



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

Council Conference Room, 3300 Newport Blvd., Newport Beach
Monday, February 13, 2012 – 2:00 PM

Finance Committee Members:

Keith Curry, Council Member, Chair
Leslie Daigle, Council Member
Mike Henn, Council Member

Staff Members:

Dave Kiff, City Manager
Dana Smith, Assistant City Manager
Tracy McCraner, Finance Director
Dan Matusiewicz, Deputy Finance Director

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 minutes of the Finance Committee meeting of December 12, 2011.

5) CURRENT BUSINESS

- A. **Review Finance Committee Roles & Responsibilities:** The resolutions authorizing the purpose and responsibilities of the Finance Committee were last updated by Resolution No. 2007-21, as adopted April 10, 2007. This item will offer the committee an opportunity to review the authorizing documents and confirm the Chairperson for calendar year 2012.
- B. **Quarterly Financial Status Report as of 12/31/2011:** The Finance Director will review the financial status of the current fiscal year 2011-12 through quarter ending 12/31/2011. This item will also include the final audited financial data for FY 2010-11.

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.

- C. **State Mandate Reimbursement Claims**: The Revenue Manager will provide an overview of a consultant agreement with Maximus Consulting Services, Inc. to allow Maximus to file reimbursement claims, on behalf of the City, with the State of California for a variety of State Mandated Actions. This item will allow Finance Committee an opportunity to review the potential revenue from these state reimbursements and also review the consulting costs Maximus will charge in order to prepare and file these claims for the City.
- D. **2012 Finance Committee Calendar**: This item will review the 2012 Calendar of all Finance Committee issues in the new calendar year.

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
MINUTES**

The Finance Committee met at 2:00 p.m. on Monday, December 12, 2011, in the Council Conference Room, 3300 Newport Blvd., Newport Beach, California 92663.

I. ROLL CALL

Present: Council Member Keith Curry (Chair), Council Member Leslie Daigle and Mayor Mike Henn

Staff present: City Manager Dave Kiff, Assistant City Manager Dana Smith, Finance Director Tracy McCraner, Deputy Finance Director Dan Matusiewicz, and Administrative Coordinator Tammie Frederickson

Members of the Public: Jim Mosher,

II. APPROVAL OF MINUTES

The minutes for the Finance Committee meeting of November 7, 2011, were approved as submitted.

III. PUBLIC COMMENTS

Mr. Mosher thanked Council Member Daigle for coordinating the online posting of contracts approved within the last 30 days and he suggested it would be helpful to include Council approved contracts along with staff approved contracts. He added that in the interest of accountability, it would further be helpful to indicate the authority by which a contract was approved.

IV. DISCUSSION/ACTION ITEMS

A. PERS – Part II

Finance Director McCraner commented that at the December Finance Committee meeting questions were raised by the Committee during the review of the PERS 6/30/11 actuarial valuations. She noted this item addresses more specifics with regard to how previous City Council approved actions in the direction of pension reform impacted the PERS valuation.

She noted the City has always paid the PERS calculated Annually Required Contribution (ARC) and even then there is an unfunded liability of \$256 million on a market value basis which is about a 60% funded status for pensions. Ms.

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

McCraner confirmed that new GASB rules under consideration will require the unfunded liability to be valued at a lower discount rate in financial reporting. Council Member Curry clarified that the new rules affect the representation of the liability amount but it is not a change in terms of a financial liability to the City. He added that GASB has determined to use a different way than was previously used of calculating future returns for financial reporting.

The Committee discussed estimated pension costs based on the latest valuation. Ms. McCraner pointed out the chart in the staff report reflects the most conservative view with only six months of employee paid contribution in 2012 and no contribution in 2013 and 2014 for public safety members because the public safety 3.5% contribution of base pay is set to expire 12/31/2011. Further ideas were discussed for revisions to the chart for clarity and accuracy. Mayor Henn suggested using a run rate concept as of a given date with annualized information. Council Member Curry pointed out the purpose of this discussion is to show how much progress has been made in cutting pension costs. Mayor Henn and Council Member Curry said the information should be presented in an easy to understand manner with certainty that it accurately that it reflects the current situation.

Ms. McCraner stated the primary factors for why the costs and unfunded liability are going up are attributed to enhanced benefits without cost sharing and the market losses in 2008-09. She added the impact of the Early Retirement Incentive Program was significant cash savings of \$3 million to the City but also a correlated increase to the rates and liability as the result of 51 people retiring early.

It was noted that in January the miscellaneous employees, excluding miscellaneous employees in public safety, will be paying 8% cost sharing. City Manager Kiff explained the miscellaneous employees cost sharing and discussed where future negotiations may result in further cost sharing.

Mr. Mosher agreed that the information on the charts is hard to understand and confusing. He suggested revisions to the chart to show taxpayer burden.

