their budgets. He discussed the sewer fund and concurred with Committee Member Tucker that the General Fund should not subsidize the Sewer Fund. He suggested the City cover its portion of the sewer use. He suggested removing the last paragraph as it is out of place.

City Manager Kiff stated details were available for each line item in the budget. Finance Director/Treasurer Matusiewicz stated there was no plan to present a performance plan as part of the initial budget adoption.

Chair Petros stated the budget increases were due to labor costs and contract CPIs.

City Manager Kiff discussed the analysis of the City's sewer use, estimated at \$10,000 per year.

Chair Petros suggested reviewing Mr. Mosher's recommended paragraph deletion.

City Manager Kiff explained the required CEQA finding.

Chair Petros stated he heard general unanimity on a recommendation for the budget, direction on 8 items and direction for \$3.5 million.

MOTION

Chair Petros moved and Council Member Curry seconded a motion to recommend that the City Council: 1) Approve the Fiscal Year 2016-2017 Proposed Budget as presented; 2) not incentivize departmental savings because, in fact, departments were already making significant annual savings; 3) Consider a new model for mooring management; 4) Refer the City Hall disposition to the Finance Committee once the hotel had reached operational equilibrium; 5) Refer the business license fee to the Finance Committee for review and analysis; 6) Refer the replacement schedule for Newport Harbor's public piers and docks to the Harbor Commission; 7) Refer to the City Manager's office the investigation of whether greater efficiencies could be realized by outsourcing the plan checking for tenant improvements; 8) Review of capital improvement projects be left to the City Council; 9) Continue with fresh start for at least this year with advisement that it be placed under further review after actuarial analysis; and 10) Use of \$3.5 million General Fund balance for the wastewater fee with proviso that there also be a concomitant review of the fee on a go forward basis occurring this fall.

Mayor Dixon suggested adding a statement that the Finance Committee was aware of the \$300 million unfunded pension liability and how that informs future financial planning. Council Member Curry stated it was well defined in the subcommittee's report.

Committee Member Tucker suggested referring the flat business license fee to the Finance Committee for review and analysis.

The motion carried unanimously with Committee Member Tucker and Council Member Curry noting disagreement with the proposal of utilizing \$3.5 million from the General Fund to the sewer fund.

VI. FINANCE COMMITTEE ANNOUNCEMENTS ON MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

Committee Member Warner requested information on the savings of eliminating one staff person over a 20-year period.

Committee Member Tucker requested details of how unfunded pension liabilities work, particularly the 7.5 percent, on the September agenda. Mayor Dixon stated the actuarial discussion was the precursor to answering that question.

Committee Member Tucker stated it was necessary to understand how the unfunded liabilities are developed.

Committee Member Warner asked if it was possible to utilize historical returns to forecast future pension liabilities.

Chair Petros stated the next agenda will include a discussion on whether to hire an actuary.

Committee Member Warner left the meeting at 5:48 p.m.

Mayor Dixon thanked the committee members and encouraged them to share the information with their appointee.

VII. ADJOURNMENT

The Finance Committee adjourned at 5:50 p.m. to the next regular meeting of the Finance Committee on June 16, 2016, at 4:00 p.m.

Filed with these minutes are copies of all materials distributed at the meeting.

The agenda for the Regular Meeting was posted on May 27, 2016, at 3:04 p.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

Tony Petros, Chair
Finance Committee Chair

Date

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
JUNE 16, 2016 MEETING**

I. CALL MEETING TO ORDER

The meeting was called to order at 4:00 p.m. in the Crystal Cove Conference Room, Bay 2D, 100 Civic Center Drive, Newport Beach, California 92660.

II. ROLL CALL

PRESENT: Council Member Tony Petros (Chair), Council Member Keith Curry, Mayor Diane Dixon, Committee Member Patti Gorczyca, Committee Member William C. O'Neill, Committee Member Larry Tucker, and Committee Member John Warner

STAFF PRESENT: City Manager Dave Kiff, Finance Director/Treasurer Dan Matusiewicz, Deputy Finance Director Steve Montano, Budget Manager Susan Giangrande, Revenue Manager Evelyn Tseng, Accounting Manager Rukshana Virany, Administrative Specialist to the Finance Director Marlene Burns, Purchasing Agent Anthony Nguyen, Budget Analyst Tam Ho, Library Services Director Tim Heatherton, Administrative Manager Angela Crespi, Municipal Operations Director Mike Pisani, Assistant City Manager Carol Jacobs, Municipal Operations Director George Murdoch, Administrative Manager Cindy Owens, Recreation and Senior Services Director Laura Detweiler, Senior Services Manager Celeste Jardine-Haug, Chief Building Officer Seimone Jurjis, Systems and Admin Manager Dan Campagnolo, Deputy Community Development Director Brenda Wisniewski, Senior Accountant Theresa Schweitzer, and Deputy Recreation and Senior Services Director Sean Levin

MEMBERS OF THE PUBLIC: Back Bay High School Student Julio Espinoza, Newport Harbor High School Student Jacky Gonzalez, Jim Mosher, Carl Cassidy, and Erin Payton of MGT America

III. PUBLIC COMMENTS

Chair Petros announced that the Council approved the budget as recommended. He commended the Committee Members for its work

Jim Mosher discussed the Council's adoption of the budget and publication of final document. He suggested the Committee review the City's CAFR. He discussed the work plan and interviews by the auditor. He expressed concern of a potential Brown Act violation. He announced the upcoming seminar on internal controls to prevent fraud.

Chair Petros closed public comments.

Chair Petros stated the Finance Committee members received the CAFR and could comment as they see fit.

IV. CURRENT BUSINESS

A. QUARTERLY ERP UPDATE

Summary:

Staff will provide the Committee with a progress report on the Enterprise Resource Plan project.

Recommended Action:

Receive and file.

Deputy Finance Director Montano provided an oral report regarding the status of the ERP project.

Mayor Dixon asked if there were issues with posting of the budget. Finance Director/Treasurer Matusiewicz stated it was no longer an issue. Mayor Dixon asked when program costs would be more visible. Deputy Finance Director Montano discussed the RFP for fiscal transparency software.

In response to Chair Petros, Deputy Finance Director Montano stated the infrastructure and tools were in place to provide program level budgeting. He stated he would provide quarterly updates on the status.

B. DEBT ISSUANCE BEST PRACTICES

Summary:

During the April 28, 2016, Finance Committee meeting Committee Member O'Neill asked the Committee to consider the merits of hiring a third-party consultant to assist staff implement best practices in debt issuance.

Recommended Action:

- a) Consider whether to consult with an independent third-party agency (e.g., Orange County Auditor Controller's office, Consultant, GFOA, a registered independent municipal advisor, or other) to either (1) review the City's debt issuance procedures and provide recommendations to improve and incorporate best practices for debt issuance and administration into the City's policies and procedures; (2) evaluate the economic feasibility of reducing the amount of outstanding Certificates of Participation; and/or (3) both;
- b) Consider the scope, desired deliverables and contractual arrangement of proposed services (hourly vs. fixed fee and not to exceed dollar value); and
- c) Make appropriate recommendation(s) to the City Manager.

Committee Member O'Neill stated the item was not related to the matter Council Member Peotter had requested being placed on the ballot. He requested the Committee direct staff to contract with an expert to work with staff on reviewing the City's Debt Management Policy and practices.

Committee Member O'Neill asked if the current policy adhered to GFOA's Debt Policy Best Practices. Finance Director/Treasurer Matusiewicz stated that it was indeed the framework for debt policy.

Committee Member Tucker stated Policy F-6 (Debt Management) appeared to be similar to best practices. Finance Director/Treasurer Matusiewicz stated it was and had been recognized by the California Debt and Investment Advisory Committee (CDIAC) as one of the better local agency policy examples. Committee Member Tucker suggested consideration of anything missing from Policy F-6.

Council Member Curry concurred with Committee Member Tucker. He described other debt policy publications. He expressed pride in the City's AAA bond rating. He stated the City's debt policy was new and reiterated the State cited the City as an example with a good debt policy. He suggested the possibility of a review by other agencies or the Committee. He stated he did not support a consulting agreement.

Mayor Dixon asked if GASB 68, accounting and financial reporting for pensions requirement, was included in the policies. Finance Director/Treasurer Matusiewicz explained that the audit opinion provides assurance that the City's Annual Financial Statements (CAFR) were written in conformance with Generally Accepted Accounting Principles (GAAP).

Council Member Curry explained that it was a disclosure and accounting issue but irrelevant to bond issues and debt policies.

Mayor Dixon asked where the unfunded pension intersected with the financial policies. Chair Petros stated it was not included in a debt management policy. Mayor Dixon asked where it belonged.

Chair Petros clarified that the unfunded pension liability was an accounting issue and was independent from the policy regarding debt.

Committee Member Tucker stated the unfunded liability should not be ignored but did not pertain to the City's debt practices.

Committee Member Tucker suggested review of Policy F-6 for compliance with GFOA best practices.

Committee Member O'Neill agreed with Committee Member Tucker regarding the need to review debt practices.

Chair Petros asked if there was an opportunity to prepare an abstract to be sent to other finance directors for peer review. Finance Director/Treasurer Matusiewicz stated that it could.

Committee Member Tucker suggested a subcommittee work with staff to review the policy.

Committee Member Gorczyca stated she reviewed the policy and found it to be adequate.

Chair Petros stated the thought was for a peer review by professional organizations or finance directors within the region.

Carl Cassidy suggested sensitivity to Mayor Dixon's comments because the public's perception of the unfunded liability. He stated a consultant was not necessary. He discussed the talent on the committee and staff and suggested most items could be addressed at the Committee level.

Finance Director/Treasurer Matusiewicz recommended the Committee separately consider a pension funding policy. Chair Petros suggested an open discussion regarding the unfunded liability, allowing the public and Committee to have an open dialogue.

MOTION

Chair Petros moved and Committee Member Gorczyca seconded a motion to form a subcommittee of Committee Member O'Neill and Committee Member Gorczyca to work with staff to develop an abstract to be sent to a professional organization of peers within the County for review of the City's best practices. The motion carried unanimously.

Committee Member O'Neill discussed the Certificates of Participation (COPs) and debt service for the Civic Center project. He recommended the Council hire a consultant to perform the refunding analysis required by F-6.

Finance Director/Treasurer Matusiewicz estimated the update to the previous analysis would cost approximately \$3,000.

Council Member Curry stated the bonds would never be economically refundable; therefore, there was no value in analyzing the bonds.

Committee Member O'Neill suggested an independent analysis.

Council Member Curry stated the original consultant had the most interest in the refunding work. He stated further analysis was a waste of money.

Committee Member Tucker stated his experience was not with municipal financing. He stated the make whole provision as really make better than whole. He questioned whether it made sense to spend money on analysis. He asked if there was a possibility of saving money. Finance Director/Treasurer Matusiewicz stated he did not.

Committee Member Gorczyca discussed the anticipated subsidy. She suggested it be a question to pose to bond counsel the possibility of restructuring due to poor performance.

Chair Petros stated Committee Member O'Neill was asking if the City should retain a consultant to perform the work under F-6. He suggested the policy did not require an outside consultant.

Carl Cassidy asked if the policy required "independent" review. He stated the Committee and staff could provide a better review.

MOTION

Committee Member O'Neill moved and Committee Member Gorczyca seconded a motion to recommend hiring a consultant to evaluate the economic feasibility of reducing the amount of outstanding Certificates of Participation.

Committee Member Gorczyca suggested a legal consultant be utilized. Committee Member O'Neill declined the amendment. Committee Member Gorczyca withdrew her second.

Mayor Dixon seconded the motion.

Chair Petros ruled that he had already indicated the motion died due to lack of a second.

MOTION

Mayor Dixon moved and Committee Member O'Neill seconded a motion to recommend hiring a consultant to evaluate the economic feasibility of reducing the amount of outstanding Certificates of Participation.

Council Member Curry discussed savings with Build America bonds. He stated the analysis would be a waste of tax payer's dollars.

Committee Member Gorczyca stated she could not support a financial firm because restructuring was a legal question.

Committee Member O'Neill stated the requirement was annual review. He suggested hiring someone independent of the original debt issuance.

Council Member Curry stated a different conclusion would not be met and it would be a waste of money.

The motion failed 3-4, Chair Petros, Council Member Curry, Committee Member Warner and Committee Member Gorczyca dissenting.

C. PENSION AND OPEB ADVISORY SERVICES

Summary:

During the April 28, 2016, Finance Committee meeting Committee Member Gorczyca proposed bringing on an independent actuary to assist the Council, the Committee, and staff to analyze various pension and OPEB funding and cost containment strategies. Such strategies may include a Section 115 Benefit Trust, PERS pre-payment options, improvements to the City's OPEB program, and various incentives to reduce the pension liability. Staff recommends that the Committee discuss the merits of engaging an independent actuary or other financial professional to provide Pension and OPEB advisory services and provide staff direction as to an initial scope of services.

Recommended Action:

- a) Consider the merits of hiring an independent actuary or other financial professional to provide various pension and OPEB advisory services;
- b) Consider the scope, desired deliverables and contractual arrangement of proposed services (hourly vs. fixed fee and not to exceed dollar value); and
- c) Make appropriate recommendation(s) to the City Manager.

Committee Member Gorczyca suggested an independent actuary of the City's Pension and OPEB liability. She discussed options outside of CalPERS to advise the City. She listed clients of one independent actuary. She stated it was the prevailing practice and recommended starting with an hourly contract, not to exceed \$25,000.

Council Member Curry stated the City retained an independent actuary to review OPEB. He stated he could support the recommendation if Section 115 Benefit Trust was removed. He stated the City should not speculate the stock market.

Committee Member Tucker stated the recommended action was unrelated to Section 115. He concurred with Committee Member Gorczyca and supported hiring an independent actuary.

Chair Petros concurred.

Mayor Dixon stated the required payment to CalPERS would not change. She clarified that the suggestion review would provide possible options.

Carl Cassidy agreed with annual review.

Council Member Curry indicated opposition with stock market speculation.

Committee Member Gorczyca stated it provided an opportunity to consider options.

Council Member Curry stated there was no benefit if it did not beat CalPERS.

In response to a question posed by Committee Member Tucker, City Manager Kiff explained that an RFQ would be issued.

MOTION

Committee Member Tucker moved and Committee Member Warner seconded a motion to hire an independent actuary to provide advice and education on pension and OPEB

obligations and alternatives, initially scope on an hourly basis with a not to exceed value. The motion carried 6-1, Council Member Curry dissenting due to his stated disfavor of establishing a Section 115 Benefit Trust.

D. FINANCE SUBCOMMITTEE RECOMMENDATIONS

Summary:

During the April 28, 2016, Finance Committee meeting Subcommittee Members presented written recommendations as to general business practices of the City. The Committee, as a whole, provided general comments on the content and quality of the report. The Committee will discuss each idea specifically and determine actions items associated with each recommendation.

Recommended Action:

Make recommendation(s) to the City Manager as to the next steps related to the Subcommittee Report.

Committee Member Tucker suggested the Committee review each policy and determine if it wanted to consider directing staff to come up with policy changes or new policies and/or come up with other actions.

Chair Petros asked if the summary reflected the parts to be considered.

Finance Director/Treasurer Matusiewicz stated Recommendation A.1. would be added to the work plan to determine if the policy already existed.

Committee Member Tucker stated Recommendation A.2. should be reviewed as an action item. Chair Petros agreed with the concept but expressed concern about it being tied to the development agreement.

Committee Member Tucker asked if an action plan should be prepared based on the recommendations. Finance Director/Treasurer Matusiewicz suggested returning with the work plan in September and identifying the recommendations that could fit into policy.

Chair Petros suggested deferring to staff to come back with a work plan that was policy related or staff action related.

Committee Member Tucker stated Recommendations A.3. and B.1. should be Committee practices. He discussed Recommendation B.2. and suggested the Committee decide if it should be a policy. City Manager Kiff discussed community tolerance for outsourcing. Committee Member Tucker asked if it should be a policy or action item.

Committee Member Tucker suggested Recommendation B.3, B. 4, B.5 and B.6 were action items. He stated Recommendations C.1, C.2 and C.3 were suggestions to the Council. He stated Recommendation C.4 was an action item. He stated Recommendations C.5 and C.6 were recommendations. He discussed Recommendation C.7 and stated it should be a policy. Chair Petros indicated it was already included in policies. Committee Member Tucker stated Recommendation D.1 was a suggestion.

Chair Petros summarized the recommendations as actions, policies, deletions, and receive and file statements.

Committee Member Tucker suggested a subcommittee to work with staff on the matter.

Jim Mosher expressed concern about inefficient use of staff time. He stated the cost of outsourcing was usually more expensive than anticipated.

Carl Cassidy thanked the Committee for its work. He suggested the public be invited to participate in the action plan.

Committee Member Tucker suggested the results of the annual valuation from CalPERS be presented to the Council prior to the budget presentation.

Council Member Curry left the meeting at 5:36 p.m.

Committee Member Warner requested the meeting be confined to discussion of unfunded pension liability.

E. ANNUAL FEE SCHEDULE UPDATE

Summary:

In partnership with the City's cost allocation plan consultant, staff reviewed and updated the city-wide cost allocation plan and direct user fee calculations for Recreation and Senior Services (RSS), Library, Finance, and Municipal Operations Department (MOD), as well as analyzed the separation of mileage costs from Fire Emergency Medical Services (EMS) fees and the establishment of flat fees for certain Community Development Department (CDD) services. The purpose of this meeting is to review staff's recommendation to revise the Master Fee Schedule according to CPI and to review the specific changes recommended for departmental related fees.

Recommended Action:

Staff welcomes input and recommendations on the proposed fee schedule. Based on the input and comments from Finance Committee, Finance staff will bring the proposed recommendations to the City Council for formal action.

Senior Accountant Schweitzer presented a PowerPoint summarizing the proposed changes, authority to charge the cost of services, methodology, and proposed fees and changes by department.

In response to Committee Member O'Neill, Senior Accountant Schweitzer confirmed that the benefits included pensions.

Chair Petros questioned the description of burden factors, including overhead.

Senior Accountant Schweitzer continued the presentation.

In response to Chair Petros, Senior Accountant Schweitzer explained the goal to retain the same Recreation fees. Chair Petros expressed concern with reducing fees by packaging them with revenue increasing.

Revenue Manager Tseng stated it was not the intent to increase revenues by packaging fees. City Manager Kiff stated the final report will clarify actual fee decreases.

In response to Committee Member O'Neill, Finance Director/Treasurer Matusiewicz stated the proposal was for Recreation to have the flexibility to modify fees based on demand.

In response to City Manager Kiff, Recreation and Senior Services Director Laura Detweiler stated the fees would be approved by the City Council.

Senior Accountant Schweitzer continued the presentation.

Mayor Dixon asked if cost recovery was at the Council's discretion. City Manager Kiff stated the Council could review the cost recovery percentage. He explained that it was based on history. Mayor Dixon questioned the cost recovery for administrative hearing appeals. City

Manager Kiff suggested staff provide the history on the cost recovery recommendations. Mayor Dixon stated the Council should validate the percentages.

Finance Director/Treasurer Matusiewicz explained it was the Council's prerogative to subsidize fees.

City Manager Kiff suggested reviewing a department or randomly selecting fees and the cost recovery percentages.

In response to Committee Member O'Neill, Senior Accountant Schweitzer explained the deletion of Police fees by statute. She stated each department annually reviewed the subsidies in Municipal Code Section 3.36.

Jim Mosher stated the fee schedule was confusing. He expressed frustration with the materials. He disagreed with changing hourly rates to flat fees. He questioned facility rental and parking fees.

Chair Petros suggested simplicity and transparency be implemented.

Committee Member O'Neill suggested that cost recovery percentages for recreation fees up to 100 be changed to between 0 and 100.

Committee Member Tucker left the meeting at 6:08 p.m.

V. FINANCE COMMITTEE ANNOUNCEMENTS ON MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

With regard to the Finance Committee Recommendations, Mayor Dixon suggested that the Committee go through policy review at the next meeting and determine if any further action is needed.

VI. ADJOURNMENT

The Finance Committee adjourned at 6:10 p.m. to the next regular meeting of the Finance Committee on September 15, 2016, at 4:00 p.m.

Filed with these minutes are copies of all materials distributed at the meeting.

