

**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
SEPTEMBER 16, 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; Committee Member William C. O'Neill; Committee Member Larry Tucker

ABSENT: Council Member Tony Petros (arrived at 4:06 p.m.); Committee Member Bill McCullough (Unexcused); 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, Budget Manager Susan Giangrande, IT Manager Rob Houston, Assistant City Manager Carol Jacobs, Revenue Manager Evelyn Tseng, and Accounting Manager Rukshana Virany

MEMBER OF THE PUBLIC: Jim Mosher

**III. PUBLIC COMMENTS**

Jim Mosher referenced his earlier comments regarding the hurried adoption of the budget by City Council and reported that it is still not available on the City's website. He referenced the City Charter and a requirement to make available, a list of all contracts held by the City, including those from the City Attorney's office and stressed that the City Attorney's role is to review contracts. He opined having one department to write, review, award, and archive contracts is not a good policy. Additionally, he commented on the City budget relative to the organization of the City's various departments and employees and stated it is somewhat confusing.

Chair Curry pointed out that Council had the benefit of three study sessions to review the City's budget prior to acting on same.

It was noted that City staff is working on getting the budget on the City's website.

**IV. APPROVAL OF MINUTES**

**A. Summary:**  
Approval of the August 13, 2015, Finance Committee Minutes.

**Recommended Action:**  
Approve and file.

Chair Curry noted that Committee Members O'Neill and Tucker submitted recommended changes to the minutes.

Chair Curry opened public comments.

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

Mayor Pro Tem Dixon moved, and Committee Member O'Neill seconded, to approve the August 13, 2015, Finance Committee Minutes, as corrected. The motion carried with 4 ayes, 0 abstentions and 3 absent (Council Member Petros, Committee Member McCullough, and Committee Member Warner).

Council Member Petros arrived at this juncture (4:06 p.m.).

## V. CURRENT BUSINESS

### A. RECOMMENDED BUDGET PRACTICES FOR THE DEVELOPMENT OF THE ANNUAL BUDGET

#### **Summary:**

During the August 13, 2015, Finance Committee meeting, members discussed three recommended actions for bringing greater transparency and accountability during the annual budget development process. Staff will present a proposed framework for improving budget practices. Staff will also present proposed broad community goals that can be incorporated into the Fiscal Year 2016-2017 budget.

#### **Recommended Action:**

Suggest changes to staff's presented budget practices and, if necessary, make recommendations for submission to the City Council for approval.

Finance Director/Treasurer Dan Matusiewicz presented details of the staff report noting the importance of deciding the Finance Committee's involvement prior to City Council adoption. He addressed the purpose of today's agenda item including providing transparency and increasing confidence in the budget development process. He commented on the development of broad objectives and goals, strategies, and tactics to achieve those goals.

City Manager Dave Kiff stated the document shows how he looks at the budget, commented on the steps taken in preparing the budget and asked for input from the Committee.

Chair Curry commented on the context of the process and assignment of resources.

Committee Member O'Neill referenced Strategic Objectives S.5 and S.7 and commented positively on the City's "fresh start" concept. He referenced the budget cycle and recommended the City look ahead four or five years down the road during the budget process.

City Manager Kiff commented on the City's informal budget approach which is different from a 0 percent growth budget. He addressed MOUs relative to Police and Fire services and noted the ongoing cost escalation resulting from MOUs.

In reply to Committee Member O'Neill's question regarding pension liabilities and the possibility of pulling that information out of Department budgets so that the true increase can be determined, Finance Director/Treasurer Matusiewicz felt that the City does a better job than most cities as it is one of the few cities that shows unfunded liabilities as a separate line item.

Discussion followed regarding increases in overall Department budget that includes accelerated payments on unfunded liabilities.

Mayor Pro Tem Dixon suggested pulling that information out, going forward, so that the Committee may see true, programmatic costs.

City Manager Kiff stated that the City wants to be in a position where program costs are identified so that the Finance Committee and Council can consider the true costs.

Committee Member O'Neill stated his agreement with Council Member Dixon's goals of driving many budgetary decisions by using hard-data analysis. Committee Member O'Neill asked whether the implementation of the new ERP system would be equipped to engage in that type of analysis. Chair Curry noted that one of the principal drivers of the decision to implement the new ERP system was to aid in budgetary decisions. Finance Director/Treasurer Matusiewicz concurred and discussed the timing of the rollout of the ERP system. Committee Member O'Neill expressed his appreciation for the responses and noted his appreciation for the past Council's decision to roll out the ERP system. Discussion followed regarding improvements made and the need to make further improvements and data provided by the new ERP system.

Finance Director/Treasurer Matusiewicz mentioned the future availability of a performance-based budgeting module in the new ERP system to track key metrics.