Council Member Curry concluded the information is important and necessary to make informed negotiations policy decisions so it must be presented accurately.

B. "Top 3" Revenue Forecast through mid-December

Ms. McCraner shared information on the Top 3 revenue categories with a notation that the December apportionment and County estimates are not available yet. She said the trend analysis of property taxes looks that it will come in at budget. Deputy Finance Director Matusiewicz said the property tax role total increase was 1.13% assessed valuation.

Ms. McCraner said a review of sales taxes shows us trending slightly under budget but she added that our consultant however projects sales tax to come in about \$1 million over budget. She commented that restaurants are the top sales tax earner, beating out auto sales. In response to a question raised by Council Member Curry, Ms. McCraner said the year over year increase is budgeted to be 6%.

Hotel taxes (TOT) are trending high and exceeding pre-recession levels due to the opening of the Pelican Hill Resort. She noted that Pelican Hill is the top hotel operator. She projected TOT will come in about \$1 million over budget.

C. Administrative Procedure on Fraud/Ethics

Deputy Finance Director Matusiewicz said this policy was drafted in response to an audit comment that the organization should have a formal policy against fraud and unethical behavior. It is an effective internal control procedure to have and is proposed as an administrative policy.

Mayor Henn questioned what is the cost of having a fraud hotline administered by an outside, independent entity. Mr. Matusiewicz replied quotes came in for \$1,500 to \$3,000 annually but there would be additional cost of a City resource as the principal entity, such as Human Resources, to follow up on reported fraud. Mayor Henn suggested and Council Member Curry agreed it would be better handled by the legal department.

Council Member Daigle commented that employees in fear of retribution might be more inclined to report suspected fraud anonymously on an independent entity hotline versus going to their supervisor. Mayor Henn agreed and said there should be a materiality threshold. He added the policy should also cover theft of information.

After further discussion it was agreed to further work through a proposal with the City Attorney and return to the Finance Committee on a future agenda.

IV. MATTERS WHICH A COMMITTEE MEMBER MAY WISH TO PLACE ON A FUTURE AGENDA

Council Member requested an update on performance measurement and performance based budgeting, and a follow up on the IT plan.

V. ADJOURNMENT

The Finance Committee adjourned at 3:26 p.m.

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

Attest:

Tracy M. McCraner
Finance Director

Date

DRAFT

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

FINANCE COMMITTEE

AUTHORIZATION: Established by Resolution No. 94-110 adopted on December 12, 1994. Modified by Resolution No. 96-100 adopted on December 9, 1996. Disbanded by Resolution No. 98-32 adopted on May 11, 1998. Re-established by Resolution No. 2000-103 adopted on December 12, 2000. Duties and membership amended by Resolution No. 2007-21 adopted on April 10, 2007.

MEMBERSHIP: Three (3) Council Members, one of whom shall be appointed chairperson. Appointment shall be made by the Mayor and confirmed by the full City Council.

Staff support shall be provided primarily by the City Manager and the Finance Director and by other staff as necessary.

Meetings shall be called by the Chairperson or Mayor as needed.

TERM: Indefinite pending City Council action.

- PURPOSE & RESPONSIBILITIES:**
- A. Review and monitor events and issues which may affect the financial status of the City;
 - B. Make recommendations to the City Council regarding amendments to financial and budgetary policies and processes;
 - C. Review the activities of staff regarding the preparation of the City's budget and other fiscal matters consistent with City Council policy;
 - D. Recommend for Council approval, and manage an on-going process for measuring and setting goals designed to maximize the City's revenues consistent with existing taxation structures and inter-

governmental funding opportunities, fee generation consistent with market rate charges for city provided services and market rate fees for utilization of City owned assets. Recommend to Council major initiatives to accomplish identified goals;

- E. Recommend for Council approval, and manage an on-going process for measuring and setting goals designed to minimize the City's cost to provide core services and required activities, consistent with the desired service level for residents and other internal and external customers. Recommend to Council major initiatives to accomplish identified goals; and
- F. Identify, review and recommend to Council the most advantageous methods to fund the City's major capital needs and the City's long term compensation and benefit program liabilities. Review and recommend to Council policies related to the setting of funding goals for major discretionary reserves, and review on-going progress related thereto.