The agenda for the Regular Meeting was posted on June 10, 2016, at 4:26 p.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

Tony Petros, Chair
Finance Committee Chair

Date

Committee Member O'Neill discussed the Certificates of Participation (COPs) and debt service for the Civic Center project. He recommended the Council hire a consultant to perform the refunding analysis required by F-6.

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MOTION

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**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5A
September 15, 2016

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director
(949) 644-3123 or danm@newportbeachca.gov

SUBJECT: ANNUAL INVESTMENT PORTFOLIO PERFORMANCE REVIEW

EXECUTIVE SUMMARY

The purpose of this memorandum is to report on the performance of the City's investment portfolio relative to the City's investment objectives through June 30, 2016. All investments are in compliance with California Government Code and the City's adopted Statement of Investment Policy.

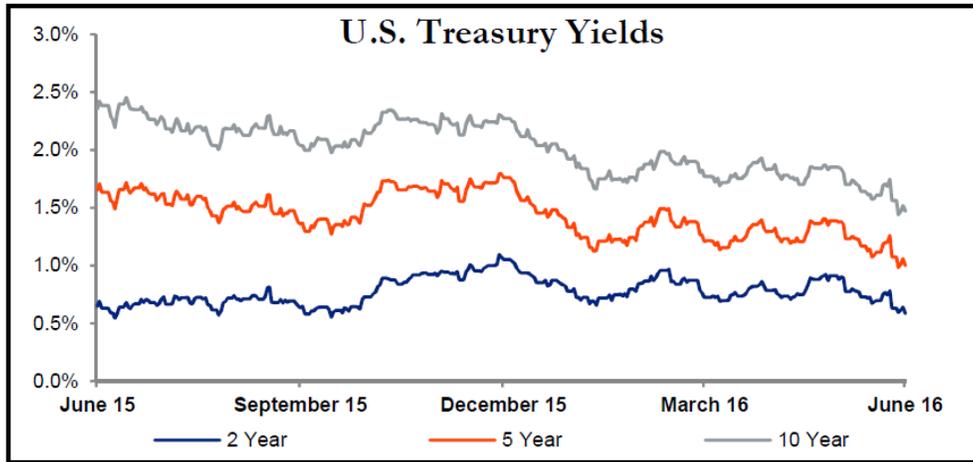
DISCUSSION

California Government Code Section 53600.5 mandates that the City Treasurer shall follow three objectives when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds. The primary objective of the City Treasurer shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the City. The third objective shall be to achieve a return on the funds under his or her control. Guided by Council Policy F-1 and constrained by California Government Code, the City's core investment objectives are to provide safety of the invested principal by maintaining a well-diversified, high-quality portfolio of liquid assets while earning a market rate of return commensurate with the City's conservative risk profile.

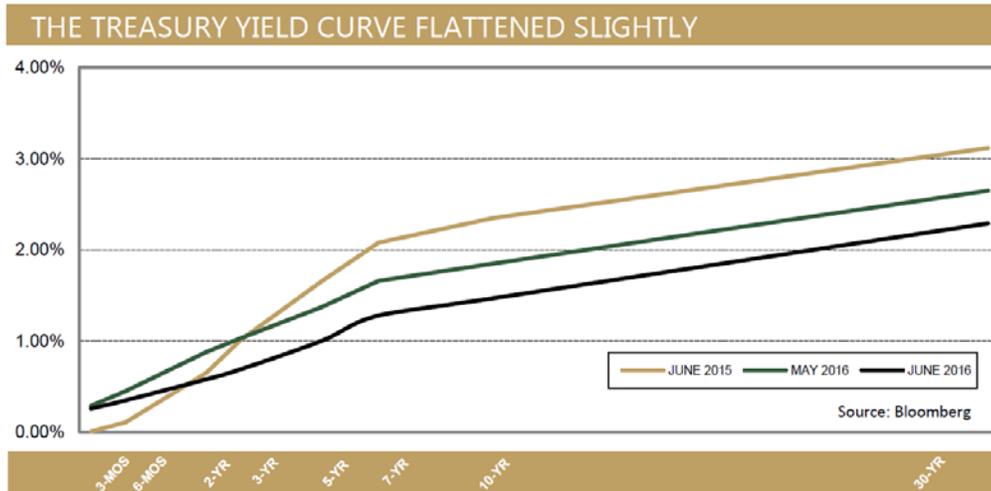
CURRENT MARKET CONDITIONS

At its meeting on June 14-15, 2016, the Federal Open Market Committee (FOMC) voted not to change the federal funds rate. The FOMC statement noted that the pace of labor market gains slowed but economic activity picked up. Federal Reserve Chair Janet L. Yellen opined, during her press conference, that the Federal Reserve can more effectively respond to an overshoot of inflation than they can to a weakening labor market and/or deflation. Uncertainty surrounding the June 23, 2016, British referendum on Britain's European Union membership, corresponding volatility in sovereign bond

yields, along with a disappointing May jobs report, likely contributed to the FOMC decision to leave rates unchanged. Shortly after the Brexit vote in June, the 2-year Treasury yield declined nearly 30 basis points and the 10-year Treasury yield declined almost 38 basis points. Negative interest rates in Europe and Japan, investors' hunt for yield, and a global flight to quality continued to fuel demand for US Treasury securities. As a result, the 2-Year treasury, which best reflects the weighted average life of the City's portfolio remained below one percent for most of the year.



(Source: PFM)



(Source: Chandler)

According to the Bureau of Economic Analysis's (BEA) advance estimate, real gross domestic product (real GDP) increased at an annual rate of 1.2 percent in the second quarter of calendar year 2016. The increase reflected positive contributions from personal consumption expenditures (PCE), exports and a decrease in imports.

Percentage Change of Real GDP from the Prior Calendar Quarter Seasonally Adjusted Annual Rates

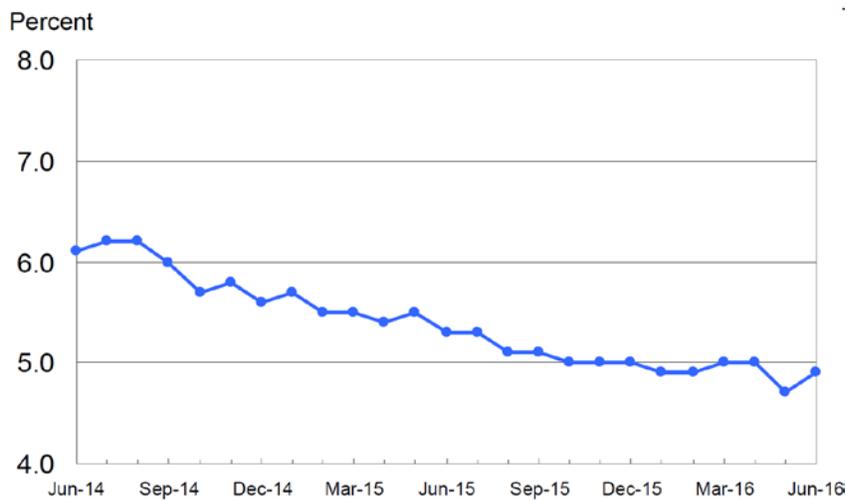


(Source: BEA)

According to the US Bureau of Labor Statistics' (BLS) establishment survey of payroll records, total nonfarm payroll employment increased by 287,000 in June. This job growth occurred in leisure and hospitality, health care and social assistance, and financial activities.

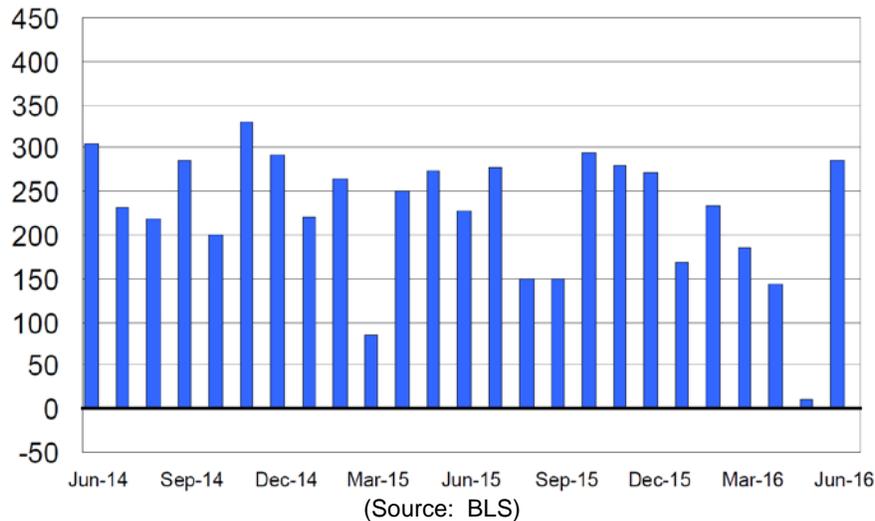
The unemployment rate increased from 4.7 percent in May to 4.9 percent in June. One possible explanation for the unemployment rate increasing, even though new jobs were created, is that the number of new jobs created was less than the increase in the labor force. The BLS survey shows the total labor force increasing by 414,000 in June (223,000 from population increases and 191,000 from existing population returning to the labor force), which exceeds the 287,000 jobs created in the BLS establishment survey.

Unemployment Rate, Seasonally Adjusted June 2014 – June 2016



(Source: BLS)

**Nonfarm Payroll Employment
Over-the-Month Change, Seasonally Adjusted
In Thousands
June 2014 – June 2016**



PORTFOLIO OVERVIEW

The City's strategy continues to focus identifying value from high quality marketable securities among the full range of investment options ensuring the portfolio continues to be well diversified.

As of June 30, 2016, the City's entire investment portfolio totaled over \$235 million. These investments are pooled assets of the City Newport Beach, which includes the General Fund, special revenue funds, internal service funds, the enterprise funds (i.e., Water and Wastewater) as well as various other funds.

Short-Term Portfolio

The City uses a combination of demand deposit accounts (DDA) the Local Agency Investment Fund (LAIF) and short-term securities to provide sufficient liquidity to meet its day-to-day operating requirements. Municipal deposits in DDA accounts are 110 percent collateralized by bank assets and the City received a compensating balance credit against bank fees at an average rate of 0.44 percent. The average investment life of the LAIF fund was 167 days for the quarter ending June 30, 2016. LAIF's average effective yield for the month of June was 0.576 percent.

Money that is likely to be spent in the near future, that is not needed immediately, is invested in a short-term investment account matched to specific maturity dates when the City's cash in-flow is at its slowest pace. This portfolio carve-out is composed of securities that were purchased in December 2015, and are due to mature in September and October 2016. It is anticipated that these investments will be expended

commensurately with the City's anticipated cash needs during that time period. By laddering short-term security purchases the City is able to earn a slightly higher rate of return than it would otherwise earn with LAIF. As of June 30, 2016, the average yield-to-maturity at cost on this group of securities is currently 0.76 percent.

Medium-Term Portfolio

The City's core investment portfolio of \$172 million is actively managed by two individual investment advisors in accordance with the California Government Code and the City's investment policy. The investments are held by a custody bank and are registered in the City's name. The City accounts and monitors the portfolio independent of the investment advisors, by a direct feed from the custody bank and the use of third party analytical software.

The core portfolio also follows a relatively short-term bond strategy with a weighted average life of approximately 1.8 years. This portfolio aims to find value and maximize yield within the high quality fixed income market within the duration range of the City's strategic benchmarks. The City currently uses the Bank of America Merrill Lynch 1-3 YR US Treasuries index as one benchmark. The City also uses a second benchmark, the Bank of America Merrill Lynch 1-3 YR US Gov/Corp A rated securities index, which is more reflective of the portfolios risk and return characteristics. The use of two benchmarks provides a means to evaluate the added value that high quality corporate bonds bring to the portfolio.

The City's core portfolio finished the year with a total return of 1.579 percent. However, it is important to note that the yield to maturity at cost is only 1.15 percent. The year-end total return result is significantly inflated by price appreciation stemming from the bond rally that followed the Brexit vote late in the year. As fear spread in the equities markets, investors fled to bonds depressing yields and increasing the market value of bonds. As illustrated by the chart on the following page, only 1.039 percent of total return is attributable to income return while .54 percent is attributable to price appreciation.



*Cumulative monthly returns for fiscal year ended June 30, 2016

In the two year comparison below, the portfolio return compares favorably to both benchmarks. Since both investment advisors took a neutral position relative to the benchmark duration the favorable comparisons was driven primarily due to active management and security selection.

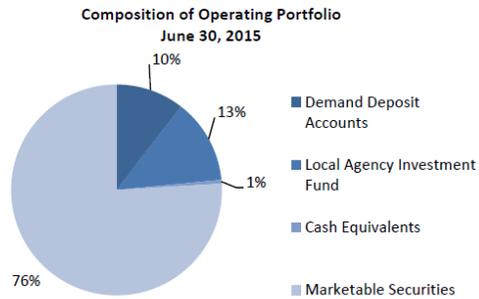
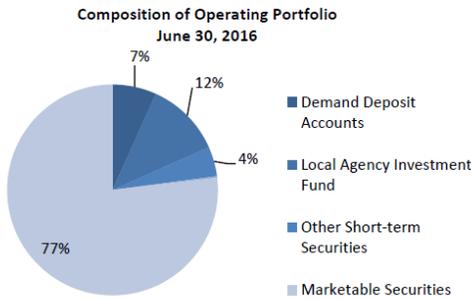
Medium term Portfolio	2016	2015
Income Return	1.039%	0.824%
Price Return	0.540%	0.097%
Total Return	1.579%	0.921%

Benchmarks	2016	2015
BofA ML 1-3 Year US Treasuries	1.307%	0.876%
BofA ML 1-3 Year US Gov/Corp A Rated and Above	1.492%	0.906%

Advisor	2016	2015
CNB-Chandler	1.592%	0.922%
CNB-PFM	1.567%	0.918%

The City's entire investment portfolio of over \$235 million as of June 30, 2016, is summarized below.

CITY OF Newport Beach		TREASURER'S REPORT For the Month Ended				JUNE 30, 2016				
Portfolios	Amortized Cost	Unrealized Gains/(Loss)	Fair Value	Accrued Interest	Market Value	% Total	YTM @ Cost	YTM @ Market	Notes	
Operating Portfolios										
Short-term Portfolio										
Demand Deposit Accounts	\$ 15,079,722	\$ -	\$ 15,079,722	\$ -	\$ 15,079,722	6.75%	0.44%	0.44%	(1)	
Local Agency Investment Fund	25,922,132	-	25,922,132	-	25,922,132	11.61%	0.46%	0.51%	(2)	
Other Short-term Securities	10,127,711	5,264	10,132,975	27,616	10,160,591	4.55%	0.76%	0.55%		
Medium-term Portfolio										
Cash Equivalents	546,530	-	546,530	-	546,530	0.24%	0.22%	0.22%		
Marketable Securities	169,992,527	1,135,332	171,127,859	525,257	171,653,116	76.85%	1.14%	0.81%		
TOTAL OPERATING FUNDS	\$ 221,668,623	\$ 1,140,596	\$ 222,809,219	\$ 552,873	\$ 223,362,092	100.00%				
Bond Fund Portfolios										
2010 Civic Center COPs	\$ 8,004,755	\$ -	\$ 8,004,755	\$ -	\$ 8,004,755	64.98%	0.00%	0.00%		
Assessment Districts	1,524,200	-	1,524,200	-	1,524,200	12.37%	0.00%	0.00%		
Special Improvement Districts	2,790,371	-	2,790,371	-	2,790,371	22.65%	0.01%	0.01%		
TOTAL BOND FUNDS WITH FISCAL AGENT	\$ 12,319,326	\$ -	\$ 12,319,326	\$ -	\$ 12,319,326	100.00%				
TOTAL CASH & INVESTMENTS	\$ 233,987,949	\$ 1,140,596	\$ 235,128,545	\$ 552,873	\$ 235,681,418					



Notes:
 (1) Yield offsets bank fees
 (2) LAIF Yield is available Quarterly

The full June 30, 2016, report contains portfolio diversification and risk summaries can be obtained at www.newportbeachca.gov/treasury.

Prepared by:

Submitted by:

