

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
JULY 21, 2015 MEETING MINUTES**

I. CALL MEETING TO ORDER

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

II. ROLL CALL

PRESENT: Council Member Keith Curry (Chair); Mayor Pro Tem Diane Dixon; Council Member Tony Petros; Committee Member Bill McCullough; and Committee Member Larry Tucker

ABSENT: Committee Member John Warner (Excused)

STAFF PRESENT: City Manager, Dave Kiff; Finance Director, Dan Matusiewicz; Deputy Finance Director, Steve Montano; Administrative Specialist to the Finance Director, Marlene Burns; Deputy City Manager/HR Director, Terri Cassidy; Accounting Manager, Rukshana Virany; Budget Manager, Susan Giangrande; and Interim Assistant City Manager, Carol Jacobson

MEMBERS OF THE PUBLIC: Jim Mosher and William O'Neill

III. PUBLIC COMMENTS - None

IV. APPROVAL OF MINUTES

A. Summary:
Approval of the June 11, 2015, Finance Committee Minutes.

Recommended Action:
Approve and file.

Committee Member Tucker noted written corrections to the minutes, submitted by Mr. Jim Mosher.

Chair Curry opened public comments.

With no public comments, Chair Curry closed public comments.

Committee Member Tucker moved, and Committee Member McCullough seconded, to approve the June 11, 2015, Finance Committee Minutes, as corrected. The motion carried with 4 ayes and 1 abstention (Council Member Petros) and 1 absent (Committee Member Warner).

V. CURRENT BUSINESS

A. 2014-15 AUDIT PLANNING AND COMMUNICATION

Summary:
Receive and file a letter from the City's Independent Auditor communicating the scope and responsibilities associated with the Fiscal Year 2014-2015 Financial Statement audit. The letter also provides the auditor's contact information and invites those charged with governance to contact the auditor should matters come to the Finance Committee's attention that would have material bearing on the financial statements taken as a whole including

errors, fraudulent financial reporting, misappropriation of assets, or violations of laws by management or employees acting on behalf of the City.

Recommended Action:

Receive and file report and letter.

Finance Director Dan Matusiewicz provided details of the staff report addressing the initial planning meeting, audit adjustments, and a summary of the audit.

Finance Director Matusiewicz discussed a higher than normal chance this year for experiencing financial reporting errors as the result of implementing the new integrated finance system (ERP).

In response to Chair Curry's inquiry regarding the tenure of the City's current auditing firm, Finance Director Matusiewicz reported that staff is in conformance with current Council policy to retain an auditing firm for up to 5 years. He commented that it is not advantageous to either staff or the auditors to switch auditing firms at less than every 5 years.

Council Member Petros commented and Finance Director agreed on the benefits of having an auditor for at least four years that is familiar with the City's systems and internal controls, especially now that the city has a new finance system.

Chair Curry opened public comments.

Jim Mosher referenced comments he submitted, in writing and addressed conflicts and inconsistencies in the City Charter. He opined that the decision regarding an auditor, should have been presented to City Council for public discussion. He suggested that the Finance Committee may want to review the entire financial section of the City Charter.

Chair Curry closed public comments.

Committee Member Tucker suggested that the Auditor pay particular attention to a review of internal controls because of the change over to the ERP system. He also suggested that Chair Curry have a conversation with the Auditor to reinforce the Finance Committee's wishes that internal controls of the new system be a focus of the Auditor's work, which Chair Curry concurred with doing.

Council Member Petros moved, and Mayor Pro Tem Dixon seconded, to receive and file a letter from the City's Independent Auditor communicating the scope and responsibilities associated with the Fiscal Year 2014-2015 Financial Statement audit. The motion carried with 5 ayes and 1 absent (Committee Member Warner).

B. COUNCIL RESERVE POLICY F-2 REVIEW

Summary:

Council Reserve Policy F-2 provides guidance to City Staff regarding target reserve levels that are an integral part of prudent financial planning.

Recommended Action:

The Committee may review and comment on the current policy. Any changes to the policy recommended by the Finance Committee would be forwarded to the City Council for review and consideration.

Chair Curry addressed restricted and unrestricted funds noting they are subject to various Council policies, and deferred to staff for a report.

Finance Director Matusiewicz provided a staff report addressing differences between fund balance and net assets, the importance of the City's contingency reserves and the City's policy of allocating twenty-five percent (25%) of expenditures to reserves.

Discussion followed regarding drawing on reserves.

Finance Director Matusiewicz reported on the Facilities Replacement Plan, the importance of the Master Plan in determining the annual rate the City needs to save, in order to replace facilities. He added that the Reserve Policy has a minimum floor recommended as the maximum annual debt service on current debt.