Financial Report

city of newport beach | finance department

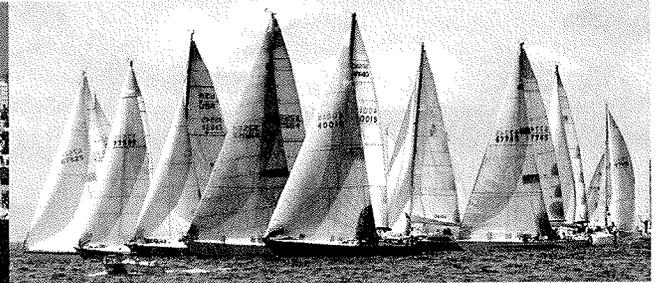
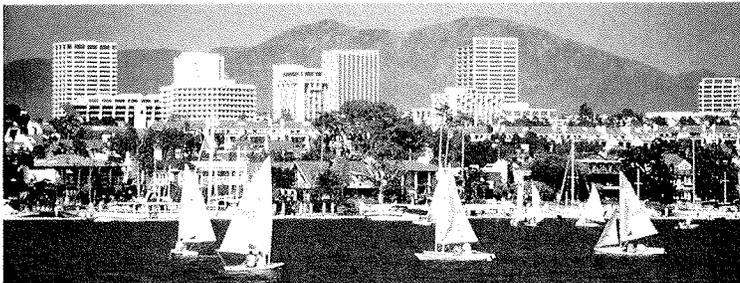
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FACTORS INFLUENCING THE ECONOMY TODAY

The Federal Reserve has noted "the economy has been expanding moderately notwithstanding some apparent slowing in global growth." "Strains in Global Financial markets continue to pose significant downside risks to the economic outlook."

Although the domestic economic recovery to date is not robust, there is some underlying momentum in the US economy. Healthier than expected labor growth has boosted equities markets as of late and is a good sign that economic momentum is carrying into the new year. However, many economists are mindful that previous job growth momentum early last year shriveled over the summer and are not yet ready to declare a full-on recovery.

Overall, economic data appears indicative of slow growth. Political turmoil abroad continues to influence domestic economics. A severe contraction in Europe or China could derail the relatively fragile US economy. All things considered, we continue to believe the US Economy will continue its moderate growth at a consistent yet relatively slow pace.



FY 2010-11

2010-11 FINAL AUDITED RESULTS

Preliminary unaudited financial results for Fiscal Year 2010-11 were summarized in the September 2011 Quarterly Business Report. Since then the City, received an unqualified opinion from its auditors, White Nelson Diehl Evans dated December 20, 2011. The final audited General Fund reserve balances presented below did not materially change since the last presentation.

General Fund Reserves			
	2010	2011	Change
Non-spendable	\$ 1,641,672	\$ 1,031,742	\$ (609,930)
Restricted	1,692,533	1,681,333	(11,200)
Committed			
Facilities Financing Plan *	27,500,000	31,300,000	3,800,000
Contingency Reserve	18,895,125	21,841,467	2,946,342
Recreation Reserves	443,522	452,448	8,926
Parking Reserves	235,506	238,876	3,370
Cable Franchise	1,356,143	1,360,385	4,242
Other Miscellaneous	3,399,369	3,726,726	327,357
Assigned			
Capital Reappropriations	3,993,497	2,516,600	(1,476,897)
PERS Rate Reserve	5,000,000	5,000,000	-
Change in FV of Investment	707,200	369,235	(337,965)
Neighborhood Revitalization	-	650,000	650,000
Tidelands Management	-	200,000	200,000
Marian Bergeson Pool Contribution	-	330,000	330,000
Airport Issues	-	100,000	100,000
MOD - Tree Replacement Program	-	75,000	75,000
Economic Development	-	75,000	75,000
Median Maintenance Program	-	50,000	50,000
Lower Newport Bay Dredging - Loan	-	2,500,000	2,500,000
Unassigned (Appropriations Reserve)	17,293,299	20,570,033	3,276,734
Pre FFP Transfer	82,157,866	94,068,845	11,910,979
FFP Transfer Out*	-	(31,300,000) *	(31,300,000)
Net General Fund Balance	\$ 82,157,866	\$ 62,768,845	\$ (19,389,021)

*In FY 11 \$31.3 Million was transferred to a separate Facilities Financing Plan Fund

FACILITIES FINANCING PLAN (FFP) RESERVE

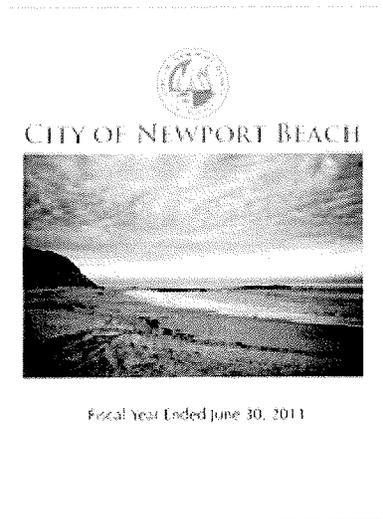
As reported in the previous QBR, the City established a long-term financing plan (FFP) for the replacement of all General Fund supported facilities including the Civic Center, fire stations, police stations, community centers and parks. The City has been reserving these funds in a Facilities Replacement reserve within the General Fund.