/s/Jeremiah Lim
 Jeremiah Lim
 Accountant

/s/Dan Matusiewicz
 Dan Matusiewicz
 Finance Director

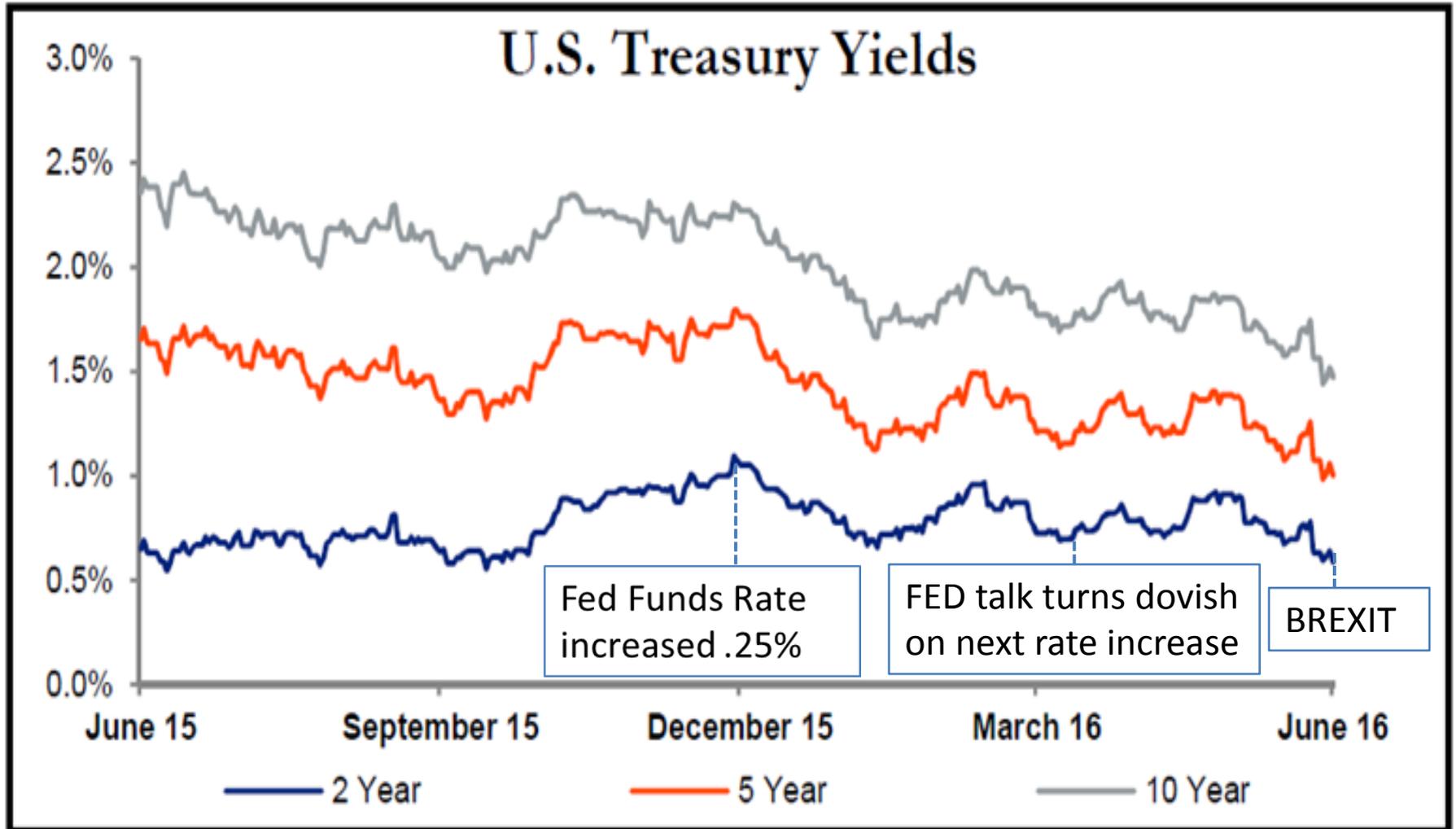
FINANCE COMMITTEE VISUAL AIDS

SEPTEMBER 15, 2016

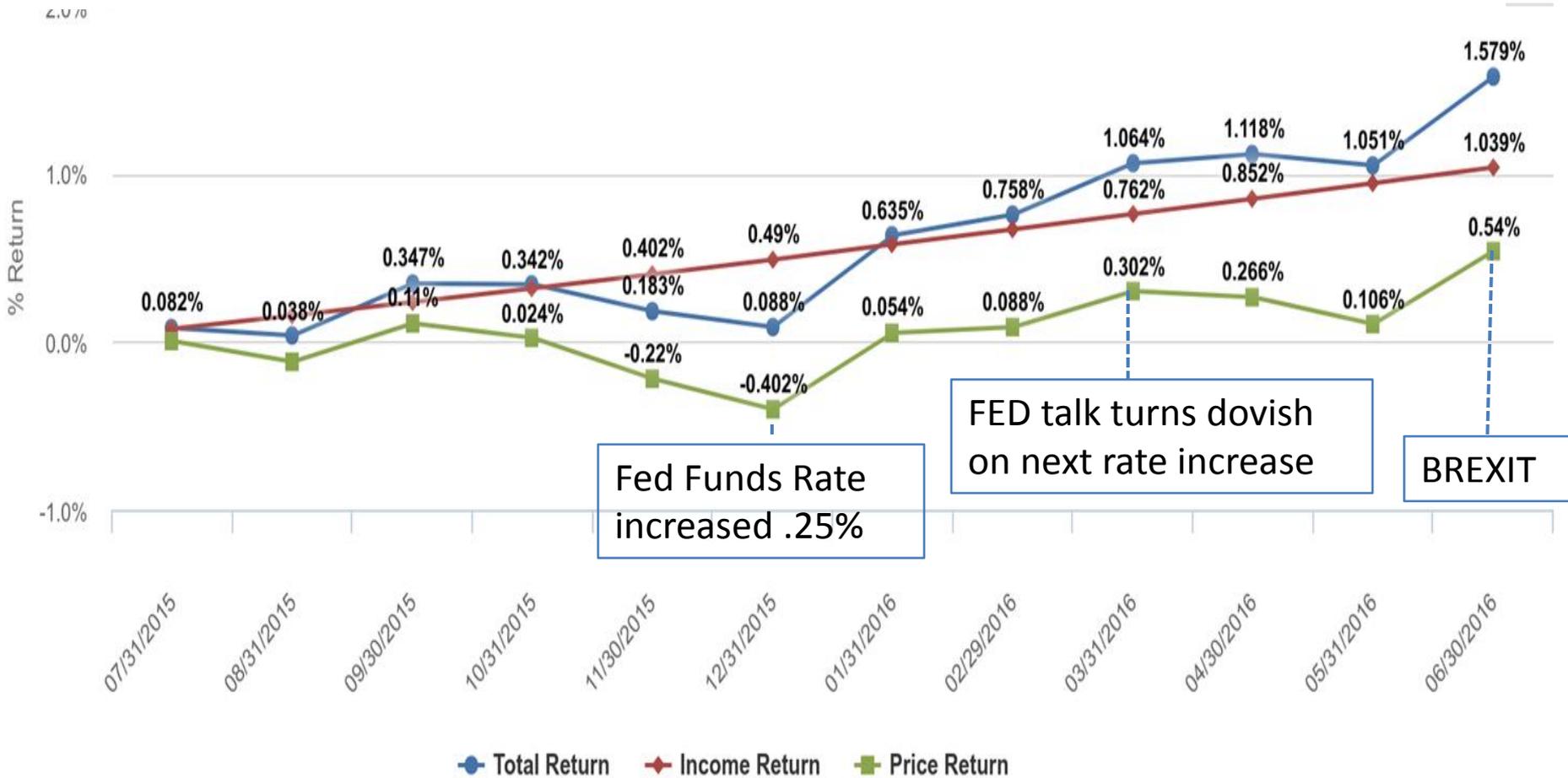


**INVESTMENT PERFORMANCE
REVIEW - JUNE 30, 2016**

Low Rate Environment Continued



Cumulative Returns By Total Return Components



Good Performance Relative to Benchmarks

Medium term Portfolio	2016	2015
Income Return	1.039%	0.824%
Price Return	0.540%	0.097%
Total Return	1.579%	0.921%

Benchmarks	2016	2015
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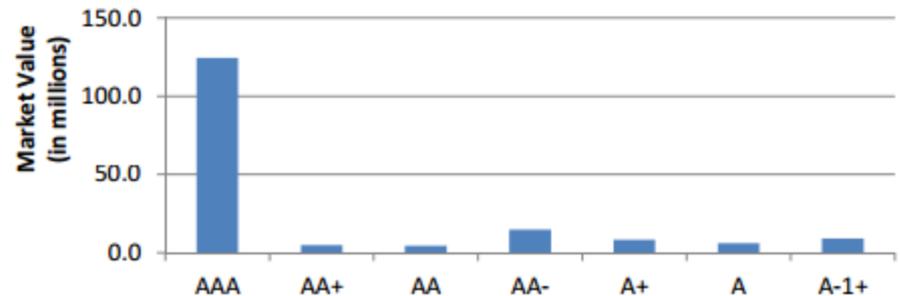
Advisor	2016	2015
CNB-Chandler	1.592%	0.922%
CNB-PFM	1.567%	0.918%

June 30, 2016

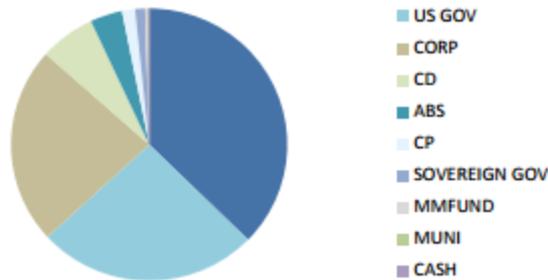
Summary

Cash	546,530
Fixed Income	171,653,116
Duration	1.825
Convexity	0.041
Weighted Avg Life	1.861
Weighted Avg Maturity	1.922
Weighted Avg Eff Maturity	1.861
Yield	0.81%
Purchase Yield	1.14%
Avg Credit Rating	AA+ /Aa1/AA+

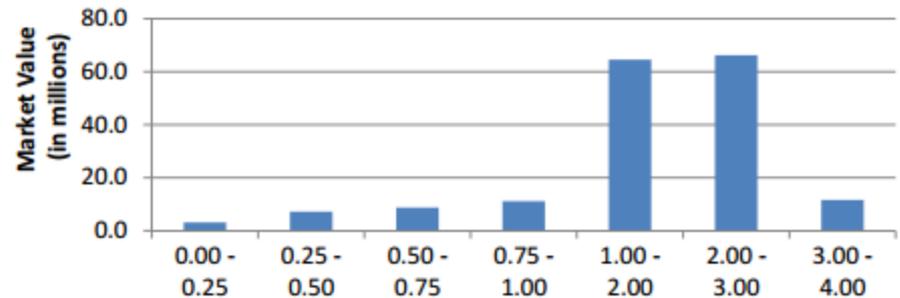
Credit Rating



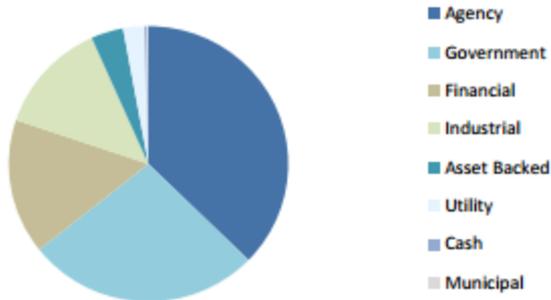
Security Type



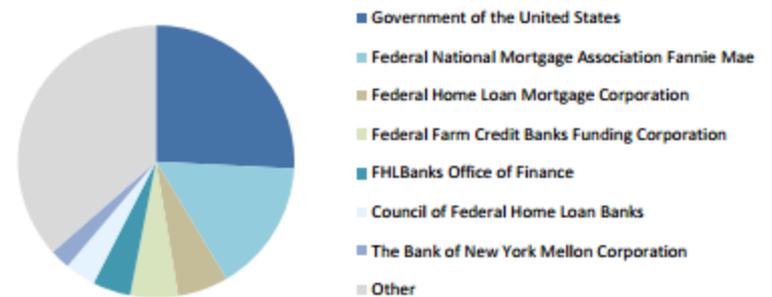
Duration



Market Sector



Issuer Concentration



Policy Compliance

June 30, 2016					
Status		Policy Name	Rules	Compliant Rules	Violating Rules
Compliant		Statement of Investment Policy	29	29	0
Status	Rule Basis	Rule Requirements	Rule Limit	Actual	
Compliant	Concentration	Bankers Acceptance Concentration	40.00%	0.00%	
Compliant	Concentration	Bankers Acceptances Rated Below (LT) A / A2 (ST) A-1/P-1	0.00%	0.00%	
Compliant	Concentration	CD	30.00%	6.16%	
Compliant	Concentration	Commercial Paper	25.00%	2.02%	
Compliant	Concentration	Corp Rated Below A- / A3	0.00%	0.00%	
Compliant	Concentration	CP and CDs Rated Below A/A2 or A1/P1	0.00%	0.00%	
Compliant	Concentration	Issuer Concentration Except for Agency, Repo, FDIC	5.00%	2.04%	
Compliant	Concentration	Max Concentration of Corps (%)	30.00%	23.90%	
Compliant	Concentration	Max Concentration of Funds Assets	10.00%	0.01%	
Compliant	Concentration	Max Concentration of MBS and ABS	20.00%	3.53%	
Compliant	Concentration	Max Concentration of MMF	20.00%	0.40%	
Compliant	Concentration	Max Concentration of Munis (%)	30.00%	0.14%	
Compliant	Concentration	Max Concentration of Supranationals	20.00%	1.09%	
Compliant	Concentration	Max Issuer Concentration of Corporate Bonds (%)	5.00%	2.25%	
Compliant	Concentration	Max Issuer Concentration of Supranationals	10.00%	1.09%	
Compliant	Concentration	Minimum Credit Rating for MBS of AAA	0.00%	0.00%	
Compliant	Concentration	Minimum Issue Size for CD's - In Billions	10	1,000,000	
Compliant	Concentration	Minimum Issue Size for CP's - In Millions	500	---	
Compliant	Concentration	Minimum Rating for Supranational Securities AA	0.00%	0.00%	
Compliant	Concentration	Munis Rated Below A/A2	0.00%	0.00%	
Compliant	Concentration	Repos	10.00%	0.00%	
Compliant	Concentration	Supranational is in USD	0.00%	0.00%	
Compliant	Maturity	Max Effective Maturity for Repos (in Years)	0.08	---	
Compliant	Maturity	Max Final Maturity (from Settle) for Munis	5.00	1.650	
Compliant	Maturity	Max Final Maturity for CP (in Years)	0.74	0.696	
Compliant	Maturity	Max Final Maturity From Settle Date (in Years)	5.00	4.986	
Compliant	Maturity	Max Final Maturity From Settle for Corp Excl CD	5.00	4.077	
Compliant	Maturity	Max Maturity CD	2.00	2.000	
Compliant	Maturity	Max Maturity of Bankers Acceptances	0.49	---	



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5B
September 15, 2016

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director
(949) 644-3123 or danm@newportbeachca.gov

SUBJECT: INVESTMENT ADVISOR RECOMMENDATION

SUMMARY:

The Finance Department has outsourced the management of the City's investment portfolio for more than twenty-five years. With increased staff workloads over the years, it is increasingly clear that the City's portfolio has benefited from full time expert management by professionally managed investment firms. As part of its due diligence, staff intends to continually evaluate the City's comprehensive investment program needs and conduct a complete and competitive selection process for investment advisory services at the end of every five-year contract term. The City issued a Request for Proposal (RFP) for Investment Advisory Services on May 16, 2016. By the proposal due date of June 17, 2016, six firms submitted proposals. Staff narrowed its selection to three firms, conducted interviews, and selected Chandler Asset Management (Chandler) as the sole investment manager. We believe Chandler to be the best overall fit for the City at this time. In moving to one investment manager from two, the City will lower its fee structure; further optimize the investment program by better managing short-term liquidity and long-term funds under one manager; reduce coordination efforts and the number of quarterly meetings with investment advisors from eight to four per year; conduct fewer account reconciliations and substantially reducing the incremental cost of investing from 7 basis points (bps) to 4 bps on newly invested capital.

RECOMMENDED ACTION:

Staff recommends retaining the services of Chandler and the City enter into a five-year contract based on the firm's new proposal for an annual savings of more than \$25,000 per year as compared to a two investment advisor arrangement. In addition, staff recommends terminating the existing investment management contract with PFM Asset Management as of December 31, 2016. With Finance Committee concurrence of staff's recommendation, staff will proceed with the recommended action and bring the new investment advisor contract to the City Council for approval.

DISCUSSION:

The Finance Department has outsourced the management of the City's investment portfolio for more than twenty-five years. With increased staff workloads over the years, it is increasingly clear that the City's portfolio has benefited from full time expert management by professionally managed investment firms. During the last eight years, the Federal Government has kept interest rates historically low, and reduced the inventory of agency securities making investing the City's idle money and diversifying the portfolio more challenging. Contracting for investment advisory services avails the City to a full complement of investment services that would not be possible to do in-house without the economy of scale that full-time

investment advisory services command. This means our investment portfolio is invested more safely because it benefits from full-time professional attention, ongoing credit analysis and the industry tools and resources to manage public funds effectively and prudently.

The City previously engaged five separate investment managers and five separate custodial banks to oversee and safeguard its investment portfolio. In 2011, the City evaluated proposals from investment advisory firms to evaluate the possibility of reducing its number of investment managers and custody banks greatly improving efficiency and reducing fees in the process. Based on the circumstances at that time, the City reduced the number of service providers to Chandler, Cutwater Asset Management (Cutwater), and PFM Asset Management (PFM) who each were awarded five-year contracts. On October 6, 2014, the firm BNY Mellon, our current custody bank, announced its intention to acquire Cutwater. The City terminated its contract with Cutwater shortly after and transferred the assets previously managed by Cutwater to Chandler and PFM proportionately. As part of its due diligence, staff intends to conduct a complete and competitive selection process for investment advisory services at the end of every five-year contract term. The contracts for Chandler and PFM, originally set to expire in June 2016, were extended through December 2016 in order to allow sufficient time to solicit new proposals from investment advisory firms.

Staff has traditionally undertaken the task of planning, preparing and facilitating the RFP process for investment advisory services. Since the City had already engaged two excellent firms, the task to differentiate the quality of services and best fit was going to be a difficult task. Staff thought it was prudent to hire a consultant with (1) years of industry experience who could attract a group of highly qualified firms to respond to the RFP; (2) a demonstrated commitment to government excellence; (3) and the ability to undertake this important and detailed work during a time when staff was consumed with preparing the Fiscal Year 2016-2017 Budget and undertaking the ERP implementation. The City hired the firm Portfolio Services for Government, LLC (PSG) to review RFP expectations and logistics with the City, prepare the RFP documents, analyze and summarize RFP responses, and facilitate the finalist interview process.

Together with PSG, the City issued a Request for Proposal (RFP) for Investment Advisory Services on May 16, 2016. By the proposal due date of June 17, 2016, six firms submitted proposals, including: Atlanta Capital, Chandler, Eaton Vance Management, PFM, Public Trust Assets, and Reams Asset Management. Proposals were submitted in two parts, including a written technical proposal and a separated sealed dollar cost bid. Under the coordination of the Finance Director and PSG, proposals were reviewed and ranked by a three-person Selection Committee comprised of the Finance Director, the Deputy Finance Director and a staff Accountant in charge of investment accounting and reconciliation. The written technical proposals were reviewed and ranked by the Committee before the sealed dollar cost bids were opened and scored.

Staff evaluated and ranked each firm's proposals based on qualifications and experience, management approach and discipline, value added services, and fees. Due to the lower rankings assigned to Reams, Atlanta Capital, and Eaton Vance, staff did not advance these three firms for further consideration. Staff narrowed their selection consideration to Chandler, PFM, and Public Trust – all reputable firms that have experience with meeting investment goals while providing continuity through challenging market cycles. These firms were then invited back to a finalist presentation and interview responding to sixteen specific questions that were provided to them in advance, and to respond to any other questions the Selection Committee chose to probe further into.

While the three finalists met the qualifications; based on the technical content of the proposals, the quality and experience of the proposed engagement staff, comparable clients, and other intangibles; the Selection Committee ranked Chandler as the top overall proposer deemed best able to meet the City's overall needs. Sealed dollar cost bids were opened and revealed annual cost. Firms proposed a tiered fee structure based on the total assets under management. The relative rankings, average fee rate and cost based on \$185 million are summarized in the table to follow:

Firm	Annual Fee ¹	Fees as Percent of Managed Portfolio	Rank
Chandler	\$114,000	0.062%	1
PFM	\$131,000	0.071%	2
Public Trust	\$115,000	0.062%	3
Reams	\$147,500	0.080%	4
Atlanta Capital	\$174,550	0.094%	5
Eaton Vance	\$159,500	0.086%	6

¹ Assuming each firm had \$185 million of assets under management.

While any of the three finalists would make a great choice, staff selected Chandler as the sole investment manager. The City values the relationship it has had with its past investment advisors, we believe Chandler is currently the best fit for City at present because of their narrow focus on fixed income investments, frequent direct communication with portfolio managers, customizable solutions, favorable pricing and other intangibles. Chandler also has proven track record of understanding and delivering on the City's cash flow needs, a history of providing excellent service and has consistently performed well in up and down market conditions. Since 1991, Chandler's portfolio managers have worked diligently to invest the City's portfolio in a manner that fulfills the specific objectives for safety, liquidity and income in a prudent manner at a very competitive price. Chandler Asset Management is an SEC-registered investment advisor and woman-owned business enterprise with its principal place of business located in San Diego, California. Chandler's primary focus is managing funds for public agencies and other conservative-minded clients who are guided by the objectives of preservation of principal, access to cash, and maximization of investment outcome without undue exposure to risk.

Public Trust is a relatively new firm that has been in operation for five years. While Public Trust has highly experienced financial professionals, staff believes that having a few more years as an established firm would make it more attractive. Although the City has been very satisfied with the past expert performance of PFM, City Staff believes that a single investment manager could more efficiently manage its portfolio at a lower cost and streamline treasury operations without introducing new portfolio risk. In moving to one investment manager, the City will lower its fee structure from approximately \$140,000 to \$114,000, a savings of over \$25,000 per year based on a \$185 million average balance. The City will also optimize the investment program by making better use of liquidity and long-term funds. There will be additional staff efficiency by reducing coordination efforts, reducing the number of quarterly meetings with investment advisors year and fewer account reconciliations. The incremental cost of investing new funds is also reduced by reaching lower tiered pricing through one investment advisor.

Prepared by:

Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

/s/ Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachment:

A. Chandler Asset Management RFP Proposal

ATTACHMENT A
Chandler Asset Management RFP Proposal



CITY OF NEWPORT BEACH

REQUEST FOR PROPOSALS
NO. 16-55

DISCRETIONARY INVESTMENT ADVISORY SERVICES

June 17, 2016



CHANDLER ASSET MANAGEMENT
6225 Lusk Boulevard
San Diego, California 92121
Toll free: (800) 317-4747
info@chandlerasset.com
www.chandlerasset.com



June 15, 2016

City of Newport Beach
Attention: Anthony Nguyen, Purchasing Agent
100 Civic Center Drive
Newport Beach, California 92660

RE: Request for Proposals No. 16-55 – Discretionary Investment Advisory Services

Dear Mr. Nguyen:

On behalf of Chandler Asset Management, we are pleased to submit our response to the City of Newport Beach's *Request for Proposal*, and we thank you for the opportunity to present our qualifications. While the City's staff is already acquainted with our firm and the level and quality of services we provide, this proposal highlights the benefits of continuing to partner with Chandler to provide full-time, discretionary investment advisory services to the City.

Our investment approach is based on a philosophy shared by public agencies, which emphasizes the preservation of principal, access to cash, and maximization of investment outcome without undue exposure to risk. In addition to providing disciplined investment management and advisory services, our goal is to continue to provide consistency and continuity for the City's investment program, allowing you and your staff to focus on serving your community.

While this proposal is only a summary of the services that we have provided throughout our engagement, we look forward to discussing any additional areas to assist the City in further enhancing the overall investment program. Chandler's investment team and client service personnel will continue to work closely with your staff to provide the expertise and the service you deserve.

Chandler is highly qualified to continue performing all of the duties outlined in the City's *Scope of Services*. Now in its 28th year, Chandler is a firm that understands your needs and is dedicated to providing solutions for your staff. In addition to our qualified and experienced personnel, we offer state-of-the-art technology and resources, including investment tools, research, operations and comprehensive reporting. Our disciplined and customized investment approach, grounded in proven principles of conservative portfolio management, will continue to assist you in achieving your goals.

