CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA

Council Conference Room, 3300 Newport Blvd., Newport Beach
Monday, May 7, 2012 – 2:00 PM

Finance Committee Members:	***Staff Members:***
Keith Curry, Mayor Pro Tem, Chair	Dave Kiff, City Manager
Leslie Daigle, Council Member	Dana Smith, Assistant City Manager
Mike Henn, Council Member	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 February 13, 2012.

5) CURRENT BUSINESS

A. **Assessment District Refunding:** The Finance Deputy Director will discuss an opportunity the City has to refinance twelve existing 1915 Act Assessment District bond issuances. The current outstanding principal for all twelve Districts is $10.8 million and the preliminary estimates for net present value savings is $467,000, or 4.32%.

B. **Quarterly Financial Status Report as of 03/31/2012**: The Finance Director will review the financial status of the current fiscal year 2011-12 through quarter ending 3/31/2012. This item will also include the proposed General Fund budget estimates for FY 2012-13.

C. **Proposed FY 2012-13 Budget**: The Finance Director will provide an overview of the FY 2012-13 Proposed Budget. This will be a preview to the study session presentation scheduled for the Council Meeting on Tuesday, May 8, 2012.

D. **CPS Contract Amendment**: The Finance team is recommending an amendment to the CPS parking meter contract. This amendment would 1) change the payment methodology for CPS to be an annual $700,000 instead of the complicated structure approved in the Original Agreement, and 2) allow the City to pay off the capital leases for parking meter infrastructure and equipment, saving the City approximately $240,000 over the five-year term of the leases.

E. **Update: GASB Proposed Change to Pension Reporting & Disclosure:** The Finance Director attended the California Debt and Investment Advisory Commission (CDIAC) seminar on Municipal Market Disclosure: Applications to Pension Obligations on Thursday May 3, 2012. One discussion was an update from David Sundstrom (GASB Board Member) and Alan Milligan (CALPERS Chief Actuary) regarding the proposed amendment to GASB Statement No. 25 on Pension reporting and disclosure requirements, this update will be provided to the Finance Committee.

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

1. CALL TO ORDER

The February 13, 2012, Finance Committee meeting was called to order at 2:12 p.m. in the Council Conference Room, 3300 Newport Blvd., Newport Beach, California 92663.

2. ROLL CALL

Present: Mayor Pro Tem Keith Curry (Chair) and Mayor Mike Henn

Absent: Council Member Leslie Daigle (excused)

Staff present: City Manager Dave Kiff, Assistant City Manager Dana Smith, Finance Director Tracy McCraner, Assistant City Attorney Leonie Mulvihill, Revenue Manager Evelyn Tseng and Administrative Coordinator Tammie Frederickson

Members of the Public: Jim Mosher, Dan Purcell

3. PUBLIC COMMENTS

Mr. Mosher commented on the City's contracting policy which he believes violates constitutional restraints, one of those being California constitution article 11 section 10 which implies contracts in California for expending public funds should have a finite scope and dollar amount set. Other restraints are found in the City Charter that limits entering into a contract where any public official or employee holds a financial interest in the contract and limits the number of people who have authority to review and approve contracts on behalf of the public.

4. APPROVAL OF MINUTES

The minutes for the Finance Committee meeting of December 12, 2011, were approved as submitted.

5. CURRENT BUSINESS

A. Review Finance Committee Roles & Responsibilities

Finance Director McCraner provided copies for review of Resolution 2007-21 which authorizes the duties and membership of the Committee.

Recommendations were made to add specific responsibilities of the Committee shall include review of the structure and documentation of any proposed debt financings and a requirement to conduct pre and post audit conference meetings with the auditors.

B. <u>Quarterly Financial Status Report as of 12/31/2011</u>

Ms. McCraner reviewed the mid-year financial status report as of December 31, 2011. She commented the final audited balances for Fiscal Year (FY) 2010-11 ended the year within the unaudited amount previously reported. Top 3 revenues have increased in the quarter and she provided details on all revenue sources within the General Fund which combined with the Top 3 are overall coming in about 1% over the General Fund budget.