In conjunction with the financing of the Civic Center project and the completion with the OASIS Senior Center construction effort, the City transferred \$31.3 Million from the General Fund to the Facilities Financing Plan fund during FY 2010-11. This initial transfer along with future annual contributions from the General Fund and developers is intended to pre-fund debt service or cash fund construction projects consistent with the City's long-term facilities replacement plan. The FFP will provide a consistent, level funding plan to minimize negative impacts on the General Fund in any given year, while also ensuring the City is able to maintain its high quality facilities.

Facilities Replacement Plan Fund	
Beginning Balance 7/1/10	\$ -
Revenues	
Transfer In from General Fund	31,300,000
Interest Income	275,381
Total Revenues	<u>31,575,381</u>
Expenditures	
2010 Civic Center COPs Debt Service	(682,755)
OASIS Construction	(5,266,982)
Total Expenditures	<u>(5,949,737)</u>
Ending Balance 6/30/11	<u>25,625,644</u>

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The audited Comprehensive Annual Financial Report (CAFR) can be found at www.newportbeachca.gov/cafr.



FY 2011-12

2011-12 REVENUE UPDATE

As the second quarter comes to a close, we have sufficient revenue data to refine fiscal year 2011-12 revenue estimates and propose midyear revenue revisions. In total, General Fund Revenue estimates have been revised upward .98% or \$1.5 million to reflect the net proposed adjustments to General Fund revenues. The net adjustments reflect an expectation that actual revenues will increase \$2.8 million or 1.8% on a year over year comparative basis.

FY 2011-12 Revised Revenue Projections						
Revenue Source	FY 2010-11 Actuals	Original Budget	Amended Budget	12/31/11 YTD Revenues	Midyear Revised Est.	Midyear Revision
Property Taxes	\$ 71,630,345	\$ 72,155,615	\$ 72,155,614	\$ 34,676,903	\$ 72,612,217	\$ 456,603
Sales Tax	18,455,181	18,788,167	18,788,167	6,206,982	19,219,170	431,003
Property Tax - In Lieu of Sales Tax	6,284,266	6,300,000	6,300,000	-	6,500,000	200,000
Transient Occupancy Tax	13,082,451	12,786,000	12,786,000	7,370,908	14,000,000	1,214,000
Business Licenses	4,111,245	3,910,000	3,910,000	1,746,738	3,850,000	(60,000)
Franchises	3,730,819	3,936,000	3,936,000	909,818	3,498,000	(438,000)
Community Development	5,492,327	5,465,260	5,512,301	2,661,950	5,845,441	333,140
Other	27,948,689	25,621,741	27,744,089	14,493,574	27,120,034	(624,055)
Transfer-In	3,116,700	6,500,000	4,000,000	-	4,000,000	-
Total Revenues & Transfers	\$ 153,852,024	\$ 155,462,783	\$ 155,132,171	\$ 68,066,873	\$ 156,644,862	\$ 1,512,691

PROPERTY TAX

Overall the housing market remains under pressure but it seems to have stabilized following several years of sharp declines and some data surprisingly to the upside.

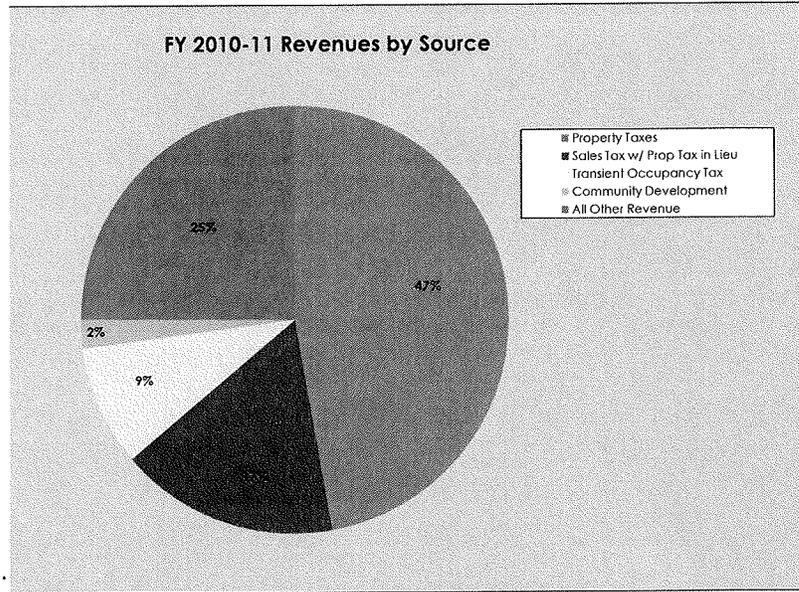
As previously reported, the Secured property tax levy grew by +1.27% reflecting a +.75% CPI adjustment, due to new construction in the Fashion Island area and net reassessments from property sales and or assessment appeals. Unsecured property taxes (e.g. business equipment and boats) decreased -4.31%. The net result is that the overall property tax levy, as of September 30, 2011, grew by 1.03% compared to fiscal year 2010-11.