At Chandler, we see our job as being more than an investment adviser. We are a provider of custom solutions. Our role, as experienced professionals in the field of public sector investing, is to manage not only the portfolio, but also the overall investment program – just as if you had hired us as an internal employee.



As CEO and Chief Investment Officer, I am legally authorized to bind the firm. I certify that all the information provided in our proposal is accurate, firm and irrevocable, and shall be valid for a period of at least 180 days from June 17, 2016.

We enjoy working with you and your staff, and look forward to the opportunity to continue our relationship with the City of Newport Beach. If you have any questions, please contact **Mia Corral**, *SVP, Relationship Manager*, or **Jayson Schmitt**, *CFA, Executive Vice President, Portfolio Manager* at (800) 317-4747 or via email at mcorral@chandlerasset.com or jschmitt@chandlerasset.com, respectively.

Sincerely,

CHANDLER ASSET MANAGEMENT

A handwritten signature in blue ink that reads 'Martin Cassell'.

Martin Cassell, CFA
CEO, Chief Investment Officer

cc: Terry McCall
Portfolio Services for Government, LLC
704 SE 38th Drive
Gresham, Oregon 97080



Executive Summary

The entire team at Chandler Asset Management highly values the relationship we have had since 1991 with the City of Newport Beach. During the past 25 years, our portfolio managers have worked diligently to invest the City's reserve portfolio in a manner that fulfills the specific objective for asset growth within a safe framework. We are pleased to have been invited to propose to you again, and we hope to have the opportunity to provide the same level of diligence, client service and investment expertise that we have offered to you throughout our partnership.

Chandler Asset Management

Chandler Asset Management is an SEC registered, woman-owned corporation headquartered in San Diego that specializes in the management of fixed-income portfolios for the public sector. We are honored to be stewards of the principal our clients entrust to us, and have, for almost three decades, performed our fiduciary duty with discipline and care. The primary focus for our firm is managing funds for public agencies and other conservative-minded clients who are guided by the objectives of preservation of principal, access to cash, and maximization of investment outcome without undue exposure to risk.

Since 1988, Chandler has grown to a firm that manages approximately \$11.9 billion in assets as of March 31, 2016, including over \$9.3 billion for 120 public agencies. The firm has matched this growth by adding staff and resources in support of its mission. Our goal is to provide best-in-class portfolio management and client service, supported by a scalable infrastructure and a commitment to strong governance, as the firm continues to serve public agencies and other risk-conscious clients across the country. Our mission statement affirms our dedication to *"Earn the trust of every client, every day."*

We believe that through effective risk management, we can enhance these objectives within a framework of safety and compliance with investment policies and all applicable regulations. We work with clients on every aspect of their investment program, including cash flow analysis and forecasting; investment policy development and review; and analysis of risk and return. We recommend market benchmarks for performance analysis that mirror each client's profile, provide regular performance reporting, and offer education and training of each client's staff when requested. The result is an investment approach grounded in the management of risk that is customizable for each of our client's specific objectives and constraints.

Scope of Services

- **Comprehensive Portfolio Management.** Chandler will provide full-time discretionary investment advisory services for the City pursuant to the prudent investor standard of care required as a co-fiduciary. Team members apply their expertise to structure portfolios designed to achieve our clients' primary objective of safety of principal. The investment program is designed to generate competitive results by:
 - Effectively monitoring and managing portfolio risk.
 - Managing the portfolio in strict compliance with the investment policy.
 - Rebalancing the portfolio as needed to maintain the appropriate risk profile.
 - Employing a proprietary, quantitative and qualitative based credit analysis process of portfolio investments and potential investments.
 - Using our proprietary Horizon Analysis Model to determine the optimal portfolio structure for the current interest rate and yield curve environment.

The City of Newport Beach

- Working with you to develop reasonable cash flow projections to identify what funds need to be available in the next six to twelve months.
- Maintaining an ongoing dialogue with you through periodic investment meetings and frequent contact with your staff.
- **Timely communication, both in person and via phone and email.** The City has experienced Chandler's needs-focused communication, sense of urgency and follow-through to completion in its contact with Chandler. The firm's investment management professionals, compliance team, and client service representatives are committed to their roles in serving the City and are proactive in fulfilling the City's needs. Chandler's investment professionals regularly make presentations to your staff and board members to review the portfolio, and educate them on any issues affecting regulation or the investment environment. Further, the City is kept abreast of all issues arising from credit rating changes, maturing securities and funds available for LAIF investments.
- **Portfolio Accounting and Reporting.** The City receives a monthly report that includes a management summary of portfolio characteristics, policy compliance and performance, as well as full accounting details. Monthly reports are available no later than the third business day following month-end. You also receive a quarterly report in a format designed to facilitate discussion between our investment personnel and your staff.

Reports are prepared in accordance with state law and the Governmental Accounting Standards Board (GASB), and are compiled to meet your specific needs. Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS[®]), and prepares and presents its performance in compliance with these standards. Chandler is independently verified by ACA Performance Services for firm-wide GIPS compliance.

- **Compliance Monitoring.** We monitor your portfolio to ensure compliance with your investment policy, California State Government Code and any additional directives. A summary report of compliance with your investment policy is included with your monthly report.
- **Developing and implementing investment strategies.** We encourage ongoing discussions as needed to ensure that the investment strategy remains consistent with the understood goals and objectives. We frequently consult with client's staff and board members on ways to expand investment guidelines with the intent to ensure they are exposed to the broadest opportunity set, while still focusing on the primary objectives of safety of principal and access to cash.
- **Performance Benchmarking.** Our experience with developing portfolio benchmarks is extensive. Since the inception of the firm, each Chandler account has been assigned at least one market benchmark based on our understanding of client objectives, and client agreement with our recommendations.
- **Competitive Transaction Executions, Settlement, and Documentation.** We execute all investment transactions on a competitive basis and document the quotes received. All trades will be settled at your custodian bank using delivery-versus-payment (DVP) procedures.
- **Investment Policy Review.** We have reviewed the City's Investment Policy regularly throughout our engagement, recommending changes based on best practices and changes to California law governing investments.



Request for proposal
prepared for:

The City of Newport Beach

- **Broker-Dealer Due Diligence.** Chandler maintains an active, productive relationship with the broker-dealer community in order to promote an ongoing flow of market information and to execute trades for our clients at competitive prices. We consistently place several dealers in competition and continuously monitor and compare inventories and prices. We review the credentials and regulatory background of each broker-dealer firm and their employees with whom we trade using FINRA's online BrokerCheck System.
- **Online Access.** Periodic reports as well as holdings and transaction reports are available online through our Chandler Client Portal, a secure web portal. Details of securities held can be downloaded directly into your internal reports through the portal.
- **Client Education.** We have served as a general resource to the City whenever our expertise and experience could benefit the Board and its staff. Chandler professionals serve as faculty members for national and regional associations, such as the Government Finance Officers Association (GFOA) and the California Municipal Treasurers Association (CMTA). We will provide educational presentations for your staff, management and other officials.

We welcome the opportunity to meet with the City of Newport Beach's staff to discuss our qualifications in more detail. If you have any questions regarding this proposal, please contact us.

Mia Corral, SVP, Relationship Manager
Email: mcorral@chandlerasset.com

Jayson Schmitt, CFA, EVP, Portfolio Manager
Email: jschmitt@chandlerasset.com

Chandler Asset Management
6225 Lusk Boulevard
San Diego, California, 92121
Toll Free: 800.317.4747
www.chandlerasset.com

ATTACHMENT 3: QUESTIONNAIRE

Please complete this questionnaire. In order to adequately compare and evaluate proposals objectively, all proposals must be submitted in accordance with this format.

Table A. INFORMATION ABOUT THE INVESTMENT ADVISORY FIRM

1. Does the firm meet all the minimum requirements as outlined on page 3 of this RFP? Please summarize.

Chandler exceeds all of the minimum requirements for an investment advisor as outlined on page 3 of the RFP based on the following:

- 1) Chandler is an SEC registered Investment Advisor pursuant to the Investment Advisers Act of 1940, and shares your fiduciary duty. Chandler is registered in California, and our primary focus is on the management of investment grade fixed income portfolios for public agencies such as cities, counties, public authorities and special districts.

For more information, please see our most current *Form ADV Parts 1 and 2*, provided in the **Appendix**.

- 2) Chandler's investment professionals are thoroughly versed in all applicable California statutes and their application to both client-specific investment policies as well as within the broader marketplace. We frequently consult with client's staff and board members on ways to expand investment guidelines with the intent to ensure they are exposed to the broadest opportunity set. In addition, Chandler's professionals serve as faculty members for national and regional associations that develop recommended best investment practices, such as the Government Finance Officers Association (GFOA) and the California Municipal Treasurers Association (CMTA).
- 3) Chandler is completely independent and has no other affiliations in relation to its investment advisory business. Our interests are aligned with our clients who we serve without conflict or competing demands on best execution, upselling of services, or company and bank affiliations.
- 4) Chandler has both the depth and breadth of experience to serve the City, and has almost three decades of experience managing municipal operating and bond funds.
- 5) As of the most recent quarter ending March 31, 2016, Chandler manages over \$4.6 billion in operating funds, bond reserves and bond proceeds for cities across the United States.
- 6) Chandler carries \$15 million in EO/DO (professional liability) insurance. Furthermore, Chandler carries a \$5 million fidelity bond and \$5 million umbrella coverage. Chandler also maintains coverage for general commercial liability (\$2 million per occurrence, \$4 million general aggregate), workers' compensation (\$1 million each accident), crime (\$5 million), and cyber security (\$4 million).

Please see the firm's *Certificate of Liability*, included in the **Appendix**.

2. Briefly describe the evolution of your firm including the date founded, ownership, and any subsidiary relationships. Provide audited financial statements for the past two years and a current interim financial statement. If your firm is privately held and does not produce audited statements, unaudited will be acceptable.

Chandler was founded in 1988, by Kay Chandler in response to the pressing need she observed within the public sector, based on her own experiences serving as the Investment Officer for the County of San Diego for eight years, and for the City of San Diego for another two years. Kay recognized that public agencies with limited time and resources could benefit from external professional expertise and technological resources to help manage their investment programs. In 1991, Marty Cassell, Kay's successor on the investment staff of the City of San Diego, joined the firm. Marty now serves as the firm's CEO and Chief Investment Officer.

Their experience as investment officers within large public agencies shaped their perspectives in leading a firm whose sole purpose is to manage public funds, and assist in fulfilling their fiduciary duty. Kay and Marty have carefully assembled a team of professionals well versed in portfolio management, regulatory guidelines and reporting requirements to meet the specialized needs of public agencies.

Kay Chandler, CFA, President and Founder, and Marty Cassell, CFA, CEO and Chief Investment Officer, are the principal owners of the firm, holding 68% and 25% respectively. Nicole Dragoo, COO and Chief Compliance Officer; Ted Piorkowski, CFA, Senior Vice President and Portfolio Manager; and Jayson Schmitt, CFA, Senior Vice President and Portfolio Manager, are also owners, each owning less than 5% of the shares in the firm. We believe that this ownership structure contributes to our ability to attract and retain the highest quality investment professionals.

Chandler is completely independent and has no other business affiliations in relation to its investment advisory business, including subsidiaries, joint ventures or soft dollar arrangements with brokers.

Chandler is in strong financial condition, profitable, has no outstanding debt, and is adequately capitalized to serve the City for the duration of the relationship. A copy of the firm's most recently reviewed financial statements are included in a separate, sealed envelope. We request that you maintain the confidentiality of this information as Chandler is not a publicly held company.

3. State the dollar totals of portfolios and the number of public sector portfolios the firm has under discretionary and non-discretionary management or advisement.

Assets Under *Discretionary* Management*

	# of clients	Totals
Cities	76	\$3,912.01
Counties	5	\$712.66
Special Districts	32	\$968.12
Other	81	\$2,161.99
Totals	194	\$7,754.76

Assets Under Non-Discretionary Management*

	# of clients	Totals
Cities	13	\$705.63
Counties	4	\$54.54
Special Districts	7	\$80.89
Other	37	\$764.44
Totals	61	\$1,605.50

*As of March 31, 2016

4.

a. How many new *discretionary* accounts have been added by your firm in the last three years?

In the time period of March 1, 2013 - March 31, 2016, Chandler added 136 new discretionary accounts.

b. How many have discontinued your investment advisory services in the last three years?

In the last three years, three institutional accounts discontinued Chandler's investment advisory services.

c. Explain why these accounts discontinued service.

- In 2013, Chandler did not rebid on an existing client when their term was completed;
- In 2014, Chandler lost one account in a competitive RFP process, and a second when the public entity spent down their investable assets.

5.

a. How many new *non-discretionary* accounts have been added by your firm in the last three years?

In the time period of March 31, 2013 - March 31, 2016, Chandler added 17 new non-discretionary accounts.

b. How many have discontinued your investment advisory services in the last three years?

In the last three years, Chandler has not had any non-discretionary accounts discontinue our investment advisory services.

c. Explain why these accounts discontinued service.

Not applicable.

6. Provide a statement of the firm's experience with investment advisory services to entities similar to ours, including the number and dollar totals of your discretionary and non-discretionary accounts in California.

Chandler Asset Management has a long-standing commitment to the public sector, and believes our history of helping public entities meet their financial goals highly qualifies our firm to assist the City in the range of investment services it seeks. We work with clients on every aspect of an investment program, including cash flow analysis and forecasting; investment policy development and review; and analysis of risk and return. We recommend market benchmarks for performance analysis that

mirror each client’s profile; provide regular performance reporting; and offer education and training of each client’s staff when requested. The result is an investment approach grounded in the management of risk that is customizable for each of our client’s specific objectives and constraints.

One of the firm’s guiding principles is participation in the development of best practices in the management of public funds. Chandler participates in programs and seminars provided by the Government Finance Officers Association (GFOA), the California Society of Municipal Finance Officers (CSMFO) and the CFA Institute.

In addition, Marty Cassell, Chandler’s CEO, sits on the GFOA’s Committee on Treasury and Investment Management. This committee tracks new developments in cash management and develops best practices for government officials at all levels.

As a California-domiciled firm, Chandler takes enormous pride in the depth and strength of the relationships cultivated in our home state, and currently manages over \$9 billion for California clients. Chandler’s discretionary relationships total \$8.5 billion for 344 California accounts, including approximately \$3 billion in operating funds, bond proceeds, and bond reserves for California cities alone. Non-discretionary relationships in the state total \$853 million for 45 accounts.

7. List the project manager and all key personnel to be utilized for the work. Include résumés, description of education, professional designations, certificates or licenses, professional background, experience, skills, expertise and training for the types of services required.

As the City has experienced, Chandler believes in a customized approach with direct, in person, access to the portfolio management team members responsible for the investment program. Drawing from their collective expertise, your primary portfolio manager, Jayson Schmitt and his colleagues have developed and implemented strategies for the City based on a thorough, well-rounded analysis of investment ideas—especially with respect to the City’s specific investment objectives. All of Chandler’s portfolio managers have earned the designation of Chartered Financial Analyst (CFA) and average over 20 years of industry experience. The CFA charter signifies command of a wide body of investment knowledge, as well as a commitment to ethical behavior, placing client interests above all others. Our investment professionals work closely with our client service, operations and compliance professionals to ensure you receive world-class client service, while adhering to your investment guidelines.

The key professionals are listed in the following table.

Key Professionals for the City of Newport Beach

Professional	Responsibility	Industry Experience	Firm Tenure
Portfolio Management and Research			
Marty Cassell, CFA CEO, Chief Investment Officer	Chief Investment Officer	1987	1991
Ted Piorkowski, CFA SVP, Portfolio Manager	Portfolio Management, Research, Credit Analysis and Trading	1987	1999
Jayson Schmitt, CFA EVP, Portfolio Manager	Portfolio Management, Research, Credit Analysis and Trading	1994	1995



Request for proposal
prepared for:

The City of Newport Beach

Bill Dennehy, CFA EVP, Portfolio Manager	Portfolio Management, Research, Credit Analysis and Trading	1992	2011
Scott Prickett, CTP EVP, Portfolio Strategist	Portfolio Management, Research, Credit Analysis and Trading	1987	2014
Jeff Probst, CFA VP, Portfolio Manager	Portfolio Management, Research, Credit Analysis and Trading	2010	2012
Genny Lynkiewicz, CFA VP, Portfolio Manager	Portfolio Management, Research, Credit Analysis and Trading	2000	2015
Julie Hughes SVP, Portfolio Strategist	Portfolio Management, Research, Credit Analysis and Trading	1993	2014
Shelly Henbest VP, Credit Analyst	Research and Credit Analysis	2000	2009
Webster Grouten III Portfolio Management Associate	Portfolio Management Support	2010	2012
Relationship Management			
Mia Corral SVP, Relationship Manager	Client Service and Relationship Management	1997	2004
Jeannie Palmero VP, Client Service	Client Service	1997	2007
Compliance & Operations			
Nicole Dragoo, IACCP COO, Chief Compliance Officer	Regulatory Compliance and Firm Operations	2000	2001
Michael Ramos VP, Operations	Investment Operations	2003	2004

For detailed résumés of all team members, please see the *Professional Biographies* in the Appendix.

8. Provide at least three local government *discretionary* client references, including contact information (name, physical address, e-mail address & phone number).

References for the City of Newport Beach

Client	Contact	Dates of Service
City of Brea One Civic Center Circle Brea, California 92821	William Gallardo <i>Financial Services Director</i> Ph: 714-671-4418 Email: billga@ci.brea.ca.us	1996-present
City of Buena Park 6650 Beach Boulevard P.O. Box 5009 Buena Park, California 90621	Sung Hyun <i>Finance Director</i> Ph: 714-562-3713 Email: shyun@buenapark.com	2005-present
City of Costa Mesa 77 Fair Drive Costa Mesa, California 92626	Collen O'Donoghue <i>Assistant Finance Director</i> Ph: 714-754-5219 Email: Colleen.ODonoghue@costamesaca.gov	2013-present
City of San Clemente 100 Avenida Presidio San Clemente, California 92672	Mark Taylor <i>City Treasurer</i> Ph: 949-361-8360 Email: taylorm@san-clemente.org	2013-present

9. What is the average number of accounts served per portfolio manager?

As of March 31, 2016, the firm's five portfolio managers and two portfolio strategists managed 145 institutional client relationships for an average of 21 relationships per investment professional.

In general, we believe that the concept of average number of accounts per investment professional is not representative of the distribution of work within our investment process. The successful implementation of the team's investment process is not dependent upon any one individual; in fact, the workload for each account is distributed across the entire team. In addition, all of our investment personnel have research, trading and analytic responsibilities, which benefit all of our client's accounts.

While we do not have a fixed maximum of accounts or assets under management per investment professional, we have a comprehensive plan in place to add staff members as we add assets under management. Our goal is to maintain the high level of performance and service that is one of the hallmarks of our firm.

10.

a. What are the advantages of the City in contracting with more than one investment advisor?

Chandler successfully co-manages assets for several public agencies, including the City of Newport Beach. Some advantages of such an arrangement are as follows:

- Diversification by management style or sectors of expertise;
- Different analysis/opinion of market environment and how it affects the portfolio; and
- Two managers could manage similar mandates, and the City would have the benefit of

comparing the returns the managers achieve over time, thereby ensuring competitive returns and that all City objectives are being met.

b. What are the disadvantages?

Some disadvantages in contracting with more than one investment advisor are:

- De-centralization of accounting and reporting function. Reporting is not consolidated and must be reconciled from various sources, diminishing some convenience;
- Style drift from objectives of the mandate; and
- The ability to obtain competitive pricing and lower execution fees can be hindered if placed in smaller tranches.

11. Who supplies your firm with market value figures?

To ensure integrity, we receive daily, independent pricing of securities from Interactive Data Corporation, Inc. (IDC). In the rare instance that a security is not priced by IDC, we use an alternative pricing source, such as TRACE, Bloomberg, custodian valuation, etc., to determine reasonable fair market value. Our Operations Team also performs daily reconciliation of transactions and cash balances with our clients' custodians.

12. Describe the firm's research capability and resources (e.g., Bloomberg, PMA Ratings, Highline Data Bank Ratings, etc.).

Chandler devotes considerable resources to enhancing our own in-house capabilities and evaluating research from outside sources, which we incorporate into our own proprietary processes.