Discussion followed regarding setting funds aside, in the budget process to fulfill capital plans; addressing the process, as a whole; allocating funds without impacting other programs; and developing an approach to mitigate foreseeable risks.

Mayor Pro Tem Dixon asked why seawalls were not included as a line item in the Facilities Financing Plan.

Finance Director Matusiewicz reported that Council could choose to do so but that it is a different type of asset with a different maintenance cycle than others in the Plan.

City Manager Dave Kiff added that the City is on the precipice of adopting a Tidelands Capital Plan and that it will be brought forward, for consideration, in the near future.

Chair Curry opened public comments.

Jim Mosher commented on the Capital Improvement Fund and the creation of a Special Capital Improvement Fund created for a specific purpose and where the money needed to be used for that announced purpose. He opined that the current budget is not consistent with the Charter section that refers to the requirement for establishing Capital Improvement Fund.

Council Member Petros noted that Council may create an ordinance to fund specific special capital improvement projects, at any time.

Jim Mosher noted that Council has used that provision, at least once before, related to an off-street parking reserve fund. He added that the City Charter created the general Capital Improvement Fund.

Will O'Neill asked whether there were any other reserves with a negative balance other than the Harbor Capital fund. Will O'Neill also asked how a negative reserve balance would affect funding for projects like the seawalls.

Chair Curry closed public comments.

Discussion followed regarding the Charter review process and update.

In response to William O'Neill's questions, Finance Director Matusiewicz reported that Tidelands Funds have special restrictions and that he would not recommend adding General Funds to a special revenue fund. He addressed Harbor Funds, how funds are collected and how loans are repaid. He commented on the importance of having Master Plans and discussed potential areas of exposure.

Mayor Pro Tem Dixon commented on sequestration from surplus funds and on projects needing increased priority.

Finance Director Matusiewicz noted that was primarily done with the Facilities plans.

Council Member Petros noted that this discussion is supposed to be global rather than focusing in on a project.

Council Member Petros suggested holding a joint study session with Council regarding funding seawalls on a go-forward basis.

In reply to Committee Member Tucker's question regarding where the \$15 million Tidelands Receivables is shown, Finance Director Matusiewicz reported that the receivable is recorded in the general fund offset by reserves for long-term liabilities.

C. QUESTION/ANSWERS PERTAINING TO FY 2015-16 ADOPTED BUDGET

Summary:

As a follow up to the previous Finance Committee meetings, the Committee is welcome to continue its questions and comments about the Fiscal Year 2015-2016 Adopted Budget. All questions and comments are still relevant even following Council adoption of the Fiscal Year 2015-2016 Budget as the input will help frame both budget adjustments and planning for the Fiscal Year 2016-2017 Budget, which begins relatively soon.

Recommended Action:

The Committee may ask questions specific to the Adopted Fiscal Year 2015-2016 Budget or any topics pertaining to City finance practices, policies, and procedures.

Chair Curry explained the purpose of the item and directed the Committee to continue its questions and comments on the Fiscal Year 2015-2016 Budget.

Committee Member Tucker asked regarding staff suggestions for the most-likely places where the City could save on employee salaries.

City Manager Kiff listed these as Fleet Maintenance (Municipal Operations Department), Fire Prevention/Inspection and Wastewater. He added that staff would like to bring the topics back to the Finance Committee for consideration, on a regular basis, in the next few months.

Council Member Petros stated that the budget development process is very opaque and that in the next cycle, he would like staff to come up with a way to talk about global policy issues and for Committee and Council colleagues to talk about the process and render decisions. He suggested starting the process much earlier or changing the dynamic for Council involvement.

Mayor Pro Tem Dixon agreed with Council Member Petros's comments and added that the process could start with the Finance Committee establishing broad principles and direction as to how staff should move forward.

Chair Curry stated that the Finance Committee will have the opportunity to make recommendations that will impact the budget and have practical implications.

Discussion followed regarding establishing parameters, increased visibility in the budget process, soliciting input from the Finance Committee as early as possible in the process, the need for clear direction, organizational changes, potential timeline for developing the budget and providing information regarding trends (i.e., revenues) to facilitate discussions on broad policies.

Council Member Petros commented on re-budgeted items and stated he would like, in the next budget, a full commitment to achieve what is planned in a budget year. He added that it will help to constrain the budget, going forward.

Chair Curry opened public comments.

Jim Mosher reported that the adopted budget needs to be uploaded onto the City's website.

Chair Curry closed public comments.

VI. ADJOURNMENT

The Finance Committee adjourned at 5:09 p.m. to the next regular meeting of the Finance Committee on August 13, 2015, 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 July 17, 2015, at 9:55 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:



Keith Curry, Chair
Finance Committee Chair

7/16/15

Date