In an analysis of actual property tax remittances through January compared to long-term historical collection trends, final property tax revenues may finish 1.37% higher than the prior fiscal year and .63% (\$456,603) over our original budgetary estimate. While there is some downside risk that the slight disparity between the levy and the collection trend may represent a simple payment trend anomaly, it is our current thought that the City will actually realize the additional property tax revenues and have therefore increased our midyear property tax estimate upward by \$456,203.

SALES TAX REVENUE

Sales tax remittances to date only represent economic activity through September. However, retail sales as is widely reported, continue to deliver solid returns despite consumer hesitancy concerning the strength of recovery in the labor markets and concerns abroad.

Overall, retail sales increased 6.5% through December 2011 on a year over year basis, down slightly from December 2010 which increased 7.6% over the depths of the recession. The current conjecture is that the jobless rate will need to demonstrate a sustained improvement before a more robust sales recovery can be expected.



Currently, we are estimating modest year over year sales tax growth of 4.1% which represents a \$431,000 increase over our previous budgetary estimate.

Restaurants and auto sales continue to rank as the highest sales tax generating segments. When comparing the third quarter of 2011 to 2010, restaurants sales improved 5.8% while auto sales decreased -5.2%. The business segments that showed the largest improvement over the same period included light industry at 27% and service stations at 24.4%.

TRANSIENT OCCUPANCY TAX (TOT)

In a year over year comparison, hotel and residential TOT revenues increased 11.6% during fiscal year 2010-11 significantly improving over the previous double dip declines experienced during 2009 and 2010. Based on the collection trend to date, we are expecting 2011-12 TOT revenues to increase 7% over 2010-11 representing a \$1.2 million increase to our mid-year revenue estimate. Once again, Pelican Hills is leading hoteliers in total TOT production and year over year growth.

FRANCHISE REVENUES

Franchise revenues have been underperforming relative to the prior fiscal year and budgetary estimates primarily due to lower than expected earnings in the solid waste and cable business segments. Both are estimated to be down due to the economy. MOD has confirmed that solid waste tonnage has been down all through the recession, but also added that home demolitions are trending up so there may be more positive news on the solid waste franchises toward the end of the fiscal year. As a result of these decreases, the midyear projection for franchise revenues has been lowered \$438,000.

COMMUNITY DEVELOPMENT & OTHER REVENUE

The midyear revenue estimate for Community Development revenues was increased \$333,140 primarily due to higher than expected revenues in building permits. While planning permit revenues have been stable, a previously expected developer impact fee has been deferred until fiscal 2012-13 due the revised timeline associated with the project. As a result, the midyear estimate in Other Revenues has been lowered by (\$624,055) to reflect the new project timeline.

DEPARTMENT EXPENDITURE PERFORMANCE

General Fund Expenditures by Department						
Department	FY 12 Original Budget	FY 2011-12			FY 2010-11	
		Amended Budget	YTD as of 12/31/2011	Percent Expended	YTD @ 12/31/2010 - Audited	Percent Expended
City Council	\$ 940,397	\$ 1,137,377	\$ 577,990	51%	\$ 537,467	51%
City Clerk	546,465	556,465	295,361	53%	190,166	38%
City Manager	1,921,739	1,944,724	925,542	48%	1,028,239	42%
Human Resources	2,393,167	2,397,667	1,025,295	43%	1,026,967	44%
City Attorney	2,292,941	2,302,827	921,528	40%	1,490,753	63%
Finance	5,284,343	6,928,312	3,261,894	47%	3,532,087	43%
Police	41,502,813	42,020,693	21,367,324	51%	20,330,668	47%
Fire	34,353,768	34,632,925	18,155,546	52%	17,118,734	50%
Planning	3,457,855	3,731,965	1,835,370	49%	1,634,126	50%
Building	5,482,077	5,217,539	2,516,143	48%	2,717,387	48%
General Services	22,212,918	22,436,522	10,452,515	47%	9,761,417	44%
Library	6,889,590	7,613,316	3,668,031	48%	3,226,522	46%
Recreation	8,418,226	8,492,156	4,409,218	52%	3,693,519	48%
Public Works	5,834,035	5,961,505	3,018,329	51%	2,627,913	45%
Electrical	774,984	796,456	499,858	63%	439,192	33%
C.I.P.	4,610,730	6,131,677	933,147	15%	585,939	10%
OPEB	2,314,000	2,314,000	1,157,000	50%	1,064,000	50%
FFP	4,016,812	4,016,812	4,016,812	100%	31,300,000	100%
Debt Service	780,000	780,000	-	0%	-	0%
Total	\$ 154,026,860	\$ 159,412,938	\$ 79,036,903	50%	\$ 102,305,095	55%

DEPARTMENTAL EXPENDITURE PROJECTIONS

The Operating Departments provided their FY 2011-12 expenditure projections to the City Manager and Finance departments in December, 2011. Mid-way through the fiscal year, the departments have estimated they will not only maintain budgetary control over their departments but are expecting to end the fiscal year with a combined \$1,000,000 in operational savings. This is evidence of the City's commitment to budgetary controls through strong monitoring and budget adherence by all departments. This is also in keeping with the structural reductions all departments made during the FY 2011-12 budget process. The City Manager requested and received \$8 million in structural budget cuts from the departments, and all departments continue to effectively manage their budgets in accordance to the City's Fiscal Sustainability Plan.