Ms. McCraner went on to discuss expenditures and midyear projections that show about $1 million in budgetary savings by departments.

Mayor Pro Tem Curry noted reserves are at an all-time high within the year and increased by a net of $6 million.

Mr. Mosher raised a question about how low General Fund balances get during the year and the duration of the contracts for the associations that are in negotiations; he suggested looking into including a table such as used by the City of Costa Mesa that he finds useful for the breakdown of sales tax categories; and he asked when the Library Board of Trustees' deadline is for review and comment on the budget as required in their Charter.

In response to a question raised by Council Member Henn, Ms. McCraner noted revenue projections show a slow, modest growth for FY 2012-13 over the current fiscal year. Council Member Henn cautioned that the maturation process of Pelican Hill Resort will result in TOT leveling out. He asked about the expense savings goals and City Manager Kiff noted the reductions will be strategic including possible shared services options or potential savings through contracts.

Council Member Henn reminded staff of Council Member Daigle's request to provide a list of Capital Improvement Projects (CIP) organized by district.

C. <u>State Mandate Reimbursement Claims</u>

Prior to recommending approval to the full City Council, the Committee reviewed a proposed contract with Maximus Consulting Group for filing of claims on behalf of the City to reimburse state-mandated costs. Fiscal years 2009-10 and 2010-11 claims are estimated at around $500,000 and the City would net approximately $253,000 after payment to Maximus. The claims must be filed by February 15, 2012. Filing will also be made for our mandatory reimbursement process on behalf of the City and could net $206,000, if the State pays. The contract outlines payment to Maximus is contingent on the City receiving the actual revenue from the State.

Assistant City Attorney Mulvihill explained part of the reason for having unclaimed claims is because there was a lengthy test claim on the mandate process that took 4-5 years to resolve. Following the conclusion of the test claim process, a review of the amount of the claims and Maximus' costs was conducted to make a comparison of the amount that can potentially be expected for reimbursement if the State pays.

Mr. Purcell questioned the reason why there is the need for expediency. Ms McCraner explained staff has been working with Maximus for several months on their payment request and it has taken time to verify invoices and get cost confirmation.

Mr. Mosher commented he is bothered by the amount of money to be paid to Maximus.

The Committee concurred with staff's recommendation to bring the contract to the City Council for approval on February 14, 2012.

D. <u>2012 Finance Committee Calendar</u>

Ms. McCraner thanked the Committee for agreeing to go to holding quarterly meetings and she spoke about the proposed calendar that was outlined for coordination with distribution of the quarterly finance report. She pointed out an extra meeting is scheduled for June for budget discussions. Ms. McCraner said at the Committee's request meetings can be added for any urgent issues that arise during the year.

Mr. Mosher stated he is disappointed to see a reduction in the number of meetings. He added he would like more details provided during the budget review process.

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

No future agenda items were discussed.

7. ADJOURNMENT

The Finance Committee adjourned at 2:50 p.m.

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

Attest:

Tracy M. McCraner
Finance Director

Date

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

May 7, 2012

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Tracy McCraner, Finance Director
(949) 644-3123 or TMcCraner@NewportBeachCA.gov

Dan Matusiewicz, Deputy Finance Director
(949) 644-3126 or DanM@NewportBeachCA.gov

SUBJECT: REFINANCING OF TWELVE ASSESSMENT DISTRICTS

ABSTRACT:

Due to favorable market conditions, the City has an opportunity to refinance twelve existing Assessment Districts into one Reassessment District. The refunding is expected to create financial savings for remaining assessed property owners as well as reduce ongoing City administration and property owner administrative fees. With the concurrence of the Finance Committee the Financing Team will solicit bids for bank placement on May 9, 2012, and propose the final refinancing analysis be presented for City Council consideration at the June 26, 2012, meeting.

OVERVIEW:

Fieldman, Rolapp & Associates, financial advisors to the City, have prepared a preliminary analysis of the refunding for City Assessment Districts No. 68, 69, 70, 74, 75, 78, 79, 82, 86, 92, 99-2, and 101. These twelve districts include 1,561 properties. Although we have recapped some of the savings highlights here, their Memorandum, dated April 30, 2012, provides information about the structure and technical details.

