



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

Newport Coast Conference Room, Bay 2E
100 Civic Center Drive, Newport Beach
Tuesday, April 29, 2014 – 4:00 PM

Finance Committee Members:

Mike Henn, Council Member, Chair
Keith Curry, Council Member
Tony Petros, Council Member

Staff Members:

Dave Kiff, City Manager
Dan Matusiewicz, Finance Director
Steve Montano, Deputy Finance Director

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- 1) CALL MEETING TO ORDER
 - 2) ROLL CALL
 - 3) 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 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.

4) APPROVAL OF MINUTES

Approval of the March 24, 2014, Finance Committee meeting minutes.

5) CURRENT BUSINESS

- A. Review of FY 2014-15 Proposed Budget: Staff will provide an overview of the proposed budget.
- B. FFPP Project Planning Review: Staff will review the changes in the proposed list of projects, scope and timing since the last FFPT update and seek Finance Committee concurrence or further direction on the proposed list of projects.
- C. Phase I Changes to Council Policies F-2 (Reserve Policy) and B-2 (Recreation Fees and Related Equipment Replacement Reserves): Staff will review the easier of the proposed

This Finance Committee is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee's 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 Finance Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Finance Committee may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

It is the intention of the City of Newport Beach 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, the City of Newport Beach will attempt to accommodate you in every reasonable manner. If requested, this agenda will be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Please contact the City Clerk's Office 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) 644-3005 or cityclerk@newportbeachca.gov.

changes to Council Reserve Policy discussed at the last Finance Committee meeting (e.g. increasing the contingency reserve to 25%) and seek direction on the more complicated policy changes (e.g. those that may require revision to the municipal code).

D. Quarterly Financial Review: Receive and file.

E. ERP Milestone Review: Receive and file.

F. Review and consider the Proposed Recycled Water Rates and Structure: Staff will review the results and proposed recommendations regarding the recycled water rate study.

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

7) ADJOURNMENT

**CITY OF NEWPORT BEACH
CITY COUNCIL FINANCE COMMITTEE
MARCH 24, 2014 MEETING MINUTES**

1. CALL 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.

2. ROLL CALL

Present: Council Member Mike Henn (Chair), Mayor Keith Curry and Council Member Tony Petros

Staff present: City Manager Dave Kiff, Finance Director Dan Matusiewicz, Deputy Finance Director Steve Montano, Accounting Manager Rukshana Virany, IT Manager Rob Houston, Human Resources Supervisor Sheri Anderson and Administrative Coordinator Tammie Frederickson

Members of the public: Jim Mosher, Carl Cassidy

Outside entities: Nitin Patel of White Nelson Diehl Evans

3. PUBLIC COMMENTS

Mr. Jim Mosher observed the Finance Director serves on the Board for Newport Beach & Company and questioned whether they are a separate financial entity apart from the City. He also suggested that reports produced by the Finance Department on revenue from sales tax received from hotels and restaurants could provide more transparency with a breakdown of the categories to show free standing restaurants, restaurants in hotels, and other non-restaurant activity in hotels.

Council Member Henn suggested the Finance Director meet with Mr. Moser to provide clarification on his question regarding the separate functions of the City's Finance Department and the Finance Department of Newport Beach & Company.

4. APPROVAL OF MINUTES

Mayor Curry moved, Council Member Petros seconded to approve the minutes of the November 18, 2013, Finance Committee meeting. The Committee voted all ayes to approve the minutes. Council Member Henn instructed there be less detail in future meeting minutes and to prepare the minutes as a summary of action items.

5. CURRENT BUSINESS

A. Review of June 30, 2013 Audit Results

Finance Director Dan Matusiewicz introduced Nitin Patel of White Nelson Diehl Evans. Mr. Patel reviewed the scope of services of the audit and the audit opinion letters that expressed the financial reports were fairly presented in accordance with accounting principles; no significant deficiencies or material weaknesses were noted and there were no management letter comments for improvement.

Mr. Mosher commented the audit letter is just a form letter and similar audit opinion letters from auditors can be found in other agency's Comprehensive Annual Financial Reports. He commented the auditor could have taken his fee without ever having stepped foot in City Hall. He questioned if the taxpayers are getting value for their money if the auditors can't find even a typo. Mr. Mosher said he finds it disturbing for the Committee to focus on this form letter and nobody is concerned about the content of this important report.

Mr. Henn stated he considers the report to be important; he has read the report and has no further questions concerning it. The auditors spent approximately 500 hours reviewing the financial statements and it is their purpose to express an opinion on the financial statements taken as a whole fairly represents the results of operations and statements of conditions of the City. It is not their purpose to find typos.

B. 2014 Finance Committee Workplan Overview

Mr. Matusiewicz proposed quarterly meetings of the Finance Committee in 2014 due to heavy staff immersion in the ERP implementation process.

Council Member Curry noted the workplan should include health care OPEB review at the July meeting in conjunction with the CalPERS white paper discussion.

Mr. Mosher remarked the workplan seems rather thin with long intervals between meetings that may result in a financial review getting overlooked by this Committee on issues that may arise. He reminded the Committee of the Brown Act provision that restricts a quorum of a committee from discussing any items within the committee's jurisdiction outside of the public forum.

Council Member Henn expressed support for a less expansive Finance Committee workplan so that the Finance Department can focus on the work involved with the ERP implementation.

C. Enterprise Resource Planning (ERP) Update

The Committee previewed the staff report for this item which is on the March 25, 2013, City Council agenda for consideration of an agreement for an ERP system and implementation services with Tyler Technologies Inc.

**All documents distributed for this meeting are available in the
administration office of the Finance Department**

Deputy Finance Director Steve Montano presented an overview of the ERP selection process, described the benefits to staff and the community, and outlined the implementation schedule.

Council Member Henn commented that the staff report showed that the evaluation process covered all the major points substantively.

Mr. Mosher suggested that there should be frequent feedback provided to the Committee on how the implementation is going.

Mr. Cassidy applauded the Committee for the guidance shown to staff, he thanked the management for the thoughtful process, and affirmed the commitment shown by staff to plan the implementation.

The Committee expressed unanimous support for recommending approval to the full Council and directed staff to review project milestones with the Committee during the implementation.

D. Discretionary Reserve Level Discussion

Mr. Matusiewicz framed the purpose of the discussion as a means to develop an understanding of how discretionary reserves are defined, how much is too much, and a consistent method for defining the reserves every year. In defining the discretionary reserves, he reviewed the General Fund categories for Committed fund balance, Assigned fund balance, and Unassigned fund balance, and identified certain reserves within those categories.

A series of adjustments were proposed to the current reserve structure. The Committee expressed support for recommendations by Mr. Matusiewicz to classify the Contingency Reserve in the Committed category instead of the Unassigned category; collapse the PERS Rate Reserve into the Contingency Reserve; consolidate the reserves into fewer categories; and increase contingency reserve from 15% to 25% of operating budget.

The Committee instructed staff to bring back a recommendation to the July Finance Committee meeting that identifies which of the several smaller reserves can be either eliminated or consolidated with others. The Committee also instructed staff to evaluate whether discretionary reserves are established at the appropriate levels. Per staff recommendation, the Committee directed staff to include a reallocation in the proposed Fiscal Year 2014-15 budget of the overfunded amount in the Equipment Replacement discretionary reserve to address underfunding in the General Liability, Workers' Comp and Compensated Absences reserves.

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

No other items were discussed.

All documents distributed for this meeting are available in the administration office of the Finance Department

7. ADJOURNMENT

The Finance Committee adjourned at 6:17 p.m.

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

Attest:

Mike Henn, Chair
Finance Committee Chair

Date

DRAFT

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA ITEM INFORMATION**

Agenda Item No. 5B
April 29, 2014

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: FINANCE DEPARTMENT
Dan Matusiewicz, Finance Director
(949) 644-3123 or DanM@NewportBeachCA.gov

SUBJECT: FFPP PROJECT PLANNING REVIEW

SUMMARY:

City Council Policy F-28, Facilities Financial Planning Program (FFPP), requires that staff prepare an update to the long-term facilities replacement plan in conjunction with the annual budget process for review, modification, and approval by the City Council. The Facilities Financial Planning Tool (FFPT) is an Excel-based model used to analyze expected cash flows and funding requirements in order to meet the objectives of the FFPP. Before the FFPT is updated, the assumptions (including cost, facility square footage, timing of construction, and recent Council policy guidance on facility planning) that form the basis of the model are reviewed by an informal FFPP planning committee. This committee consists of the City Manager, Assistant City Manager, Public Works Director, Recreation and Senior Services Director and representatives from the Fire and Finance departments.

Due to project additions and several assumption changes, the future anticipated costs of the FFPP have increased significantly from the last FFPT update in 2013. Prior to incorporating these changes into the FFPT, staff welcomes input regarding these project additions and assumptions from the Finance Committee.

RECOMMENDATIONS:

Staff welcomes input on the proposed project plan and recommends that the Committee receive and file the report and provide any additional input regarding the timing, scope and projects included in the FFPT.

DISCUSSION:

The total net change in the cost of the FFPP since the last update in 2013 has resulted in a \$63.5 million increase. This increase is the result of the addition of several recreational facilities, changes to facility square footage requirements, timing, and costs as indicated in greater detail below.

Changes to Projects	Municipal Recreation				Total
	Fire	Library	Operations	Facility	
New Projects added to the FFPP	-	-	-	\$24,292,350	\$24,292,350
Replacements planned <u>within</u> next 20 years	1,950,000	-	10,375,000	13,000,000	25,325,000
Replacements planned <u>after</u> next 20 years	1,577,550	4,500,000	-	7,791,437	13,868,987
Total Net Change in FFPP Costs	\$ 3,527,550	\$ 4,500,000	\$ 10,375,000	\$ 45,083,787	\$ 63,486,337

- Since the last update in 2013, new projects estimated at \$24.3 million (net of an assumed \$6.5 million private contribution for the Girls and Boys Club) have been added to the project plan. These include Pedestrian Bridge at Superior/PCH, Parking Structure at Superior/PCH, Lower Castaways, Community Youth Center, Carroll Beek Center, Bonita Creek Community Center, among other projects.
- For projects with planned replacements within the next 20 years, there is a net increase of \$25.3 million in estimated project costs. Decreases of \$6 million for Fire Station at Mariner's Mile and Sunset Ridge Park are offset by an increase of \$6 million in the West Newport Community Center which now includes a pool. There are also increases of \$9.5 million for Marina Park, \$5.3 million for Fire Station replacements with Library additions, and \$10 million for the anticipated Utilities/Corporate Yard merger among other changes.
- For projects with planned replacements beyond the next 20 years, there is a net increase of \$13.9 million in estimated project costs. This is mostly due to a combination of increases in cost per square footage or increases in the replacement square footage for the OASIS Senior Center, the Central Library, and the Fire Station at Newport Coast.

KEY ASSUMPTIONS:

The timing and estimated project costs are updated by Public Works based on the best available information at the time of the update. Construction costs are projected to increase 2.5% annually. Project and cost projections are revised periodically and are assumed to include design and project management expenditures (except when concept and design expenditures have already been incurred).

