



# CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA - Final

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

Thursday, March 10, 2016 - 4:00 PM

**Finance Committee Members:**

**Keith Curry, Chair / Council Member**  
**Diane Dixon, Mayor**  
**Tony Petros, 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](mailto: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 FEBRUARY 11, 2016**

**Recommended Action:**

Approve and file.

[DRAFT MINUTES 021116](#)

V. CURRENT BUSINESS

A. FISCAL YEAR 2014-2015 AUDIT RESULTS

**Summary:**

The City's external audit firm, White Nelson Diehl Evans LLP will meet with the Finance Committee to discuss the audit findings for the Fiscal Year ending June 30 2015. The Committee will have an opportunity to discuss any potential areas of concern and the auditors can discuss any changes in accounting standards or disclosures that were relevant for the audit year.

**Recommended Action:**

Receive and file.

[STAFF REPORT](#)

[ATTACHMENT A](#)

[ATTACHMENT B](#)

[ATTACHMENT C](#)

B. PROPOSED FISCAL YEAR 2016-2017 BUDGET ASSUMPTIONS

**Summary:**

Staff will provide an overview of the Proposed Fiscal Year 2016-2017 Budget Assumptions.

**Recommended Action:**

Receive and file.

C. UPDATE ON STATUS OF SUBCOMMITTEE RECOMMENDATIONS

**Summary:**

An update will be provided regarding the Finance Subcommittee.

**Recommended Action:**

Receive and file.

D. QUARTERLY ERP UPDATE

**Summary:**

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

**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  
FEBRUARY 11, 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 Keith Curry (Chair), Mayor Diane Dixon, Council Member Tony Petros, 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, Assistant City Manager Carol Jacobs, Municipal Operations Director George Murdoch, IT Manager Rob Houston, Municipal Operations Director Mike Pisani, Budget Manager Susan Giangrande, Administrative Manager Cindy Owens, Senior Human Resources Analyst Maggie Williams-Dalgart, Human Resources Director Barbara Salvini, and Administrative Specialist to the Finance Director Marlene Burns

**MEMBER OF THE PUBLIC:** Jim Mosher

**III. PUBLIC COMMENTS**

Chair Curry opened public comments.

Jim Mosher commented on the budget being posted on the City's website but noted that it is missing the revenue pages and asked whether the revenue projections will be posted and whether it will be different than the proposed budget. Additionally, he hoped that the Finance Committee will review the City's legal costs.

Chair Curry closed public comments.

**IV. CONSENT CALENDAR**

**A. MINUTES OF JANUARY 14, 2016**  
**Recommended Action:**  
Approve and file.

Corrections were offered to the minutes of January 14, 2016.

Chair Curry opened public comments.

Seeing no one wishing to address the Finance Committee, Chair Curry closed public comments.

Committee Member Gorczyca commented on some needed changes to correct the January 14, 2016, Finance Committee Minutes. The motion carried, with Council Member Petros and Committee Member Warner, abstaining.

## V. CURRENT BUSINESS

### A. IMPLEMENTATION OF BUDGET PREPARATION FRAMEWORK – REVIEW OF OPERATING BUDGET, SESSION 5 – MUNICIPAL OPERATIONS

#### **Summary:**

During recent Finance Committee meetings, members discussed pursuing actions for bringing greater transparency and accountability during the annual budget development process. Staff believes that following a proposed budget preparation framework consisting of budget principles, and associated strategies and tactics can be a reliable vehicle for improving the City's budget process. In furtherance of Budget Framework Tactic T.10.1, the goal of this presentation will be to familiarize members of the Finance Committee with the elements of the Fiscal Year 2015-2016 Municipal Operations Department budget, provide opportunity for questions, and to gain clarity in the funding allocations for departmental programs.

#### **Recommended Action:**

In furtherance of Budget Framework Tactic T.10.1, review, ask questions, and provide comment relating to the Municipal Operations Department Fiscal Year 2015-2016 operating budget.

Municipal Operations Director Mike Pisani provided a brief overview of the Municipal Operations Department and displayed a PowerPoint presentation. He addressed the various tasks, the Department's mission, educating the public in terms of the differences between Municipal Operations and Public Works, responsibilities, response times and staffing.

Municipal Operations Director George Murdoch highlighted the utilities side of the Municipal Operations Department including the organizational chart, reductions in staffing, administrative staff, and funding for the various positions.

Discussion followed regarding the budget and task interactions between Municipal Operations and Parks and Recreation.

Mayor Dixon asked for clarification of the various Enterprise funds and Municipal Operations Director Pisani noted that is included in the presentation.

In reply to Council Member Petros's question regarding increases in staffing relative to street/sidewalk/beach maintenance, Municipal Operations Director Pisani explained that had to do with the restructuring and explained that beach maintenance was transferred to the Field Maintenance Division and that the Operations Support Division was reduced and there was no net gain of employees.

Municipal Operations Director Murdoch continued with the presentation noted that Municipal Operations is the largest Department (in terms of dollars) in the City.

City Manager Dave Kiff added that, in large part, is due to contracted services.

Municipal Operations Director Pisani addressed the Municipal Operations budget, by fund, and in response to Mayor Dixon's inquiry, he reported on the various enterprise funds in relation to staffing.

Discussion followed whether the liability for specific staff is funded by enterprise funds as well.

City Manager Kiff stated that the department's salary and benefit costs come out of the enterprise funds and are carried through to the overall liability of the City. He addressed how the sewer enterprise fund pays for the unfunded liability that goes to CalPERS.

Discussion followed regarding separating employee-related costs into the various enterprise funds.

In response to Committee Member Gorczyca's inquiry, Municipal Operations Director Murdoch addressed overtime funding under the separate enterprise funds.

Municipal Operations Director Pisani added that his division works similarly, but with the General Fund. He addressed the five-year operating budget overview and noted salaries and benefits have been relatively flat over the past five years. Salaries and benefits are 25 percent of the budget.

Municipal Operations Director Pisani addressed revenues collected from recycling and from CR&R for rental of the City's transfer station and others.

Discussion followed regarding oil and gas, the Tidelands fund, price of oil per barrel, the equipment fund, the possibility of insourcing with the City of Fountain Valley relative to their fire equipment and the trash transfer station.

In response to Committee Member Warner's question, City Manager Kiff stated that a good question to consider is whether there are other vendors out there that need a transfer station. The trash collection industry is a small group and all of them have their own transfer capability. He questioned whether there is a market for that service.

Mayor Dixon noted that, as a result of outsourcing to CR&R, 25 full-time employees have decreased. Municipal Operations Director Pisani stated that ten are still employed by the City. He addressed reductions in staffing from 2008 to today.

In reply to Committee Member Tucker's question, Municipal Operations Director Pisani reported that salaries are flat.

City Manager Kiff added that the City cannot quickly rid itself of the PERS liability that is assigned to both current and former employees. He stated that the City's ongoing pension liability can be represented by a gentle downward curve over time, instead of a steep downward curve.

Chair Curry added that it would be substantially higher, if those positions had not been eliminated.

Municipal Operations Director Pisani addressed outsourcing.

In response to Mayor Dixon's question, City Manager Kiff reported that right after the recession, the City offered two retirement incentives and many Municipal Operations employees took them and left the City's employment. He added that the City contracted out many of those positions, including street-sweeping.

Discussion followed regarding reductions in staffing, the number of positions that were eliminated, jobs that were absorbed and services that were contracted out.

City Manager Kiff gave examples resulting from the consolidation, such as, litigation due to tree liabilities and public/resident complaints.

Regarding cutting services, Municipal Operations Director Pisani noted that residents still want to see nice-looking medians and parks.

In reply to an inquiry by Committee Member Warner, City Manager Kiff reported that contract prices that were coming in were cheaper than the City's ability to do the same task.

Chair Curry commented on the savings to pension costs.

Discussion followed regarding accrued pension liabilities paid by the City, for people who no longer work for the City.

Chair Curry noted that 60 percent of the City's pension costs are related to people who no longer work for the City.

Discussion followed regarding positions eliminated including trash workers.

Committee Member Tucker commented on unfunded liabilities and off-setting contracts.

In response to Committee Member Gorczyca's question regarding comparisons with other municipalities and benchmarking, Municipal Operations Director Murdoch stated that it is difficult to do so, as services offered may differ. Staff went through that exercise, early on, in terms of making comparisons with benchmarks, and will continue to do so, as part of the City's performance plan.

Municipal Operations Director Pisani addressed services for outsourcing.

Discussion followed regarding cost savings achieved through contracting out services versus providing them in-house, looking at all of the costs in determining whether or not to outsource including pension costs and prevailing wages and fluctuations in the economy.

Finance Director/Treasurer Dan Matusiewicz added that theoretically, when an employee leaves the City, there should be no unfunded liability, but, there have been extraordinary circumstances that have created the current situation.

Committee Member Warner noted that those will never go away.

City Manager Kiff agreed and reported what he has seen in terms of contractors cutting back on the level of service. He added that it is always a struggle.

Committee Member Warner suggested determining whether by paying a contractor a really fair price, the level of service would remain high.

City Manager Kiff reported that the City has outsourced all of the services that are commonly outsourced by other cities.

In reply to Council Member Petros's question regarding the bid out to the fire equipment service if the City's bid is at least equivalent to the cost of the service and the pension liability, Assistant City Manager Carol Jacobs stated that in the City's bid for fire equipment service, there is a portion of the cost of service rate that incorporates pension costs.

It was noted that the City does not contract out for police car service; the Police Department maintains their own vehicles.

Council Member Petros referenced the City's bid to the City of Fountain Valley and suggested that if there is residual capacity, it would be better for the City to use it than to contract out.

City Manager Kiff reported there are studies that show that remedial work is cheaper in the private sector than having City staff doing it.

In response to Mayor Dixon's question regarding the recent waste-water outsourcing review and whether long-term pension liability was factored in, Municipal Operations Director Murdoch reported that the unfunded liability remains whether the City retains the function, or not.

Chair Curry opened public comments.