Some of the primary research sources our team uses for diverse market perspectives and for raw data for our proprietary analytical systems include:

- **Bloomberg:** Chandler uses the Bloomberg System to monitor market activity and security prices in real time, and to execute transactions. Bloomberg's extensive database is an important resource in our fundamental evaluation of credit quality and relative value.
- **Stone & McCarthy Research Associates:** The independent firm of Stone & McCarthy Research Associates (SMRA) provides a broad macroeconomic analysis, in-depth market commentary, and sector analysis. SMRA's examination of current economic conditions and projections of future economic scenarios is a major tool for developing the firm's horizon forecasts.
- **BCA Research:** The independent firm of BCA Research (BCA) provides macroeconomic analysis and insight regarding policy issues that affect the markets. BCA provides unbiased research through both reports and direct access to research staff, which we use to enhance some of our own independent research.
- **Rating Agencies:** We consider Moody's, Standard & Poor's and Fitch ratings as a threshold for including securities in our "investable universe".
- **Credit Sights, ITR Economics, Gimme Credit:** The independent firms of Credit Sights, ITR Economics and Gimme Credit, LLC, continually evaluate the credit markets and provide us with their current analysis and opinions on fluid or developing credit situations within the universe of credit issuers.
- **TradeWeb, MarketAxess:** We use TradeWeb, MarketAxess and other electronic trading

platforms for price discovery, competitive bidding, and trade execution and documentation.

- **Bank of America/Merrill Lynch Fixed Income Indices:** We download characteristics of these indices and their constituent securities as an element in our own analysis of value and risk in the market.
- **Charles River Development System:** The firm utilizes the Charles River Development System (CRD), to ensure portfolio compliance with client objectives, policies, directives and state laws.

The overall investment process results in a disciplined, evidence based set of recommendations that we provide to our clients.

13. Is firm capable of providing all services identified in this request for proposal?

Yes, Chandler is capable of providing all services identified in the City's *Request for Proposal*, and the City and its staff will continue to receive the level of service in both its investment management and client service needs which it deserves and is accustomed to.

14. In how many days from Contract execution can you (a) begin the transition, if applicable, (b) complete the transition, and (c) commence services?

Not applicable – Chandler is the City's current investment manager, and so continuity of the City's investment program is assured.

15. Has there been any turnover of key personnel in the firm in the past 12 months? If yes, please describe.

There has not been any turnover of key personnel in the firm in the past 12 months.

16. Describe any Securities and Exchange Commission (SEC) regulatory censure or litigation related to services your firm provides.

There has been no regulatory censure or litigation by the SEC or any other regulatory body related to the services Chandler provides in the firm's history.

17. Provide a copy of the firm's most recent ADV, Part I and II (including Schedule I), as on file with the SEC.

Please see Chandler's current Form ADV, Parts 1 and 2, provided in the Appendix.

a. Is the firm registered with the State of California?

Yes.

b. Identify by page and item number, and explain any adverse information in the ADV and how you mitigated it or how you intend to do so.

Not applicable.

18. Benchmarks: Provide advice as to what benchmark(s) the City should maintain or change in order to evaluate portfolio performance, and why.

The City's current benchmark, the *Bank of America Merrill Lynch 1-3 Year Treasury Index* was mutually arrived upon as the best measurement of performance by the City and Chandler as its current manager.

At this time, Chandler does not have any suggested changes, and believes that the current benchmark is appropriate for measuring and comparing the portfolio's returns.

19. Performance (part a): Please complete the following tables. Use GIPS¹-compliant composite total return, gross of fees.

If your firm is not GIPS-compliant, please state the reason and whether or when your firm intends to become so.

Attach your GIPS-compliant performance presentation as an exhibit to your response.

State whether your GIPS performance information is verified, and provide the verification letter.

State whether your composites have had a performance audit, and provide documentation to support it.

Chandler Asset Management claims compliance with the Global Investment Performance Standards (GIPS®), and prepares and presents its performance in compliance with these standards. Chandler is independently verified by ACA Performance Services for firm-wide GIPS compliance. A copy of our GIPS-compliant performance presentation and most recent *Verification Letter* is included in the **Appendix**.

Calendar Year Performance (GIPS-compliant total return, gross of fees, annual average)					
Medium-Term (1-5 Years)					
Your Firm's Recommended Benchmark: <u>BofA/ML 1-5 Year US Treasury & Agency Index</u>	2015	2014	2013	2012	2011
Your Firm's Composite	1.15%	1.42%	0.04%	1.80%	2.90%
Benchmark Return:	0.96%	1.24%	-0.16%	0.98%	3.19%
Added Value	0.19%	0.18%	0.20%	0.82%	-0.29%
Annualized Quarterly Standard Deviation:	2.54%	1.19%	2.23%	0.90%	1.80%
Number of clients in composite:	44	40	39	38	32
Percentage of Total that are Government Clients:	100%	100%	100%	100%	100%

Please see GIPS® disclosure for Chandler's Short Term Bond in the Appendix. Past performance is not indicative of future results, and is gross of fees. The composite characteristics are supplemental information under GIPS® and supplement the composite presentation herein.

Calendar Year Performance (GIPS-compliant total return, gross of fees, annual average)					
Long-Term (1-10 Years)					
Your Firm's Recommended Benchmark: <u>BofA/ML 1-10 year US Treasury & Agency Index</u>	2015	2014	2013	2012	2011
Your Firm's Composite	1.60%	3.24%	-1.61%	2.85%	6.28%
Benchmark Return:	1.24%	2.77%	-1.56%	1.87%	6.35%
Added Value	0.36%	0.47%	-0.05%	0.98%	-0.07%
Annualized Quarterly Standard Deviation:	4.24%	2.35%	4.50%	2.35%	4.72%



Number of clients in composite:	9	9	9	9	9
Percentage of Total that are Government Clients:	89%	89%	89%	89%	89%

Please see GIPS® disclosure for Chandler's Intermediate Bond in the Appendix. Past performance is not indicative of future results, and is gross of fees. The composite characteristics are supplemental information under GIPS® and supplement the composite presentation herein.

Investment Results for the City of Newport Beach

The table below shows the historic returns on the City's portfolio for various periods ending March 31, 2016 compared to the fund's performance benchmark.

Total Rate of Return – Annualized Since Inception (March 31, 1991)

	3 months	12 months	Annualized				Since inception
			2 Y	3 Y	5 Y	10 Y	
City of Newport Beach	1.02%	1.16%	1.24%	0.95%	1.15%	2.85%	4.48%
<i>BofA/ML 1-3 Year US Treasury Index</i>	0.90%	0.92%	0.9%	0.77%	0.87%	2.48%	4.20%

Performance is shown net of fees. Past performance is not indicative of future results. Performance for periods greater than one year is annualized. Please see GIPS® and benchmark disclosures in the Appendix.

19. Performance (part b): Using the following format for your tables, please provide GIPS-compliant composite returns for your clients who use the benchmarks you recommended above:

Medium-Term Benchmark Index: BofA/ML 1-5 Year US Treasury & Agency Index			
GIPS-compliant Composite Returns Gross of Fees as of 12-31-16	Composite %	Benchmark %	Added Value %
1 Year	1.15%	0.96%	0.19%
3 Year	0.87%	0.68%	0.19%
5 Year	1.46%	1.24%	0.22%
10 Year	3.33%	3.05%	0.28%

Please see the GIPS® disclosures in the Appendix. Past performance is not indicative of future results. Performance is presented gross of investment management fees. Performance for periods greater than one year is annualized.

Long-Term Benchmark Index: BofA/ML 1-10 Year US Treasury & Agency Index			
GIPS-compliant Composite Returns Gross of Fees as of 12-31-16	Composite %	Benchmark %	Added Value %
1 Year	1.60%	1.24%	0.36%
3 Year	1.05%	0.80%	0.25%
5 Year	2.44%	2.10%	0.34%
10 Year	4.16%	3.74%	0.42%

Please see the GIPS® disclosures in the Appendix. Past performance is not indicative of future results. Performance is presented gross of investment management fees. Performance for periods greater than one year is annualized.

20. Describe how investment ideas are originated and researched.

Individuals may generate ideas through their independent research to bring to the entire Investment Management Team or their committee meetings, or one of our committees may collectively source an idea or theme through discussion. Additionally, the entire Investment Committee participates in regular off-site meetings for short, intermediate and long range planning. These meetings provide a forum in which every member of the team has input on the formulation and implementation of our strategies.

<p>Economic and Market Analysis Committee</p> <ul style="list-style-type: none"> ▪ Economic Outlook ▪ Market Analysis ▪ Develops Interest Rate Scenario Inputs for HAM 	<p>Investment Management Committee</p> <p>Martin Cassell, CFA CEO and Chief Investment Officer</p> <p>Jayson Schmitt, CFA Exec. Vice President, Portfolio Manager</p> <p>William Dennehy II, CFA Exec. Vice President, Portfolio Manager</p> <p>Scott Prickett, CTP Exec. Vice President, Portfolio Strategist</p> <p>Ted Piorkowski, CFA Sr. Vice President, Portfolio Manager</p> <p>Julie Hughes Sr. Vice President, Portfolio Strategist</p> <p>Jeff Probst, CFA Vice President, Portfolio Manager</p> <p>Genny Lynkiewicz, CFA Vice President, Portfolio Manager</p> <p>Shelly Henbest Vice President, Credit Analyst</p> <p>Webster Grouten III Portfolio Management Associate</p>	<p>Quantitative Analysis Committee</p> <ul style="list-style-type: none"> ▪ Reviews Committee Data ▪ Produces HAM Analysis ▪ Produces Quantitative Analysis for all Committees ▪ Improves Model Technology and Methods
<p>Credit Committee</p> <ul style="list-style-type: none"> ▪ Fundamental Credit Analysis ▪ Security Relative Value Analysis ▪ Maintains Approved List 		<p>Sector Committee</p> <ul style="list-style-type: none"> ▪ Sector Valuation ▪ New Sectors Analysis ▪ Develop Valuation Inputs

The Economic and Market Analysis Committee focuses on the development of economic inputs and interest rate scenarios for the Horizon Analysis Model, the proprietary tool we employ to develop portfolio structure. The Committee meets weekly.

The Sector Committee is tasked with sector valuation methodology and evaluation of new instruments and sectors for suitability. The Committee meets monthly.

The Credit Committee is responsible for evaluating issuers for inclusion in the Approved Issuer List. The Committee meets weekly.

The Quantitative Analysis Committee develops and sets the structure for the Horizon Analysis Model

and evaluates the Model's process for improved technology and methods. The Committee meets monthly.

Members of the Investment Management Committee meet weekly to review the findings and recommendations of the committees, market conditions, and client portfolio characteristics to determine short term strategies and any need for portfolio rebalancing. In addition, team members meet off-site on a semi-annual basis and discuss economic, market and credit conditions using committee research to establish the firm's investment outlook, portfolio target characteristics, and sector strategy for the ensuing quarter.

21. Explain how investment decisions are monitored and evaluated, including rating changes.

All credits are monitored daily and are closely reviewed by the Credit Committee at least quarterly. A team member will monitor the overall news flow on each issuer on our approved list on a daily basis (earnings or press releases, management presentations or conferences, ratings changes, etc.). The information is distributed to the entire Investment Management Team on a daily basis. In the event the fundamentals of the underlying credit change, the Credit Committee may act to add or remove the issuer from our approved credit list under the appropriate segregation.

Periodic Rebalancing -With the passage of time, portfolio characteristics may tend to drift away from the desired structure. For that reason, the team reruns the Horizon Analysis Model monthly, and rebalances as market conditions and portfolio characteristics change.

22. Describe your investment management process and how it relates to the client's tasks. Include the step-by-step processes for transaction advice, decisions, execution, safekeeping/custody, and accounting, including who does what. Please include a flow chart.

The table below is a broad outline of the steps and tasks involved in a typical client relationship. We understand that the City's investment program is unique, and we work with staff to implement a process that suits your needs. For a flow chart of the investment process, please refer to the Appendix.

<p>Portfolio Structure and Investment Analysis</p> <ul style="list-style-type: none"> Chandler communicates on an ongoing basis with the City's staff to ensure we understand your goals and are aware of any changes to your current situation. Chandler establishes the optimal portfolio structure using our Horizon Analysis Model. Chandler's committee system generates and discusses investment ideas and themes. The Credit Committee drives credit research and analysis, and discusses credits with the entire team. Final approval of issuers/credits is made by Marty Cassell, CEO and Chief Investment Officer.
<p>Security Choice and Recommendations</p> <ul style="list-style-type: none"> With an approved list of issuers, Chandler evaluates the City's portfolio based on the outputs of the Horizon Analysis Model. Chandler identifies securities that would be appropriate, taking into consideration portfolio structure, cash flow needs and investment policy guidelines.
<p>Trade Execution</p> <ul style="list-style-type: none"> Chandler sets up the trade in our trade order management system, Charles River (CRD). CRD runs pre-trade compliance on the transaction, which evaluates whether security complies with the City's investment policy guidelines (coded into the system at the inception of the relationship).

<ul style="list-style-type: none"> • Chandler seeks best execution, seeking a minimum of three quotes (when possible). • If the trade complies with investment guidelines, Chandler will execute the transaction.
<p>Settlement and Accounting</p> <ul style="list-style-type: none"> • Trade details are sent from CRD to portfolio accounting software, PAM for investments (PAM). • Chandler’s procedures and processes ensure data integrity between CRD and PAM for accounting and reporting purposes. • CRD trade allocation files are sent to OASYS to verify broker has instructions available. • Trade allocations are sent to broker via OMGEO secured network. • Broker matches or rejects details, issues a confirm assuming no further reconciliation required.
<p>Safekeeping, Custody and Reporting</p> <ul style="list-style-type: none"> • After confirmation, trade tickets become available for internal review and posted to the <i>Chandler Client Portal</i>. • Custodial trade ticket distributions are sent out via secure email or fax with authorized trade signatures. • Custodial trade summary reports are sent to custodians as an added reference for verification. • Trade ticket viewing notification emails are sent to the City to make them aware of availability on the Chandler Client Portal. • Chandler will provide monthly statements and quarterly reports to the City.
<p>23. Describe procedures used to ensure that portfolios comply with client investment objectives and policies.</p> <p>Chandler has a robust process for ensuring portfolio compliance with client objectives, policies and directives. The firm utilizes the Charles River Development System (CRD) to monitor compliance with client investment guidelines. Each element of a client’s investment policy and guidelines are hard-coded into the system by a compliance professional of the firm under the appropriate segregation of duties. Pre-trade compliance testing is activated each time a Portfolio Manager prepares to execute a transaction. CRD prohibits execution of the trade if it does not comply with the policy. If an “alert” is triggered for non-compliance, it cannot be lifted by a portfolio manager.</p> <p>As a part of our regular process of policy and guideline monitoring, we provide clients with a monthly detailed Statement of Compliance, based on our complete review of client’s investments. This Statement also serves as an effective means of reporting compliance to the governing body.</p> <p>In addition to providing pre-trade compliance, CRD integrates seamlessly with Chandler’s accounting system. Our investment professionals electronically send executed transaction information to Chandler’s investment operations professionals for settlement processing and broker/custodian notification. Transactions are then electronically imported into the portfolio accounting/reporting system. We designed these controls to provide appropriate separation of duties and to reduce the possibility of human error in the process.</p>
<p>24. Describe the strategies that will be used to enhance the performance of the investment portfolio.</p> <p>Chandler’s active management, diligent security analysis, and prudent attention to cash flow needs add value to client portfolios and enhance the consistent returns generated over time. Chandler acts on the following key principles to sustain its philosophy of outperformance over the benchmark within the framework of risk control:</p> <ul style="list-style-type: none"> • Strategically allocating assets to market sectors, and rotating sectors as values change.

- Positioning securities along the yield curve to capture additional value as yield curves shift.
- Selecting individual securities that we believe offer the greatest potential to maximize yield.
- Constraining portfolio duration relative to the benchmark to maintain the City's desired exposure to market risk.
- Maintaining sufficient liquidity to meet client cash flow needs.
- Maintaining an ongoing dialogue with you through regular investment meetings and frequent telephone contact with your staff.

25. Describe your procedures for portfolio review, investment management and client contact.

Portfolio Review: On a daily basis, members of our Investment Management Team compare the characteristics of your portfolio to its defined target structure, using our proprietary system. The system compiles account data and highlights how the portfolio differs from its target duration, term structure and sector allocation. Our team then reviews and analyzes the differences. If the team decides that a change in portfolio structure or holdings would benefit the City, they will make the necessary adjustments.

Investment Management: Our Investment Management Team will structure investment portfolios with the goal of achieving the City's objectives for safety, liquidity and yield. The team will provide ongoing portfolio management, employing a disciplined investment process designed to ensure that the City's portfolio remains consistent with your objectives over time. The team will also provide ongoing credit analysis, employing a rigorous, proprietary process established to identify under- and over-valued securities and adjust portfolios accordingly, with prior approval. We will conduct pre- and post-trade compliance testing, to guard against investment policy violations, and perform daily reconciliation with custodian records.

Client Contact: Chandler's investment professionals communicate with clients frequently about economic conditions and market trends, and are available at any time during business hours to answer questions about the portfolio and your investment program. We meet with clients, either in person or telephonically, each quarter to discuss the portfolio and share our investment expectations for the coming quarter. In addition to day-to-day contact, we will be available to attend meetings with you, your staff and other officials. We will prepare presentations for these meetings, which include market information, current and proposed investment strategies, portfolio characteristics, and performance. This format is designed to promote discussion between our team and your staff. A senior member of the investment management team as well as your relationship manager will attend these meetings.

26. Describe your process in assisting with the selection of a Custodian Bank.

As part of our services, we are able to assist you in reviewing custodial and safekeeping arrangements. Our Operations Team will review your current custodial arrangement, including contractual arrangement, services provided, your satisfaction with the services and their cost. If necessary, we can make recommendations for revisions in your existing relationship or assist you in selecting a new custodian that best meets your needs.

- If the City currently has a satisfactory third party custodian, we will provide a sample letter for you to send to the custodian which describes the relationship between Chandler and the City, and which gives us permission to settle trades with your custodian on your behalf, or;
- If the City would like to review custodian relationships, Chandler can recommend several that

can provide high quality custody services and/or participate with the City in an RFP process.

27. How are broker/dealers selected? The City will require approved broker/dealers to submit and annually update a City-approved Broker/Dealer Information Request Form which includes the firms' most recent audited financial statements. What process do you have in place to monitor broker/dealers after they have been approved?

The Investment Management Team maintains an active, productive relationship with the broker/dealer community in order to promote an ongoing flow of market information and to execute trades for our clients at competitive prices. On a given day, various factors may combine to generate the best price for a given transaction, including current dealer inventories, dealer profit/loss positions, and individual dealer sentiments about the market. No one dealer will consistently provide best execution. For that reason, we consistently place several dealers in competition and continuously monitor and compare inventories and prices.

All investment transactions made for our clients are performed on a competitive, best execution basis with non-affiliated broker/dealers. Given that all of our transactions are executed using "delivery-versus-payment" (DVP) procedures, the firm's broker/dealer selection and monitoring process centers primarily on transactional risk. Thus, our internal criteria for reviewing and monitoring broker/dealers for approval and retention include:

- Competitive pricing
- Trade execution efficiency
- Consistency of coverage
- Quality and breadth of product inventory
- Willingness to make a two-way market

We monitor financial news for any indication of financial weakness or diminishing participation in our markets. In addition, we are concerned with broker/dealer integrity and capitalization. The Financial Industry Regulatory Authority (FINRA) provides an on-line BrokerCheck System, which we use to review the credentials and regulatory background of each broker/dealer firm and their employees with whom we trade.

- 28.
- a. Identify the types of securities held in your portfolios.

Chandler's portfolios are comprised of high quality, investment-grade, U.S. dollar denominated fixed income securities including Treasury, agency and corporate fixed income securities, Supranational, asset-backed securities, mortgage-backed securities and commercial paper.

- b. Describe the types of investment research the firm utilizes and the methodology used to make investment decisions (including maturity and investment selection).