Prepared by:

Submitted by:

/s/Rukshana Virany

Rukshana Virany
Accounting Manager

/s/Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachments: FFPT Projects List
FFPT 2013 Projects Compared with 2014

FFPT Projects List

	Function	Project	YR Built	Current Sq Ft	Repl Sq Ft	Est \$ /Sq Ft	Current Age:	Useful Life	Years to Start	Cost Est. Date	Project Estimate	FY	FY	FV	Private Contributions	Net
							2014					Design Start Year	Const Start Year	Cost Est @ 2.5% Growth		Proposed Cost
1	Fire	FS 1 - Peninsula & Library	1962	3,423	8,000	650	52	50	6	Mar-14	5,200,000	2017	2020	6,030,406		6,030,406
2	Fire	FS 2 - Lido	1952	9,953	10,000	650	62	50	2	Jan-12	6,500,000	2015	2016	6,829,063	2,219,446	4,609,617
3	Fire	FS 3 - Santa Barbara	1971	13,605	6,500	650	43	50	11	Jan-12	4,225,000	2022	2025	5,543,566		5,543,566
4	Fire	FS 4 - Balboa Island	1994	4,597	4,400	650	20	50	30	Mar-14	2,860,000	2041	2044	5,999,043		5,999,043
5	Fire	FS 5 - CDM & Library	1950	2,495	8,000	650	64	50	1	Mar-14	6,025,000	2015	2015	6,175,625		6,175,625
6	Fire	FS 6 - Mariners (apparatus bay only)	1957	2,926	1,500	550	57	50	2	Jan-12	825,000	2016	2016	866,766		866,766
7	Fire	FS 7 - SAH	2007	11,027	6,500	650	7	50	43	Jan-12	4,225,000	2054	2057	12,216,672		12,216,672
8	Fire	FS 8 - Npt. Coast	1995	11,027	11,027	650	19	50	31	Jan-12	7,167,550	2042	2045	15,410,281		15,410,281
9	Fire	Lifeguard HQ Remodel	1988	6,167	7,725	180	26	50	50	Jan-12	1,800,000	2061	2064	6,186,796		6,186,796
10	Fire	Newport Jr. Guard Building	0				NA	50	6	May-12	1,200,000	2017	2020	1,391,632	1,043,724	347,908
11	Library	Library-Central Clerestory & Repairs	2013				1	50	-3	Jun-13	1,405,305	2008	2011	1,405,305		1,405,305
11	Library	Library-Balboa (See FS 4 Above)	1962	5,566	5,000		52	50	48	Jan-12	-	2059	2062	-		-
12	Library	Library-CDM (See FS 5 Above)	1958	4,323	4,000		56	50	48	Jan-12	-	2059	2062	-		-
13	Library	Library-Mariners	2006	15,305			8	50	42	Jan-12	6,845,355	2053	2056	19,310,714		19,310,714
14	Library	Library-Central	1997	50,930	65,000	550	17	50	38	Jan-12	35,750,000	2049	2052	91,365,646		91,365,646
15	MOD	Utilities/Corporate Yard Merge					NA	50	3	May-12	10,000,000	2016	2017	10,768,906	-	10,768,906
16	MOD	Big Canyon Aux. Yard					NA	50	1	May-12	1,400,000	2015	2015	1,435,000		1,435,000
17	Police	Police Station @ Current Site	1973		60,000	650	41	50	3	N/A	64,375,000	2016	2017	69,324,834		69,324,834
18	Rec Facility	Marina Park Girl Scout House(Las Arenas Park)	1956	4,200	4,000		58	50	0	Jan-12	(2,200,000)	2011	2014	(2,200,000)	2,200,000	-
19	Rec Facility	Marina Park	2015		24,000		-1	50	0	Jan-12	41,700,000	2011	2014	41,700,000	6,132,900	35,567,100
20	Rec Facility	Newport Coast Ctr	2007	16,865	16,865	550	7	50	43	Jan-12	9,275,750	2054	2057	26,821,017		26,821,017
21	Rec Facility	Newport Theater Arts Center	1973	8,042	12,000	550	41	50	16	Jan-12	6,600,000	2027	2030	9,797,737	4,898,869	4,898,869
22	Rec Facility	OASIS Sr. Ctr	2010	36,467	43,232	550	4	60	46	Jan-12	23,777,600	2057	2060	74,039,900		74,039,900
23	Rec Facility	Sunset Ridge	2014	595,465	NA		0	50	0	Jan-12	8,500,000	2014	2014	8,500,000		8,500,000
24	Rec Facility	West Newport Comm Ctr (incl pool)	2017	11,980	25,000	550	-3	50	3	Jan-12	16,000,000	2015	2017	17,230,250		17,230,250
25	Rec Facility	Bonita Creek - Artificial Turf	2015	160,000	NA	12	-1	15	1	Jan-12	2,000,000	2012	2015	2,050,000		2,050,000
26	Rec Facility	1499 Monrovia Land Purchase	2013	217,800	NA		1	∞	-1	Jan-12	4,308,199	N/A	2013	4,308,199		4,308,199
27	Rec Facility	Sunset View Park	0		NA		NA	∞	5	Mar-14	500,000	2016	2019	565,704		565,704
28	Rec Facility	Pedestrian Bridge at Superior/PCH	2017				-3		3	Mar-14	10,000,000	2016	2017	10,768,906	5,000,000	5,768,906
29	Rec Facility	Parking Structure at Superior/PCH	2017				-3		3	Mar-14	8,400,000	2016	2017	9,045,881		9,045,881
30	Rec Facility	Lower Castaways	2019	174,000	NA		-5	∞	5	Jan-12	3,000,000	2015	2019	3,394,225		3,394,225
31	Rec Facility	Eastbluff Park Extension	2016		NA		-2	∞	2	Jan-12	200,000	2013	2016	210,125		210,125
32	Rec Facility	Community Youth Center (CYC) - Grant Howald	1988	5,146	5,146	550	26	50	18	Jan-12	2,830,300	2029	2032	4,414,302		4,414,302
33	Rec Facility	Caroll Beek Center	1980	1,555	1,555	550	34	50	19	Jan-12	855,250	2030	2033	1,367,246		1,367,246
34	Rec Facility	Bonita Creek Community Ctr.	1988	2,876	2,876	550	26	50	24	Jan-12	1,581,800	2035	2038	2,861,043		2,861,043
35	Rec Facility	Cliff Drive Community Room	1960	750	750	550	54	50	22	Jan-12	412,500	2033	2036	710,148		710,148
36	Rec Facility	Girls & Boys Club (East Bluff Park)	1965	11,800	11,800	550	49	50	6	Jan-12	6,490,000	2017	2020	7,526,410	7,526,410	0
37	Rec Facility	Lawn Bowling Facility (San Joaquin Hills Park)	1974	2,750	2,750	550	40	50	25	Jan-12	1,512,500	2036	2039	2,804,090		2,804,090
Total											445,547,109			486,175,439	29,021,348	461,554,091

FFPT 2013 Projects Compared with 2014

2013 FFPP Update				2014 FFPP Update				Notes		
Function	Project	Est. Project Cost	FY Start Date	Function	Project	Est. Project Cost	Variance		FY Start Date	
1	Fire	FS 1 - Peninsula	4,225,000	2019	Fire	FS 1 - Peninsula & Library	5,200,000	975,000	2020	Library added as well as sq. footage increased from 6,500 to 8,500
2	Fire	FS 2 - Lido	4,225,000	2015	Fire	FS 2 - Lido	6,500,000	2,275,000	2016	Lido replacement sq. ft. increased from 6,500 to 10,000
3	Fire	FS 3 - Santa Barbara	4,225,000	2021	Fire	FS 3 - Santa Barbara	4,225,000	-	2025	Deferred project from 2021 to 2025
4	Fire	FS 4 - Balboa Island	4,225,000	2044	Fire	FS 4 - Balboa Island	2,860,000	(1,365,000)	2044	Sq. footage decreased from 6,500 to 4,400
5	Fire	FS 5 - CDM	4,225,000	2014	Fire	FS 5 - CDM & Library	6,025,000	1,800,000	2015	Added Library to Fire Station and deferred project one year to 2015
6	Fire	FS 6 - Mariners	4,225,000	2022	Fire	FS 6 - Mariners (apparatus bay only)	825,000	(3,400,000)	2016	Only construction of the apparatus bay now
7	Fire	FS 7 - SAH	4,225,000	2057	Fire	FS 7 - SAH	4,225,000	-	2057	
8	Fire	FS 8 - Npt. Coast	4,225,000	2045	Fire	FS 8 - Npt. Coast	7,167,550	2,942,550	2045	Sq. footage increased from 6,500 to 11,027
9	Fire	Lifeguard HQ Remodel	1,500,000	2014	Fire	Lifeguard HQ Remodel	1,800,000	300,000	2014	Increased cost by \$300K
10	Fire	Newport Jr. Guard Building	1,200,000	2020	Fire	Newport Jr. Guard Building	1,200,000	-	2020	
		Total	36,500,000			Total	40,027,550	3,527,550		
11	Library	Library-Balboa	2,250,000	2062	Library	Library-Balboa	-	(2,250,000)	2062	Library added to FS 1 above
12	Library	Library-CDM	3,000,000	2062	Library	Library-CDM	-	(3,000,000)	2062	Library added to FS 5 above
13	Library	Library-Mariners	6,845,355	2056	Library	Library-Mariners	6,845,355	-	2056	
14	Library	Library-Central	26,000,000	2052	Library	Library-Central	35,750,000	9,750,000	2052	Cost per sq. footage went up from \$400 to \$550
		Total	38,095,355			Total	42,595,355	4,500,000		
15	MOD	Utilities/Corporate Yard Merge	-	2015	MOD	Utilities/Corporate Yard Merge	10,000,000	10,000,000	2017	Costs were only determined this year; project got deferred 2 years out to 2017
16	MOD	Big Canyon Aux. Yard	1,025,000	2015	MOD	Big Canyon Aux. Yard	1,400,000	375,000	2015	Costs increased \$375K
		Total	1,025,000			Total	11,400,000	10,375,000		
17	Police	Police Station @ Current Site	64,375,000	2020	Police	Police Station @ Current Site	64,375,000	-	2020	
18	Rec Facility	Marina Park Girl Scout House	-	2014	Rec Facility	Marina Park Girl Scout House	-	-	2014	
19	Rec Facility	Marina Park	30,000,000	2014	Rec Facility	Marina Park	39,500,000	9,500,000	2014	
20	Rec Facility	Newport Coast Ctr	9,984,797	2057	Rec Facility	Newport Coast Ctr	9,275,750	(709,047)	2057	Cost went down as cost per sq. ft. went down from \$602 to \$550
21	Rec Facility	Newport Theater Arts Center (Net of private funding)	3,000,000	2050	Rec Facility	Newport Theater Arts Center (Net of private funding)	3,300,000	300,000	2030	Cost went up due to slight increase in cost per sq. ft.
22	Rec Facility	OASIS Sr. Ctr	15,577,116	2060	Rec Facility	OASIS Sr. Ctr	23,777,600	8,200,484	2060	Cost went up due to the cost per sq. ft. going up from \$360 to \$550
23	Rec Facility	Sunset Ridge	11,000,000	2014	Rec Facility	Sunset Ridge	8,500,000	(2,500,000)	2014	Costs went down \$2.5M as the project got closer to being completed
24	Rec Facility	West Newport Comm Ctr	10,000,000	2015	Rec Facility	West Newport Comm Ctr (incl pool)	16,000,000	6,000,000	2017	Costs went up due to the inclusion of a pool
25	Rec Facility	Bonita Creek - Artificial Turf	2,000,000	2015	Rec Facility	Bonita Creek - Artificial Turf	2,000,000	-	2015	
26	Rec Facility	West Newport Land Purchase	4,308,199	2013	Rec Facility	1499 Monrovia Land Purchase	4,308,199	-	2013	
27			-		Rec Facility	Sunset View Park	500,000	500,000	2019	New projects added this year - \$30.8 million, or a net of \$24.3 million resulting from an assumed \$6.5 million private funding for the Girls & Boys Club
28			-		Rec Facility	Pedestrian Bridge at Superior/PCH (Net of private fun	5,000,000	5,000,000	2017	
29			-		Rec Facility	Parking Structure at Superior/PCH	8,400,000	8,400,000	2017	
30			-		Rec Facility	Lower Castaways	3,000,000	3,000,000	2019	
31			-		Rec Facility	Eastbluff Park Extension	200,000	200,000	2016	
32			-		Rec Facility	Community Youth Center (CYC) - Grant Howald	2,830,300	2,830,300	2032	
33			-		Rec Facility	Caroll Beek Center	855,250	855,250	2033	
34			-		Rec Facility	Bonita Creek Community Ctr.	1,581,800	1,581,800	2038	
35			-		Rec Facility	Cliff Drive Community Room	412,500	412,500	2036	
36			-		Rec Facility	Girls & Boys Club (East Bluff Park)	6,490,000	6,490,000	2020	
37			-		Rec Facility	Lawn Bowling Facility (San Joaquin Hills Park)	1,512,500	1,512,500	2039	
		Total	85,870,112			Total	137,443,899	51,573,787		

Grand Total 227,270,772

Total 297,247,109 69,976,337
 Less: Private funding for the Girls & Boys Club (6,490,000) (6,490,000)
 Grand Total 290,757,109 63,486,337

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA ITEM INFORMATION**

Agenda Item No. 5C
April 29, 2014

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: Phase I Changes to Council Policies F-2 (Reserve Policy) and B-2 (Recreation Fees and Related Equipment Replacement Reserves)

SUMMARY:

At the March 24, 2014 Finance Committee meeting, the Finance Committee and staff discussed the framework of, and proposed a number of specific adjustments to, Council Policy (F-2 - Reserve Policy) including a significant adjustment to the City's Contingency Reserve.

The Committee concurred with staff's recommendations and further instructed staff to bring back a recommendation that identifies which of the several smaller reserves can be either eliminated or consolidated with others at the July Finance Committee.

Due to the timing of the FY 2014-15 Proposed Budget adoption, staff believes it is advantageous to implement changes to Policy F-2 in two phases: 1) changes that can be made easily and amended with the adoption of the FY 2014-15 Proposed Budget and 2) changes that may require a revision to the Municipal Code and will thus require more time to bring forward for approval - after the adoption of the FY 2014-15 Proposed Budget.

RECOMMENDATION:

Review staff's recommended changes to Council Policy (F-2 Reserve Policy) and related changes to Council Policy (B-2 Recreation Fees and Related Equipment Replacement Reserves), provide further guidance as needed, and direct staff to submit policy changes to the City Council for final approval.