Jim Mosher commented on the evolution of the Municipal Operations Department, outsourcing contracts and ensuring that the service can be provided by requiring a surety or guarantee, referenced Attachment C relative to the City's electrical bill and wondered regarding savings from LED conversion, the lack of a sewer use fee, and questioned the item related to Outside Counsel Special Litigation.

Chair Curry closed public comments.

Brief discussion followed regarding costs related to ERP implementation and total waste-water utility expenses, the City's five-year strategic plan, justification for IT expenses in the future, finding efficiencies in automated systems and administration and benefits of the new software including improving access and increasing transparency.

## **B. CALPERS PENSION PLAN UPDATE AND ANALYSIS OF PAYMENT ALTERNATIVES**

### **Summary:**

Staff will summarize the results from our latest actuarial valuation and financial options to manage the current obligation. Discussion will include fresh start options as well as the option for contributing surplus funds to an irrevocable pension "reserve/stabilization" trust.

### **Recommended Action:**

Provide policy direction related to the proposed funding options, suggest further changes as needed and if applicable, recommend a funding option for submission to the City Council for approval.

Finance Director/Treasurer Matusiewicz presented details of the staff report addressing objectives and the need for the Committee's direction. He presented policy decisions that need to be made regarding PERS and reviewed a handout distributed under separate cover. He addressed the current amortization policy and a recommendation to deploy a partial fresh start. He reported that the CalPERS the default payment schedule uses a 5 year phase-in period and represents the minimum required contribution. The longer phase-in schedule makes payments initially more affordable, but more expensive over the long-run. Newport Beach has the resources to accelerate funding, which can save money by bypassing the phase-in period. He illustrated several options and noted difference that it makes in terms the term of the payment schedule and monetary difference

In response to Committee Member Warner's inquiry, Finance Director/Treasurer Matusiewicz reported that the City paid roughly \$20 million toward its unfunded liabilities each year.

Discussion followed regarding the ability to change in the future, by combining with another base, the possibility of a short-fall, recommendations to take a partial fresh start, dealing with a mortality loss, payment options and long-term savings.

In reply to Council Member Petros's question, Finance Director/Treasurer Matusiewicz detailed the benefits of the various payment options.

Discussion followed regarding source of the funds, setting aside money from the surplus, considering projected revenues, monitoring monthly revenue versus projected revenue, anticipated revenue surpluses and mid-year opportunity to make budget adjustments/corrections.

In response to Committee Member Tucker's question, Finance Director/Treasurer Matusiewicz addressed anticipated contingencies to deal with increased future pension demands including hastening the use of credit bases with PERS the City's own \$40 million contingency reserve.

Discussion followed regarding dealing with State mandates in the future and problems in relation to the State not giving the City the proper tools. It was noted that even if a city goes bankrupt, pension obligations are not necessarily discharged.

Committee Member Gorczyca commented on the importance of maintaining flexibility and adapting. She suggested setting aside money and investing it or looking at other alternatives rather than depending on CalPERS.

Chair Curry stated that assumes that the City could invest its money with an entity with greater expertise and efficiency than CalPERS and noted there is no evidence to suggest that is true.

Discussion followed regarding the benefits of diversification and Chair Curry stated he is unsure whether the City could realistically achieve that and commented on the possibility of the City compounding a loss.

Mayor Dixon added that the whole idea is to pay the least amount possible.

Chair Curry stressed there is no evidence that the City can invest at a better return than CalPERS.

Committee Member Tucker questioned obligations over the long-haul. He noted that the biggest costs involve Police and Fire services and a potential shift in mortality rate.

Chair Curry noted that the City's options are limited in terms of CalPERS.

Discussion followed regarding potential risks by having the City invest in the stock market independently rather than paying down the liability CalPERS.

Chair Curry stated he would not recommend investing the City's cash reserves in the stock market and gave his opinion regarding the payment options. Chair Curry opined that it would be incrementally beneficial, but won't do much. He warned that if we don't do this now, in a year, the hole will be bigger. We can afford to do this with the surplus from this year. There is no tremendous significance to this.

Committee Member Warner departed at 5:41 p.m.

Chair Curry opened public comments.

Jim Mosher commented on the matter being speculative and suggested that the City may want to get out of a debt, as quickly as possible.

Chair Curry closed public comments.

Council Member Petros moved, and Mayor Dixon seconded, to recommend a funding option, as discussed above, for submission to the City Council for approval. The motion carried, with Committee Member Warner, absent.

**C. FINANCE COMMITTEE CHARTER REVIEW AND UPDATE**

**Summary:**

The resolution authorizing the purpose and responsibilities of the Finance Committee was last updated by Resolution No. 2015-40, as adopted May 26, 2015. Staff reviews this resolution with the Finance Committee on an annual basis and welcomes any discussion or consideration for updating. Any changes to the resolution will require formal City Council approval.

**Recommended Action:**

Review and provide guidance for updating the Finance Committee Charter.

Chair Curry commented on using the time of the Finance Committee in an effective way to make the most difference in the City. He requested input from the Committee, in that effort.

Committee Member Tucker stated he now understands how the unfunded pension liabilities work. He commented on the Committee's objectives relative to making recommendations to City Council and Council's goals in obtaining input from the Committee. He suggested forming a subcommittee to start the process of determining how the Committee can address various issues and recommendations to present to Council, such as what occurred with the waste-water rate. He added that the subcommittee would go through a vetting process prior.

Chair Curry and Mayor Dixon agreed with Committee Member Tucker's comments.

Council Member Petros expressed his support and departed the meeting at 5:48 p.m.

Discussion followed regarding looking at policies, developing ideas relative to developing financial and budgetary policies and giving the Committee an opportunity to structure recommendations.

Mayor Dixon moved, and Committee Member Tucker seconded, to form a subcommittee made up of Finance Committee Citizen Members to look for ways to maximize revenues, minimize costs and present these to the full Finance Committee.

Chair Curry opened public comments.

Jim Mosher agreed that establishing a subcommittee is a good idea, but noted that the matter was not on today's agenda and stated that the subcommittee would be advising the Finance Committee which will, in turn, advise City Council.

Chair Curry closed public comments.

The motion carried, with Council Member Petros and Committee Member Warner, absent.

**D. WORK PLAN OVERVIEW**

**Summary:**

Staff will present and seek approval of the revised Finance Committee agenda topics scheduled for the calendar year. Proposed changes include additional committee meetings to review the entirety of the proposed Fiscal Year 2016-2017 budget. The work plan represents the planned topics of discussion; however, is subject to change based on the availability of information and the need to schedule other topics as they arise.

**Recommended Action:**

Review and approve the tentative Finance Committee agenda topics.

Deputy Finance Director Steve Montano provided details of the staff report and noted the addition of three sessions for the Finance Committee to review the budget. Meetings would be on March 10, April 28 and May 5.

It was noted that the budget should go to Council for adoption on June 14, 2016.

Discussion followed regarding changes in the Finance Committee meeting dates in September and December. The Finance Committee will meet on May 5 instead of May 12 and the April regular meeting will be on April 28.

Chair Curry noted there will be no meetings in July or August.

Chair Curry opened public comments.

Jim Mosher commented on the selection of a new Auditor in June.

Chair Curry closed public comments.

Finance Director/Treasurer Matusiewicz reported that staff is in the process of preparing a request for proposal and a recommendation would be brought back to Finance Committee

**E. BUDGET AMENDMENTS**

**Summary:**

Staff will report on the budget amendments for the prior quarter. All budget amendments are in compliance with City Council Policy F-3, Budget Adoption and Administration.

**Recommended Action:**

Receive and file.

Committee Member O'Neill stated he asked for the information and has no questions.

**VI. FINANCE COMMITTEE ANNOUNCEMENTS ON MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM) - None**

**VII. ADJOURNMENT**

The Finance Committee adjourned at 6:00 p.m. to the next regular meeting of the Finance Committee on March 10, 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 February 6, 2016, at 4:03 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:

\_\_\_\_\_  
Keith Curry, Chair  
Finance Committee Chair

\_\_\_\_\_  
Date



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

Agenda Item No. 5A  
March 10, 2016

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Dan Matusiewicz, Finance Director  
(949) 644-3123, [danm@newportbeachca.gov](mailto:danm@newportbeachca.gov)

**SUBJECT: FISCAL YEAR 2014-2015 AUDIT RESULTS**

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**SUMMARY:**

In connection with the City's financial statement audit, the auditors have expressed an "unmodified" opinion of the City's 2014-2015 financial statements, meaning they are presented fairly, in all material respects. In connection with the Single Audit, a compliance audit of federally assisted grant programs, the auditors did not note any findings or questioned costs. The auditors also have certain obligations to communicate the audit results with both City Council and management. The attached letters from the City's auditors, White Nelson Diehl Evans, fulfill those obligations for the required communication.

**RECOMMENDED ACTION:**

Receive and file.

**DISCUSSION:**

The first audit letter (see Attachment A) is intended to communicate matters of particular significance that City Council should be aware of including:

- Qualitative Aspects of Accounting Practices
- Difficulties Encountered in Performing the Audit
- Corrected and Uncorrected Adjustments
- Disagreements with Management
- Management Representations
- Management Consultations with Other Independent Accountants
- Other Audit Findings or Issues

The auditors reported no significant difficulties encountered in connection with the performance of the audit, disagreements with management or other audit findings or issues. They did report audit adjustments that were subsequently incorporated into the City's financial statements or waived because they were immaterial to the report.

The second letter (see Attachment B) entitled "Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters" is intended to communicate deficiencies, significant deficiencies or material weaknesses in internal control and instances of non-compliance or other matters. We are pleased to report that the auditors did not identify any deficiencies in internal control considered to be a material weakness that would result in more than a remote likelihood of a material misstatement of the financial statements or would not otherwise be prevented by the City's internal controls.

As noted above, they communicated certain recommended adjustments to financial statements, as initially prepared. They did not identify any instances of noncompliance or other matters that require specific communication to the governing body as promulgated by Government Auditing Standards.