Discussion followed regarding the ERP, elements programmed by Finance, internal service cost centers, unfunded liabilities spread as a percentage of payroll, total annual costs of pension payments to CalPERS, employees paying a greater percentage of their pensions, unfunded liabilities associated with people that are no longer employed by the City and maintaining a flat versus balanced budget.

Ensuing discussion continued regarding the need to clean-up the document, the process followed by other cities, presenting the proposed budget to Council during a study session, the possibility of Council setting broader goals and the importance of having Council involved, every step of the way.

Council Member Petros stated he would like for Council to understand the underlying foundation for the City's budget.

City Manager Kiff stated he would like the Finance Committee to review the proposed budget framework in order to understand how this might work, in practice. He noted the importance of having each Member speak about the items they need or the questions that they need answered, in preparation of the upcoming budget discussions.

Committee Member O'Neill commented on the importance of holding study sessions and thoroughly reviewing the details.

Deputy Finance Director Steve Montano addressed related action items and recommendations as stated in the report. The item will be submitted to Council in October, and subsequently, the Finance Committee and Council will participate in budget reviews. These will be held from October through February, prior to the budget adoption and commented on next steps.

Discussion followed regarding review of waste-water rates and whether the matter will be going to Council.

Chair Curry opened public comments.

Jim Mosher commented on the benefits of seeing the information in writing in terms of making it easier for the public to understand the process. He addressed the City's list of goals and objectives in terms of pension obligations and questioned having so many goals at a time. He commented on specific objectives in terms of avoiding bias in outsourcing, including titles of Council policies when they are referenced, and a "results-based" budgeting approach and performance measurements.

**B. PUBLIC EMPLOYEES RETIREMENT SYSTEM AND OTHER POST-EMPLOYMENT BENEFITS PRIMER**

**Summary:**

Staff will provide a pension and other post-employment benefits presentation that will describe the basic mechanics and challenges associated with pension and OPEB benefit funding.

**Recommended Action:**

Receive and file.

Chair Curry introduced the item and prefaced the report with a brief background.

Finance Director/Treasurer Matusiewicz noted that this report is intended as information, only, and that the latest valuations for this year, are not yet available. These should be available, next month.

Chair Curry added that the numbers are typically, two-years in arrears.

Finance Director/Treasurer Matusiewicz addressed setting aside resources during the expected service life of the employee to have enough resources in order to last them through their expected retirement life. When people live longer, the employer is at risk for additional contributions. He addressed the importance of investment earnings with respect to pension costs over time

Chair Curry commented on policy tensions and assumptions.

Discussion followed regarding longer life expectancy issues affecting subsequent budgets and past performance being indicative of the future.

Finance Director/Treasurer Matusiewicz addressed earnings, unfunded liabilities, market value of City assets, and trends over time, actions to mitigate rising pension costs, "fresh starts" implemented over the years, employee contributions towards pensions and accelerated payments towards unfunded liabilities.

Brief discussion followed regarding State trends, expectations, and negative amortization, and costs/benefits analyses, impacts of "fresh starts", savings achieved by accelerating costs at the front end and new opportunities and challenges.

Finance Director/Treasurer Matusiewicz addressed increased costs in pensions, loss associated with policy changes in amortization, changes in mortality assumptions and "rate smoothing" techniques.

Chair Curry added that the City is taking constructive actions to address the issue and commented on challenges and driving the allocation of resources, going forward.

Discussion followed regarding the constantly changing nature of the unfunded actuarial liability, ensuring that services are not impacted and steps that can be taken.

City Manager Kiff commented on the need for the Legislature to act within the next four or five years and noted that things will get worse before they improve. He added that his inclination would be to keep "fresh starting" and addressed the City's reserves and paying high-interest debt first.

Committee Member O'Neill noted his agreement with the past Council's decision to engage in a "Fresh Start" and also noted that whether the decision was politically popular, it was the right act because of the generational problem that UAL has become throughout the State. Discussion followed regarding possible options for different approaches, fiscal impacts of "fresh start", throwing good money after bad, setting caps, incremental costs, pros and cons of various options.

Finance Director/Treasurer Matusiewicz offered to provide a sample scenario using the "fresh start" strategy at a future meeting noting that the concept is too theoretical at this point without actual data to present.

Chair Curry opened public comments.

Jim Mosher commented on buying out of the CalPERS plan and asked regarding the possibility of individuals being offered cash rather than pension benefits.

In answer to his questions, it was noted that it is not financially feasible to buy out of the PERS plan nor legally permissible to cash out employees.

Chair Curry closed public comments.

Discussion followed regarding next steps, practices of other cities and counties, and items to be considered by the Finance Committee during upcoming meetings.

**VI. ADJOURNMENT**

The Finance Committee adjourned at 5:37 p.m. to the next regular meeting of the Finance Committee on October 15, 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 September 9, 2015, at 4:17 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:

  
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Keith Curry, Chair  
Finance Committee Chair

11/12/15  
\_\_\_\_\_  
Date