The Finance Department has reviewed the department projections, in addition to performing independent city-wide analysis of salaries & benefits and operation and maintenance costs. Not only do the department's projections align with the city-wide estimates, but if trend analysis and expenditure performance remain as expected we calculate that savings could be approximately \$1.5 million by fiscal year end 6/30/2012. This is almost entirely attributed to salaries and benefits savings and includes expected step increases and approved new hires and promotion expenditures.

Projection savings for maintenance and operations, both as submitted by departments and in analyzing trend data, is estimated at \$500,000. However, this is most likely going to be utilized for additional costs associated with the eucalyptus tree removal and higher than expected electrical costs. We will continue to monitor the contracts and supplies costs to report more detailed estimates in the next Quarterly Financial Status Report dated 3/31/2012.

PORT OF LONG BEACH DREDGING OPPORTUNITIES AND IMPACT ON THE GENERAL FUND

Recent opportunities to dispose dredging material from Newport Harbor to containment facilities within the Port of Long Beach represented a significant savings in dredging disposal costs to the City. While a great disposal opportunity, the amount of general fund monies, approximately \$7.5 million to date, needed for dredging project costs will increase the amount of the General Fund subsidy to the Tidelands fund in the near term. This advance of funds for dredging was approved by Council to be repaid if new Tidelands revenue sources are approved and come to fruition. In the meantime, we will book this advance of funds within the General Fund balance sheet along with any other "extraordinary" loans Council approves for repayment. This will track our on-going commitment to repay the general fund with new revenue sources approved within the Tidelands Fund.



FY 2012-13 Budget: Goals and Process

COUNCIL & COMMUNITY GOALS

Listening to the community and our Council, the Management Team led by our City Manager continues to prepare for the budget cycle by identifying the unique qualities and specific city services that will contribute toward becoming and staying the "Shining City by the Bay". Our core values as confirmed by Council are:

- A high quality physical environment
- Public safety and how city services and programs reinforce safety
- Civic engagement

City Council held their 2012 Planning Session on Monday, January 23, 2012. This meeting occurs at the beginning of each calendar year and is a forum for Council and the public to discuss priorities for the remainder of the current fiscal year (FY 2011-12) and those for the upcoming year (FY 2012-13). It is the first of many public meetings that will be held to discuss Council and community goals before Council adopts the next budget. The results of this and other public meeting are crucial to the development of the budget.

The Council will continue its priority of protecting the City's quality of life and fiscal health by reinforcing their commitment to the Council approved 15-point Fiscal Sustainability Plan. Many of the points addressed in the plan are imbedded in our core budget principles and are woven into our budget process as itemized in the box below.

In 2010, Council advanced the Fiscal Sustainability Plan. This is a 15-point plan to protect and enhance the City's economic and fiscal health so that the community continues to thrive. This plan continues to be a core principle to us into the future and a few of the 15 point items as they most apply to budget are in the chart to the right.

Fiscal Sustainability Plan
<ul style="list-style-type: none">● Maintain appropriate cash reserves.● Manage Facilities Financing Plan.● Review Revenue Performance.● Competitive contracting of services and equipment.● Appropriate cost-recovery targets.● Ensure fair compensation in partnership with our employees.

The City Manager outlined five categories for Council to consider during the Planning Session, and they are summarized below:

- Construction Projects
 - Current: Lower Bay Dredging; sidewalks, streets, curbs; Sunset Ridge; Marina Park; Civic Center & Parks and more.
 - Future: Tidelands CIP; West Newport Facilities; Neighborhood Revitalization for Balboa Village and Lido Marina Village.
- Agreements to be Completed
 - JWA Settlement Extension
 - Uses for Current City hall site
 - Oil facilities
 - Labor agreements
- General Issues (Further Direction Needed)
 - Budget
 - General Fund CIP
 - Reserve Levels
 - NBTV
- Good to Great – Performance Management
 - Shared Services/Outsourcing/Regionalization
 - City-wide IT Strategic Plan
- “Unpredictables”
 - Fire rings/ Smoking Ban/Chickens and more....