A detailed explanation of the deficiencies and the corrective actions are as follows:

- I. **During their review of accounts receivable, the auditors noted the City had identified receivables as uncollectible, but left the uncollectible amounts in the year end balances resulting in an overstatement of the receivable and unavailable revenue amounts.**

**Explanation**

The Contributions Fund is used to account for revenues received from other governmental agencies or private developers and are expended for specific projects. The receivable represented the cumulative total of different capital project grants that did not materialize over a period of years. Working together with Public Works, staff had identified that certain receivables that were no longer collectible. Staff recommended budget adjustments to cover the uncollectable amounts which were subsequently approved by Council in the Fiscal Year 2015-2016 budget. Due to simple oversight, staff failed to remove the uncollectible portion from the 2014-2015 balance sheet. This oversight had no effect on fund balance because the receivable was offset by a liability. The offsetting liability is an acknowledgment that the receipt of this receivable would not likely be available for appropriation in the near term.

**Corrective Action**

Failure to remove the receivable and offsetting liability from the balance sheet was an oversight. Staff should have removed the receivable and liability at the

time of discovery. In the future, Finance staff will remove these balances when identified.

- II. During their review of liabilities, the auditors noted a liability account with a significant debit balance. An audit adjustment was needed to remove the debit balance resulting in an increase in expenses to the payroll clearing account.**

**Explanation**

Payroll clearing funds are used by organizations to temporarily gather and isolate specific funds associated with payroll obligations including net salaries, benefits, taxes, voluntary deductions, garnishments and more. Monies are transferred from contributing departments or withheld from employee salaries for their intended purpose. In a perfect world, all clearing accounts would zero-out after each payroll or at the end of a given month. Various timing and employment status issues generally prevent the payroll clearing fund to ever maintain a zero balance. At the time of the audit, a debit balance relating to CalPERS pension payments was identified in the clearing fund. A previous software update in our former ERP system introduced an error where departments were being undercharged for their pension expense. However, the pension remittance report, generated by the same system, contained the correct amount. So while CalPERS received the correct pension payment, departments were undercharged causing a debit balance in the payroll clearing account.

**Corrective Action**

The year-end debit balance occurred in the legacy finance system after a change in CalPERS reporting requirements was made. With the implementation of a new integrated finance and payroll system, staff will have better tools to reconcile transitory balances on a more timely basis.

- III. During their review of liabilities, the auditors identified a long-standing liability for non-refundable record management fees. Due its materiality, the amount should have been recorded as revenue and assigned to a reserve account instead.**

**Explanation**

Fees collected for record management fees in the Community Development Department are intended to offset the cost of imaging building permit records. A portion of these fees were being set aside to enhance the permit system's digital plan submission capabilities which would reduce the cost of imaging records on the back end. Establishing a "trust" liability account is an administratively efficient means of setting aside revenue for its intended purpose (e.g., a donation for a memorial park bench) but the accounting treatments is not technically correct since the beneficiary of the deposit is the City and not some other entity. Over the span of several years and by the end of Fiscal Year 2015, the balance of the

records management deposits increased to \$397,000 reflecting the savings plan for the planned digital permit enhancements. As the balance became material, the City should have recorded a revenue instead of a deposit to a trust liability account.

**Corrective Action**

Going forward, staff will review such liability accounts more frequently and shall recognize deposits as revenue when material.

Items of lesser significance are documented in the third letter designated as Management Letter (see Attachment C). There was one management comment on billing for moorings at a lower rate and no instances of non-compliance concerning federal award programs as indicated below.

**IV. During their review of the City's customer billings, the auditors noted that City Council had approved a mooring rate of \$27.71; however, billings were processed using a lesser rate of \$27.21.****Explanation**

The use of the incorrect rate was introduced through email communication between departments who need to be notified about the new rate.

**Corrective Action**

The City will implement procedures to ensure new rates are reviewed and compared to the source documents upon implementation. Billing staff will validate new rates to source documentation or Council action when available.

You will have the opportunity to speak to the auditors, without staff present, to answer any questions that you might have concerning the Fiscal Year 2014-2015 Audit.

Prepared by:

Submitted by:

/s/ Rukshana Virany

/s/ Dan Matusiewicz

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Rukshana Virany  
Accounting Manager

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Dan Matusiewicz  
Finance Director

Attachments:

- A. Auditor's "Audit Committee Letter"
- B. Auditor's Letter "Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters"
- C. Auditor's "Management Letter"

**ATTACHMENT A**  
Auditor's "Audit Committee Letter"

To the Honorable Mayor and  
Members of the City Council  
of the City of Newport Beach  
Newport Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California (the City), for the year ended June 30, 2015. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and *Government Auditing Standards*, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our planning communication letter to you dated June 24, 2015. Professional standards also require that we communicate to you the following information related to our audit.

### **Significant Audit Findings**

#### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. As discussed in Notes 1d and 17 to the financial statements, the City has recorded the net pension liability, deferred outflows of resources, and deferred inflows of resources related to the agent multiple employer defined benefit pension plans due to the adoption of Governmental Accounting Standards Board's (GASB) Statement No. 68, "*Accounting and Financial Reporting for Pensions*" and Statement No. 71, "*Pension Transition for Contributions Made Subsequent to the Measurement Date, an Amendment of GASB Statement No. 68*". The adoption of these standards required retrospective application resulting in a reduction of previously reported net position of the governmental activities, business-type activities, water enterprise fund, wastewater enterprise fund, and internal service funds. No other accounting policies were adopted and the application of other existing policies was not changed during the year ended June 30, 2015. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

## **Significant Audit Findings (Continued)**

### *Qualitative Aspects of Accounting Practices (Continued)*

The most sensitive estimates affecting the City's financial statements are as follows:

- a. Management's estimate of the fair market value of investments, which is based on market values provided by outside sources.
- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.
- c. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.
- d. The annual required contributions, pension expense, net pension liability and corresponding deferred outflows of resources and deferred inflows of resources for the City's public defined benefit plans with CalPERS are based on actuarial valuations provided by CalPERS.
- e. The annual required contribution and actuarial accrued liability for the City's Other Post-Employment Benefit Plan are based on certain actuarial assumptions and methods prepared by an outside consultant.
- f. Management's estimate of the claims payable liabilities related to general liability and worker's compensation claims are based on actuarial valuations.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 8 regarding claims payable, Note 10 regarding the CalPERS defined benefit plans, Note 11 regarding the City's Other Post-Employment Benefit Plan, and Note 17 regarding the restatement of net position.

The financial statement disclosures are neutral, consistent, and clear.

### *Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

### *Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. The attached schedule summarizes uncorrected misstatements of the financial statements. Management has determined that their effects are immaterial, both individually and in the aggregate, to the financial statements taken as a whole.

## **Significant Audit Findings (Continued)**

### *Corrected and Uncorrected Misstatements (Continued)*

Also, the following material misstatements detected as a result of audit procedures were corrected by management:

- Removal of uncollectible accounts receivable and the corresponding deferred inflows of resources, unavailable revenues, totaling \$839,053.
- Increase in liability and expense in the amount of \$1,793,807 to correct a liability account that contained a significant debit balance.
- Recording revenue and removing the liability for non-refundable records management fees collected by the City totaling \$396,711.

### *Disagreements with Management*

For purposes of this letter, a disagreement with management is a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditors' report. We are pleased to report that no such disagreements arose during the course of our audit.

### *Management Representations*

We have requested certain representations from management that are included in the management representation letter dated January 26, 2016.

### *Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

### *Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

## **Other Matters**

We applied certain limited procedures to management's discussion and analysis, the CalPERS pension plans schedules of changes in the net pension liability and related ratios - miscellaneous and safety, and the CalPERS pension plans schedule of contributions - miscellaneous and safety, which is required supplementary information (RSI) that supplements the basic financial statements.

## **Other Matters (Continued)**

Our procedures consisted of inquiries of management regarding the methods of preparing the information and comparing the information for consistency with management's responses to our inquiries, the basic financial statements, and other knowledge we obtained during our audit of the basic financial statements. We did not audit the RSI and do not express an opinion or provide any assurance on the RSI.

We were engaged to report on the combining and individual non-major fund financial statements and schedules (supplementary information), which accompany the financial statements but are not RSI. With respect to this supplementary information, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

We were not engaged to report on the introductory and statistical sections, which accompany the financial statements but are not RSI. We did not audit or perform other procedures on this other information and we do not express an opinion or provide any assurance on them.

## **Restriction on Use**

This information is intended solely for the use of the City Council and management of the City of Newport Beach and is not intended to be, and should not be, used by anyone other than these specified parties.

*White Nelson Dick Evans LLP*

Irvine, California  
January 26, 2016

**City of Newport Beach**  
**Fiscal Year 2014-2015 Passed Adjusting Journal Entries**  
**June 30, 2015**

DESCRIPTION	DEBIT (CREDIT)				
	ASSET	LIABILITY	EQUITY	REVENUE	EXPENSE
<b><u>Other Aggregate Funds</u></b>					
<b>Prior Year</b> Fund Balance			(41,175)		
Reimbursements				41,175	
<i>To record reconciling cash items as of 6/30/14 in the Hazelrigg Risk Mgmt Imprest Acct for reimbursements pending from the City.</i>					
<b>Current Year</b> Reimbursements				(131,592)	131,592
<i>To record reconciling cash items as of 6/30/15 in the Carl Warren Imprest Acct for reimbursements pending from the City for May and June.</i>					
<b>Current Year</b> Receivable	342,065				
Deposit payable		(342,065)			
<i>To accrue the June 2015 tourism bids in the agency fund, which would represent a receivable and a payable.</i>					
Total Passed Adjusting Journal Entries	342,065	(342,065)	(41,175)	(90,417)	131,592
Overall Fund Balance Effect					<u>-</u>
<b><u>Water Fund</u></b>					
<b>Current Year</b> Revenue				125,258	
Accounts Payable		(125,258)			
<i>To accrue a refund due to a customer for fiscal year 2014-2015 consumption. The refund is needed due to an overbilling that was caused by utilizing an incorrect rate when billing for reclaimed water.</i>					
Total Passed Adjusting Journal Entries	-	(125,258)	-	125,258	-
Overall Net Position Effect					<u>125,258</u>

## **ATTACHMENT B**

**Auditor's Letter "Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters"**

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH *GOVERNMENT AUDITING STANDARDS*

The Honorable Mayor and  
Members of City Council  
City of Newport Beach  
Newport Beach, California

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California (the City), as of and for the year ended June 30, 2015, and the related notes to the financial statements, which collectively comprise the City's basic financial statements and have issued our report thereon dated January 26, 2016.