DISCUSSION:

Recommended Phase I Changes

These are changes that can be made easily and amended with the adoption of the FY 2014-15 Proposed Budget or by no later than June 30, 2014:

1. Changes to the Contingency Reserve
 - a. Increase the Contingency Reserve Balance from 15% to 25%.
 - b. Remove restrictive parameters from the reserve requirement so that the balance will be reported as Unassigned vs. Committed (this action gives further assurance to creditors and rating agencies that the Contingency Reserve is indeed available, should a financial necessity arise).
2. Expand the Use of the Equipment Replacement Fund and Eliminate Specified Reserve Categories

The Equipment Replacement, internal service fund model has proven to be an effective means to set funds aside for periodic capital replacement needs. Funds are set-aside based on an annual assessment of the equipment's age, condition and anticipated future replacement date and cost. These funds are subsequently made available for the replacement of equipment after reaching its useful life. Much of the current reserve policy pertains to small and relatively insignificant reserve categories that are derived through a percentage allocation of certain revenue sources. Reserve policies that can be eliminated at this time by utilizing the Equipment Replacement Fund include:

- a. **Recreation Facility Rental Reserve (based on 10% facility rental service revenue):** This reserve was intended to replace certain facility equipment and furniture due to the wear and tear associated with facility rentals.
- b. **Recreation Classes (based on 10% to 20% of recreational class revenue):** This reserve was intended to replace certain recreation equipment utilized in recreation classes such as surfboards, sailboats other waterfront activities. It was also intended to periodically resurface tennis courts used during public tennis lessons.
- c. **Senior Fitness Center Reserve (based on 10% of fitness center fees):** This reserve was established for the purpose of purchasing and replacing fitness equipment.
- d. **Paramedic Program (based on prior Hoag Hospital contributions and program income):** This reserve was intended to acquire and replace equipment utilized in paramedic services.
- e. **START Program (based on revenue generated by the sale of training videos/materials):** The START program reserve was intended to

periodically fund costs associated with the paramedic triage video and EMT related equipment.

3. Staff also recommends the following changes to the Reserve Policy:
 - a. Realigning the Oceanfront Encroachment Reserve as a Restricted Reserve rather than a Council Commitment.
 - b. Add language describing the administrative process of reappropriating Capital Improvement Projects (CIPs).
 - c. Eliminate the examples referenced in the policy relating to City Manager Assignments since they can vary from year to year.
 - d. Add additional flexibility in determining appropriate funding levels for different types of equipment.

Recommended Phase II Changes

These are changes that may require a revision to the Municipal Code and will thus require more time to bring forward for approval – after the adoption of the FY 2014-15 Proposed Budget.

1. Parking Revenue Set Asides

Similar to the success we have experienced with the use of the Equipment Replacement Fund model, we have also had success funding many facilities via the Facilities Financial Planning Fund. We also recommend that Finance Committee direct staff to review and rescind references to the Municipal Code that requires the City to set funds aside related to certain parking revenues including parking fees to benefit off-street parking or other neighborhood enhancements.

Neighborhood Revitalization needs in many areas may be disproportionate to the parking fees collected in any particular area. The funds collected may be further diluted by requirements to set funds aside associated with Tidelands trust property or other overlapping requirements. Instead, staff proposes the creation of a Neighborhood Revitalization Fund. The Community Development Director and Public Works Director will collaboratively prepare a master plan of improvements and or maintenance needs with the input of relevant Citizen Advisory Panels (CAPs) and or other Committees. Based on Council prioritization of projects, timing and cash flow requirements, Finance staff will determine the funding and or debt requirements to fund the projects during the annual budget development process. We believe this process will establish a more flexible and reliable funding source for neighborhood revitalization needs.

2. Public, Educational and Government Access (PEG) Fees

We also suggest that staff research the laws related to PEG fees derived from cable franchise revenues to determine whether there is any ongoing financial benefit of restricting a portion of cable franchise revenues for PEG purposes.

If the Finance Committee feels these proposals have merit, please direct staff to review the Municipal Code and related laws with the intent to rescind portions of the Municipal Code that restrict the use of parking revenues and cable franchise revenues.

Prepared and Submitted by:

/s/Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachments: A. Summary of Recommended Phased Revisions
 B. Redline of Phase I revisions to Council Policy (F-2) & (B-2)

Summary of Reserve Policies

Reserve Name	Policy/ Restriction	Purpose	Minimum	Revenue Set-Aside	Phased Revision	Recommendation
Non-Discretionary Reserves						
Park-in-lieu	GC 664777	Park Development	No Min or Max	100% of Quimby Act Park Fees	NA	NA - Externally Restricted
Oceanfront Encroachment Reserve	LCP & L-12	Revenue Agreement	No Min or Max	100% of Oceanfront Encroachment permit fee revenue	NA	NA - Externally Restricted
Upper Bay Restoration	SB 573		No Min or Max	10% of Certain Lease Revenue	NA	NA - Externally Restricted
Discretionary Reserves						
Strategic Savings						
Facilities Financial Planning Reserve	F-28	Facility Replacement	Max. Annual Debt Service + Project Needs	As determined by Facilities Financial Planning Tool (FFPT)	NA	None
Facilities Maintenance Plan	NA	Major Facility Maint.	No Policy	As determined by Facilities Maintenance Plan (Vertex)	NA	None
Equipment Replacement	F-2	Equipment Replacement	Accumulated Depreciation	Rates sets annually based on projected replacement needs	NA	None
IT Strategic Fund	NA	System Replacement	No Policy	As determined by IT Strategic Plan	NA	None
Rec Facility Rentals	B-2	Equipment Replacement	No Min or Max	10% Facility Rental Services	I	Transition to Equipment Replacement Fund
Recreation Pgm-Equipment Replacement	B-2	Equipment Replacement	No Min or Max	10% to 20% of specified recreation classes	I	Transition to Equipment Replacement Fund
Sr. Fitness Cntr - Equipment Replacement	B-2	Equipment Replacement	No Min or Max	10% of fitness center membership fees	I	Transition to Equipment Replacement Fund
In Lieu Parking	MC 12.44	Neighborhood Parking	No Min or Max	Annual fees collected In-lieu of owner-provided parking	II	Review, modify or eliminate MC.
Off Street Parking	MC 12.44	Neighborhood Parking	No Min or Max	50% of parking meter revenues in designated areas	II	Review, modify or eliminate MC.
Neighborhood Enhancement A	MC 12.44	Neighborhood Vitalization	No Min or Max	Parking meter revenues in designated areas	II	Review, modify or eliminate MC.
Neighborhood Enhancement B	MC 12.44	Neighborhood Vitalization	No Min or Max	50% of parking meter revenues in designated areas	II	Review, modify or eliminate MC.
Cable Franchise	MC 5.44	Public Access Channel	No Min or Max	Cable Franchise	II	Review, modify or eliminate MC.
Paramedic Program	F-2	Paramedic Equipment Replacement	No Min or Max	Hoag Contribution & Program Income	I	Transition to Equipment Replacement Fund
START Program	F-2	Paramedic Triage Video Program	No Min or Max	Profits generated by sale of training videos/materials	I	Transition to Equipment Replacement Fund
Oil and Gas Reserve	F-2	Well Improvements	No Min or Max	\$40,000 of oil and gas field production revenues annually	NA	None.
Administrative						
Capital Reappropriations	NA	Accounting/Administrative	None	Unspent Capital Projects Reappropriated to the next FY	NA	None.
Risk Management						
Worker's Compensation	F-2	Prefunding Liability	Exceed actuary's "Expected Level"	Rates charged to departments to fund expected liability.	NA	None
General Liability	F-2	Prefunding Liability	Exceed actuary's "Expected Level"	Rates charged to departments to fund expected liability.	NA	None
Retiree Insurance	F-2	Prefunding Liability	None	Rates actuarially set to fund expected liability.	NA	None
Pension Management	F-2	Prefunding Liability	None	None	NA	None
Compensated Absences	F-2	Prefunding Liability	3-year average of annual cash flows	3.5% of Employee salaries	NA	None
PERS Rate Reserve	F-2	Extraordinary Rate Changes	No Minimum	No Policy	NA	Reassign Bal. to Contingency Rsv
Unassigned Fund Balance - Contingency	F-2	Contingency Reserve	15% of Operating Budget	25% of Operating Budget increase if applicable	I	Increase to 25% of Operating Budget
Unassigned Fund Balance - Residual	NA	Residual Unassigned Fund Balance		NA	NA	Unassigned Fund Balance
Enterprise Fund Reserves						
Water Fund						
Stabilization and Contingency	F-2	Rate Stabilization and Contingency	50% of Annual Operating Budget	50% of Operating Budget increase if applicable	NA	None
Infrastructure Replacement	F-2	Infrastructure Replacement	None	Per recommendations from Water Master Plan	NA	None
Wastewater Fund						
Stabilization and Contingency	F-2	Rate Stabilization and Contingency	50% of Annual Operating Budget	50% of Operating Budget increase if applicable	NA	None
Infrastructure Replacement	F-2	Infrastructure Replacement	None	Per recommendations from Wastewater Master Plan	NA	None

Phase I - Propose changes to Policy F-2 for April 29 Finance Committee and June Council Adoption

Phase II - Propose changes to Policy F-2 for Nov Finance Committee and December Council Adoption

RESERVE POLICY

PURPOSE

To establish City Council policy for the administration of Reserves defined as fund balances in governmental funds and net working capital in proprietary funds.

BACKGROUND

Prudent financial management dictates that some portion of the funds available to the City be reserved for future use.

As a general budget principle concerning the use of reserves, the City Council decides whether to appropriate funds from Reserve accounts. Even though a project or other expenditure qualifies as a proper use of Reserves, the Council may decide that it is more beneficial to use current year operating revenues or bond proceeds instead, thereby retaining the Reserve funds for future use. Reserve funds will not be spent for any function other than the specific purpose of the Reserve account from which they are drawn without specific direction in the annual budget; or by a separate City Council action. Information regarding Annual Budget Adoption and Administration is contained in City Council Policy F-3.

GOVERNMENTAL FUNDS AND FUND BALANCE DEFINED

Governmental Funds including the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds and Permanent Funds have a short-term or current flow of financial resources, measurement focus and basis of accounting and therefore, exclude long-term assets and long-term liabilities. The term Fund Balance, used to describe the resources that accumulate in these funds, is the difference between the fund assets and fund liabilities of these funds. Fund Balance is similar to the measure of net working capital that is used in private sector accounting. By definition, both Fund Balance and Net Working Capital exclude long-term assets and long-term liabilities.

PROPRIETARY FUNDS AND NET WORKING CAPITAL DEFINED

Proprietary Funds including Enterprise Funds and Internal Service Funds have a long-term or economic resources measurement focus and basis of accounting and therefore, include long-term assets and liabilities. This basis of accounting is very similar to that used in private sector. However, instead of Retained Earnings, the term Net Assets is used to describe the difference between fund assets and fund liabilities. Since Net

Assets include both long-term assets and liabilities, the most comparable measure of proprietary fund financial resources to governmental Fund Balance is Net Working Capital, which is the difference between current assets and current liabilities. Net Working Capital, like Fund Balance, excludes long-term assets and long-term liabilities.

GOVERNMENTAL FUND RESERVES (FUND BALANCE)

For Governmental Funds, the Governmental Accounting Standards Board ("GASB") Statement No. 54 defines five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and are therefore "Spendable." The classifications also are intended to identify the extent to which fund balance is constrained by special restrictions, if any. Applicable only to governmental funds, the five classifications of fund balance are as follows:

<u>CLASSIFICATIONS</u>	<u>NATURE OF RESTRICTION</u>
Non-spendable	Cannot be readily converted to cash
Restricted	Externally imposed restrictions
Committed	City Council imposed commitment
Assigned	City Manager assigned purpose/intent
Unassigned	Residual balance not otherwise restricted

A. Non-spendable fund balance: That portion of fund balance that includes amounts that are either (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. Examples of Non-spendable fund balance include:

1. Reserve for Inventories: The value of inventories purchased by the City but not yet issued to the operating Departments is reflected in this account.
2. Reserve for Long Term Receivables and Advances: This Reserve is used to identify and segregate that portion of the City's financial assets which are not due to be received for an extended period, so are not available for appropriation during the budget year.
3. Reserve for Prepaid Assets: This reserve represents resources that have been paid to another entity in advance of the accounting period in which the resource is deducted from fund balance. A common example is an insurance premium, which is typically payable in advance of the coverage period.

Although prepaid assets have yet to be deducted from fund balance, they are no longer available for appropriation.