INTEREST SAVINGS

Refunding the current bonds is expected to create savings to property owners due to the favorable interest rate environment. The current outstanding principal for all twelve Districts is $10.8 million. These bonds carry interest rates ranging up to 5.75%, and it is estimated the bonds can be refinanced at approximately 2.90%. At this rate, the average annual cash savings range from $91 to $704 per parcel. This amounts to a net present value (PV) savings of $466,915 or PV savings of 4.32%.

ADMINISTRATIVE SAVINGS

By consolidating the total number of active assessment districts from fourteen down to three, property owners also benefit from reduced administrative costs associated with district administration, annual disclosure reports, arbitrage calculations, levy preparation, delinquency management, etc.

FINANCE COMMITTEE CONCURRENCE

With the Finance Committee's concurrence, the Financing Team will move forward with solicitation of bids for City Council consideration on June 26, 2012.

Prepared by:

/s/Dan Matusiewicz
Dan Matusiewicz
Deputy Finance Director

Attachment: April 30, 2012 Memorandum from Fieldman, Rolapp & Associates

MEMORANDUM

To: Tracy McCraner, Director of Finance
Dan Matusiewicz, Deputy Finance Director
City of Newport Beach

From: Thomas DeMars, Robert Porr, and Paul Pender
Fieldman, Rolapp & Associates (Financial Advisor to the City)

Re: Potential Bond Refinancing Savings for Property Owners in City Assessment Districts No. 68, 69, 70, 74, 75, 78, 79, 82, 86, 92, 99-2, 101 (12 of 14 City Districts)

Date: April 30, 2012

Summary

The City has the opportunity to refinance most of the outstanding 1915 Act assessment bonds issued through the City's Assessment Districts. The City currently administers the bonds for 14 such Districts, of which 12 could be refinanced. This will result in annual savings to the Districts' property owners on their property tax bills. These 12 Districts include 1,561 properties with $10.82 million of bonds outstanding. The estimated savings range from $90-$700 per parcel per year (averaging $177), based on current market conditions. Additional savings to property owners will be realized from reduced administrative costs. City staff time required to administer the Districts will be reduced as a result of consolidating 12 Districts into a new Reassessment District as part of the refinancing process.

Refinancing Overview

The refinancing has been analyzed and structured so that it meets the legal requirements under State law. Assessment District bonds may be refinanced if authorized by City Council, provided the following three tests are met: 1) there must be savings in each year for each property owner, 2) the assessment lien cannot be increased on any property and 3) the final maturity of the bonds cannot be extended. These tests will be ensured by the Reassessment Report, which will be submitted to Council for approval with the other refinancing legal documents.

The Reassessment Report will reallocate the existing lien among the properties participating in the refinancing. The properties will be "reassessed" and consolidated into one new District, which under State law is termed a "Reassessment District." The consolidation of 12 current Districts will reduce administrative costs and City staff time.

Savings Potential

The 12 Districts include 1,561 properties with $10.8 million of bonds outstanding, bearing interest rates ranging up to 5.75%; in the current market it is estimated the bonds can be refinanced at approximately 2.90%.

The refinancing will be structured to maximize savings to property owners on their upcoming assessment installments. The attached table shows the savings broken down by several different metrics (see attached). Taken as a whole, the average per parcel savings per year is $177, which is an average 18% reduction on existing District assessments. Estimated total gross debt service savings over the life of the refinancing totals $2.1 million, averaging $276,000 per year. On an annual basis, the savings per parcel range from $91-$700. On a net present value basis, total savings are $466,000 with total per parcel NPV savings ranging from $31-$2,174. Differences in savings level per parcel depend on three factors: the interest rates on the District's outstanding bonds, the number of years of bond repayment remaining, and the existing level of lien per parcel. There are large variations between the Districts. For instance, ADs 68 and 69 bonds currently bear interest at 3-4%, compared to 4.3-5.7% in ADs 92 and 99-2. Districts 74 and 78 have average liens per parcel under $3,000, compared to $11,000 - $32,000 for Districts 92, 99-2, and 101. These factors result in higher savings per parcel potential for Districts with higher liens and interest rates. A longer remaining bond repayment in a given District, which ranges from 3-12 years, also increases the savings potential.