For each strategy, we will execute the investment program through our rigorous, quantitatively based investment process, comprised of three stages: portfolio construction, security selection and periodic rebalancing. Our process is custom-tailored for each client portfolio. For the City, as for all our clients, we believe the development and maintenance of a strong investment program should focus on the following elements:

- **Maturity** — We believe the average maturity of the portfolio, as well as the longest permitted maturity, should reflect the client's goals, return objectives and risk tolerances. That is why we

see our first task with a client as understanding that client’s specific objectives regarding current yield, book yield and total return. When that understanding is achieved, we establish a target maturity and duration for each account under our management

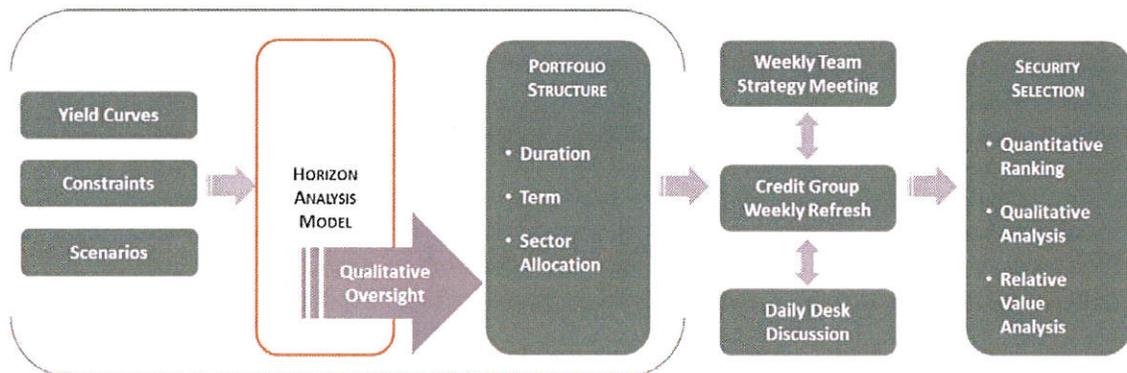
- **Duration** — Your investment risk profile, specifically regarding target duration and sector allocation, is reflected in the market benchmarks you select in collaboration with our team. Our philosophy is to maintain duration within a defined range around the duration of your selected benchmark(s), thereby limiting relative market risk.
- **Investment Type** — Chandler develops a well-diversified portfolio based on the City’s Investment Policy. Our sector allocation strategy provides broad diversification by sector and by issuer and works to minimize exposure to credit risk.
- **Credit Quality** — We believe that each client should establish quality constraints that reflect the individual risk preference of those responsible for the investment program. Then, within that framework, we will purchase securities that have value, according to our model. At Chandler, we limit our investment in corporate securities to highly rated companies, subject to the client’s restrictions.
- **Yield** — We search diligently to add value at every stage in our process. We manage the portfolio to enhance yield and long-term growth within the constraints of the client’s risk profile and return objectives. Finally, we strive to find the best execution for each transaction, seeking multiple price quotations on all purchases and sales.

Security Selection

Chandler employs a proprietary credit analysis process designed for identification of stable and improving credits, as well as early detection of weak and deteriorating credits. It includes both qualitative and quantitative aspects. The decision to purchase a specific security on our Approved List is based on Chandler’s analysis of its relative value.

Chandler’s Proprietary Horizon Analysis Model: The Horizon Analysis Model is the quantitative foundation for Chandler’s portfolio construction process. The Model enables our portfolio management team to integrate their research into the portfolio management process in a quantitative, disciplined, and repeatable way.

Inputs to the Model include: (1) current yields on Treasury, agency and corporate securities; (2) specific client constraints, such as maturity restrictions and maximum sector exposure; and (3) nine different forecasted interest rate scenarios that may occur at the six-month horizon date. Our analysis of current macroeconomic conditions is one of the factors we consider as we develop the nine scenarios that comprise the third input to the Model.



Through an iterative process, the Model generates the “optimal portfolio structure” (duration, maturity distribution, and sector allocation), which we define as the portfolio that achieves a return greater than the benchmark in each of the nine scenarios. That is, the Model generates a portfolio structure that we expect will outperform the portfolio’s benchmark over a wide range of possible future interest rate movements.

The Investment Management Team then evaluates the optimal portfolio structure, and may make adjustments as they begin the construction of the portfolio. This combination of a rigorous quantitative structure and experienced qualitative oversight is a hallmark of all Chandler’s portfolio management activities.

Table B. COMPUTER REQUIREMENTS
1. What are the specific requirements for remote access? Are there options? Please describe in detail.

All remote access must be through an approved connection and users are permitted to use only those network addresses issued to them by the firm. Only firm-approved portable computing devices may be used to access Chandler's information resources. Employees granted permission to use their own personal portable computing device must sign a Personal Device User Agreement and have it approved by their supervisor. The ISO will maintain an inventory of all portable computing devices that contain Firm or client data or that have access to Firm systems. All portable computing devices must comply with the firm’s requirements, including but not limited to, strong password controls, current anti-virus software, approved connection for remote access, not keeping firm data, and using approved encryption techniques.

For more details, a copy of Chandler’s comprehensive *Compliance Manual* is available for viewing onsite at our San Diego headquarters.

2. What security techniques are utilized to protect access to customer data (hardware/software, physical)?

Chandler Asset Management recognizes the critical importance of safeguarding clients' personal information as well as the confidential and proprietary information of the firm and its employees. Maintaining the security, integrity and accessibility of the data maintained or conveyed through the firm's operating systems is a fundamental requisite of our business operations and an important component of our fiduciary duty to our clients. While recognizing that the very nature of cybercrime is constantly evolving, Chandler Asset Management conducts periodic assessments based on our firm's use of technology, third-party vendor relationships, reported changes in cybercrime methodologies, and in response to any attempted cyber incident, among other circumstances.

Protecting all the assets of our clients, and safeguarding the proprietary and confidential information of the firm and its employees is a fundamental responsibility of every Chandler Asset Management employee, and repeated or serious violations of these policies may result in disciplinary action, including, for example, restricted permissions or prohibitions limiting remote access; restrictions on the use of mobile devices; termination; and/or civil and criminal prosecution in extreme cases.

Further, Chandler’s comprehensive Cybersecurity Policy includes procedures that cover acceptable use by employees of Chandler’s network resources, internet use, incidental use, mobile computing, virus and malware protection, network access and configuration, account and password management,

physical security, change management, data backup, data destruction, data encryption, security monitoring, vendor access and incident management. These policies and procedures are distributed to employees and appropriate employee training is conducted to ensure employee adherence to these policies and procedures. Chandler also appoints a System Administrator who coordinates system administration and security administration services and is a liaison to our IT Consultants.

A copy of this policy is available upon request.

3. Please provide minimum hardware and software configuration.

The minimal hardware requirements for all new systems are 8gb RAM, Intel processor, 200gb hard drive, and multiple monitor capabilities.

The minimal software requirements for all new systems is Windows 10, Microsoft Office, and any other internal software application specific to the user (.i.e Bloomberg).

4. Describe media specifications for the firm. Include a description of any electronic or software features available that could be used by the City to interface with the firm to determine daily, weekly and/or monthly portfolio activity.

The *Chandler Client Portal*, a secure web portal, offers online access and the ability to download daily transactions and holdings, as well as historical monthly and quarterly statements and reports. Reports can be downloaded in Excel format that can be mapped to your internal reporting requirements. Access to the *Chandler Client Portal* is available to individual contacts selected by the client.

5. How many days/weeks/months of history can be accessed through the system?

The client portal allows clients to retrieve certain historical data, such as monthly statements and trade tickets as far back as 3 years. Monthly data in excel can be accessed for 2 years. Daily holdings in excel can be accessed for 6 months. Previous business day holdings and rolling 365 days of transactions are also available via the website data. Monthly reports, quarterly statements, or other data that is needed further back than 3 years can be requested from Chandler’s client service team.

6.

a. Does this system require any special hardware or software to access your system? If yes, please describe process, costs and requirements.

No special hardware or software access is necessary to access the client portal. A web browser on any device is sufficient to access the system.

b. If there are any third-party product requirements please list those separately and describe your firm’s relationship with the third-party company and commitment to support.

A third party vendor does manage and support the *Chandler Client Portal* through 24/7 monitoring and a support center.

Chandler is committed to our client’s experience in using the portal and has invested its resources in several upgrades to the system to enhance its usability. In 2015, significant upgrades were made to provide for more customization, including a redesigned interface and enhanced layout for easier navigation, a mobile-enabled template, reporting customization, holdings and transaction reports, performance and realized gain/loss reports, and documents

access and storage.

Both Chandler and the vendor are responsive to any client suggestions or feedback regarding the portal, and continue to invest resources in enhancing the product, including some features that will be released later in 2016.

7.

1. Describe the features of your firm's system and inquiry capabilities.

The *Chandler Client Portal* has the ability to retrieve a wide array of documents, including monthly statements, quarterly statements, holding info, income earned information and trade tickets. Holdings and income earned details are available to download in excel format, so it can easily integrate into other systems. Advanced search capabilities on all documents and website data is also a feature of the system.

2. Does the firm's system offer the ability to inquire about specific transactions?

Yes, the system allows for filtering on any field, including transaction types, dates, amounts and security description.

3. Does the firm's system offer the ability to categorize investments by fund types or special purpose and query and report by these categories?

Yes, advanced search capabilities are available on all documents and website data, including fund types and security types.

8. Does your software allow additional users to have read-only "dashboard" access to reports for viewing?

Currently all users have access to the entire suite of services the software offers, but changing or updating of data is not permitted by users of the system.

9. Describe your data back-up and recovery processes and the length of time that a back-up is kept.

Chandler maintains policies and procedures for both its hard copy and electronic back-up and recovery process within its comprehensive *Business Continuity Plan*, and recognizes the importance of maintenance of these books and records. Client and firm records are maintained for five years from the end of the fiscal year during which the last entry was made. Our firm backs up its paper records by either copying and taking them to our back-up site or scanning them in as electronic documents and storing them on a network drive that is then backed up both on and off-site. The electronic back up is conducted at least hourly.

Chandler has hired Managed Solution to administer and monitor the Backup Data and Recovery Solution (BDR) for our electronic records and mission critical servers. Backup images of data are completed hourly at a minimum. In the event of an internal or external significant business disruption that causes the loss of our electronic records, we will either physically recover the storage media or electronically recover data from our BDR, or, if our primary site is inoperable, continue operations from our back-up site or a designated alternate location.

Chandler, with the assistance of Managed Solution, will perform annual tests of our backup services.

Table C. REPORTING

1. Describe the frequency and nature of the reports you provide and enclose examples. Include methods and formulas used to calculate total return and performance.

All reports are prepared in accordance with GAAP and GASB standards. We will provide detailed monthly, quarterly, and annual reports as required by the City. Since 1991, when we began to manage the City's assets, we have worked diligently to enhance our portfolio accounting and reporting process. Your staff has been in a position to review our statements, and assess their accuracy and timeliness. Our reports are able to be fully customized to clients' preferences.

In 2015, Chandler made enhancements to its Client Portal, accessed through chandlerasset.com, which offers secure online access and the ability to download daily transactions and holdings, as well as historical monthly statements and quarterly investment reports. Reports can be downloaded in Excel format and then mapped to your internal reporting requirements. Access to the *Chandler Client Portal* is available to individual contacts selected by the City. The Portal is available 24 hours a day/7 days a week, and is also mobile-enabled.

Monthly Reports

We provide comprehensive monthly portfolio accounting and performance reports in a format that will best suit the City and its staff. Each report begins with a one-page management summary of portfolio characteristics that provides an excellent overview of the portfolio, including performance relative to the selected benchmark(s), followed by a statement of compliance. A detailed asset listing, including cost, book, and market values, a transaction ledger, an earned interest report, and a cash flow report follow the summary page.

Monthly reports are accessible on the *Chandler Client Portal*. Clients receive an email notification stating that the statement is available for download no later than the third business day following month-end.

Quarterly Reports

Our quarterly investment reports are designed to facilitate discussion between Chandler's investment professionals, clients, and their staff. The report presents portfolio characteristics, return, compliance and a summary of accounts under management using graphs, charts, and illustrations in a format that is effective for management, elected officials, and interested members of the public. We provide this report for our regular in-person meetings.

GASB Reporting

For client reporting, the firm marks securities to market in accordance with GASB 31. We provide a GASB 40 report to all governmental clients, which provides the information needed to prepare the required fiscal year-end portfolio risk assessment, and we will be able to assist the City in drafting the narratives for GASB notes. We are developing a GASB 72 report which will be available by fiscal yearend.

We have provided copies of your comprehensive reports in the **Appendix**.

Calculation of Performance Results

In accordance with industry standards, the firm measures performance as time-weighted total rate of return (TRR), calculated and linked monthly, and is compared to a market total return benchmark selected by the client, in accordance with industry standards (GIPS). We also report cost and market yields on a security and portfolio basis.

Formulas for Calculating Return and Yield

The following are descriptions of the industry standard return and yield calculations that we employ at Chandler:

Time-Weighted Total Rate of Return (TWTRR) – Measures the compounded rate of growth of the initial portfolio market value during the evaluation period, assuming that all cash flows are reinvested in the portfolio. The time-weighted rate of return is the rate of growth that equates the beginning market value to the ending market value. We calculate TWTRR monthly and link the periodic returns geometrically.

Total Rate of Return/Formula

Time-Weighted Total Rate of Return (Total Return) – Measures the compounded rate of growth of the initial portfolio market value during the evaluation period, assuming that all cash flows are reinvested in the portfolio. Total Return is the rate of growth that equates the beginning market value to the ending

$$R_{TR} = \frac{MV_E - MV_B}{MV_B}$$

market value. Our firm calculates Total Return monthly and links the periodic returns geometrically.

The following formula shows how Chandler calculates *Total Rate of Return*:

Where:

R_{TR} = total return

MV_E = ending market value, including interest accruals

MV_B = beginning market value, including interest accruals

For periods greater than one year, common practice is to annualize the total rate of return by raising R_{TR} to a power equal to $1/n$, where n = number of years. For example, if R_{TR} is calculated for a 5 year period, the annualized return would be R_{TR} raised to the power of $1/5$, or .20. Total return for periods of less than one year is not annualized, in that it could be very misleading. Periodic returns are geometrically linked and adjusted for cash flows.

2. Describe the benchmarks included in the performance reports.

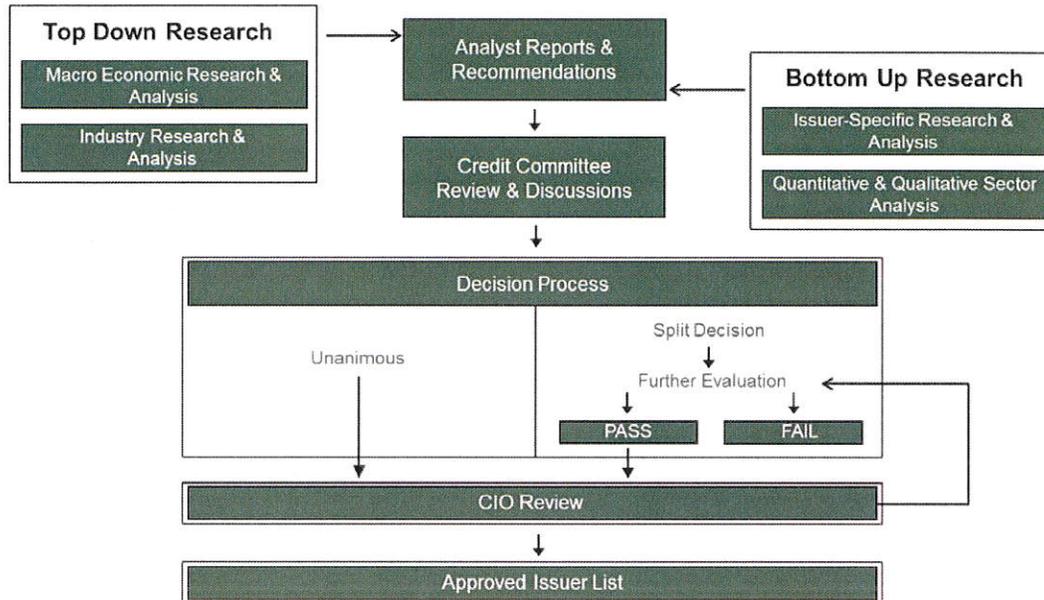
The Bank of America Merrill Lynch 1-3 Year US Treasury Index is comprised of US Treasury securities issued by the US Government. All securities in the index must have fixed coupon rates and have at least one year but not greater than three years to maturity regardless of any call features.

3. Describe the type and frequency of credit analysis that would be provided on security issuers and financial institutions (e.g., Highline Bank Ratings and PMA Ratings).

All credits are monitored daily and are closely reviewed by the Credit Committee at least quarterly. A team member will monitor the overall news flow on each issuer on our approved list on a daily basis (earnings or press releases, management presentations or conferences, ratings changes, etc.). The information is distributed to the entire Investment Management Team on a daily basis. In the event the fundamentals of the underlying credit change, the Credit Committee may act to add or remove the issuer from our approved credit list under the appropriate segregation.

Chandler conducts credit research in a team environment, with all ten members of the Investment

Management Team sharing responsibilities for credit analysis of investment grade debt either independently or as part of the Credit Committee. We employ a proprietary top down/bottom up credit review process designed for identification of stable and improving credits, as well as early detection of weak and deteriorating credits. Our process includes both qualitative and quantitative aspects. The following diagram displays the flow of the credit process:



The process begins with research by Chandler’s Credit Committee, which is responsible for fundamental macroeconomic, industry-wide and issuer-specific analysis. The Credit Committee typically meets on a weekly basis to discuss specific names and sectors on a rotating basis, discussing each name and sector on a quarterly basis. Each member prepares written research reports and recommendations on individual issuers based on a mosaic of qualitative and quantitative data.

A proprietary credit ranking system drives the security selection process. Our research incorporates analysis provided by Credit Sights with our own team’s independent analysis. The firm has developed a proprietary ordinal ranking of issuers in the universe, ranked from those most likely to improve or retain their current credit quality to those least likely to do so. The top approximately 50% of ranked issuers in the universe become the investable set, subject to further qualitative review by the investment team.

Qualitative screening of securities focuses on relative value, as determined by a number of factors including: historical trend and range analysis, relative values among different sectors, upcoming supply and demand, current market conditions, market sentiment as measured by credit default swaps and other metrics, and qualitative overview based upon team members’ experience. The result is an approved issuer list, with specific security selection from that list based on the greatest relative value. A significant component of the process we use to manage credit risk is diversification by issuer, which we manage on a sliding scale based on credit quality. Specifically, we are willing to hold a larger percentage of the portfolio in the securities of an issuer with an “AAA” rating than in those of an issuer carrying an “A” rating.

4. How often would the representative from your firm meet with the City to review portfolio

performance and revise investment strategies?

We have developed a regular schedule of in-person client meetings that is flexible to the City staff's availability and meets your preferences. Typically, we meet with your staff on a quarterly or semi-annual basis. We prepare presentations for these meetings, which include market information, current and proposed investment strategies, portfolio characteristics, and performance. This format is designed to promote discussion between our team and your staff. A senior member of the investment management team as well as your relationship manager attends these meetings.

5. Does the firm offer reconciliation services for third-party safekeeping? If yes, please describe and include a sample of your standard reports. If no, what alternatives can you offer?

Chandler's operations team performs daily reconciliations of cash balances and positions in all accounts. This is completed by comparing each account's cash and security positions in our PAM for Securities accounting system to the relative holdings maintained and provided by the clients' custodian bank. This reconciliation discloses any contribution/withdrawals of cash, whether interest or maturities were posted correctly and whether trades were settled on the appropriate settlement date.

On a monthly basis, Chandler's operations team performs a reconciliation of all accounts where the client's Chandler statement is compared to the client's custodian bank statement. This reconciliation is done electronically for clients whose custodian bank provides a downloadable file and manually for those clients whose custodian bank does not provide a downloadable or electronic file. All transactions and holdings are reconciled monthly.

In the event a discrepancy is found, an operations employee will research the issue to see if the error is in our system or alternatively, in the client's custodian bank records. If the discrepancy resides in our records, the error shall be revised and new client statements must be generated and distributed to the client with an explanation of the error. If the discrepancy resides in the custodian bank records, Chandler shall notify the custodian bank of the discrepancy or error and request a correction.

Currently, Chandler does not provide a report on its reconciliation process. We would be pleased to discuss such a report or alternatives with the City that would fulfill their needs.

Table D. TRAINING**1. Describe the training for City staff that the firm would provide.**

For new clients, Chandler conducts a "kick-off" meeting to review investment objectives and begin to develop an investment plan, and to inform clients as to benchmarks and their composition and characteristics that may be appropriate for the client's investment program. During this time, a training session is scheduled with a client service representative to the features and functionality of the *Chandler Client Portal*.