All five categories were well received after much Council discussion and community comment. Some of the additional areas for consideration discussed by both Council and the public are summarized below:

- Additional Review/Study for Neighborhood Revitalization Areas: Balboa Village; Lido Marina Village; Mariner's Mile
- Tidelands Fees to offset specific Tidelands CIP improvements
- Boating & Waterways Loans for Marina Park
- IT Strategic Plan being a priority
- Additional CIP on signal synchronization
- CDM parking study
- Banning Ranch
- 19th Street Bridge

The City is cautiously optimistic that we will continue to experience continued, yet moderate, revenue growth into FY 2012-13 due to the gradual economic recovery. However, in keeping with our Fiscal Sustainability Plan, additional budget areas beyond the five categories outlined above will need to be strategically added and prioritized in context of the final revenue estimates.

The next Quarterly Financial Report dated March 31, 2011 will provide our updated revenue and expenditure forecasts for the FY 2012-13 budget year. We continue to project that next year's revenues will increase over the FY 2011-12 projections we discussed earlier in the report, but we do not have the detailed analysis ready for discussion at this time.

BUDGET PROCESS FISCAL YEAR 2012-13

Building on the five categories identified by the City Manager, and approved by Council, we continue the development of the FY 2012-13 budget. We have identified all community and Council budget areas not yet funded and will continue to prioritize these needs with the Council and public input and approval at the five planned Council and Finance Committee meetings as outlined in the Budget Calendar below:

DATE	RESPONSIBILITY	ACTION
12/1/11	Finance Dept.	Distribute Revenue Worksheets via email.
12/14/11	Departments	Submit Revenue Estimates for 2011-2012.
1/19/12	Department Training	Budget computer training conducted by OMB staff. Important for all key budget participants to attend. Please contact Katherine Warnke-Carpenter x3122 if you have any questions.
1/20/12	Finance Dept.	Complete forecasts for FY 2011-2012 and FY 2012-2013 and meet with City Manager to discuss.
1/25/12	City Manager Finance Dept. Departments	Briefing of Dept. Directors on budget forecasts for FY 2011-2012 and FY 2012-2013. Distribution of Budget Instructions and budget control figures.
2/9/12	Department Training	Budget workshop-½ day session at the Central Library. Budget processors can work on their department's budget with OMB staff available to provide assistance or answer questions. Please contact Katherine Warnke-Carpenter x3122 if you are planning on attending this work session.
2/13/12	Council Finance Committee	Budget Update.
2/17/12	Departments	Submit budget worksheets to Finance Dept.
2/28/12	Departments	Submit list of CIP expenditure projections through 6/30/12 and list of project funds to be rebudgeted to FY 2012-2013 to Public Works.
3/19/12 to 3/23/12	City Manager	Budget conferences with Departments.
3/28/12	Finance Dept.	Meet with City Manager to discuss departmental budgets.
3/30/12	Departments	Submit final Performance Plan pages to Finance Department for assembly and publication.

DATE	RESPONSIBILITY	ACTION
3/30/12	City Manager	Last day to make changes to Proposed Budget documents.
3/30/12 to 4/26/12	Finance Dept. Public Works	Prepare and print Proposed Budget documents.
4/26/12	City Manager	Submit Proposed Budget to City Council.
5/4/12	Departments	Submit final list of CIP projects to be included on Budget Checklist (additions, deletions and rebudgets) to Public Works.
5/8/12	City Council	First budget review with staff at the Study Session.
5/14/12	Council Finance Committee	Review of Proposed Budget.
5/22/12	City Council	Second budget review with staff at the Study Session. Set date for public hearing on budget and GANN Limit.
6/12/12	City Council	Third budget review with staff at the Study Session. Public Hearing and Adoption of FY 2012-13 Budget and GANN Limit.
7/1/12		Beginning of FY 2011-12. (Finance will open new year on Monday, July 2, 2012.)
8/30/12	Finance Dept.	Target distribution of final budget documents.

SUMMARY

In closing, we are committed to Fiscal Sustainability and living within our means. We will continue to tackle the difficult issues of pension costs, funding our CIP program for streets, lights and signals and neighborhood revitalization, funding our new facilities and maintaining them, and investing on our IT Strategic Plan so technology can be used to continue to be that "Shining City by the Bay". The Finance Department will be providing this financial status update at the next Finance Committee meeting schedule for Monday February 13, 2011.

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

February 13, 2012

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Tracy McCraner, Director
949-644-3123, tmccraner@newportbeachca.gov

PREPARED BY: Evelyn Tseng, Revenue Manager

APPROVED: _____

TITLE: Agreement with Maximus Consulting Services, Inc. to File State
Mandate Reimbursement Claims

ABSTRACT:

The City may be entitled to reimbursements from the State of California, for costs associated with unfunded state-mandated costs during the periods of July 1, 2009 through June 30, 2010, and for July 1, 2010 through June 30, 2011. The Finance Department would like to ensure that these claims are filed appropriately and timely. Maximus Consulting Services, Inc. ("Maximus") is able to file the reimbursement claims on behalf of the City, and has agreed to compensation based on actual reimbursement from the State. The City should net approximately \$253,000 if the State pays both claims. Finance would also have Maximus file the Mandatory Reimbursement Process claims for 2012 and net the City \$206,000.