Assessment Districts No. 100 and 103 bonds were also analyzed, but did not achieve any savings. Given the wide range of savings per parcel for each District, there is no recommended minimum savings per parcel. Other than Districts 92, 99-2, and 101, which have the highest savings levels, the Districts have just 3-7 years of bond repayment remaining, making a more advantageous refinancing in the future unlikely. Districts 68 and 69 provide the lowest level of economic savings at $31-34 per parcel or just 0.6% of the outstanding bonds. However, additional administrative cost savings to property owners in these Districts and City staff time savings are anticipated to be gained from consolidating 68 and 69 into the new Reassessment District.

Timing and Structure

All Districts' bonds are callable on September 2. It is contemplated a proposed Reassessment District and refinancing would be considered for City Council consideration on June 26.

Both a traditional public offering of bonds and a competitive bank placement structure were analyzed for the refinancing. Based on the current market, the bank placement is anticipated to be the more advantageous option, with an overall interest rate of 2.90% versus 3.25% for the public offering. The public offering additionally would have issuance costs roughly $50,000 higher, including legal costs for a bond offering document. The public offering would additionally not result in any savings for ADs 68 or 69, and would make several other Districts' savings levels marginal.

Banks will be solicited to provide bids to purchase the new refunding bonds. It is anticipated that the winning bidder will provide a commitment to "lock" their bid rate of interest bid for a period of 30-45 days. This is another advantage to the bank placement, in that market risk will be reduced for this period. It will further provide time to ensure each District meets the three tests required by State Law based upon the rate of interest bid. The savings levels are anticipated to be known at the time of Council consideration.

Request Bank Bids – May 9
Draft legal documents – May 11
Receive Bank Bids – May 28
City Council consideration – June 26
Close Refinancing – July 2 (funds held in escrow until 9/2 call date)
FY12-13 Assessments Determined – August 10 (based on refinancing)

Other Notes

After the potential refinancing the City will only administer three outstanding Districts, a reduction from the current number of 14.

All refinancing costs will be divided among the Districts being refinanced on a proportionate basis and are factored into the savings numbers contained herein. Total issuance costs for the competitive bank placement

CITY OF NEWPORT BEACH
Assessment District Refunding Analysis

Competitive Bank Placement Scenario
Based on 2.90%* Refunding Rate plus $162,000 in issuance costs

	City Assessment District No.	Number of Parcels	Bonds Outstanding ('000)	Years to Maturity	Gross Bond Debt Service Savings	Average Annual Cash Savings	Average Annual Cash Savings Per Parcel[3]	Current Annual Levy (approx)	Annual Cash Flow Savings (% of levy)[1]	Net Present Value Savings[2]	NPV Savings % of Bonds	NPV Savings Per Parcel
1	68	317	1,730	7	**$223,057**	$31,865	$101	$255,000	12%	**$9,701**	0.6%	$31
2	69	364	2,170	7	**$316,947**	$45,278	$124	$319,000	14%	**$12,274**	0.6%	$34
3	70	149	665	6	**$85,329**	$14,222	$95	$115,000	12%	**$31,541**	4.7%	$212
4	74	39	85	4	**$18,949**	$4,737	$121	$19,000	25%	**$3,006**	3.5%	$77
5	75	73	470	7	**$67,721**	$9,674	$133	$73,000	13%	**$27,035**	5.8%	$370
6	78	142	195	3	**$99,321**	$33,107	$233	$55,500	60%	**$5,403**	2.8%	$38
7	79	73	390	4	**$87,550**	$21,888	$300	$91,000	24%	**$16,185**	4.2%	$222
8	82	23	75	4	**$29,847**	$7,462	$324	$16,000	47%	**$2,310**	3.1%	$100
9	86	57	120	6	**$31,229**	$5,205	$91	$21,000	25%	**$7,517**	6.3%	$132
10	92	38	1,230	11	**$294,428**	$26,766	$704	$140,500	19%	**$82,599**	6.7%	$2,174
11	99-2	107	1,675	12	**$453,152**	$37,763	$353	$182,700	21%	**$141,265**	8.4%	$1,320
12	101	179	2,015	11	**$424,479**	$38,589	$216	$229,450	17%	**$128,079**	6.4%	$716
	TOTALS	**1,561**	**$10,820**		**$2,132,009**	**$276,556**	**$177**	**$1,517,150**	**18%**	**$466,915**	**4.32%**	**$299**