4. Reserve for Permanent Endowment - Bay Dredging: The endowment specifies that the principal amount will not be depleted and represents the asset amounts to be held in the Bay Dredging Fund.
 5. Reserve for Permanent Endowment - Ackerman Fund: The endowment specifies that the principal amount will not be depleted and represents the asset amount to be held in the Ackerman Fund.
- B. Restricted fund balance: The portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Examples of restricted fund balance are:
1. Reserve for Debt Service: Funds are placed in this Reserve at the time debt is issued. The provisions governing the Reserve, if established, are in the Bond Indenture and the Reserve itself is typically controlled by the Trustee.
 2. Affordable Housing: A principal provision of the Newport Beach Housing Element requires developers to provide housing units for lower income households, the number of which is to be negotiated for each development project. In lieu of constructing affordable housing, developers have paid into this reserve which is used at the City Council's discretion to provide alternate methods for the delivery of affordable housing for lower income households.
 3. Park In Lieu: Per NBMC 19.52 and California Government Code Section 664777 (The 1975 "Quimby Act"), a dedication of land or payment of fees for park or recreational purposes in conjunction with residential development is required. The fees collected can only be used for specific park or recreation purposes as outlined in NBMC 19.52.030 and 19.52.070.
 4. Upper Newport Bay Restoration Reserve: This reserve is the repository for funds mandated by SB573, as well as special fees charged to permit holders as an alternative to meeting certain specified mitigation criteria. In addition to the mitigation fees, ten percent (10%) of Beacon Bay lease revenue is placed in this Reserve. Funds in the Reserve are restricted for Upper Newport Bay restoration projects.

5. Permanent Endowment for Bay Dredging: The endowment also specifies that the interest earnings on the principal amount can only be used for dredging projects in the Newport Bay.

6. Permanent Endowment for Ackerman Fund: The endowment also specifies that the interest earnings on the principal amount can only be used for scholarships provided by the City.

~~6.7. Oceanfront Encroachment Reserve: In the early 1990's, it was discovered by survey that improvements to several ocean front parcels were encroaching onto the public beach. The encroachment was relatively minor. The negotiated solution was for the property owners to pay a permit fee each year to the City. Revenue thus generated may only be used for ocean front restoration projects and incidental costs of improvements and maintenance to enhance public access and use of ocean beaches as approved by the City Council. This Reserve is the repository for those funds. City Council Policy L-12 contains additional background and details about the encroachment issue. The external restriction on this balance is imposed by the Local Coastal Plan (LCP).~~

~~7.8.~~

C. Committed fund balance: That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, and remain binding unless removed in the same manner. The City considers a resolution to constitute a formal action for the purposes of establishing committed fund balance. The action to constrain resources must occur within the fiscal reporting period; however the amount can be determined subsequently. City Council imposed Commitments are as follows:

~~1. Contingency Reserve: The Contingency Reserve shall have a target balance of fifteen percent (15%) of General Fund "Operating Budget" as originally adopted. Operating Budget for this purpose shall include current expenditure appropriations and shall exclude Capital Improvement Projects and Transfers Out. Appropriation and/or access to these funds are reserved for emergency situations only. The parameters by which the Contingency Reserve could be accessed would include the following circumstances:~~

~~a. A catastrophic loss of critical infrastructure requiring an expenditure of greater than or equal to five percent (5%) of the General Fund, Operating Budget, as defined above.~~

~~b. A State or Federally declared state of emergency where the City response or related City loss is greater than or equal to five percent (5%) of the General Fund, Operating Budget.~~

~~c. Any settlement arising from a claim or judgment where the loss exceeds the City's insured policy coverage by an amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.~~

~~d. Deviation from budgeted revenue projections in the top three General Fund revenue categories, namely, Property Taxes, Sales Taxes and Transient Occupancy Taxes in a cumulative amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.~~

~~e. Any action by another government that eliminates or shifts revenues from the City amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget.~~

~~f. Inability of the City to meet its debt service obligations in any given year.~~

~~g. Any combination of factors 1) a. f. amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget in any one fiscal year.~~

~~Use of the Contingency Reserve must be approved by the City Council. Should the Contingency Reserve commitment be used, the City Manager shall present a plan to City Council to replenish the reserve within five years.~~

2.1. Facilities Financial Planning (FFP) Reserve Fund: In conjunction with the City's Facilities Financial Plan, a sinking fund has been established to amortize the cost of critical City facilities such as, but not limited to, the Civic Center, Police Department buildings, Fire Stations, Library Branches and other Facility Improvement Projects.

The Facilities Financial Planning Program establishes a level charge to the General Fund that will perpetually replenish the cash flows necessary to finance the construction of critical City facilities. This plan will be updated annually as part of the budget process, or as conditions change. The City shall strive to maintain fund balance in the Facilities Financial Planning Reserve at a level equal to or greater than the maximum annual debt service of on existing obligations.

The eligible uses of this reserve include the cash funding of public facility improvements or the servicing of related debt.

~~3. Oceanfront Encroachment Reserve: In the early 1990's, it was discovered by survey that improvements to several ocean front parcels were encroaching onto the public beach. The encroachment was relatively minor. The negotiated solution was for the property owners to pay a permit fee each year to the City. Revenue thus generated may only be used for ocean front restoration projects and incidental costs of improvements and maintenance to enhance public access and use of ocean beaches as approved by the City Council. This Reserve is the repository for those funds. City Council Policy L-12 contains additional background and details about the encroachment issue.~~

~~4. Senior Center and Recreation Facility Rental Reserve: City Council Policy B-2 requires ten percent (10%) of gross revenues derived from OASIS Senior Center and Recreation facilities rental fees to be set aside annually for equipment replacement and/or facility refurbishment.~~

5.2. Off Street Parking: Per NBMC 12.44.025 fifty percent (50%) of parking meter revenue collected in designated areas is set aside for acquisition, development and improvement of off street parking facilities within those areas.

~~6. Paramedic Program (Hoag): In addition to the debt issuance agreements with Hoag Hospital which required an original deposit, effective July 1, 2000, any excess revenues generated by this program, after accounting for General City Overhead of fifteen percent (15%), were to be accumulated for future paramedic related purposes. Funds accumulated may be used only for paramedic related purposes as directed by the City Council.~~

~~7. Recreational Instruction: City Council Policy B-2 requires ten percent (10%) to twenty percent (20%) of gross annual revenues derived from specified recreational classes to be set aside for the refurbishment of certain recreational facilities, fee-based activity programs and equipment used in connection with fee-based recreation classes.~~

~~8. Senior Fitness Center Reserve: City Council Policy B-2 requires ten percent (10%) of the gross annual revenues derived from fitness center membership fees to be set aside and used for new or replacement fitness equipment.~~

9.3. In Lieu Parking: Per NBMC 12.44.125 the City requires commercial businesses to provide adequate off-street parking or where this is not possible, businesses are afforded the opportunity to pay an annual fee and use parking spaces in a municipal lot, providing such a lot is located within specified proximity to the business. These funds can only be used to provide additional parking.

10.4. Neighborhood Enhancement - A: NBMC 12.44.027 directs revenues from parking meters in Zone 9 shall be apportioned to this Neighborhood Enhancement A. Funds accumulated will only be used for the purpose of enhancing and supplementing services to the West Newport area. Both the nature of the supplemental services and the definition of the area served are set forth in the Code Section above.

11.5. Neighborhood Enhancement - B: NBMC 12.44.027 directs that fifty percent (50%) of revenues from parking meters in the Balboa Peninsula be apportioned to this Neighborhood Enhancement B. Funds accumulated will only be used for the purpose of enhancing and supplementing services in the Balboa Peninsula. Specific details are contained in the Code Section.

12.6. Cable Franchise: Pursuant to the provisions of the Newport Beach Municipal Code, Title 5, Business Licenses & Regulations, Chapter 5.44, in return for the use of the City's streets and public ways for the purpose of installing, operating, maintaining, or reconstructing a cable system to provide cable service, fees are collected by the City from cable providers. Those fees are to be used by the City for support of Public, Education, and Government access programming only.

~~13. START Program: The Fire Department's START Program developed by the Fire Department and Hoag Hospital helps prepare emergency personnel to quickly organize their resources to handle multi-casualty emergencies. Training video and training materials are sold to other agencies. Any excess revenues generated by this program shall only be used for production expenses related to future START training materials and to enhance paramedic, EMT, and MICN pre-hospital education as directed by the City Council.~~

7. Oil and Gas Reserve: The annual \$40,000 which is being set aside from the oil and gas field production revenues is to be used to fund abandoned wells and facilities as they go out of service.

14.8. Capital Reappropriation: This reserve represents an administrative procedure that recognizes a portion of fund balance is not readily available to fund new endeavors because it has been reappropriated through the budget adoption process or amendment process.

Assigned fund balance: That portion of a fund balance that includes amounts that are constrained by the City's intent to be used for specific purposes but that are not

restricted or committed. This policy hereby delegates the authority to the City Manager or designee to modify or create new assignments of fund balance. Constraints imposed on the use of assigned amounts may be changed by the City Manager or his designee. Appropriations of balances are subject to Council Policy F-3 concerning budget adoption and administration.

~~D. Examples of assigned fund balance may include but are not limited to:~~

~~1. Appropriations Reserves: This is a temporary repository for funds not yet fully appropriated in the annual budget. It is normally used during the budget process to set aside funds for known or strongly anticipated expenses that will need to be addressed by budget amendment during the budget year. Sometimes the dollar amount and/or appropriate account breakdown for such expenses cannot be specifically identified at the time the budget is adopted, even though the funds will be needed. In such cases, the funds will normally be budgeted to the Reserve for Appropriations.~~

~~2. Change in Fair Market Value of Investments: As dictated by GASB 31, the City is required to record investments at their fair value (market value). This accounting practice is necessary to insure that the City's investment assets are shown at their true value as of the balance sheet. However, in a fluctuating interest rate environment, this practice records market value gains or losses which may never be actually realized. The City Manager may elect to reserve a portion of fund balance associated with an unrealized market value gain. However, it is impractical to assign a portion of fund balance associated with an unrealized market value loss.~~

~~3. PERS Rate Reserve: This Reserve may be established for the specific purpose of helping to smooth out the year-to-year fluctuations in PERS rates.~~

~~When the City Manager or his designee authorizes a change in General Fund, Assigned Fund Balance, City Council shall be notified quarterly.~~

D. Unassigned fund balance:

1. Contingency Reserve: The Contingency Reserve shall have a target balance of fifteen percent (25%) of General Fund "Operating Budget" as originally adopted. Operating Budget for this purpose shall include current expenditure appropriations and shall exclude Capital Improvement Projects and Transfers Out. Appropriation and/or access to these funds are generally reserved for emergency or unforeseen situations but may be accessed by Council by simple budget appropriation. Examples may include but are not limited to the following:

- a. A catastrophic loss of critical infrastructure.
- b. A State or Federally declared state of emergency.
- c. Any settlement arising from a claim or judgment.
- d. Deviation from budgeted revenue projections.
- e. Any action by another government that eliminates or shifts revenues from the City.
- f. Inability of the City to meet its debt service obligations in any given year.
- g. Other circumstances deemed necessary by City Council to meet the claims and obligations of the City.

Should the Contingency Reserve be used, the City Manager shall present a plan to City Council to replenish the reserve within five years.

E.2. Residual Fund Balance: The residual portion of available fund balance that is not otherwise restricted, committed or assigned and is above and beyond the Contingency Reserve target reserve balance.

PROPRIETARY FUND RESERVES (NET WORKING CAPITAL)

In the case of Proprietary Funds (Enterprise and Internal Service Funds), Generally Accepted Accounting Principles ("GAAP") does not permit the reporting of reserves on the face of City financial statements. However, this does not preclude the City from setting policies to accumulate financial resources for prudent financial management of its proprietary fund operations. Since proprietary funds may include both long-term capital assets and long-term liabilities, the most comparable measure of liquid financial resources that is similar to fund balance in proprietary funds is net working capital which is the difference between current assets and current liabilities. For all further references to reserves in Proprietary Funds, Net Working Capital is the intended meaning.

A. Water Enterprise Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset

sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is fifty percent (50%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 6 months with zero income or 24 months at a twenty-five percent (25%) loss rate. The City Council must approve the use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to water distribution.

2. Infrastructure Replacement Funding Policy: This funding policy is intended to be a temporary repository for cash flows associated with the funding of infrastructure replacement projects provided by the Water Master Plan. The contribution rate is intended to level-amortize the cost of infrastructure replacement projects over a long period. The annual funding rate of the Water Master Plan is targeted at an amount that, when combined with prior or future year contributions, is sufficient to provide for the eventual replacement of assets as scheduled in the plan. This contribution policy is based on the funding requirements of the most current Water Master Plan. There are no minimum or maximum balances contemplated by this funding policy. However, the contributions level should be reviewed periodically or as major updates to the Water Master Plan occur. Annual funding is contingent on many factors and may ultimately involve a combined strategy of cash funding and debt issuance with the intent to normalize the burden on Water customer rates.

B. Wastewater Enterprise Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is fifty percent (50%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 6 months with zero income or 24 months at a twenty-five percent (25%) loss rate. The City Council must approve use of these

funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to wastewater service.