RECOMMENDATION:

Staff recommends

- 1) City Council authorize the Mayor and City Clerk to execute a Professional Services Agreement with Maximus in substantially the same form as attached (Exhibit "A") authorizing Maximus to file the State Mandate reimbursement claims for July 1, 2009 through June 30, 2010, and for July 1, 2010 through June 30, 2011, and to also file a claim for 2012 related to the City's Mandatory Reimbursement Process claim;
- 2) That Council waive Council Policy F-14 and authorize the City to engage Maximus for these services on a Single Source basis without obtaining competitive proposals.

FUNDING REQUIREMENTS:

There is no expenditure of funds required with this action.

DISCUSSION:

Each year, the State reimburses local agencies for the costs of mandated State programs. A local agency receives reimbursement if:

1. The Commission on State Mandates determines, through a review process of “test claims” submitted by local governments, that a mandate exists; and
2. The local government submits claims for reimbursement each fiscal year.

Since 1998, Maximus has prepared test claims on the City’s behalf and pursued resolution of these claims with the State Commission on State Mandates. Maximus prepared and submitted documents for the following test claims: Administrative License Suspension, Domestic Violence Arrest Policies and Standards, Domestic Violence Arrests and Victim Assistance, Health Benefits for Survivors of Peace Officers and Firefighters, Open Meetings Act, Peace Officers Procedural Bill of Rights, Rape Victim Counseling Center Notices, Crime Statistic Reporting for the DOJ and Identity Theft.

The total amount charged by Maximus for this work is \$316,955 (invoice detail attached as Exhibit “B”). Pursuant to its 1998 agreement (attached as Exhibit “C”), Maximus’ compensation was conditioned upon a determination of a reimbursable mandate for any portion of the costs that parties mutually agreed to pursue. To date, Maximus has not been compensated; however, the Commission on State Mandates has issued Statements of Decision, approving reimbursement for each of the test claims listed above.

Maximus is willing to prepare and file claims for reimbursement for these mandates for 2009 – 2010, and for 2010-2011. Provided the City receives funds from these claims, the City will pay Maximus for 75% of the test claim preparation work between 1998 and 2010, or \$237,716. Maximus estimates that the City will receive approximately \$491,000 from these claims, netting the City \$253,000.

In addition, Maximus will also file the Mandatory Reimbursement Process claims for 2012. If the State pays for these claims, the City may receive approximately \$285,000. If the City receives these funds, City will pay Maximus the remaining 25% of its invoice, or \$79,000 from these funds, so the City will net \$206,000.

In accordance with the Administrative Procedures related to Council Policy F-14, Authority to Contract for Services, single source contract award without obtaining competitive proposals is permitted when the procurement process is either impossible or impractical. Due to the short timeframe before claim submittals are due and Maximus’ extensive work history and familiarity with the City’s reimbursement claim

process, staff requests that Council authorize a single source contract award with Maximus.

The chart below summarizes the potential revenue to the City and contingent payment to Maximus.

Mandate Full Name	FY 2009-10 Estimated Claim Amount	FY 2010-11 Estimated Claim Amount	Potential Reimbursement from State	Payment to Maximus Contingent on receipt of Funds	MRP I Test Claims	Payment to Maximus Contingent on receipt of Funds	Potential Revenue to City
Administrative License Suspension	\$11,700	\$13,500	\$25,200				\$25,200
Domestic Violence Arrest Policies and Standards	\$7,200	\$8,250	\$15,450				\$15,450
Domestic Violence Arrests and Victim Assistance	\$2,700	\$3,000	\$5,700				\$5,700
Health Benefits for Survivors of Peace Officers & Firefighte	\$22,500	\$25,500	\$48,000				\$48,000
Open Meetings Act	\$40,500	\$45,000	\$85,500				\$85,500
Peace Officers Procedural Bill of Rights	\$4,500	\$5,000	\$9,500				\$9,500
Rape Victim Counseling Center Notices	\$900	\$1,000	\$1,900				\$1,900
Crime Statistic Reporting for the DOJ	\$225,000	\$25,000	\$250,000	(\$237,716)			\$12,284
Identity Theft	\$45,000	\$5,000	\$50,000				\$50,000
MRP I Test Claims			\$0		\$285,260	(\$79,239)	\$206,021
Total *	\$360,000	\$131,250	\$491,250	(\$237,716)	\$285,260	(\$79,239)	\$459,555

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (“CEQA”) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

Submitted by:

Tracy McCraner
Finance Director/Treasurer

Attachments: See February 14, 2012 City Council Staff Report for attachments