**Internal Control over Financial Reporting**

In planning and performing our audit of the financial statements, we considered the City's internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A *material weakness* is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis. A *significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies and therefore, material weaknesses or significant deficiencies may exist that were not identified. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. We did identify certain deficiencies in internal control, described below, that we consider to be significant deficiencies.

## **Uncollectible Accounts Receivable**

### Auditors' Comment and Recommendation

During our review of accounts receivable and deferred inflows of resources, unavailable revenues, we noted the City had identified receivables as uncollectible, but left the uncollectible amounts in the year-end balances resulting in an overstatement of the receivable and unavailable revenue amounts. Uncollectible receivables should be written off when identified. We recommend the City write-off receivable balances when they have been deemed uncollectible.

### Management's Response

We concur with the recommendation. Failure to remove the receivable and deferred inflow from the balance sheet was a simple oversight.

## **Payables**

### Auditors' Comment and Recommendation

During our review of liabilities, we noted a liability account with a significant debit balance. Due to our inquiry, an audit adjustment was needed to remove the debit balance resulting in an increase in expenses in the fund. The City should have minimal debit balances in liability accounts. We recommend the City investigate all significant debit balances within liability accounts for reasonableness.

### Management's Response

The City concurs with this comment and recommendation. While the amount was significant, it was not unusual as it relates to the magnitude of our bi-weekly payroll and timing of events at year-end.

## **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether the City's financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

## **City's Responses to Comments and Recommendations**

The City's responses to the comments and recommendations identified in our audit are described above. The City's responses were not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on them.

## **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the City's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the City's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*White Nelson Dick Evans LLP*

Irvine, California

January 26, 2016

**ATTACHMENT C**  
Auditor's "Management Letter"

Honorable Mayor and  
Members of the City Council  
City of Newport Beach  
Newport Beach, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach, California (the City) as of and for the year ended June 30, 2015, in accordance with auditing standards generally accepted in the United States of America and *Government Auditing Standards*, we considered the City's internal control over financial reporting (internal control) as a basis for designing our auditing procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the first paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As discussed below, we identified a certain matter involving the internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated January 26, 2016 on the financial statements of the City. Our comment and recommendation is intended to improve the internal control or result in other operating efficiencies. Our comment with our recommendation for improvement is summarized as follows:

## **Mooring Rates**

### Auditors' Comment and Recommendation

During our review of the City's customer billings, we noted that City Council had approved a mooring rate of \$27.71; however, billings were processed using a smaller rate of \$27.21. The use of the incorrect rate was introduced through email communication between departments who need to be notified about the new rate. We recommend the City implement procedures to ensure new rates are reviewed and compared to the source documents upon implementation.

## **Mooring Rates (Continued)**

### Management's Response

The City concurs with the comment and recommendation. Billing staff will validate new rates to source documentation or Council action when available.

### **City's Response to Comment and Recommendation**

The City's response to the comment and recommendation identified in our audit is described above. The City's response was not subjected to the auditing procedures applied in the audit of the financial statements and, accordingly, we express no opinion on it.

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*White Nelson Dick Evans LLP*

Irvine, California  
January 26, 2016

# City of Newport Beach

Communication with Those Charged with Governance  
2015 Audit Results

# Outline

- Scope of Services
- Auditors' Opinion and Reports
- Communication with Those Charged with Governance
- New GASB Standards

# Scope of Services

- Audit of the annual financial statements for the year ended June 30, 2015 in accordance with Generally Accepted (US) and Governmental Auditing Standards
- Audit of federal grant expenditures under OMB Circular A-133
- Agreed-Upon-Procedures related to the City's calculation of the GANN limit

# Auditors' Opinion

- Audit of financial statements for the year ended June 30, 2015
- Management is responsible for preparation and fair presentation of the financial statements
- Auditor's responsibility is to express opinions on the financial statements
- Standards require that audit is planned and performed to obtain reasonable assurance that financial statements are free from material misstatement

# Auditors' Opinion

- Audit evidence is sufficient and appropriate to provide a basis of our audit opinions
- Unmodified opinions for June 30, 2015
- Emphasis of Matter paragraph – Note 1d and Note 17 for restatements
  - Implementation of GASB Nos. 68 and 71

# Management Letter

- Material Weaknesses
  - None noted
- Significant Deficiency
  - Uncollectible accounts receivable
  - Payables
- Noncompliance
  - None noted
- Other Matters
  - Mooring rates

# Auditor's Reports (Single Audit)

- Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance with *Government Auditing Standards*
  - No material weaknesses noted
  - Significant deficiencies (2)
- Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by OMB Circular A-133 and on the Schedule of Expenditures of Federal Awards
  - No significant deficiencies or material weaknesses noted
  - No compliance findings noted

# Communication with Those Charged with Governance

- The planned scope and timing of the June 30, 2015 audit was communicated to the City's Finance Committee in a planning letter dated June 24, 2015
- Management is responsible for the selection and use of appropriate accounting policies, which are described in note 1 to the financial statements
- Adoption of GASB Nos. 68 and 71
- Management has selected and applied other significant accounting policies appropriately and consistently

# Communication with Those Charged with Governance

- Significant estimates reported in the financial statements include the following:
  - Fair market value of investments
  - Value of capital assets (infrastructure assets)
  - Estimated useful lives of capital assets for depreciation purposes
  - Annual required contributions, pension expense, net pension liability and deferred outflows/inflows of resources of CalPERS defined benefit pension plan
  - Annual required contribution and actuarial accrued liability for the City's OPEB
  - Claims payable liabilities

# Communication with Those Charged with Governance

- The most sensitive disclosures affecting the financial statements include the following:
  - Note 8 regarding claims payable
  - Note 10 regarding the CalPERS defined benefit plans
  - Note 11 regarding the City's OPEB
  - Note 17 regarding the restatement of net position
- We encountered no significant difficulties during our audit.

# Communication with Those Charged with Governance

- Corrected and Uncorrected Misstatements.
- No such disagreements arose during the course of our audit.
- Representations related to audit obtained from management in a letter dated January 26, 2016.
- To our knowledge, the City did not consult with other accountants regarding auditing or accounting matters.

# New GASB Standards

- GASB 72
  - Fair value measurement and application
- GASB 73
  - Pension guidance for plans not included in GASB 68
- GASB 74
  - Financial reporting for OPEB plans
- GASB 75
  - Financial reporting for employers of OPEB plans

# New GASB Standards

- GASB 76
  - Hierarchy of GAAP
- GASB 77
  - Tax abatement disclosures
- GASB 78
  - Amendment to plans included in GASB 68
- GASB 79
  - Certain external investment pools and pool participants
    - when to record at amortized cost

# FY 17 PROPOSED BUDGET ASSUMPTIONS

FINANCE COMMITTEE MEETING

MARCH 10, 2016



# OVERVIEW

- Economic Overview
- General Fund Revenue
- General Fund Expenditures
- Use of Surplus Funds
- Demonstration of Municast Fiscal Forecast Model



# ECONOMIC OVERVIEW

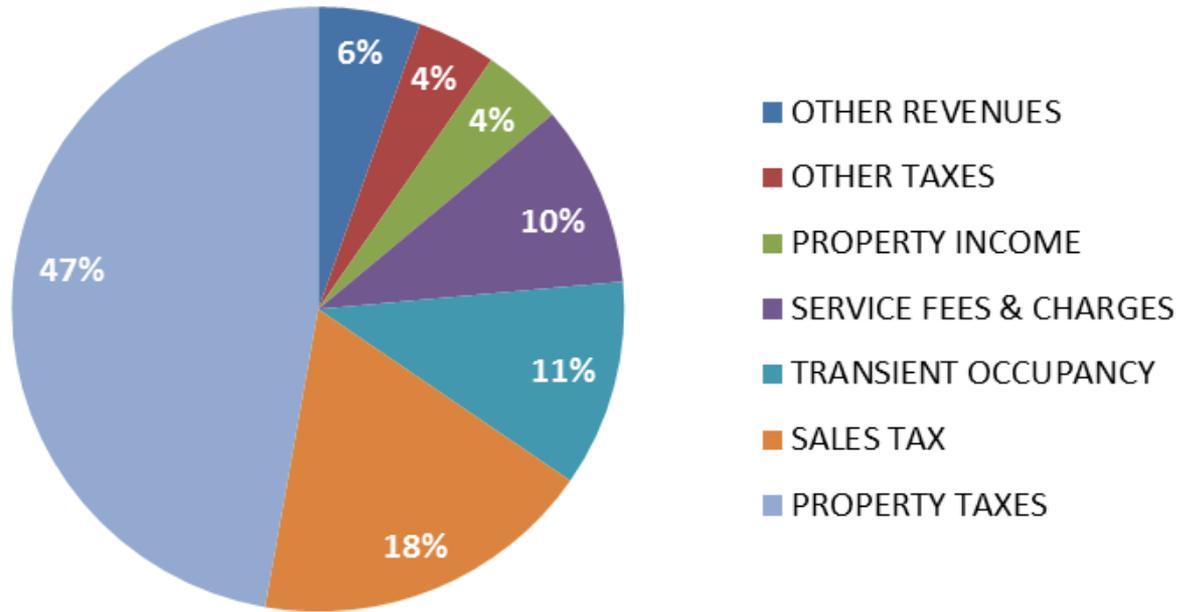
## US and Local Economy Still Moving Along

- Labor markets strong
- Housing still in recovery mode
- Credit expanding on many levels
- California is leading, not lagging the nation
- Travel and tourism still strong