2. Infrastructure Replacement Funding Policy: This funding policy is intended to be a temporary repository for cash flows associated with the funding of infrastructure replacement projects provided by the Wastewater Master Plan. The contribution rate is intended to level-amortize the cost of infrastructure replacement projects over a long period of time. The annual funding rate of the Wastewater Master Plan is targeted at an amount that, when combined with prior or future year contributions, is sufficient to provide for the eventual replacement of assets as scheduled in the plan. This contribution policy should be updated periodically based on the most current Wastewater Master Plan. There are no minimum or maximum balances contemplated by this funding policy. However, the contributions level should be reviewed periodically or as major updates to the Wastewater Master Plan occur. Annual funding is contingent on many factors and may ultimately involve a combined strategy of cash funding and debt issuance with the intent to normalize the burden on Wastewater customer rates.

C. Internal Service Funds

Background.

Internal Service Funds are used to centrally manage and account for specific program activity in a centralized cost center. Their revenue generally comes from internal charges to departmental operating budgets rather than direct appropriations. They have several functions.

--They work well in normalizing departmental budgeting for programs that have life-cycles greater than one year; thereby facilitating level budgeting for expenditures that will, by their nature, be erratic from year to year. This also facilitates easier identification of long term trends.

--They act as a strategic savings plan for long-term assets and liabilities.

--From an analytical standpoint, they enable appropriate distribution of city-wide costs to individual departments, thereby more readily establishing true costs of various operations.

Since departmental charges to the internal service fund duplicate the ultimate expenditure from the internal service fund, they are eliminated when consolidating entity-wide totals.

The measurement criteria, cash flow patterns, funding horizon and acceptable funding levels are unique to each program being funded. Policy regarding target balance and/or contribution policy, gain/loss amortization assumption, source data, and governance for each of the City's Internal Service Funds is set forth as follows:

1. For all Internal Service Funds: The Finance Director may transfer part or all of any unencumbered fund balance between the Internal Service Funds provided that the withdrawal of funds from the transferred fund would not cause insufficient reserve levels or insufficient resources to carry out its intended purpose. This action is appropriate when the decline in cash balance in any fund is precipitated by an off-trend non-recurring event. The Finance Director will make such recommendations as part of the annual budget adoption or through separate Council action.
2. Equipment Maintenance Fund and Equipment Replacement Fund: The Equipment Maintenance and Replacement Funds receive operating money from the Departments to provide equipment maintenance and to fund the regular replacement of major pieces of equipment (mostly vehicles) at their economic obsolescence.
 - a. Equipment Maintenance Fund: The Equipment Maintenance Fund acts solely as a cost allocation center (vs. a pre-funding center) and is funded on a pay-as-you-go basis by departmental maintenance charges by vehicle type and usage requirement. Because of this limited function, the target year-end balance is zero.

Contribution rates (departmental charges) are set to include the direct costs associated with maintaining the City vehicle fleet, including fleet maintenance employee salary and benefits, operating expenses and maintenance related capital outlay. Administrative overhead and maintenance facility improvements and replacement costs are to be provided outside of this cost unit.

~~Because of the limited purpose of this fund, a gain/loss assumption is not needed.~~

~~Source data is ongoing city fleet inventory and maintenance cost information.~~

Governance is achieved through annual management adjustment of contribution rates on the basis of maintenance cost by vehicle and distribution of costs based on fleet use by department.

- b. Equipment Replacement Fund: Operating Departments are charged annual amounts sufficient to accumulate funds for the replacement of vehicles, communications equipment, parking equipment and other equipment replacement determined appropriate by the Finance Director. The City Manager recommends annual rate adjustments as part of the budget preparation process. These adjustments are based on pricing, future replacement schedules and other variables.

The age and needs of the equipment inventory vary from year to year. Therefore the year-end fund balance will fluctuate in direct correlation to accumulated depreciation. In general, it will increase in the years preceding the scheduled replacement of relatively large percentage of the equipment, on a dollar value basis. However, rising equipment costs, dissimilar future needs, replacing equipment faster than their expected life or maintaining equipment longer than their expected life all contribute to variation from the projected schedule.

Target funding levels shall be determined by the Finance Director after considering the age, expected life and cash flow anticipated by the replacement equipment being funded. In light of the above, the target funding level is not established in terms of a flat dollar figure or even a percentage of the overall value of the equipment inventory. It is established at fifty percent (50%) of the current accumulated depreciation value of the equipment inventory, calculated on a replacement value basis. This will be reconciled annually as part of the year-end close out process by the Finance Department. If departmental replacement charges for equipment prove to be excessive or insufficient with regard to this target funding level, new rates established during the next budget cycle will be adjusted with a view toward bringing the balance back to the target level over a three-year period.

3. Insurance Reserve Funds: The Insurance Reserve funds account for the activities of general liability and workers' compensation claims.

Background.

The City employs an actuary to estimate the liabilities associated with the general liability and workers compensation activities. The costs typically associated with

these programs include: claims administration, legal defense, insurance premiums, self insured retention and the establishment of appropriate loss reserves including “incurred-but-not reported” (IBNR) claims. In a prescribed measurement methodology, the Actuary estimates the liabilities in conformity with Generally Accepted Accounting Principles (GAAP).

The Actuary refers to this measurement level in his report as the “Expected Level.” However, because actuarial estimates are subject to significant uncertainties, actuaries typically recommend that a target funding level be set at an amount in excess of expected liability as a margin to cover contingencies. A typical target funding level would be set to obtain a specified confidence level (the percent chance that resources set-aside will be sufficient to cover existing claims).

Full funding of the Actuary’s “Target Funding Level” establishes a seventy-five percent (75%) confidence there will be sufficient resources (including projected interest) to pay the full amount of existing claims without future contributions. Funding at the “Expected Level” produces a confidence level of only fifty percent to sixty-five percent (50%-65%). Therefore, the target funding of insurance reserves should exceed the “Expected Level” to account for adverse estimate deviation.

Policy & Practice.

The City should target funding of its risk management obligations at not less than the Expected Level, described above; and not more than an amount sufficient to establish a seventy-five percent (75%) Confidence Level. Actuarial losses should be recovered over a rolling 3-year basis while actuarial gains should be amortized over a rolling 5-year basis. As part of the operating budget, each department will be charged a rate equal to its proportionate share of the total “revenue” required to fund the Insurance Reserve Fund at this level.

To lessen the impact of short-term annual rate change fluctuation, City management may implement one-time fund transfers (rather than department rate increases) when funding shortfalls appear to be due to unusually sharp and non-recurring factors. Excess reserves in other areas may be transferred to the internal service fund in these instances but such transfers should not exceed the funding necessary to reach a seventy-five (75%) confidence level interval.

4. Compensated Absences Fund:

Background.

The primary purpose of flex leave, vacation leave and sick leave is to provide compensated time off as appropriate and approved. However, under certain circumstances, typically at separation from service, some employees have the option of receiving cash-out payments for some accumulated leave balances. The Compensated Absences Fund is utilized primarily as a budget smoothing technique for any such leave bank liquidations. The primary purpose of the Compensated Absences Fund is to maintain a balance sufficient to facilitate this smoothing.

Policy and Practice.

The contribution rate will be set to cover estimated annual cash flows based on a three-year trailing average.

The minimum cash reserve should not fall below that three-year average. The maximum cash reserve should not exceed fifty percent (50%) of the long term liability. The target cash reserve shall be the median difference between the minimum and maximum figures.

Each department will make contributions to the Compensated Absences Fund through its operating budget as a specified percentage of salary. The Finance Director will review and recommend adjustments to the percentage of salary required during the annual budget development process. This percentage will be set so as to maintain the reserve within the parameters established above.

5. Post Retirement Funding Policies:

a. Pension Funding:

- (i) California Public Employees Retirement System (CalPERS): The City's principal Defined Benefit Pension program is provided through contract with CalPERS. The City's contributions to the plan include a fixed employer paid member contribution and an actuarially determined employer contribution that fluctuates each year based on an annual actuarial plan valuation. This variable rate employer contribution includes the normal cost of providing the contracted benefits plus or minus an amortization of plan changes and net actuarial gains and losses since the last valuation period.

It is the City's policy to make contributions to the plan equaling at least one hundred percent (100%) of the actuarially required contribution

(annual pension cost). Because the City pays the entire actuarially required contribution each year, by definition, its net pension obligation at the end of each year is \$0. Any unfunded actuarial liability (UAL) is amortized and paid in accordance with the actuary's funding recommendations. The City will strive to maintain its UAL within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual CalPERS contribution should the UAL status fall below acceptable actuarial standards.

- (ii) Laborer's International Union of North America (LIUNA): The City provides funds to support a supplemental pension plan for some employee associations through contract with LIUNA. This is funded at a fixed percentage of total compensation on a pay-as-you-go basis. The City is not contractually required to guarantee the level of the ultimate LIUNA benefit to retirees, nor does it do so. Therefore the City's liability for this program is full funded each year.

b. Other Post Employment Benefits (OPEB Funding):

Background.

The City's OPEB funding obligations consists of two retiree medical plans.

New Plan. Effective January 2006, the City and its employee associations agreed to major changes to the Post Employment Healthcare Plan. New employees and all current employees participate in a program that requires certain defined employee and employer contributions while the employee is in active service. However, once the contributions have been made to the employee's account, the City has transferred a substantial portion of the funding risk to the employee.

Old Plan. Eligible employees who retired prior to the "New Plan" and certain active employees were eligible to continue to receive post-retirement medical benefits (a defined benefit plan). The cost was divided among the City, current employees and retirees. In the past, this program was largely funded on a pay-as-you-go basis, so there was a significant unfunded liability. Recognizing this problem, the City began contributing to this obligation in 2001. In 2008, these assets were placed in a pre-funding trust. The City's intention is to amortize the remaining unfunded liability within 20 years.

Policy & Practice.

New Plan. Consistent with agreements between the City and Employee Associations, the new defined contribution plan will be one hundred percent (100%) funded, on an ongoing basis, as part of the annual budget process. Funds to cover this expenditure will be contained within the salary section of each department's annual operating budget.

Old Plan. The City's policy is to pre fund the explicit (cash subsidy) portion of the Actuarial Accrued Liability (AAL) of the remnants of the old plan over a 20-year amortization period, or less. This amount will be based on the Annual Required Contribution (ARC) determined by a biennial actuarial review; subject to review and analysis by the City. The City will strive to maintain a funded status that will be within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual OPEB contribution should the funded status fall below acceptable actuarial standards.

Adopted - January 24, 1994

Amended - April 10, 1995

Amended - April 27, 1998

Amended - March 14, 2000

Amended - May 8, 2001

Amended - April 23, 2002

Amended - April 13, 2004

Amended - September 15, 2008

Amended - November 12, 2008

Amended - May 24, 2011

Amended - September 27, 2011

Amended - May 14, 2013

Amended -

RECREATION FEES AND RELATED EQUIPMENT REPLACEMENT RESERVES

The instructional recreational programs for children and adults provided by the Recreation & Senior Services Department will be conducted for a fee to offset associated cost with managing such programs. Registration fees will be based on an amount sufficient to acquire independent contractors, class materials and the administrative overhead and a facility use fee. Occasionally, it may be necessary to conduct programs in which revenues are not sufficient to be self-supporting as authorized by Chapter 3.36 of the Municipal Code. The Recreation & Senior Services Director or designee is authorized to enter into agreements for securing independent contractors for approved instructional recreation activities.