On an ongoing basis, Chandler provides educational presentations for your staff, management and other officials as to the regulatory environment, new asset classes, and other issues that may affect the investment portfolio. Chandler is involved with many national and regional associations, such as the Government Finance Officers Association (GFOA) and the California Municipal Treasurers Association (CMTA), and we pass on the best practices and information garnered from policy makers to our clients.

Table E. OTHER SERVICES

1. Describe services that would assist the City in allocating interest payments to its various sub-categories and funds.

Chandler’s comprehensive monthly statements provide detailed information on interest earnings. The statements include a portfolio summary, holdings report and income earned report that provide earnings information both at the portfolio and individual holdings level. The statements you receive from Chandler also include a “forward looking” cash flow report that provides detailed expected monthly income looking out 12 months. The City’s most recent monthly statement is included in the Appendix.

2. Based upon information about the City’s investment advisory needs and goals learned during the course of this proposal process, describe any enhancements, technological or otherwise, that the City should consider in order to improve efficiencies and portfolio performance.

At this time, Chandler does not have any proposed enhancements to improve the City’s efficiencies and portfolio performance. We believe that both the City and its constituents are served well through its engagement with professional portfolio managers, as well as with the Clearwater Analytics system. The system enhances the relationship with the City’s asset managers through not only streamlined investment accounting and reporting, but also effective investment analytics, compliance monitoring and transparency of the entire investment portfolio.

3. What new services or features does the firm plan to offer in the future?

Chandler is always actively and prudently searching for ways to add value to client’s accounts, and will offer new products and structured strategies as our client’s needs dictate. Currently, we plan to offer our institutional clients an Enhanced Cash strategy that will be benchmarked to the 0-1 Year US Treasury Index. Chandler has recently collaborated with the City to offer a short-term strategy, comparable to LAIF, to accommodate the City’s liquidity needs.

Table F. DISASTER RECOVERY PLAN

1. Briefly describe your disaster recovery plan. Please include a copy with your proposal.

As part of its fiduciary duty to its clients, and as required under the Federal Compliance Program Rule, Chandler has adopted a Disaster Recovery/Business Continuity Plan to provide for the firm’s recovery from an emergency or disaster and for the resumption of business operations in as short a period of time as possible. These policies and procedures address our primary responsibility for establishing and maintaining communication with our clients and for our mission critical functions.

Chandler’s policy addresses our response to both internal and external significant business disruptions and includes procedures for data back-up and recovery, client access to funds and securities, phone, internet and email disruptions, and mission critical functions such as order entry, execution and client reporting. In the event that we determine we are unable to continue our business, we will assure clients prompt access to their funds and securities.

Chandler has hired Managed Solution to administer and monitor the back-up and recovery of our electronic records. Managed Solution is also responsible for monitoring, maintaining and managing our network and overall IT infrastructure, and administers and maintains the Backup Data and Recovery

System which is a comprehensive backup solution for our mission critical servers.

The firm reviews its policy on a quarterly basis, and updates and revises it whenever a significant event or regulation determines its inclusion. Chandler, with the assistance of Managed Solution, conducts annual tests of our backup services. Additionally, all employees of Chandler are required to attest that they have reviewed the procedures described within the policy.

Please see a copy of Chandler's *Business Continuity Plan* provided in the **Appendix**.

2. What disaster recovery services can you provide the City if your firm cannot operate from your own facilities?

If Chandler's principal office in San Diego is damaged or otherwise inaccessible, Chandler has designated our IT consultant's facility as a temporary alternate location from which to restore normal business operations. Services will include working space, power, and telephone service, as well as internet access. Additionally we will have the ability to work from any of our current remote office locations in Denver, Seattle, or Orlando.

Chandler has policies and procedures in place addressing its mission critical functions with regards to daily order entry, execution, trade settlement and client reporting. These procedures include contacting our broker dealers by the most effective alternate means available, which include Bloomberg Anywhere, secure email, telephone or facsimile. In addition, we would receive and verify holding information from the client's custodian. Trades would then be executed with approved broker dealers using the most effective means available at the time.

3. Is there a "hot" back-up processing site? How quickly can the site be implemented and accessed in the event of an emergency? Would the City be required to purchase anything additional to access this site?

Backup images of data on all business critical servers are completed hourly, at a minimum, by Managed Solution, a designated "warm" site. The BDR is physically located at Chandler's San Diego office. Mission critical backup images are then encrypted and sent to Storagecraft, a SSAE16 SOC1 Type II certified data center with biometric authentication located in Pennsylvania.

Because all of our clients use a third-party custodian, we have the ability to work with them immediately to facilitate any time critical client requests, in addition to being able to place trades and monitor client portfolios.

Chandler would be able to access backup systems within 24 hours at Managed Solution's office or in a secure cloud environment from one of our alternate sites.

The City would not be required to purchase anything additional to access this site.

Table G. DISCRETIONARY COST PROPOSAL

Please see Chandler's *Discretionary Cost Proposal* included in a separate sealed envelope, marked "Cost Proposal".

-END-

ATTACHMENT 1: STATEMENT OF COMPLIANCE

The undersigned declares that the Proposal submitted to provide DISCRETIONARY INVESTMENT ADVISORY SERVICES as described in, and in response to City of Newport Beach RFP No. 16-55 was prepared in strict compliance with the instructions, conditions, and terms listed in the RFP, Scope of Services and Draft Agreement, with exceptions listed below, if applicable. **At least one box for each item must be checked.**

RFP Instructions and Terms & Conditions (Check One)

No Exceptions Taken Exceptions Taken

Scope of Services (Check One)

No Exceptions Taken Exceptions Taken

Draft Agreement (Check One)

No Exceptions Taken Exceptions Taken

If any exceptions are taken, this Statement of Compliance shall include a narrative that identifies each item to which the Proposer is taking exception or is recommending change, including the suggested rewording of the contractual obligations or suggested change in the RFP, and identifies the reasons for submitting the proposed exception or change. When available, please reference page and item numbers as provided in the RFP. The City reserves the right to rule as non-responsive and reject any Proposals that are not accompanied with the required documentation as described above.



Signature

June 15, 2016

Date

Martin D. Cassell, CFA, CEO and CIO

Printed Name and Title

Chandler Asset Management

Name of Proposer

[Attach a separate sheet(s) detailing each exception being taken, if applicable]

**Please see following page detailing Chandler's exceptions taken to the Draft Agreement and requested revision.*

FINANCE COMMITTEE VISUAL AIDS

SEPTEMBER 15, 2016



INVESTMENT ADVISOR RECOMMENDATION

Proposers

- Atlanta Capital
- Chandler Asset Management
- Eaton Vance
- Public Funds Management (PFM)
- Public Trust
- Reams Asset Management

Evaluation

- Qualifications
- Experience
- Management Approach
- Discipline
- Value Added Services
- Fees

Finalist

- Chandler Asset Management
- Public Funds Management (PFM)
- Public Trust

Final Ranking

Firm	Annual Fee ¹	Fees as Percent of Managed Portfolio	Rank
Chandler	\$114,000	0.062%	1
PFM	\$131,000	0.071%	2
Public Trust	\$115,000	0.062%	3
Reams	\$147,500	0.080%	4
Atlanta Capital	\$174,550	0.094%	5
Eaton Vance	\$159,500	0.086%	6

¹ Assuming each firm had \$185 million of assets under management.



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5C
September 15, 2016

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director
(949) 644-3123 or danm@newportbeachca.gov

SUBJECT: INVESTMENT PORTFOLIO RECOMMENDATIONS

SUMMARY:

The City segregates and accounts for its general, special and other revenue sources in individual funds to demonstrate that revenues are spent for the purpose in which they were intended. The nature, purpose and time-horizon for their use vary greatly. However, they are pooled together for investment purposes and are invested in a one-size-fits-all manner. Staff proposes to further segment the investment portfolio to better align assets with related objectives.

RECOMMENDED ACTION:

Staff recommends the Finance Committee direct staff to return with a proposed segmentation of the investment portfolio including a long-term segment, proposed investment strategies, and an appropriate risk analysis of the proposal.

DISCUSSION:

The City maintains many different funds to account for and demonstrate legal compliance that funds were expended for the purpose they are intended. The nature, purpose and time horizon vary greatly by their intended use. For example, some revenues are utilized for day to day operations and others are saved up for future capital purchases, infrastructure projects and long-term liabilities. The City has also benefited from various endowments where the principal can never be spent. It is appropriate to match the term of investments with its intended use.

Instead of a "one-size-fits-all" portfolio, a time segmented portfolio that includes a long-term segment will allow staff more flexibility to strategically align portfolio investments with the City's objectives for those assets. Staff proposes to further tailor the portfolio to the City's needs by:

- a) further segmenting the City's portfolio in three primary duration buckets (Short, Medium and Long);
- b) better aligning investments along a timeline appropriate for their intended use, likely increasing the average duration of the portfolio; and
- c) continuing to ladder investments to specific maturity dates to minimize the reliance on LAIF for liquidity.

Adding a long-term segment to our portfolio will also allow our investment manager greater opportunities to take advantage of the steeper parts of the yield curve. Additionally, securities can be transferred between portfolios as securities mature providing higher yields to the lower duration portfolios. Maturing securities can essentially trickle down from the long-term portfolio to the medium or short term portfolio.

A more focused portfolio might look something like the following:

Current		Proposed - Draft	
Short-Term Liquidity	Strategy	Short-Term Liquidity	Strategy
Demand Deposit Account	Daily	Demand Deposit Account	Daily
LAIF Pool	0 - 6 Months	LAIF Pool	0 - 6 Months
Laddered Portfolio <small>(Matched to specific cash flow requirements)</small>	0 - 12 Months	Laddered Portfolio <small>(Matched to specific cash flow requirements)</small>	0 - 36 Months
Medium-Term		Medium-Term	
Core Portfolio	1-3 Yr Gov/Corp	Core Portfolio	1-5 Yr Gov/Corp
		Long-Term	
		Endowments & Long-Term Savings	1-10 Yr Treasury /Agency

With the Finance Committee's concurrence, staff will further refine and evaluate the merits of such a proposal with our investment advisor and report back to you with a thorough risk analysis and estimates of the upside benefit.

Prepared by:

Submitted by:

/s/ Steve Montano
 Steve Montano
 Deputy Finance Director

/s/ Dan Matusiewicz
 Dan Matusiewicz
 Finance Director

FINANCE COMMITTEE VISUAL AIDS

SEPTEMBER 15, 2016



PORTFOLIO RECOMMENDATIONS

Portfolio Recommendations

Staff proposes to further tailor the portfolio to the City's needs by:

- further segmenting the City's portfolio in three primary duration buckets (Short, Medium and Long);
- better aligning investments along a timeline appropriate for their intended use, likely increasing the average duration of the portfolio; and
- continuing to ladder investments to specific maturity dates to minimize the reliance on LAIF for liquidity.

Draft Proposal

Current

Short-Term Liquidity

Strategy

Demand Deposit Account

Daily

LAIF Pool

0 - 6 Months

Laddered Portfolio

0 - 12 Months

(Matched to specific cash flow requirements)

Medium-Term

Core Portfolio

1-3 Yr Gov/Corp

Proposed - *Draft*

Short-Term Liquidity

Strategy

Demand Deposit Account

Daily

LAIF Pool

0 - 6 Months

Laddered Portfolio

0 - 36 Months

(Matched to specific cash flow requirements)

Medium-Term

Core Portfolio

1-5 Yr Gov/Corp

Long-Term

Endowments & Long-Term Savings 1-10 Yr Treasury /Agency



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5D
September 15, 2016

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director
(949) 644-3123 or danm@newportbeachca.gov

SUBJECT: IMPLEMENTATION OF FINANCE SUBCOMMITTEE RECOMMENDATIONS

SUMMARY

During the June 16, 2016, Finance Committee meeting the Committee reviewed the Subcommittee's 16 recommendations to improve the City's general business practices. The Subcommittee members proposed, and the Committee as a whole assigned, each of the recommendations according to one of the following categories:

1. Incorporate into existing or new City Council policy
2. Create new or update General Plan policies
3. Action items only, no policy required
4. Comment only - no policy or action required (see Attachment A)

The Committee requested Committee Members Tucker and Warner work with staff to bring back a summary of the recommendations which appears in Attachment A. This staff report sets forth each Subcommittee recommendation in italics (sometimes with staff added text for clarity) and staff's comment, if any, about each recommendation appears below each recommendation.

Incorporate Into Existing or New City Council Policy

The Committee recommended the following four items for incorporation into existing or new City Council policy:

- A.1 The Subcommittee recommends that fees or rents charged related to development or use of City property or assets overseen by the City also be updated on a fixed schedule to remain current (the Subcommittee recommends every three years). The Subcommittee recommends that amounts charged by enterprise funds should also be updated on a fixed schedule to remain current (the Subcommittee recommends at least every five years).*

The Schedule of Rents, Fines, and Fees (SRFF) is a list of fees and charges that are updated annually and includes cost-of-services fees, fines and penalties, rents and other charges that are imposed by the City or may be mandated by the State of California. The changes to the SRFF are based on an analysis or "study" of the cost of services. Fees for three to four departments are studied, updated and approved by the City Council every year. Although there is no Council Policy that mandates any specific timeframe for updating the SRFF per se, staff generally updates fees for each department every 3-5 years pursuant to Municipal Code Section 3.36, which states: "cost studies should be conducted at least every five years." In the intervening years between cost of service studies, fees for the non-studied departments are updated annually at the rate of the Consumer Price Index. The goal of cost-of-services fees is to recover the appropriate cost of providing those services, as mandated by Municipal Code Section 3.36, Council Policy F-4 (Revenue Measures) and Item 12 of the FSP, which states: "The City will

establish appropriate cost-recovery targets for its fee structure and will annually adjust its fee structure to ensure that the fees continue to meet cost recovery targets.”

Council traditionally had the authority to set the utility rates as part of the annual City budget or municipal fee schedule approval process. In November 1996; however, California voters passed Proposition 218, a comprehensive constitutional amendment that set substantive and procedural requirements for many types of property-related fees, assessments, and taxes. Under Proposition 218, most property-related fees (such as water and sewer) cannot be imposed or increased without the approval of a majority of property owners subject to the fee or a supermajority of voters. California courts have held that water and wastewater fees like Newport Beach's are property-related fees subject to Proposition 218's procedural and substantive requirements. As a result, the City must obtain property owner or voter approval before increasing water and wastewater fees.

In order to ensure that customers are equitably charged for utility fees, the City periodically performs a comprehensive rate analysis. Typically this follows the Water and Wastewater Master Plan updates that identify infrastructure needs. The current recommended wastewater rate adjustments are based on the methodology described in the wastewater cost of service and rate study completed by HF&H Consultants, LLC on January 12, 2016. Staff performs an annual assessment of the financial position of the City's water and wastewater utility fund to ensure adequate revenue to fund operations and capital improvements in compliance with the cost of service requirements. While the City currently has no policy that mandates the frequency of utility rate increases, staff supports the timely adoption of fees that adequately recover operational and capital costs. Staff is supportive of a policy that requires the updating of enterprise master plans every five years. Staff is also supportive of a policy that requires the timely adoption of fees based on the master plan and an annual evaluation of funding adequacy for enterprise operations.

B.2 The Subcommittee recommends that when an analysis indicates that there is expected to be little-to-no cost savings in outsourcing, the City consider outsourcing anyway to further insulate the City against the risks associated with employment compared to contractual services. Employment services should be reserved to situations where the benefits of employment clearly outweigh the risks. City Council may wish to consider the level of customer service prior to outsourcing to assure a high level of service, low response times, and compliance with all local, State, and Federal regulations.

There may be instances where a City employee in a lower pension tier (the PEPRA tier, for instance) is a more cost-effective value in terms of service and total costs than a contractor with a markup, or a contractor that courts later deem should have been in PERS regardless. The City should develop a comprehensive model to evaluate which choice is more cost-effective at various PERS discount rates.

C.5 Unbudgeted expenditures that require amendment to the Annual Budget ought to be avoided to the extent practicable. Therefore, the Subcommittee recommends that Budget Amendments be infrequently used especially in the second half of a fiscal year when the Annual Budget deliberations are or will shortly be underway. Consider a policy that allows the Finance Director to ask Finance Committee for input prior to Council Budget Amendments.

Some amendments such as a large repair to the city's infrastructure are time sensitive. The annual budget may not provide sufficient funding to pay for large unforeseen repairs and staff may seek Council approval to use the enterprise reserves for which they were intended.

C.6 The Subcommittee recommends that enterprise funds be operated on a stand-alone basis with the City being charged the same rates by enterprise funds as unrelated customers, and likewise the City should charge the same amounts to an enterprise fund as are charged to unrelated customers for goods and services provided by the City. The goal should be to ensure that rates charged to

customers are sufficient to cover costs, including sufficient reserves to cover expected replacements and upgrades that will occur over time.

Operating revenue for the City's Water and Wastewater operations is generated by fixed and variable fees charged to payers who occupy developed properties in Newport Beach. The Governmental Accounting Standards Board requires that Water and Wastewater operations be classified as enterprise funds that are operated in a manner similar to private business, with costs recovered primarily through user charges. The methodology used to calculate fees for utility operations includes:

- Analysis of capital funding strategies that targets completion of near-term projects and provides a planned approach to addressing long-term system investments, such as rehabilitation and replacement.
- Analysis of different reserve requirements, which identifies areas to improve fiscal stability during periods of revenue uncertainty, to address unplanned events, and to strategically fund ongoing investments in system infrastructure.
- Cost of service analysis to support the development of equitable rate structures. Equity is achieved when customers pay for utility service in proportion to their use of the service and the unique demands they place on the system.

Staff supports the recommendation which is aligned with the best practices used by municipalities who provide utility services.

Create New or Updated General Plan Policies

A.2 The Subcommittee recommends that the City undertake a review of policies in the General Plan to ensure that property owners who propose conversions to residential uses contribute an appropriate amount towards infrastructure costs and maintenance.

Action Items Only, No Policy Required

The Committee classified the five recommendations below as action items not requiring a policy addition or amendment. Staff can program these recommendations into the Finance Committee work plan for future consideration.

B.3 The City should thoroughly analyze the number of public safety employees to see if management and administration can be streamlined, or functions can be combined internally or with other nearby agencies.

B.4 The Subcommittee recommends that department management justify sworn personnel being used to perform any functions other than those that require sworn personnel.

B.5 The Subcommittee recommends that the City retain an outside consultant to review the City's staffing practices to ensure that only the number of employees on staff is necessary to properly perform the work expected of staff.

B.6 The City might consider engaging an outside internal auditor to conduct a review of the appropriateness of expenditures that are routinely made by departments.

C.4 Ascertain if it is possible to consolidate existing City Hall staff and thereafter to relocate administrative staff from other facilities to City Hall in order to repurpose old facilities for community use and/or obviate the cost of building new or larger facilities for community use.

RECOMMENDED ACTION

Make recommendation(s) to the City Manager as to the next steps related to the Subcommittee Report.