## Issues

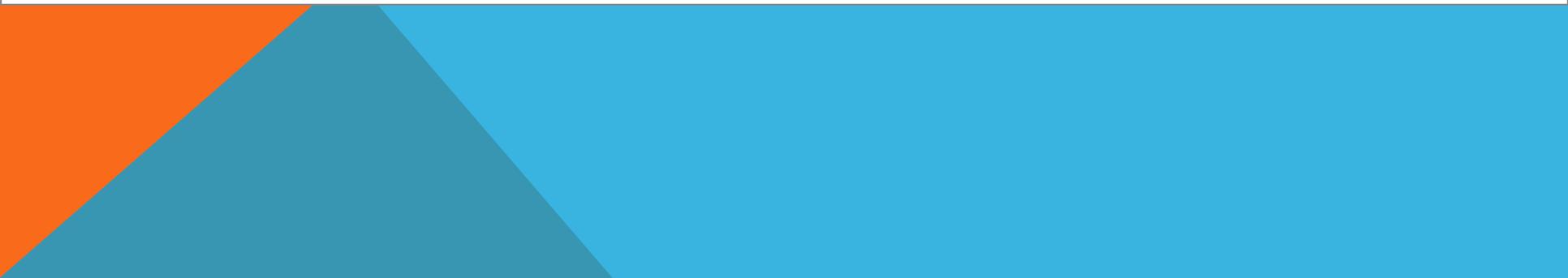
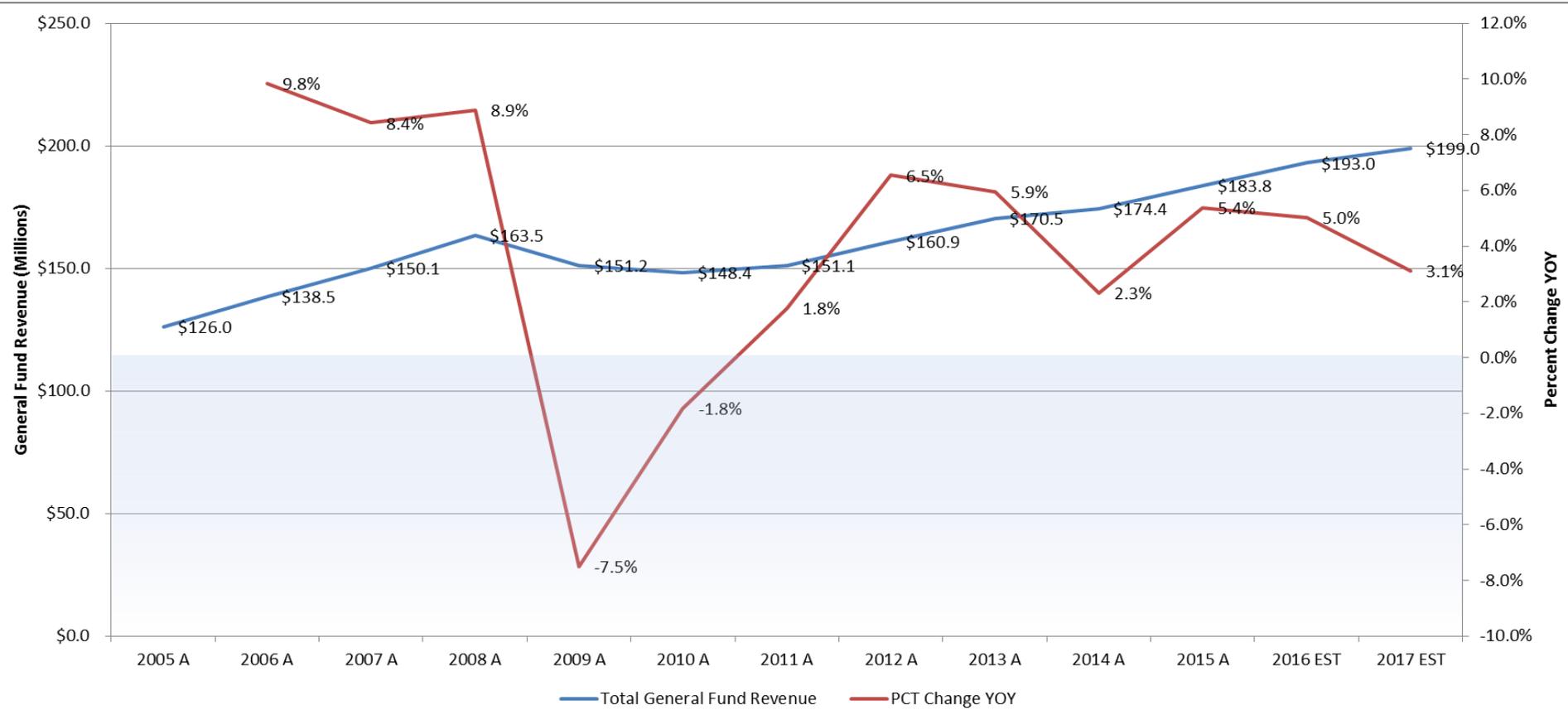
- Economy is growing at a slow pace
- Pensions costs are rising
- Global economy, particularly Asia is a concern
- TOT growth appears to be leveling off