~~Certain fee based activities create additional wear and tear on equipment and facilities. In these cases, it is appropriate to set aside a portion of the annual fees to replace or mitigate the accelerated aging of the equipment or facility being used. Following is a comprehensive list of Reserves serving as repository for these funds and ongoing contribution amounts. As the need arises, City Council approval for expenditures of funds from these Reserves, for the purposes intended, will be requested by the City Manager.~~

Facility Rental Fees

~~A sum of money equivalent to 10% of the gross annual revenues derived from park and facility rental fees shall be set aside annually for equipment replacement and or facility refurbishment.~~

Recreation Classes

~~Surfing Reserve: A sum of money equivalent to 10% of the gross annual revenues derived from the instructional classes in surfing shall be set aside and used for the purpose of purchasing new or replacement surfboards or development of aquatic and surf related activities.~~

~~Tennis Court Reserve: A total of 20% of the registration fees from tennis instructional classes shall be set aside annually for refurbishment or development of courts or development of new recreational programs or facilities.~~

~~Sailing Reserve: A total of 20% of the registration fees from the sailing instructional classes and 100% of the proceeds from the agreement for the use of the 29th Street~~

~~public dock shall be set aside annually for refurbishment and replacement of the recreation sail boat fleet and development of waterfront activities program.~~

~~Senior Fitness Center Reserve: A sum of money equivalent to 10% of the gross annual revenues derived from fitness center memberships shall be set aside and used for the purpose of purchasing new or replacement fitness equipment.~~

Adopted - October 1963

Amended - August 30, 1966

Amended - November 25, 1968

Amended - March 1970

Amended - April 12, 1971

Amended - August 9, 1971

Amended - February 14, 1972

Amended - March 13, 1972

Amended - November 11, 1974

Amended - March 24, 1975

Amended - December 8, 1975

Amended - November 27, 1978

Amended - November 28, 1988

Reassigned - January 24, 1994

Amended - February 27, 1995

Amended - December 14, 1998

Amended - May 8, 2001

Amended - April 8, 2003

Amended - April 13, 2004

Amended - September 13, 2005

Amended - October 10, 2006

Amended - September 27, 2011

Formerly I-6

Formerly I-2

Quarterly Financial Report

Executive Summary

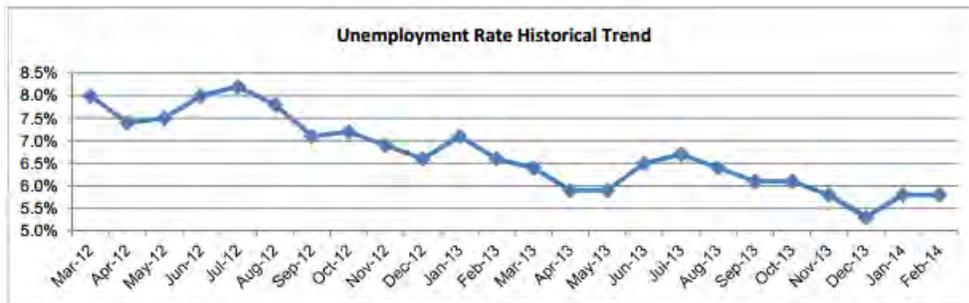
The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's funds. This report contains information on resources and expenditures for the third quarter of the fiscal year, which is the period between January 1, 2014, and March 31, 2014. The City's major General Fund revenue categories are performing according to their projected levels for this year. Current expenditures are thus far performing within expected levels. Higher sales tax revenue resulting from lower unemployment and higher discretionary spending on transportation, dining, and leisure continues to support a strong local economy through the third quarter. This report also describes some noteworthy components of the Proposed FY 2014-15 Budget.

Economic Update

Output at factories increased 1.2% in March, or 0.7% higher than anticipated figures from the Federal Reserve showed. Capacity utilization, which measures manufacturing plant utilization, rose to 79.2%, the highest since June 2008, from a revised 78.8% the prior month. Housing starts climbed 2.8% in March to a 946,000 annualized rate following February's 920,000 pace, which was higher than previously reported. According to The Wall Street Journal's monthly survey of economists, the next quarter's real gross domestic product will see an extra half-percentage point in growth amid a burst of consumer and business spending that was delayed or postponed during the bitterly cold and snowy winter across much of the U.S. A 3% annual growth rate in the Gross Domestic Product (GDP) is forecasted to persist through 2016, boosted by increased housing and business investments, as well as gains in consumer spending. In light of the nation's expected 3% GDP growth, economists predict increases in overall job opportunities in the range of 200,000-250,000, increased wages, along with a potential increase in inflation.

California's seasonally adjusted unemployment rate was 8.0% in February, compared with the U.S. unemployment rate of 6.7%. At 5.8%, Orange County had the third lowest unemployment rate among California counties. Orange County's economic growth trajectory is expected to continue rising faster than that of the nation, largely as the result of better employment prospects. Construction in Orange County posted the largest year-over-year increase with an overall gain of 8,600 jobs. Nearly 76% of the growth was specialty trade contractors. Growth in the construction industry is important because it creates a trickle-down effect that helps other industries – such as building materials or transportation. Professional and business services added 8,100 payroll jobs. Sixty-two percent of the gain was in professional, scientific and technical services. Educational and health services and leisure and hospitality gained 5,600 jobs each. Financial activities reported a decline of 1,700 jobs over the year. A loss of 2,200 jobs in finance and insurance was offset by a gain of 500 jobs in real estate and rental and leasing.

Orange County Unemployment 2012-2014



Source: State Employment Development Department

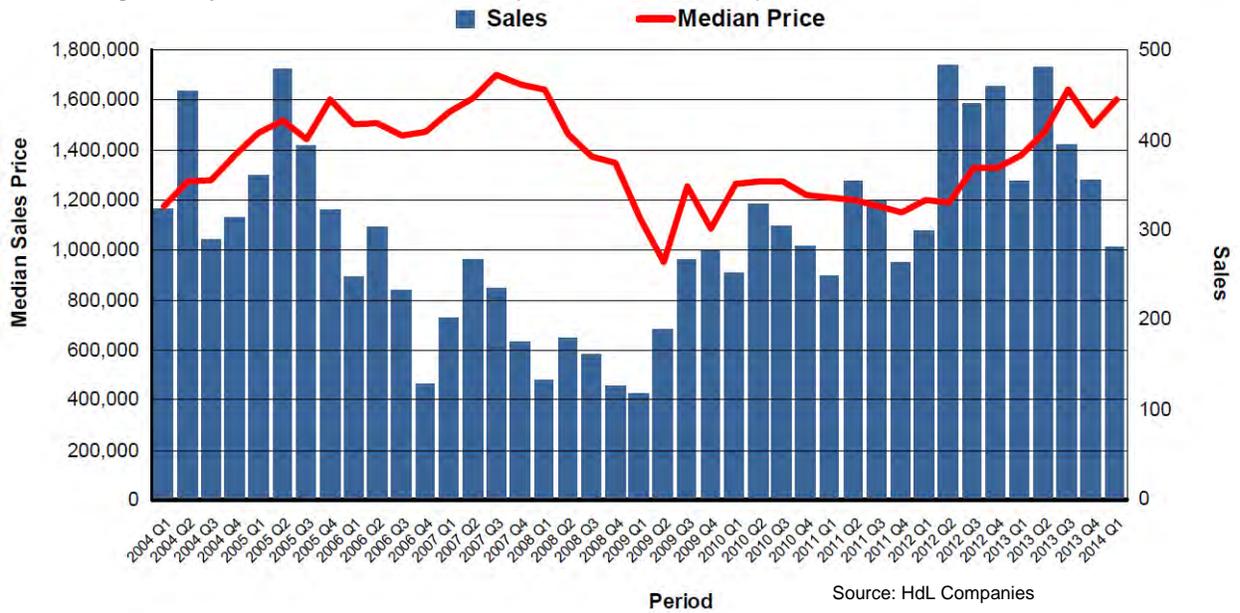
Top “3” Revenues

The General Fund’s top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 75% of General Fund revenues. With 75% of the year complete, General Fund revenues overall are at 70% of projections. This is generally consistent with prior years as certain revenues are received in the latter part of the fiscal year. Unlike prior periods, revenue results can be forecasted with greater confidence by the third quarter of the fiscal year. The City has long taken a conservative approach to forecasting revenues and continues to do so in the preparation of the FY 14/15 budget. This fiscal conservatism has created a stable financial base. As a result, even in a downturn, the City of Newport Beach is able to maintain its services at a high level, while reducing expenses to accommodate reduced revenues. The City’s fiscal discipline has allowed it to prepare balanced budgets and to save, both during prosperous and difficult economic periods.

Property Tax

Property tax is the top source of revenue for the City of Newport Beach, representing almost half (46.7%) of all General Fund revenues. Despite dramatic declines in the real estate market in past years, sales data demonstrates the high market values throughout the residential communities of Newport Beach. As the chart below indicates, the median sales price in Newport Beach has shown a rise between March Q1 2004 and March Q1 2014. The cumulative rise in home sales since the depths of the recession (March Q1 2009) has also been strong.

City of Newport Beach Home Sales and Median Price History
Single Family Residential Full Value Sales (01/01/2004 – 03/31/2014)



Overall, the City has received \$48.8 million, or 60.1%, of its budgeted property taxes through the third quarter of FY 13/14. Secured property taxes are recorded as they are remitted, in large part, during December and April of each year. A large secured property tax payment is expected in late April. Most property tax revenue categories through March are thus far meeting or exceeding the prior year collection trend and the revenue category overall is 3.5% higher than at this same time last year. Prior year penalties and interest receipts are down from last year due to the improved economic status of homeowners. We are seeing a marked increase in secured property tax and especially supplemental taxes. Supplemental assessments reflect the difference between the new assessed value and the old or prior assessed value upon a change in ownership or new construction. The “RDA Dissolution” category is less than last year due largely to a prior year one-time receipt from the county resulting from the dissolution of the Santa Ana Heights redevelopment zone. Excluding this one-time decrease, total property tax revenue would be up 7.1% overall from the prior year. The year-to-date actual for the RDA Dissolution is only 4.3% of budget due to the County posting the payment earlier last year when compared to this year.

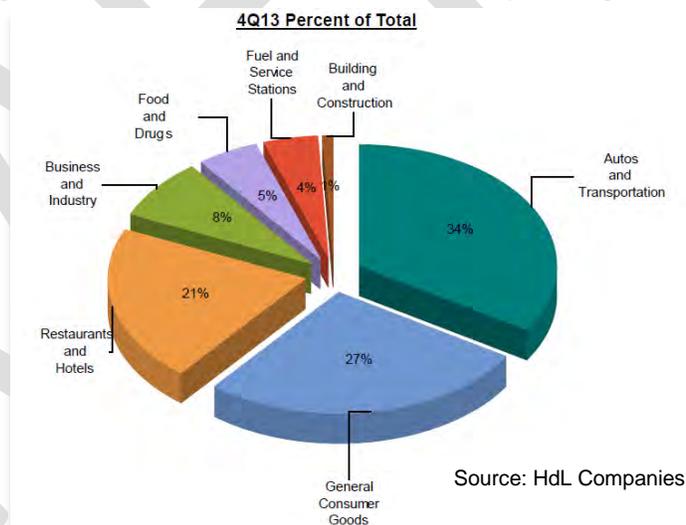
Property Taxes

	Budget 2013-14	YTD Q3 Actual 2013-14	Percent of 2013-14 Budget Realized	Prior Year Q3 Actual 2012-13	Year-over- Year Q3 Increase/ Decrease
Secured	\$ 64,620,213	\$ 39,788,653	61.57%	\$ 37,252,835	6.81%
Unsecured	2,513,641	2,018,648	80.31%	1,963,533	2.81%
Prior Year Penalties & Interest	1,200,000	665,977	55.50%	977,697	-31.88%
Supplemental	1,412,604	1,001,057	70.87%	420,400	138.12%
In Lieu of VLF	7,166,788	3,748,866	52.31%	3,508,049	6.86%
RDA Dissolution *	600,000	25,781	4.30%	1,597,192	-98.39%
All Other Property Taxes	2,525,570	1,536,314	60.83%	1,429,763	7.45%
TOTAL	\$ 80,038,816	\$ 48,785,296	60.95%	\$ 47,149,470	3.47%

*2012-13 actual includes a one-time receipt resulting from the State's dissolution of redevelopment areas. By the end of FY 12/13, the total one-time revenue was \$5.4 million.

Sales Tax

The City's sales tax base is largely generated from three main industry categories including Autos and Transportation, General Consumer Goods, and Restaurants/Hotels as indicated in the adjacent pie chart that depicts the most recent available sales tax statistics. The largest segment, "Autos and Transportation," accounts for 34% of total sales taxes and is represented by 176 new and used auto/boat/aircraft dealers, supply stores and repair shops. The next largest segment, "General Consumer Goods" accounts for 27% of total sales taxes and is represented by a multitude of stores and shops that provide various consumer goods. The third largest sales tax segment, "Restaurants and Hotels," accounts for 21% of total sales tax and is represented by 438 restaurants, hotels, clubs and other amusement places.



Major Sales Tax Industry Groups	Year-Over-Year % Change
Autos and Transportation	12.2%
General Consumer Goods	1.3%
Restaurants and Hotels	2.7%
Business and Industry	40.7%
Food and Drugs	23.2%
Fuel and Service Stations	-7.1%
Building and Construction	19.5%

A national economy is a broad amalgamation of individual, business and government spending or investment. Governments typically pay close attention to economic factors to measure the strength of an economy. Free market economies rely on consumer demand to gauge the allocation and distribution of economic resources. U.S. consumers account for approximately 70% of the national economy. Year-over-year, most

sales tax categories in Newport Beach are up over the prior year, which suggests improved consumer perception and confidence in our local economy. The City received \$17.2 million, or 56.8%, of its budgeted sales taxes through the end of the third quarter.¹ A comparison of sales tax performance from the prior year reveals that the City realized an 8.4% increase year-over-year.