Prepared by:

Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

/s/ Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachment:

A. Finance Subcommittee Recommendations

ATTACHMENT A

Finance Subcommittee Recommendations

Finance Subcommittee Summary of Recommendations

Ref.	Recommendations	Finance Committee Comments
<i>OVERVIEW: The summary below is a checklist of recommendations generated from the Subcommittee Report. The Report itself is more detailed and should be consulted in evaluating each Recommendation set forth below.</i>		
A. MAXIMIZE REVENUES		
A.1	The Subcommittee recommends that fees or rents charged related to development or use of City property or assets overseen by the City be updated on a fixed schedule to remain current (the Subcommittee recommends every three years). The Subcommittee recommends that amounts charged by enterprise funds should also be updated on a fixed schedule to remain current (the Subcommittee recommends at least every five years).	Incorporate into existing or new City Council policy.
A.2	The Subcommittee recommends that the City undertake a review of policies in the General Plan to ensure that property owners who propose conversions to residential uses contribute an appropriate amount towards infrastructure costs and maintenance.	Create new or updated General Plan Policies.
A.3	In statistical areas of the City where more than one development project is under consideration, but they all cannot be implemented without one or more of them being required to go through a Charter Section 423 vote of the public, all other things being equal, the Subcommittee recommends that if the Council chooses to prioritize the projects, the generation of maximum financial benefit to the City should be a factor in deciding which project would have priority.	Comment only - no policy or action required.
B. MINIMIZE COSTS		
B.1	Assist the Council in finding potential strategies to reduce the financial burden of employee benefits to the long term financial health of the City.	Comment only - no policy or action required.
B.2	The Subcommittee recommends that when an analysis indicates that there is expected to be little-to-no cost savings in outsourcing, the City consider outsourcing anyway to further insulate the City against the risks associated with employment compared to contractual services. Employment services should be reserved to situations where the benefits of employment clearly outweigh the risks.	Incorporate into existing or a new City Council policy on outsourcing.
B.3	The City should thoroughly analyze the number of public safety employees to see if management and administration can be streamlined, or functions can be combined internally or with other nearby agencies.	Action item only.
B.4	The Subcommittee recommends that department management justify sworn personnel being used to perform any functions other than those that require sworn personnel.	Action item only.
B.5	The Subcommittee recommends that the City retain an outside consultant to review the City's staffing practices to ensure that only the number of employees on staff is necessary to properly perform the work expected of staff.	Action item only.
B.6	The City might consider engaging an outside internal auditor to conduct a review of the appropriateness of expenditures that are routinely made by departments.	Action item only.
C. BUDGET PROCESS		
C.1	The Subcommittee believes it would be prudent for the Council to consider prioritizing expenditures it chooses to make in the Capital Improvement Program on the basis of potential exposure to the City for failing to make such expenditures in a timely fashion.	Comment only - no policy or action required.

Ref.	Recommendations	Finance Committee Comments
C.2	To the extent the City has a master plan for a particular infrastructure type of item, the Subcommittee recommends that the master plan be adhered to, especially if the failure to do so could result in liability to the City for failing to follow its own plan.	Comment only - no policy or action required.
C.3	Funding decisions that would restrict the ability of staff to implement an infrastructure master plan should be identified to the Council so that funding may be provided or staff may be directed to modify the master plan to be consistent with the funding priorities of the Council.	Comment only - no policy or action required.
C.4	Ascertain if it is possible to consolidate existing City Hall staff and thereafter to relocate administrative staff from other facilities to City Hall in order to repurpose old facilities for community use and/or obviate the cost of building new or larger facilities for community use.	Action item only.
C.5	Unbudgeted expenditures that require amendment to the Annual Budget ought to be avoided to the extent practicable. Therefore, the Subcommittee recommends that Budget Amendments be infrequently used especially in the second half of a fiscal year when the Annual Budget deliberations are or will shortly be underway.	Consider a policy that allows Finance Director to ask Finance Committee for input prior to Council Budget Amendments.
C.6	The Subcommittee recommends that enterprise funds be operated on a stand-alone basis with the City being charged the same rates by enterprise funds as unrelated customers, and likewise the City should charge the same amounts to an enterprise fund as are charged to unrelated customers for goods and services provided by the City. The goal should be to ensure that rates charged to customers are sufficient to cover costs, including sufficient reserves to cover expected replacements and upgrades that will occur over time.	Incorporate into existing or new City Council policy.
D. PENSION REFORM		
D.1	The Subcommittee would urge the Council to seek a leadership position in the advocacy of comprehensive pension reform in California. The Subcommittee recommends that the Committee stand ready to assist the Council in this endeavor as the Council may see fit.	Comment only - no policy or action required.

City of Newport Beach Finance Committee Work Plan 2016

Scheduled Date	Agenda Title	Agenda Description
September		
Thursday, September 15, 2016	Annual Investment Performance Review	Staff and/or one or more investment advisors will describe the performance of the City's investment portfolio.
	Investment Portfolio Recommendation	Staff will present a proposal to further segment the investment portfolio to better align assets with related objectives.
	Investment Advisor Recommendation	Staff will summarize the results of our recent investment advisor RFQ and make recommendations for the contracting of investment advisory services.
	Finance Committee Recommendations	During the June 16, 2016 Finance Committee meeting, the Committee reviewed the Subcommittee's 16 recommendations to improve the City's general business practices. The Subcommittee members proposed, and the Committee as a whole assigned, each of the recommendations according to one of the following categories: 1) Incorporate into existing or new City Council policy; 2.) Create new or update General Plan policies; 3.) Action items only, no policy required; and 4.) Comment only - no policy or action required. Staff recommends that the Finance Committee make recommendation(s) to the City Manager as to the next steps related to the report.
	Committee Discussion of future Pension\OPEB agenda items	Provide staff further direction concerning Pension Primer presentation and Pension OPEB management strategy discussions at the October and November Finance Committee meetings.
	Quarterly ERP Update	Staff will provide the Committee with a progress report on the Enterprise Resource Plan project to receive and file.
October		
Thursday, October 13, 2016	Pension Primer	An actuarial consultant and or staff will provide a status update of our CalPERS Pension plans and a primer of how unfunded liabilities are developed from net annual experience losses.
	Finance Committee Subcommittee Updates	The subcommittees will provide a status updates on subcommittee activities and the committee will discuss implementing the elements of the Subcommittee recommendations.
	Budget Amendments	Receive and file a staff report on the budget amendments for the prior quarter.
November		
Thursday, November 10, 2016	Pension & OPEB Management Strategies	An actuarial consultant will present various financial strategies to mitigate the City's unfunded pension obligation.
	Finance Committee Subcommittee Updates	The subcommittees will provide a status updates on subcommittee activities and the committee will discuss implementing the elements of the Subcommittee recommendations.
December		
Thursday, December 15, 2016	Recommend dancellation due to transition	

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<http://www.wsj.com/articles/covering-up-the-pension-crisis-1472164758>

OPINION | COMMENTARY

Covering Up the Pension Crisis

States and actuaries are trying to stifle debate about the growing shortfall in fund assets.

By STEVE MALANGA

Aug. 25, 2016 6:39 p.m. ET

Plunging investment returns have sent debt soaring in state and local pension funds and prompted new financial concerns. Meanwhile, a debate has broken out about whether these pension funds are accurately measuring their obligations. Though the issues might seem arcane, the stakes are high for taxpayers who might have to bail out these funds and for public employees who rely on them for retirement.

On Aug. 1, the American Academy of Actuaries and the Society of Actuaries shut down a 14-year-old task force on pension financing when several members were about to publish a paper that found many state and local retirement systems calculate their obligations using overly optimistic future rates of return. The authors want states and municipalities to adopt new valuation standards that would make projecting the cost of future benefits more predictable.

The problem is that this change would also make many public pension funds seem far more indebted than they are under current standards. Such a change would produce more pressure on politicians to boost funding and cut benefits.

One of the task-force members, Edward Bartholomew, blasted the AAA and the SOA in an interview with the trade publication Pensions & Investments. "This paper [is] being censored," he said. "They didn't want it to get out." In a memo about the controversy, the AAA and SOA said they intended to block any attempt by task-force members to publish their work independently because that would be "inappropriate."



PHOTO: GETTY IMAGES/IKON IMAGES

The spat is part of a growing fight over how governments measure the value of pension assets. Private-sector retirement funds follow guidelines set by the Financial Accounting Standards Board. But states and municipalities follow voluntary rules from the Government Accounting Standards Board.

One crucial difference is that private pension systems must project the future growth of their assets using a conservative “risk-free” rate of return based on U.S. Treasuries, but public pension funds can adopt a higher rate. The difference, compounded over time, can account for enormous variations in pension asset calculations.

Government pension funds on average estimate they will earn 7.6% a year on their portfolios, according to a survey by the National Association of State Retirement Administrators. Using that number, the funds say they are currently about \$1 trillion short of the money they will need to fund pension credits that workers have already earned. But if pension systems were required to use a riskless rate, currently below 3%, the shortfall would soar to more than \$3 trillion.

Government officials have long argued that they should be allowed to employ the higher number because governments don't go out of business the way private companies do. That gives states and municipalities a much longer window to recover from bad investments.

The problem is that the arbitrary nature of the valuation standards allows elected officials to pressure pension systems to adopt overly optimistic assumptions, which can make offering new benefits to public workers seem more affordable and more attractive.

As Jeremy Gold, one author of the task-force paper, said in a September speech: "Consistent lowballing of pension costs over the past two decades has made it easy for elected officials and union representatives to agree on very valuable benefits, for very much smaller current pay concessions."

But when pension funds fail to deliver on these lofty projections—as many across the country have in the past decade—pension debt soars. According to a July 2015 report by the Pew Charitable Trusts, since 2005 the unfunded liabilities reported by state pension systems have risen by nearly threefold from \$339 billion to nearly \$1 trillion thanks in part to investment shortfalls.

Some actuaries say they've been reluctant to speak up about optimistic valuations because they could lose their jobs. When the Montana state pension system sought to hire new actuaries in 2009, it issued guidelines stating that any firm arguing that government pension funds should adopt more conservative valuation standards "may be disqualified from further consideration." A May 2009 editorial in *Pensions & Investments* noted that there had been rumors for years of similar "threats" by other pension systems to prevent firms "from expressing their reasoned positions on unsettled issues."

Yet as the government pension crisis widens, more voices like those on the task force are calling for reform. Meanwhile, firms working for government pension systems now face a different kind of pressure—in the courts. In 2014 retirees of bankrupt Detroit sued Gabriel, Roeder, Smith & Co., the actuary for the city's pension, contending that the firm's accounting helped the city's pension trustees cover up problems in the plan's finances that resulted in benefit cuts to workers. The litigation is pending.

The public dispute over accounting standards is a signal to taxpayers, retirees and political reformers that fundamental flaws remain in how pensions measure their finances. The beginning of the end of this crisis won't arrive until more reasonable, less risky standards are in place.

Mr. Malanga is a senior fellow at the Manhattan Institute.

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Item No. 5E3

Additional Materials Received

Committee Discussion of Future Pension OPEB Agenda Items

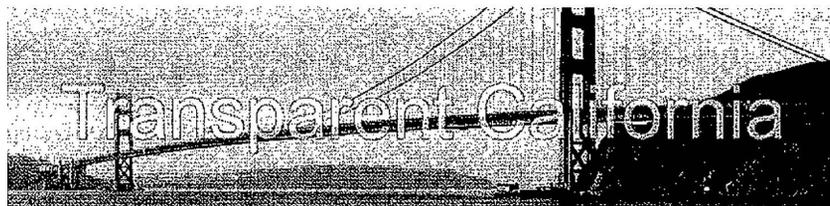
September 15, 2016

PRESS RELEASES

CalPERS \$100k Club Up 11% in Orange County as Newport Beach Experiences State's Largest Rate Hike

By **mrubio** (<https://voiceofoc.org/author/mrubio/>) August 8, 2016

The following is a press release from an organization unaffiliated with Voice of OC. The views expressed here are not those of Voice of OC



(<http://voiceofoc.org/files/2016/06/unnamed-3.gif>)

For Immediate Release

Contact Robert Fellner, 559-462-0122 (tel:559-462-0122)

CalPERS \$100k club up 11% in Orange County as Newport Beach experiences state's largest rate hike

Today, TransparentCalifornia.com released previously-unseen 2015 pension payout data from the California Public Employees' Retirement System (CalPERS).

The over 625,000 (<http://www.npri.org/track/trackurl.asp?q=rnptaciemaot>) records — obtained via a public records request — reveal that 1,495 Orange County retirees collected an annualized benefit worth at least \$100,000, an 11% increase from last year's report.

The Orange County cities with at least 20 full-career retirees that had the highest average full-career pensions for safety officers were:

1. Costa Mesa: \$122,870, which was the 12th highest statewide
2. Irvine: \$119,281, which was the 17th highest statewide

3. Newport Beach: \$116,326, which was the 23rd highest statewide

Soaring retirement costs

At 60.3 percent of pay, Newport Beach's retirement costs for safety officers was the 2nd highest statewide — representing a 29 percent year over year increase, the largest statewide. The cost for Newport Beach's non-safety employees increased 31 percent, also a statewide-high.

Costa Mesa followed closely behind with a 59.7 percent rate for fire officers and 55.6 percent for police officers, the 4th and 6th highest rates. Santa Ana's 54.4 percent rate for safety officers was the 7th highest of any California city enrolled in CalPERS.

The top 3 payouts to Orange County CalPERS retirees went to:

1. David N Ream, former Santa Ana city manager: \$263,202
(<http://www.npri.org/track/trackurl.asp?q=t8r2eteipmm>)
2. James Ruth, former Anaheim city manager: \$249,851
3. Timothy Riley, former Newport Beach fire chief: \$244,904

Ream's benefit was the 17th largest regular benefit of any CalPERS member, excluding those with one-time only settlement amounts. When compared only to other retirees from California cities, Ream, Ruths and Riley's payouts were 8th, 12th and 15th highest statewide.

Orange County Employees' Retirement System (OCERS)

TransparentCalifornia.com also recently posted 2015 OCERS
(<http://www.npri.org/track/trackurl.asp?q=mesvi5f1eeag>) payout data.

The top 3 OCERS payouts went to:

1. Gary Streed, Sanitation District: \$263,545
(<http://www.npri.org/track/trackurl.asp?q=mesvi5f1eeag>)
2. Lynn Hartline, Department of Education: \$260,427
(<http://www.npri.org/track/trackurl.asp?q=tprcceugsno>)
3. Michael Schumacher, Orange County: \$259,204
(<http://www.npri.org/track/trackurl.asp?q=prppeueqohze>)

As taxpayer costs continue to climb it is more important than ever that the public has complete, accurate information as to how their money is being spent, according to Transparent California's research director Robert Fellner.

"Defined benefit plans like CalPERS are inherently opaque, which limits the public's ability to accurately assess its generosity and cost. Transparent California provides complete information so that taxpayers can have a better sense of how their money is being spent."

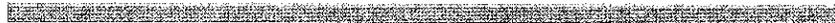
A full-career is defined as at least 30 years of service.

To view the entire dataset in a searchable and downloadable format, visit [TransparentCalifornia.com](http://www.npri.org/track/trackurl.asp?q=nrptaieimaot). (<http://www.npri.org/track/trackurl.asp?q=nrptaieimaot>)

To schedule an interview with Transparent California, please contact Robert Fellner at [559-462-0122](tel:559-462-0122) (tel:[559-462-0122](tel:559-462-0122)) or Robert@TransparentCalifornia.com (mailto:Robert@TransparentCalifornia.com).

Transparent California is California's largest and most comprehensive database of public sector compensation and is a project of the Nevada Policy Research Institute, a nonpartisan, free-market think tank. Learn more at [TransparentCalifornia.com](http://www.npri.org/track/trackurl.asp?q=prsaas8mhoisn) (<http://www.npri.org/track/trackurl.asp?q=prsaas8mhoisn>).

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City of Anaheim Steps Taken to Address Pension and Other Post-Employment Benefits Costs

Addressing Liability	City Action Taken
Retiree Medical Benefits	Anaheim was one of the first jurisdictions to eliminate this post-employment benefit. In fact, many jurisdictions still offer funding for their retirees' medical insurance. Further, the City established an irrevocable trust and adopted a prefunding policy to address the remaining liability associated with the closed plan and has made the full required annual contribution since inception.
Escalating Employer Required Pension Contributions	Prior to the enactment of the Public Employee Pension Reform Act of 2013 (PEPRA), Anaheim was one of the only jurisdiction that negotiated a cost sharing formula for all nonpublic safety employees. As the employer required contribution escalated the burden was shared by both the employer and the employee.
Public Safety Benefit Formulas	Just prior to the enactment of PEPRA, Anaheim negotiated and implemented a lower benefit formula for Fire personnel. This was done so in anticipation of hiring lateral fire personnel that under the provisions of PEPRA would have been provided a higher benefit formula.
PEPRA Implementation	The City of Anaheim was not only an early adopter of the employee cost sharing provisions of PEPRA; the City exceeds the required employee cost share under PEPRA for all nonsworn employees by 33% and has fully implemented the lower level retirement formulas for both sworn and nonsworn employees. For sworn, the increased employees' paid contributions and the reduction in retirement formulas are the most permitted to be imposed under State law. Non-sworn is 2%@62 and sworn is 2.7%@57.
Compensated Absences	The City of Anaheim fully funds compensated absences (leave hours earned by active employees) instead of the pay as you go method utilized by most jurisdictions.

*Most recently the City of Anaheim received affirmation of the AA+ rating, specifically noting that the City has strong financial resilience and a demonstrated ability to control key spending and moderate overall liability levels.

Since 2009, Anaheim has taken significant steps to reduce its unfunded pension liabilities, resulting in year over year successes listed below – at no point since 2002, has the Anaheim council voted to increase pension contributions.

Funded levels:

- 2014 – 77.0%
- 2013 – 72.5%
- 2012 – 68.7%
- 2011 – 72.9%
- 2010 – 64.1%
- 2009 – 59.7%



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5F
September 15, 2016

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

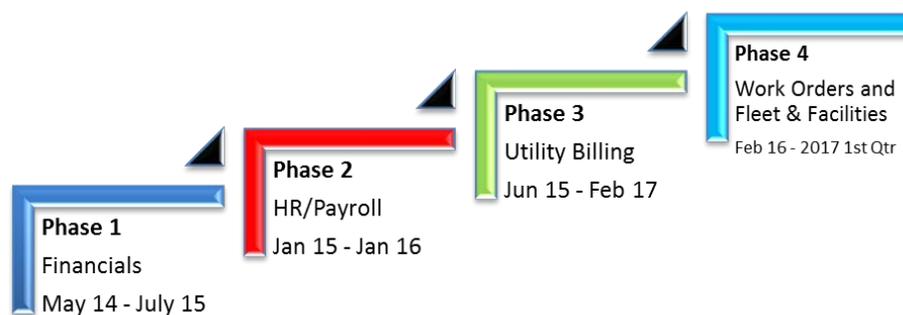
FROM: Finance Department
Steve Montano, Deputy Finance Director
(949) 644-3240, smontano@newportbeachca.gov

SUBJECT: QUARTERLY ERP UPDATE

SUMMARY:

ERP (Enterprise Resource Planning) software is a business management software system that integrates all of the City's core functional requirements for financials, human capital management, citizen services, and revenues. Implementation of the Enterprise Resource Planning (ERP) software implementation project continues. The software provider of the City's ERP or business management software system that integrates all of the City's core functional requirements for financials, human capital management, citizen services, and revenues is Tyler Technologies Inc. The Tyler system known as "Munis" will replace the current FinancePlus system.

The ERP implementation consists of four major overlapping phases. The graphic below depicts the current project phase start and planned go live dates (MMM-YY). We have completed Phases 1 and 2 and are currently working on Phases 3 and 4.



To follow is an update of recent and planned activities pertaining to each project phase.

Financials – Phase 1

The financials portion of the project (including such modules as General Ledger, Purchasing, Budget, Projects and Grants and Accounts Payable) became operational on July 8, 2015. Since this time, staff has grown accustomed to the new functionality and fine-tuning the system. A new software release (new version of the entire suite of modules) was installed on July 9, 2016.

HR/Payroll – Phase 2

The Human Resources and Payroll module became operational on December 26, 2015. An important functionality of the module known as the Employee Self Service (ESS) allows employees to access and update their own personal information through a secure online web portal, request time off, and enter timecards to record time worked and/or absences. The module also allows for a paperless payroll process, streamlines timesheet entry and ensures all local, state and federal requirements are met with Munis Payroll.

Utility Billing – Phase 3

Phase 3 consists of implementing new General Billing, Accounts Receivable, and Utility Billing software. These modules will improve how we create invoices and bills for miscellaneous charges, and maintain accounts for our water and wastewater customers. The General Billing module became operational on April 28, 2016. Staff has been participating in Tyler led business processing consulting sessions to configure the utility billing software in conformance with the City's business needs and industry best business practices. Work on the conversion of data from the old utility billing system to the new is underway. The utility billing portion of this phase is scheduled to be completed in February 2017.

Work Orders and Fleet Management – Phase 4

The modules in Phase 4 will provide work order solutions for preventive maintenance schedules, maintenance department inspections, departmental service requests, and citizen service requests. As a result of their integration with the Financial, Human Resources and Revenue suites, the modules will eliminate duplicate entry of labor time, journal entries and billings. Information will be up-to-date and data input errors or missing information will be reduced. Testing and configuration of the new work order system is ongoing. Training will soon follow with an expected completion date of October 2016 for the Work Order portion and first quarter 2017 completion for the Fleet Management portion.

RECOMMENDED ACTION:

Receive and file.

/s/ Steve Montano

Steve Montano
Deputy Director, Finance