# FY 17 TOTAL PROJECTED GENERAL FUND REVENUE - \$199 M

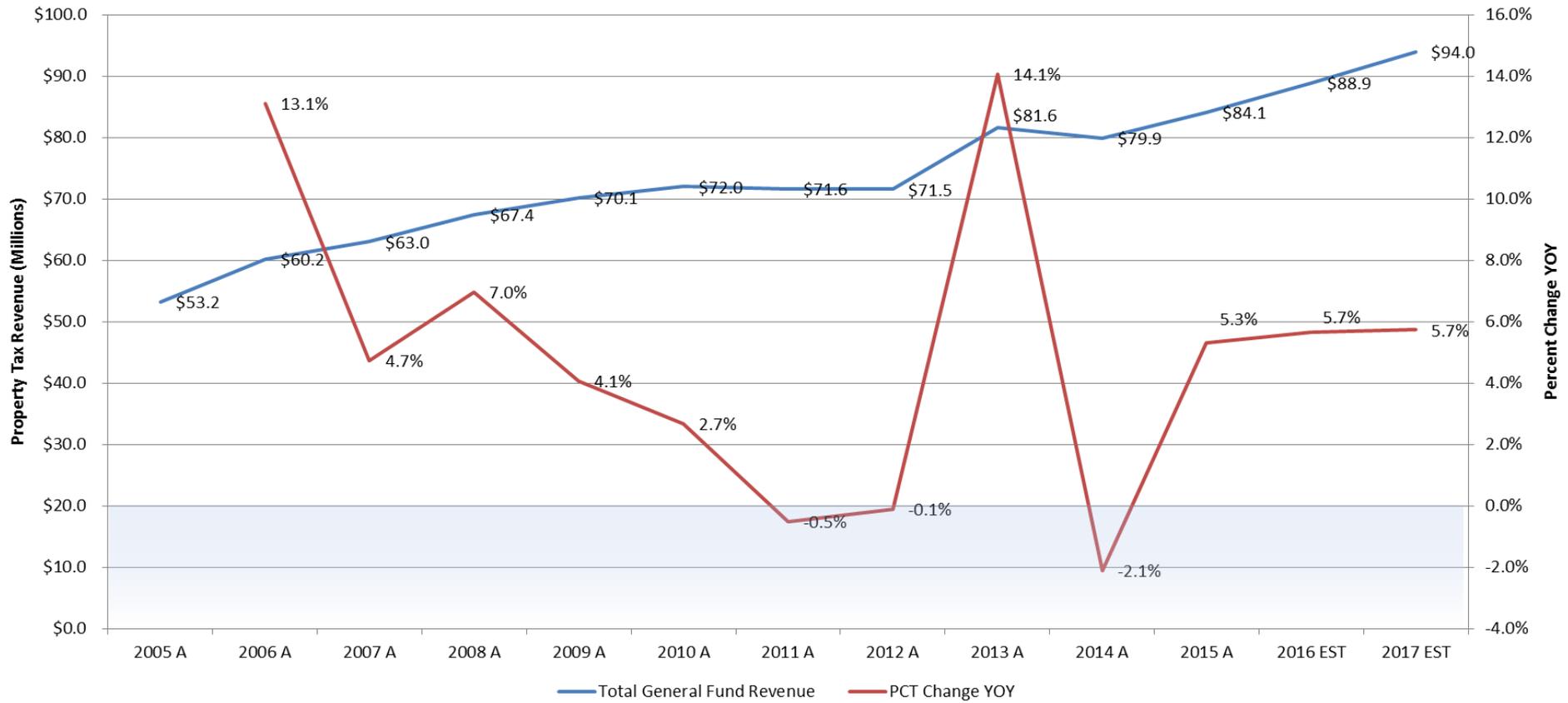


# GROWTH OF GENERAL FUND REVENUE

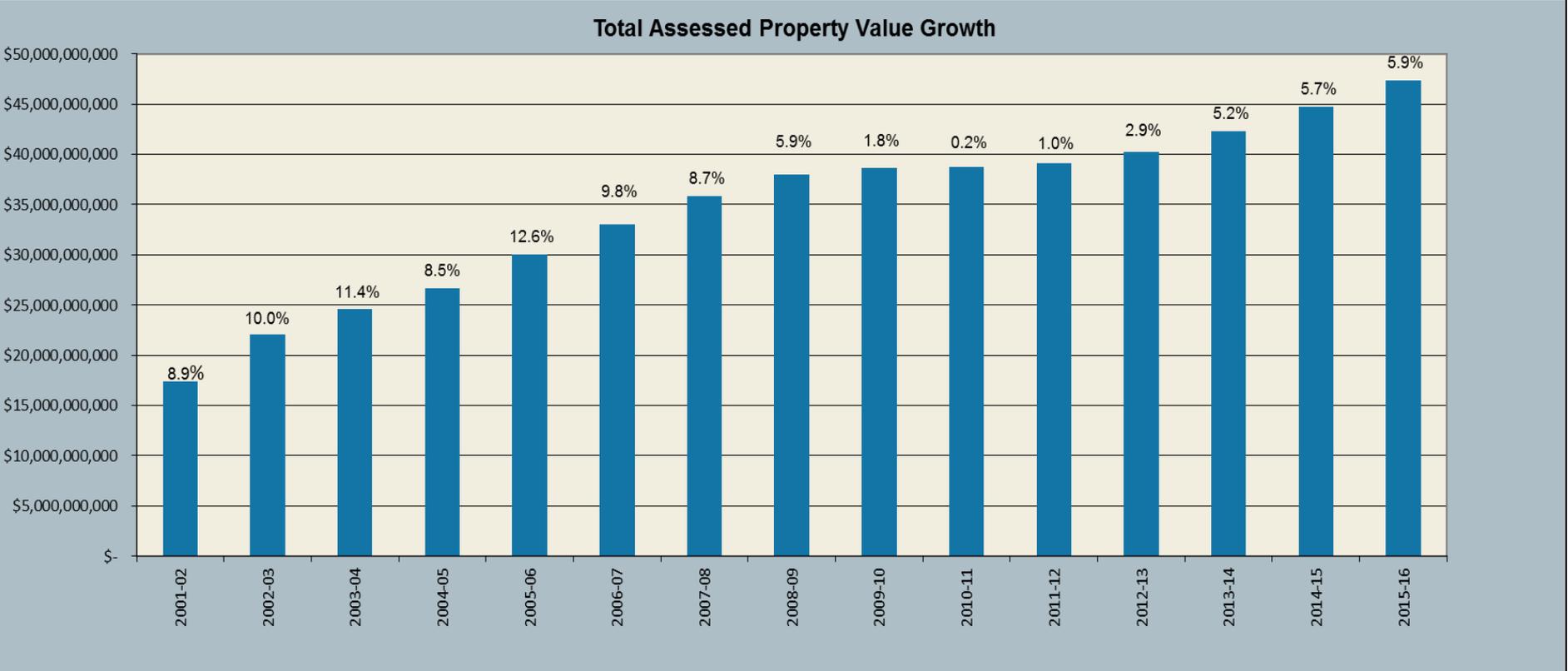
## FY 05 TO FY 17



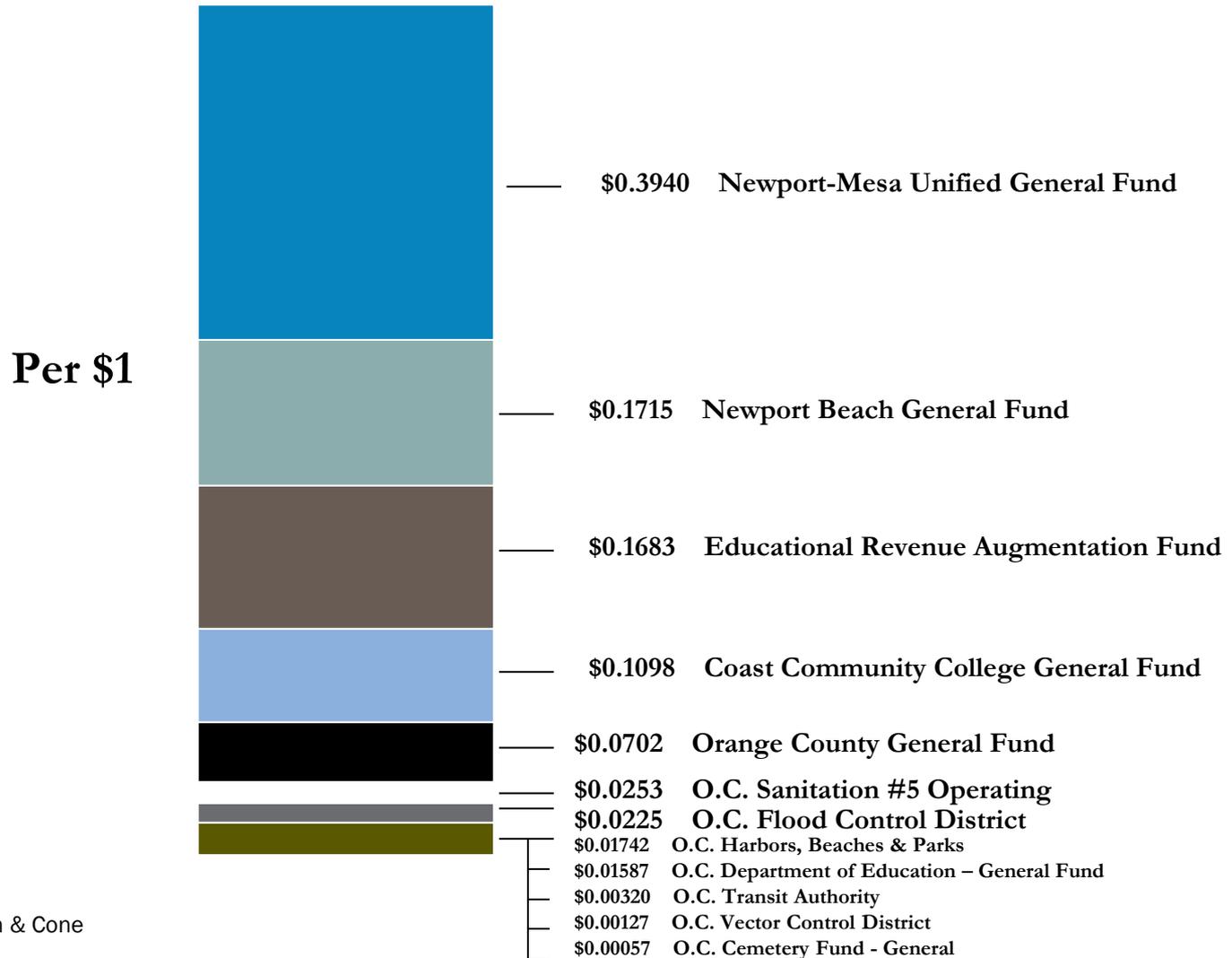
# PROPERTY TAX



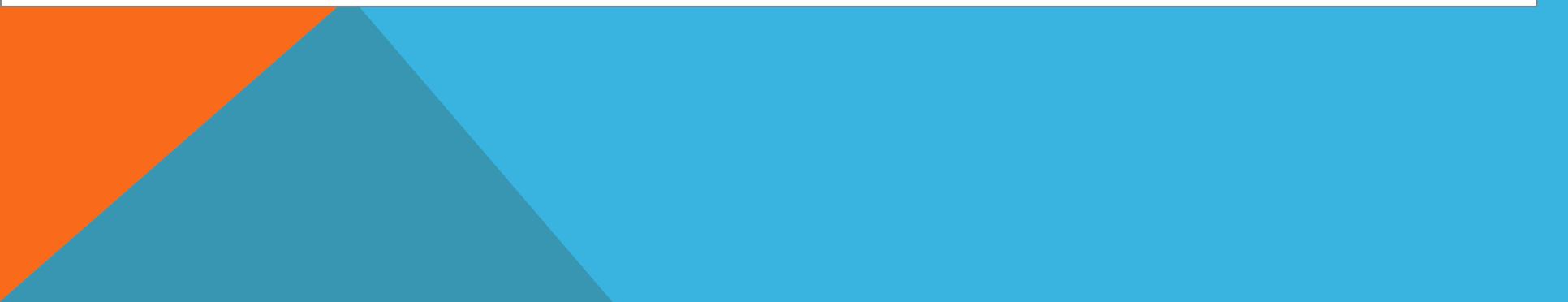
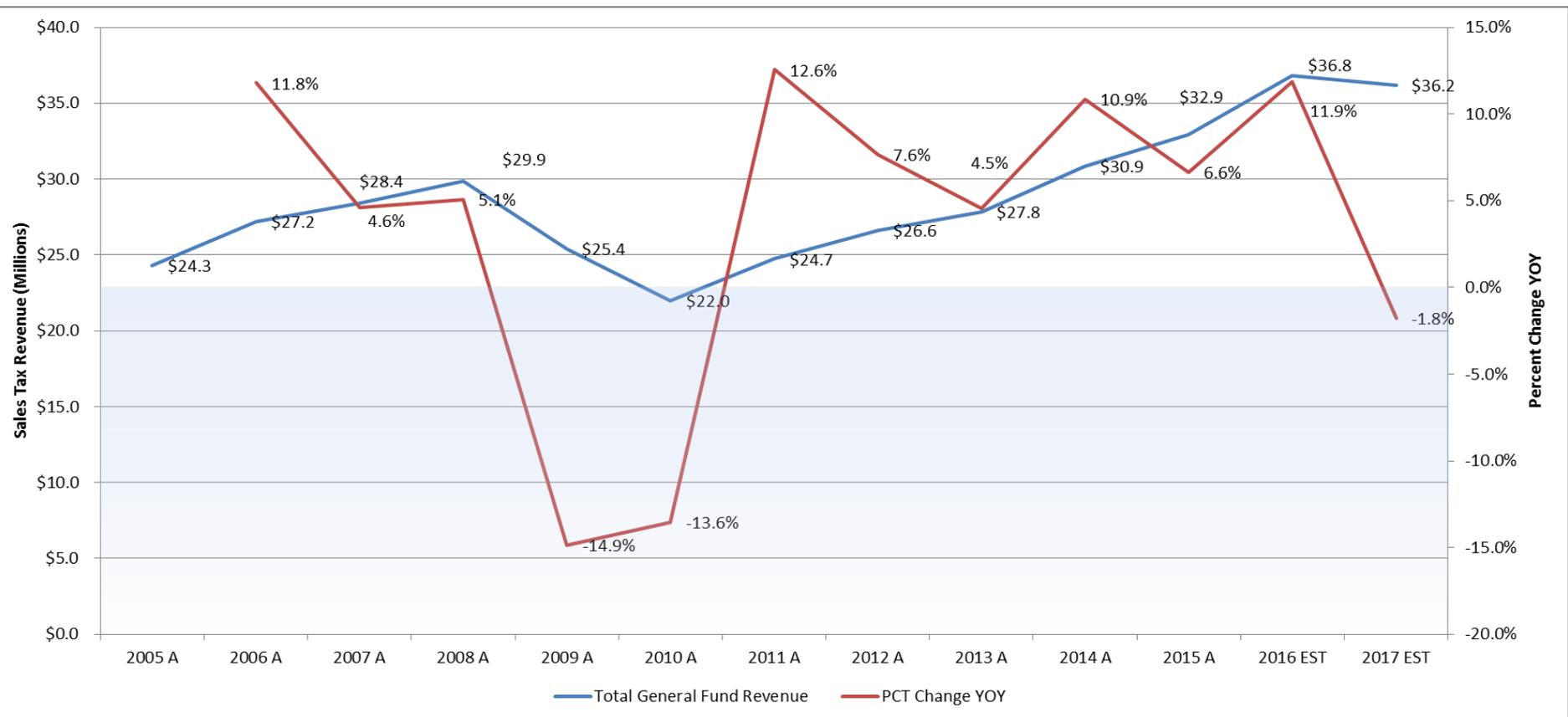
# GROWTH OF ASSESSED VALUATION