Sales Taxes

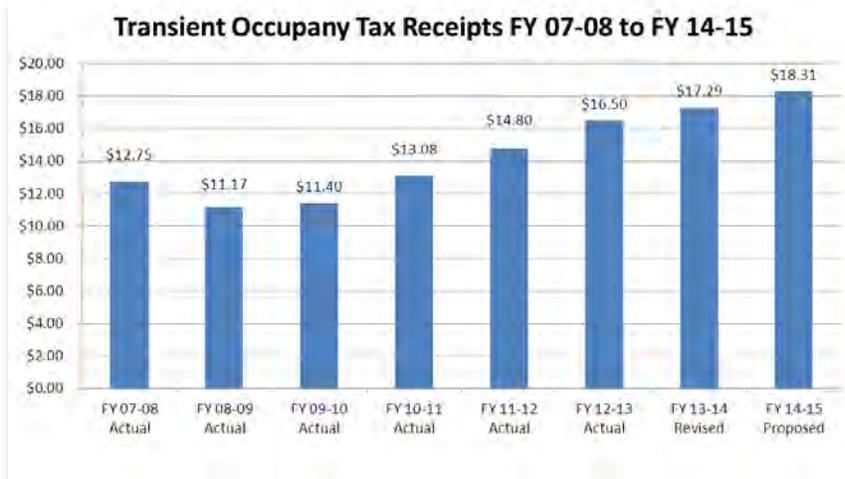
	Budget 2013-14	YTD Q3 Actual 2013-14	Percent of Budget Realized 2013-14	Prior Year Q3 Actual 2012-13	Year-over-Year Q3 Increase/Decrease
Sales and Use Tax	\$22,267,601	\$13,121,985	58.93%	\$12,130,810	8.17%
Property Tax in Lieu of Sales Tax	7,926,293	4,036,849	50.93%	3,698,531	9.15%
TOTAL	\$ 30,193,894	\$ 17,158,834	56.83%	\$ 15,829,342	8.40%

Transient Occupancy Taxes

The City has received \$12.3 million, or 71.3%, of its budgeted Transient Occupancy Taxes (TOT) through the end of the third quarter. The amount collected represents an 11.5% increase over the same period last year. This increase is due to higher occupancy rates in the City's hotels, motels, cottages, and resorts and a strong travel and tourism business sector.

	Budget 2013-14	YTD Q3 Actual 2013-14	Percent of Budget Realized 2013-14	Prior Year Q3 Actual 2012-13	Year-over-Year Q3 Increase/Decrease
Transient Occupancy Taxes	\$ 17,291,420	\$ 12,330,525	71.31%	\$ 11,057,998	11.51%

¹ Businesses collecting sales and use taxes periodically remit the amount collected to the State Board of Equalization (BOE). To compensate for the lag time between the sales period and the time that the tax is remitted to the City, the BOE advances 90% of the net sales tax collections for the same period of the prior year. The difference between the advances and total actual receipts for the quarter is remitted in the form of "clean-up" payments, which are included in the March, June, September, and December remittances. The amount of sales tax realized through March represents seven monthly advance payments and two clean-up (December 2013 and March 2014) payments. Relative to the amount budgeted, actual receipts are consistent with prior years.



The largest year-over-year transient occupancy tax increases were derived from the Resort at Pelican Hill, Marriot Hotel, and the Island Hotel. As can be seen from the adjacent bar chart, TOT revenues have maintained a sustained climb in recent years. It is anticipated that TOT will finish the year \$790,000, or 4.8%,

higher than the FY 12/13 actual receipts. FY 14/15 TOT is forecasted at \$18.31 million, or approximately 5.9% higher than FY 13/14.

Expenditures

With expenditures at 69% of the amended budget, the General and Tidelands Funds are generally on-track. We are anticipating overall department savings in excess of \$1.8 million by year end. The table below aggregates General and Tidelands Funds expenditures by department through March 31, 2014. Some departments incur a greater or lower level of expenditures in the first half of the year than in the second half due to the timing and seasonality of their operations or programs. This variability is generally consistent with prior years.

GENERAL AND TIDELANDS FUNDS EXPENDITURES BY DEPARTMENT

Department	Amended Budget 2013-14	YTD Q3 Actual 2013-14	Percent of 2013-14 Budget Expended	Prior Year Q3 Actual 2012-13	Year-Over-Year Q3 Increase/Decrease
City Council	\$1,918,687	\$1,142,650	60%	\$691,732	65%
City Clerk	655,701	506,743	77%	568,656	-11%
City Manager	3,311,461	2,110,135	64%	1,485,702	42%
Personnel	2,690,084	1,824,779	68%	1,733,078	5%
City Attorney	2,292,833	1,462,902	64%	1,497,617	-2%
Finance	7,048,989	4,793,718	68%	4,370,813	10%
Police	45,158,844	33,034,557	73%	28,747,280	15%
Fire	38,106,496	28,488,578	75%	26,627,547	7%
Community Development	9,930,395	6,818,620	69%	6,173,100	10%
Municipal Operations	26,735,237	17,633,875	66%	17,381,524	1%
Library Services	7,797,842	5,317,309	68%	5,151,964	3%
Recreation	9,467,382	6,713,936	71%	6,382,262	5%
Public Works	8,921,551	5,611,774	63%	5,473,671	3%
Capital Projects	8,834,350	3,379,674	38%	7,570,281	-55%
Total	\$172,869,851	\$118,839,249	69%	\$113,855,225	4%

FY 2014-15 Proposed Budget Highlights

The annual budget serves as the foundation for financial planning and control and allows the City Council to prioritize expenditures in alignment with core community values. The FY 14/15 budget as proposed is balanced and includes \$165 million in General Fund operating expenditures. The budget proposes a reduction of full-time staff by 7 while adding some part-time staff in order to maintain services at a lower cost. Appropriations for operating expenditures are balanced in relation to projected revenue sources and will not over-rely on one-time revenue sources or reserves. The City's tax and permit revenue sources have rebounded, which allows for funding a series of important investments in the community, including:

Remaining a safe community

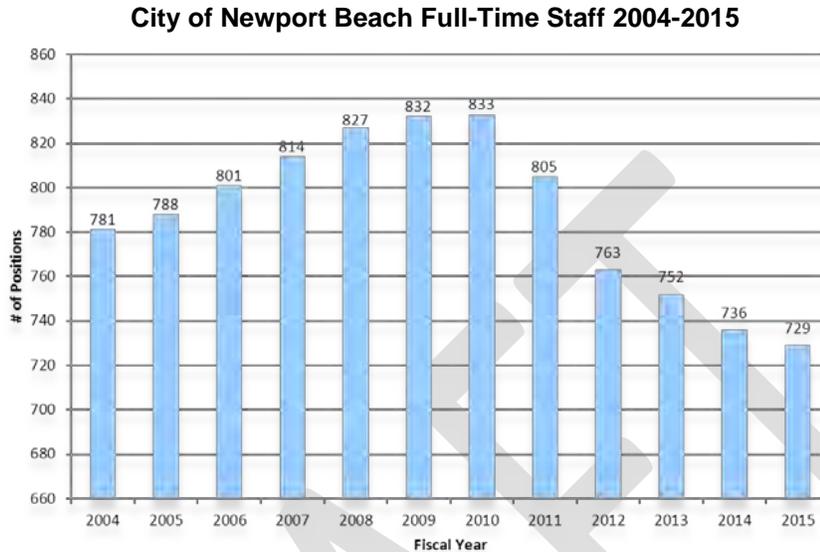
Adding more police staff and head towards a faster, more responsive community paramedicine model by training more existing firefighters as paramedics.

Our Shining City by the Bay

The community will continue to see upgrades in park amenities and how the community looks, with more parks, a new sailing center and marina, more trees, and adding more bike lanes/paths.

Still getting smaller and smarter

Along with a net reduction in staff positions, the City is finalizing the new dispatch and records system in Police, paperless plan review, using paperless agendas, revamping our financial software, and much more.



The following are noteworthy components of the Proposed FY 2014-15 Budget:

This is the first budget that reflects the outsourcing of residential refuse which resulted in the reduction of 10 full-time refuse positions. It also includes the “Newport Dividend,” an initiative that temporarily waives City construction related fees for qualifying residential development activities and helps people reinvest in their homes and yards. The backdrop for these positive developments is an increasingly healthy local and Southern California economy. The General Fund revenue picture continues to improve with solid results in the top three individual revenue sources: Property Taxes, Sales Taxes and Sales Tax in Lieu, and Transient Occupancy Taxes (TOT). Overall, we are anticipating a 2.6% increase in General Fund revenue from our FY 2013-14 revised revenue estimates.

Total General Fund expenditures are increasing by \$10.3 million or 6.7% over the FY 2013-14 Adopted Budget. Of this amount \$2.4 million is due to one-time additions - mostly in the Community Development, Police, and Fire Departments - and \$5.9 million is due to re-appropriated Capital Improvement Projects (CIPs) that have not yet been completed. Note that in such areas as Community Development and in Recreation and Senior Services, the addition of staffing and consulting expenditure is offset by permit and fee revenue. The summary that follows details the nature of the some of the major proposed expenditures by department.

- Community Development – adding \$1.5 million (mostly one-time) to provide contract inspection, plan review services, and code



enforcement staff and overtime due to the sustained uplift in construction activity within the community.

- Recreation and Senior Services – adding almost \$400,000 to expand programs for our community, increasing staffing of the preschool program due to higher attendance, increasing the safety and aesthetics of 32 city playgrounds, increasing staffing and funds to protect air quality via new fire ring regulations, and more.



- Fire Department – adding \$1.4 million (\$550,000 one-time) to increase our focus on emergency medical response. Medical response is now the predominant service activity among fire departments. Better construction standards and regulations, sprinklers in buildings, and better fire prevention awareness among the general public has reduced fire risk. But the advent of the Affordable Care Act, with its focus on wellness, avoiding hospitalization, and post-hospital care will only increase the role of community paramedicine. Therefore, we are moving more firefighter positions to paramedic positions, procuring newer and adding more life-saving equipment, and adding a new full-time Paramedic Coordinator and other part-time medical support staff.



- Public Works – The Council's continued focus on improving our infrastructure, from transportation to parks to facilities, translates into increasing our contractual services budget for environmental engineering and technical support, among other things.

- Police Department – We will add one full-time Police Officer to complete last year's effort to create a focused Crime Suppression Unit that will be able to pre-empt certain crime trends; restore a Custody Officer to maintain regulatory compliance with mandated staffing levels (this follows a decision in 2013 to keep the jail service in-house);



and replace special equipment (\$335,000 one-time).

The FY 2014-15 Proposed Budget presents an ambitious and wide-ranging capital improvement program that provides major funding initiatives for neighborhood revitalization projects, park improvements, road and pavement rehabilitations, transportation upgrades, and water quality and environmental improvements. In addition, significant work continues in FY 2014-15 on the major facilities projects identified in the Facilities Financial Planning Program such as Marina Park, Sunset Ridge Park, and the rehabilitation of fire stations, including our aptly-named “Fibrary” in Corona del Mar.

The proposed FY 2014-15 CIP budget consists of over \$40.3 million in new appropriations and an estimated \$21.4 million in re-budgeted funds to be carried forward from the current fiscal year for a total proposed CIP budget of just under \$62 million.

Conclusion

Newport Beach continues to be a financially secure municipality due to its strong underlying tax base, governance, and careful fiscal decisions through the third quarter of FY 2013-14. Our growing economy and the City Council’s decision-making in recent years provides the opportunity to commit resources for quality improvements while allowing the provision of high level public programs and services that the Newport Beach population demands.

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA ITEM INFORMATION**

Agenda Item No. 5E
April 29, 2014

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

**SUBJECT: Enterprise Resource Planning Software Implementation (ERP)
Update**

BACKGROUND:

The purpose of this progress report is to inform the Finance Committee of the latest developments regarding the Enterprise Resource Planning (ERP) software implementation. An ERP 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. The ERP implementation is scheduled to take between 25 and 30 months and will consist of 5 major phases (see Project Timing Section below).

ID	Installations/ Implementations	Phases	Start	Finish	Duration	Q2 14		Q3 14			Q4 14			Q1 15			Q2 15			Q3 15			Q4 15			Q1 16			Q2 16			Q3 16			
						Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep	Oct	Nov	Dec	Jan	Feb	Mar	Apr	May	Jun	Jul	Aug	Sep
1	Finance	Phase 1	05/01/2014	10/01/2015	371d	▶																													
2	Payroll/Human Resources	Phase 2	01/01/2015	01/01/2016	262d	▶																													
3	Utility Billing	Phase 3	06/01/2015	05/20/2016	255d	▶																													
4	Work Order/Request	Phase 4	10/01/2015	06/01/2016	175d	▶																													
5	Business License/Misc.	Phase 5	01/01/2016	09/30/2016	196d	▶																													

Each phase has a life-cycle that requires involvement in chart of account development, business process rules discovery and planning, conversion/interface development, configuration, training, and testing.

PROGRESS:

Staff concluded contract negotiations Tyler Technologies Inc. (Tyler) on March 14. The final agreement was approved by the City Council on March 25. Since this time, Tyler has designated a project manager who will work in concert with the City and the Tyler Project Team to fulfill the responsibilities of the roles, project scope, and management of the Tyler team's activities toward the successful completion of the project. Staff initiated reference checks on the designated Tyler project manager by speaking with clients who have worked with her.