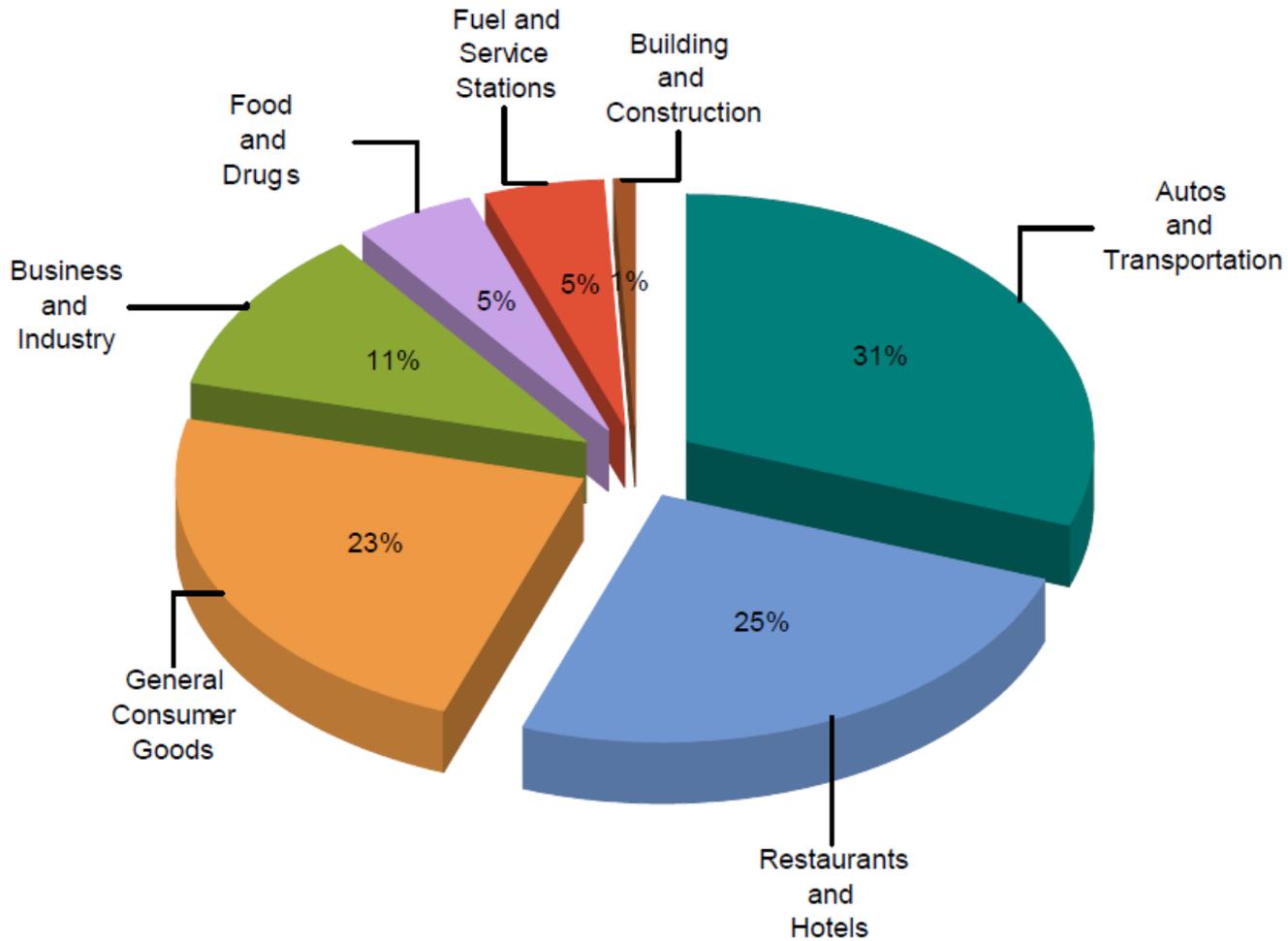
# NEWPORT BEACH PROPERTY TAX BREAKDOWN



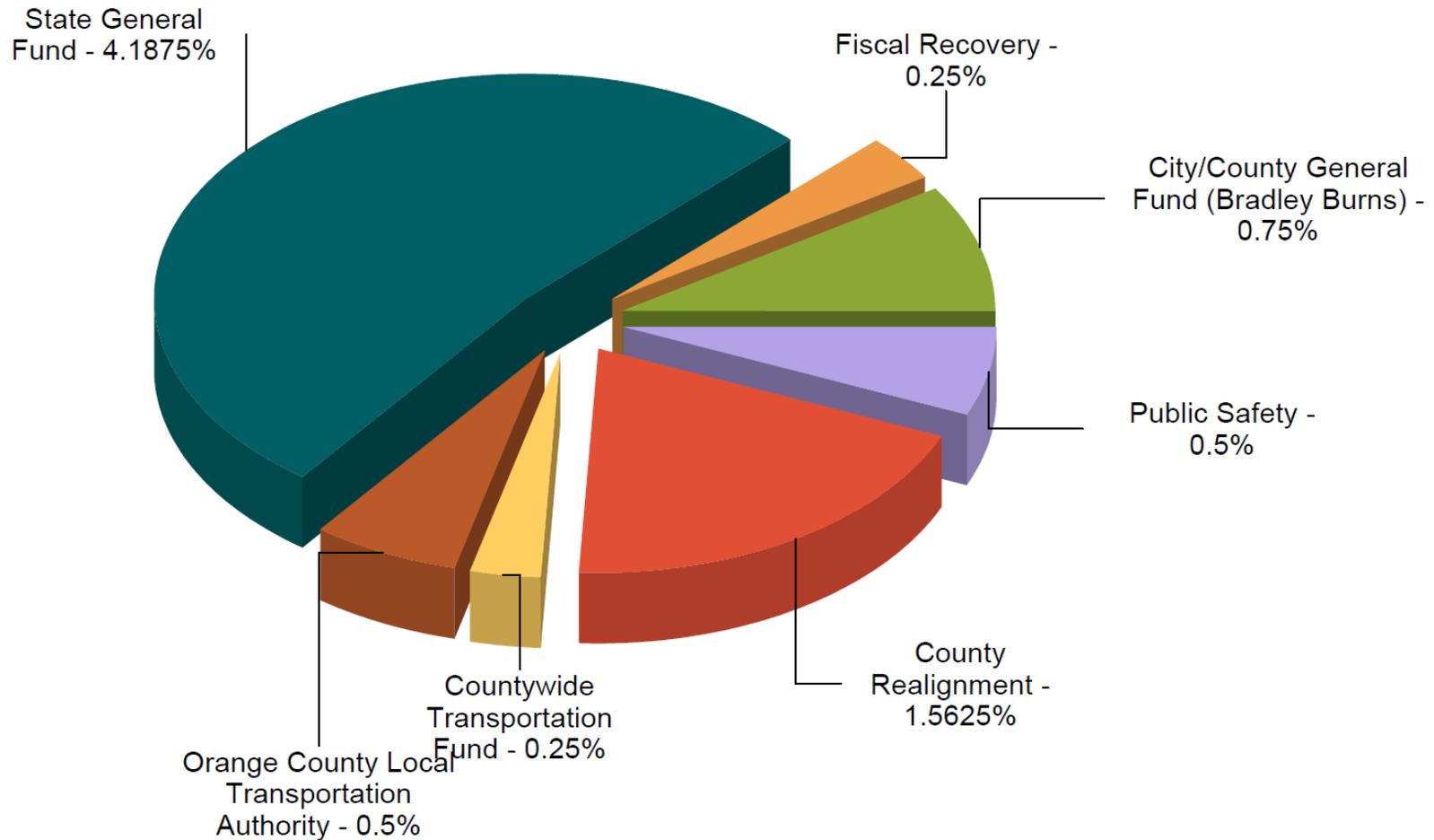
# SALES TAX



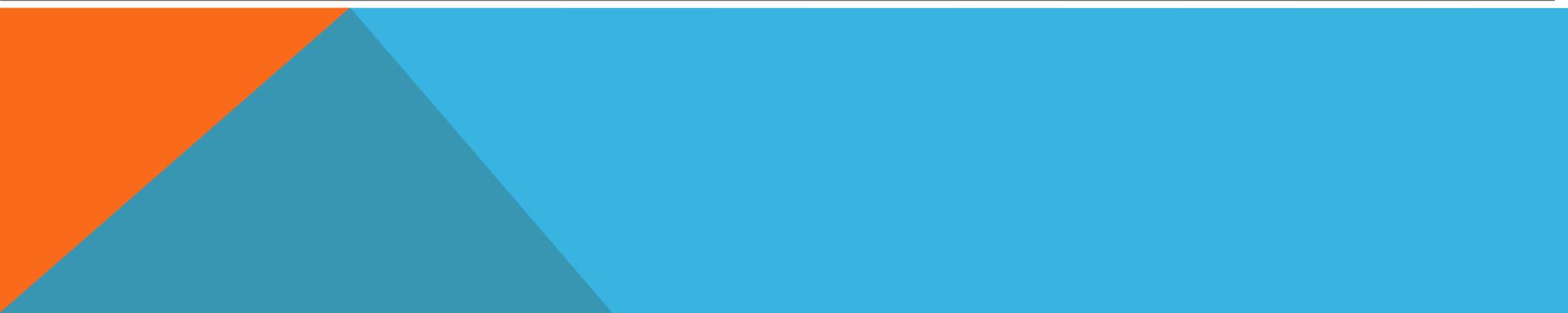
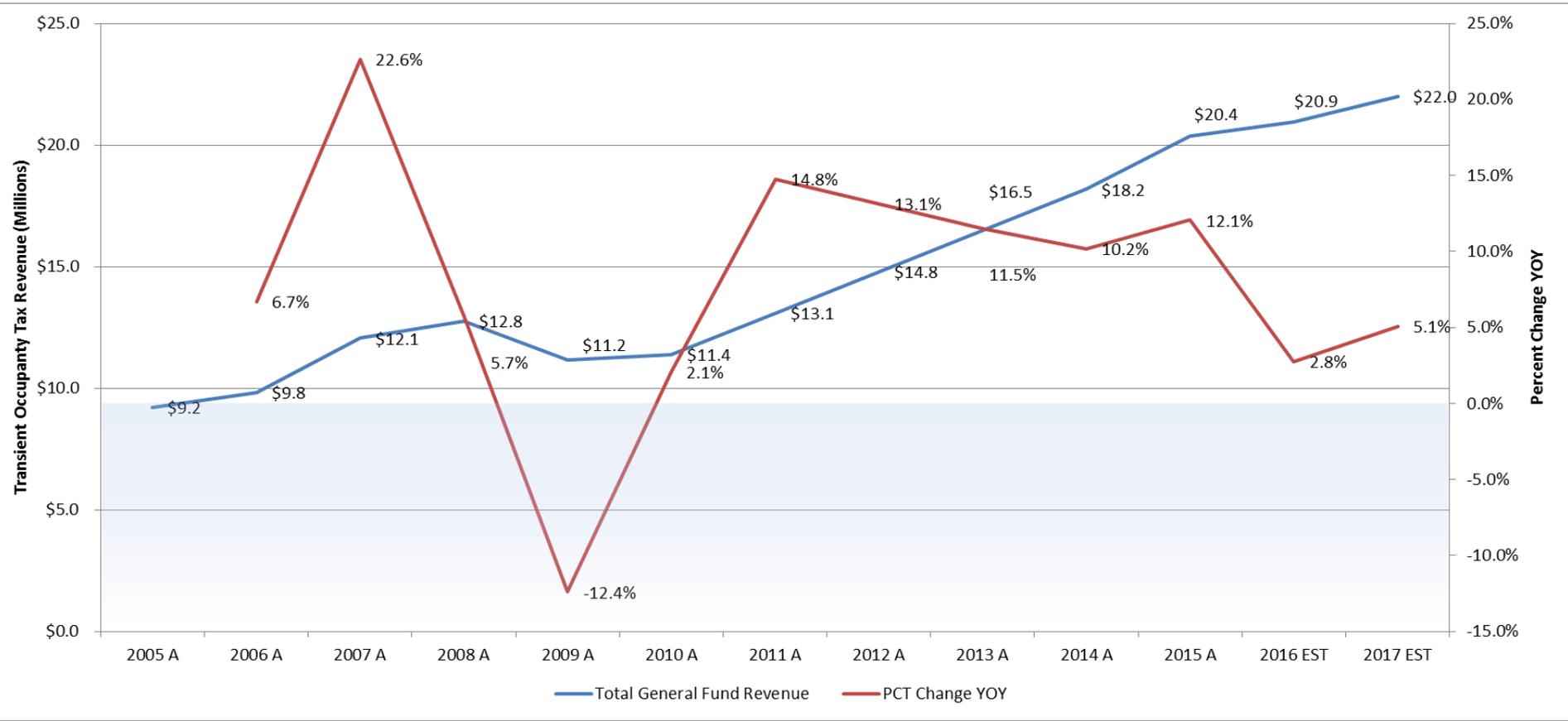
# SALES TAX RECEIPTS BY CATEGORY



# SALES TAX REVENUE ALLOCATION



# TRANSIENT OCCUPANCY TAX



# PROJECTED GENERAL FUND REVENUE CHANGES

GENERAL FUND REVENUE	A	B	C	B-A		C-B	
	2015 ACTUAL	2016 EST	2017 EST	CHANGE FY16-FY15	CHANGE FY17-FY16	CHANGE FY16-FY15	CHANGE FY17-FY16
				\$ CHANGE	% CHANGE	\$ CHANGE	% CHANGE
PROPERTY TAXES	\$ 84,125,188	\$ 88,889,356	\$ 93,985,344	\$ 4,764,168	5.7%	\$ 5,095,988	5.7%
SALES TAX	32,920,591	36,827,288	36,173,778	3,906,697	11.9%	(653,510)	-1.8%
TRANSIENT OCCUPANCY	20,369,158	20,934,950	22,001,307	565,792	2.8%	1,066,357	5.1%
SERVICE FEES & CHARG	18,386,700	18,722,360	19,266,352	335,659	1.8%	543,992	2.9%
OTHER TAXES	8,685,332	8,116,486	8,302,120	(568,846)	-6.5%	185,634	2.3%
PROPERTY INCOME	8,169,195	7,930,548	8,534,209	(238,647)	-2.9%	603,661	7.6%
OTHER REVENUES	11,140,014	11,598,290	10,757,722	458,275	4.1%	(840,568)	-7.2%
<b>TOTAL</b>	<b>\$ 183,796,178</b>	<b>\$ 193,019,278</b>	<b>\$ 199,020,831</b>	<b>\$ 9,223,099</b>	<b>5.0%</b>	<b>\$ 6,001,554</b>	<b>3.1%</b>

# EXPENDITURE ASSUMPTIONS

## Salaries

- MOU and Merit Increases

## Pension Obligations

- Growth of UAL – Payment Grows 3% per year
  - Partial Fresh Start Option - Increase of \$2.7M in FY17
  - 6/30/15 Investment Earnings 2.4%, Shortfall 5.1%
    - FY18 Incremental Payment would be \$2.1M
- OR-
- Use \$6M from the FY 14-15 surplus to reduce the FY18 increase to from \$1.7M

# EXPENDITURE ASSUMPTIONS

## Operations

- Departmental Increases and Other Changes (TBD)
- Status of Worker's Comp, Insurance Reserve Fund, Compensated Absences Fund, Information Technology Fund

## CIP

- Additional Appropriations (TBD)

## Other

- Transfers Out in support of FFP, FMP, Harbor Cap Plan
- Funding of Contingency Reserve (25% of operating expenditures, less CIP and Transfers)

# OPTIONS FOR THE USE OF FY 15 \$14 M SURPLUS

Description	FY 16	FY 17	Total
Newport Blvd Widening	880,000		880,000
Dover/Westcliff Pavement Quantities	78,000		78,000
Corona del Mar Entry	175,000		175,000
Irvine Avenue Pavement/Landscaping		500,000	500,000
FIIN - Lido House Hotel Mitigation	975,000		975,000
West Coast Landscaping		2,600,000	2,600,000
City Parcels in AD		679,500	679,500
Median Landscaping		500,000	500,000
Mariners Mile Study	60,000		60,000
General Plan	-	800,000	800,000
Police Department Building Renovations		550,000	550,000
Additional PERS Contribution to Mitigate Investment Loss (6/30/15 Val)		6,000,000	6,000,000
<b>TOTAL</b>	<b>\$2,168,000</b>	<b>\$11,629,500</b>	<b>\$13,797,500</b>

# BUDGET ADOPTION SCHEDULE

Date	Event
Thursday, April 18 (Special Meeting)	Finance Committee Budget Overview #2
Tuesday, May 5 (Special Meeting – Optional)	Finance Committee Budget Overview #3
Tuesday, May 24	City Council Study Session – First Budget Review
Tuesday, June 14	City Council Budget Adoption



## CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5D  
March 10, 2016

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

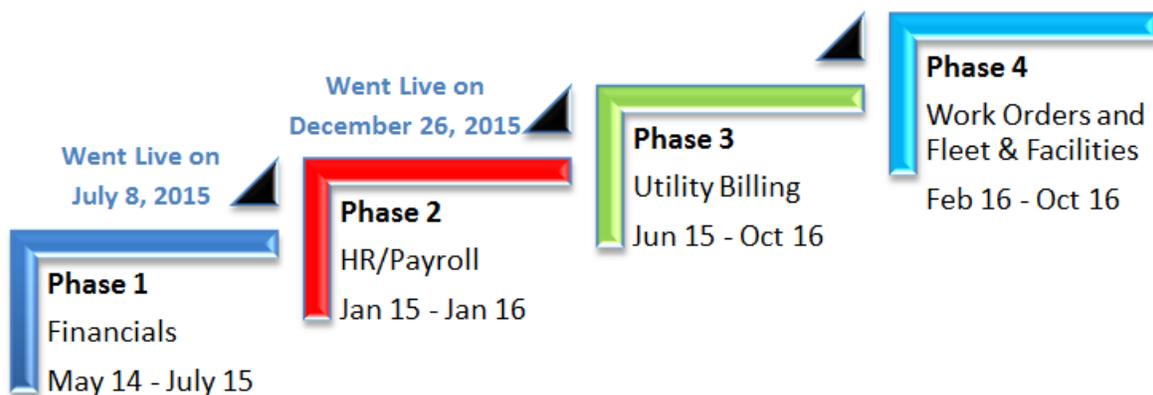
**SUBJECT: QUARTERLY ERP UPDATE**

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### 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 4 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.



Here 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 is still fine-tuning the system.

### **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. ESS allows employees to: view payroll information such as paycheck history and W-4 election details, view current benefits, request time off, enter timecards to record time worked and/or absences and see flex, vacation and sick leave balances up to date online. 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. Standard payroll functions include, but are not limited to, payroll and expense reimbursement processing; reconciliation of employee insurance reports to monthly premium statements; manual or automatic check reconciliation and support of electronic timesheet entry.

### **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. Staff has been participating in Tyler led business processing consulting sessions to configure the software in conformance with the City's business needs and industry best business practices. Work on the conversion of data from the old system to the new is underway. Staff is currently undertaking training to use the new system. The accounts receivable and general billing modules are expected to go live next month. The phase is scheduled to be completed in October 2016 with the completion of the utility billing module.

### **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. Phase 4 work began last month and will be completed in October 2016.

**RECOMMENDED ACTION:**

Receive and file.

/s/ Steve Montano

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Steve Montano  
Deputy Director, Finance