Staff has also scheduled the ERP implementation kick-off event for May 14-15. Participants will include Tyler staff, the management team, ERP project managers, subject matter experts in City departments and other staff throughout the City that will have a role in the successful implementation of the project. The purpose of the kick-off meeting is to outline the ERP project progression, review roles and responsibilities, and inform staff of the necessary information for adequate project planning.

The objectives of the kick-off event are as follows:

- Provide communications on the overall project to key stakeholders.
- Identify, discuss, and facilitate the timely assignment of roles and responsibilities related to the project.
- Confirm target live dates and review associated project milestones, critical path activities, and project tasks.
- Begin the process of building a unified Project Team.

This project must foster an environment of change and allow the creation of more efficient and effective processes to support the City's mission and goals. A meeting with the Tyler designated Change Manager will soon follow the kick-off.

Proceeding the kick-off, Finance Department staff will begin work on developing a new chart of accounts structure and preparing for a series of Business Process Consulting meetings with Tyler staff.

Prepared and submitted by:

/s/Steve Montano

Steve Montano
Deputy Finance Director

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA ITEM INFORMATION**

Agenda Item No. 5F
April 29, 2014

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Municipal Operations Department
George Murdoch, Acting Municipal Operations Director
(949) 718-3401 or gmurdoch@newportbeachca.gov

SUBJECT: Adoption of a Recycled Water Rate

SUMMARY

The Municipal Operations Department has retained the consulting services of HF&H to prepare a wastewater and recycled water rate study. The purpose of this presentation is to review the results of the recycled water portion of the study and propose the adoption of an appropriate recycled water rate.

RECOMMENDATION:

Review the results and proposed recommendations of the recycled water rate study, suggest further changes if needed, and recommend for submission to the City Council for final approval.

DISCUSSION:

Background:

Recycled water is treated wastewater from the Orange County Sanitation District (OCSD). The Orange County Water District (OCWD) provides recycled water under the Green Acres Project (GAP). GAP is a water recycling effort that provides reclaimed (or recycled) water for landscape irrigation at parks, schools, and golf courses.

The City currently has five recycled water customers totaling 14 water connections. The customers include Big Canyon and Newport Beach Country Club golf courses; East Bluff School, Our Lady Queen of Angels School, and the City which uses recycled water for irrigation of medians and parks.

In 1991, the City entered into an agreement with OCWD for the distribution and sale of GAP water. The agreement stipulates the rules and regulations for the City to provide recycled water. Included in this agreement is the stipulation that recycled water rates may

not exceed 80% of the potable water rate. The agreement term is for 25 years with five 5-year automatic extensions, with an estimated ending term year of 2041.

The City subsequently entered into “End User Agreements” for the sale of recycled water to large customers in 1996 for a 10-year term. These agreements, now expired, included provisions that OCWD and the City would provide funding to modify golf courses and construct pump stations to facilitate the use of recycled water. However, in 2011, the City and the Big Canyon Country Club entered into an agreement that provided for the delivery and sale of recycled water, and a pump station license agreement.

Recycled Water Rate Study

In 2013, the City entered into an agreement with HF&H to conduct a Wastewater and Recycled water rate study. The first priority of the City is to identify the recycled water rates. The wastewater rate study is still being completed and will be discussed at a later date.

The current rates for recycled water are divided into two components:

- Fixed charge - a monthly service charge based on size of connection.
- Commodity charge - a monthly charge for all customers based on 80% of the potable water rates.

Under the new rate structure the recycled commodity costs will not be linked to potable water rates. The proposed methodology for the new rate structure has three components:

- Fixed charge - a monthly charge based on size of service connection.
- Commodity charge – a monthly charge for all customers based on the City’s cost of recycled water from OCWD.
- Pump Station charge – a monthly charge for users of pump stations based on the cost to operate and maintain the stations and provide the recycled water.

The total revenue requirement for fiscal year 2014-15 is estimated to be \$279,366 and consists of:

- Fixed costs
 - Meter Reading/Replacement (\$4,057)
 - Overhead - Other City Departments (\$12,208)
 - Administration – MOD Staff Time (\$25,433)
 - Other agency fees – Health, County, etc. (\$2,034)
- Commodity cost
 - The cost to purchase recycled water from OCWD (\$173,417) or \$0.86 per HCF
- Pump Station costs
 - Inspections (\$7,021)
 - Maintenance – Production, SCADA, Corrective (\$13,109)
 - Source Change (\$1,424)

- Rehabilitation – pumps, motors (\$25,663)
- Station Replacement (\$15,000)

These estimates are based on data included in the City's prior year's budget documents; the 2011 cost allocation plan prepared by MGT America, Inc.; and the 2013 Fee Schedule adopted by City Council on October 22, 2013. As a result of this analysis, staff is recommending an adoption of a five-year rate with a 2% annual adjustment to reflect the anticipated increase future increases in the costs of maintaining the facilities. Additionally, in the event OCWD increases the cost of recycled water by more than 2%, staff recommends that the rate structure include an adjustment to reflect the actual commodity cost charged by OCWD. The City's notification to rate payers, which is required by the City's regulations as well as State law included but not limited to Proposition 218, will identify the rate structure including any such adjustment.

Proposed Five Year Rate Establishment

<u>Monthly Service Charge</u>						
	<u>Current</u>	<u>Year 1</u>	<u>Year 2</u>	<u>Year 3</u>	<u>Year 4</u>	<u>Year 5</u>
5/8" or 3/4"	\$13.82	\$18.91	\$19.29	\$19.68	\$20.07	\$20.47
1"	\$23.03	\$31.53	\$32.16	\$32.80	\$33.46	\$34.13
1 1/2"	\$46.06	\$63.05	\$64.32	\$65.60	\$66.91	\$68.25
2"	\$73.70	\$100.88	\$102.90	\$104.95	\$107.05	\$109.19
3"	\$138.18	\$189.15	\$192.94	\$196.80	\$200.73	\$204.75
4"	\$230.30	\$315.25	\$321.56	\$327.99	\$334.55	\$341.24
6"	\$460.61	\$630.50	\$643.11	\$655.98	\$669.10	\$682.48
8"	\$736.98	\$1,008.81	\$1,028.99	\$1,049.57	\$1,070.56	\$1,091.97
<u>Commodity Charge</u>						
Per HCF	\$2.46	\$0.855	\$0.872	\$0.890	\$0.907	\$0.926
<u>Pump Station Charge</u>						
Per HCF	none	\$0.361	\$0.368	\$0.375	\$0.383	\$0.391

Under the proposed rate structure, recycled water users will see a reduction in their bill. Even accounting for a two percent annual increase beginning in the second year of the new structure, the updated rates provide a significant savings for the City's recycled water users, while still allowing the City to maintain infrastructure to provide recycled water service. Staff and the representatives from HF&H will present the proposed rates and structure to the Finance Committee and describe the notification requirements under Proposition 218.

Estimated Cost Savings for Recycled Water Users

Customer Name	Meter Size	Average Monthly Flow (HCF)	Current Monthly Bill	Year 1 Monthly Bill	<u>Difference</u>	
Newport Country Club	6"	6,550	\$16,820	\$8,717	\$ (8,103)	(48)%
Our Lady Queen of Angels	2"	151	\$446	\$230	\$ (215)	(48)%
Big Canyon Country Club	8"	5,256	\$13,668	\$5,504	\$ (8,164)	(60)%
Big Canyon Country Club	6"	2,463	\$6,518	\$3,625	\$ (2,894)	(44)%
Eastbluff School	3"	321	\$928	\$464	\$ (464)	(50)%

Next Steps

Upon incorporation of the Finance Committee's comments and recommendations, staff will present and recommend the proposed recycled rate and structure to the City Council for final adoption. Staff will be required to issue Proposition 218 notices to the owners of parcels that are subject to the recycled rate pursuant to California Constitution Article XIII D, Section 6. There will be a 45-day public notice period, and all written protests will be received and tabulated.

Following a public hearing on the proposed recycled rate and structure, the City Council may thereafter proceed with rate establishment unless written protests against the proposed rate are presented by a majority of owners of the parcels subject to the rate.

Prepared and Submitted by:

/s/George Murdoch

George Murdoch
 Acting Municipal Operations Director

Attachment A: Revenue Requirement 5-Year Projection

	Budget		Projected			
	FY 2013-14	FY 2014-15	FY 2015-16	FY 2016-17	FY 2017-18	FY 2018-19
<u>Shared Recycled Water Costs</u>						
Purchased Water - OCWD	\$ 167,597.52	\$ 173,416.88	\$ 179,438.30	\$ 182,810.16	\$ 186,245.38	\$ 189,745.15
Other agency fees	\$ 2,000.00	\$ 2,034.60	\$ 2,069.80	\$ 2,105.61	\$ 2,142.03	\$ 2,179.09
Administration	\$ 25,000.00	\$ 25,432.50	\$ 25,872.48	\$ 26,320.08	\$ 26,775.41	\$ 27,238.63
Overhead	\$ 12,000.00	\$ 12,207.60	\$ 12,418.79	\$ 12,633.64	\$ 12,852.20	\$ 13,074.54
Meter Reading	\$ 1,488.00	\$ 1,513.74	\$ 1,539.93	\$ 1,566.57	\$ 1,593.67	\$ 1,621.24
Total - Shared Recycled Water Costs	\$ 208,085.52	\$ 214,605.32	\$ 221,339.30	\$ 225,436.05	\$ 229,608.70	\$ 233,858.66
<u>Big Canyon Country Club</u>						
Inspections	\$ 3,451.00	\$ 3,510.70	\$ 3,571.44	\$ 3,633.22	\$ 3,696.08	\$ 3,760.02
Scheduled Production Maintenance	\$ 1,877.00	\$ 1,909.47	\$ 1,942.51	\$ 1,976.11	\$ 2,010.30	\$ 2,045.08
Scheduled SCADA Maintenance	\$ 1,579.00	\$ 1,606.32	\$ 1,634.11	\$ 1,662.38	\$ 1,691.14	\$ 1,720.39
Corrective Maintenance	\$ 3,851.00	\$ 3,917.62	\$ 3,985.40	\$ 4,054.34	\$ 4,124.48	\$ 4,195.84
Source Changeovers	\$ 700.00	\$ 712.11	\$ 724.43	\$ 736.96	\$ 749.71	\$ 762.68
Pump Station Rehab/Maintenance	\$ 11,280.00	\$ 18,584.40	\$ 18,956.09	\$ 19,335.21	\$ 19,721.91	\$ 20,116.35
Total - Big Canyon Country Club	\$ 22,738.00	\$ 30,240.62	\$ 30,813.96	\$ 31,398.23	\$ 31,993.62	\$ 32,600.36
<u>Newport Beach Country Club</u>						
Inspections	\$ 3,451.00	\$ 3,510.70	\$ 3,571.44	\$ 3,633.22	\$ 3,696.08	\$ 3,760.02
Scheduled Production Maintenance	\$ 1,408.00	\$ 1,432.36	\$ 1,457.14	\$ 1,482.35	\$ 1,507.99	\$ 1,534.08
Scheduled SCADA Maintenance	\$ 1,184.00	\$ 1,204.48	\$ 1,225.32	\$ 1,246.52	\$ 1,268.08	\$ 1,290.02
Corrective Maintenance	\$ 2,987.00	\$ 3,038.68	\$ 3,091.24	\$ 3,144.72	\$ 3,199.13	\$ 3,254.47
Source Changeovers	\$ 700.00	\$ 712.11	\$ 724.43	\$ 736.96	\$ 749.71	\$ 762.68
Pump Station Rehab/Maintenance	\$ 6,940.00	\$ 7,078.80	\$ 7,220.38	\$ 7,364.78	\$ 7,512.08	\$ 7,662.32
Total - Newport Beach Country Club	\$ 16,670.00	\$ 16,977.13	\$ 17,289.95	\$ 17,608.56	\$ 17,933.07	\$ 18,263.59
Subtotal: Operating Expenses	\$ 247,493.52	\$ 261,823.07	\$ 269,443.21	\$ 274,442.83	\$ 279,535.39	\$ 284,722.61
			3%	2%	2%	2%
<u>Depreciation Expenses To/(From) Reserves</u>						
Pump Station Facility Replacement	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00	\$ 15,000.00
Meters replacement	\$ 2,500.00	\$ 2,543.25	\$ 2,587.25	\$ 2,632.01	\$ 2,677.54	\$ 2,723.86
Subtotal, Depreciation Expense	\$ 17,500.00	\$ 17,543.25	\$ 17,587.25	\$ 17,632.01	\$ 17,677.54	\$ 17,723.86
Net Revenue Requirement	\$ 264,993.52	\$ 279,366.32	\$ 287,030.46	\$ 292,074.84	\$ 297,212.93	\$ 302,446.47
			3%	2%	2%	2%