Notes:

1. Each parcel will see a reduction in their annual assessment, starting for the FY12-13 tax levy.
2. Accounts for use of funds on hand, including reserve funds, assessment installments on hand, project fund surplus, etc.
3. Assumes refunding includes a bond reserve fund of 7% of principal amount. Actual amount expected at 5%.

Districts which are not currently feasible to refinance: ADs No. 100, 103
***based on sample bank quotes obtained on 4/6/2012. (2.50% and 3.30%, for 2018 and 2024 final maturities, respectively).**

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

May 7, 2012

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: QUARTERLY FINANCIAL REPORT – UPDATE 3/31/2012

ABSTRACT:

Finance has completed the quarterly financial status report dated 3/31/2012, as will also reported in the City Manager's Quarterly Business Report (QBR). We will update the committee on projected FY 2011-12 year end balances for revenues and expenditures within the General Fund as well as provide an overview of the FY 2012-13 General Fund proposed budget.

BACKGROUND:

In total, General Fund Revenue estimates are only slightly less optimistic than our midyear estimate reflecting an overall decrease $100,260, now estimated at $1.4 million over the original revenue budget. While there is continued optimism and prospect of additional growth in Sales taxes and Transient Occupancy Tax revenues, a few concerns regarding property tax collections materialized over the last quarter.

FY 2011-12 Revised Revenue Projections

Revenue Source	FY 2010-11 Actuals	Original Budget	Mid Year Revised Est.	3rd QTR Revised Est.	Change from Mid Yr Est.
Property Taxes	$ 71,630,345	$ 72,155,615	$ 72,612,217	$ 71,629,617	$ (982,600)
Sales Tax	18,455,181	18,788,167	19,219,170	19,760,000	540,830
Property Tax - In Lieu of Sales Tax	6,284,266	6,300,000	6,500,000	6,500,000	-
Transient Occupancy Tax	13,082,451	12,786,000	14,000,000	14,181,510	181,510
Business Licenses	4,111,245	3,910,000	3,850,000	3,850,000	-
Franchises	3,730,819	3,936,000	3,498,000	3,498,000	-
Community Development	5,492,327	5,465,260	5,845,441	5,845,441	-
Other	27,948,689	25,621,741	27,120,034	27,280,034	160,000
Transfer-In	3,116,700	6,500,000	4,000,000	4,000,000	-
Total Revenues & Transfers	**$ 153,852,024**	**$ 155,462,783**	**$ 156,644,862**	**$ 156,544,602**	**$ (100,260)**

The immediate indicators that gave rise to our sharp and immediate revision to the third quarter property tax estimate are two-fold. 1) Redemptions, penalties and interest distributions have declined abruptly, projected at $500,000 below budget in the second half of FY 2011-12, a further indicator that taxpayers have returned to a more timely payment schedule. A note from Treasurer Tax Collector Shari Freidenrich confirmed “the County Treasurer is on track to have the highest collection rate on secured property taxes in the past six years.” 2) Also significant, an upgrade to the Assessor’s Office electronic reporting system has caused delays in the production of the Supplemental tax update. From a discussion with the Auditor Controllers Office, we understand the County Assessor has only been able to produce one of four usual supplemental assessment updates. According to a direct conversation with Mr. Guillory, on May 3, 2012, the Assessor’s Office will provide one additional supplemental assessment to the Tax Collector before June. This delay, however, may result in very little additional Supplemental tax collections for the remainder of fiscal year 2011-12. More likely, the delayed supplemental billing will represent an increase to FY 2012-13 supplemental collections rather than any further revenue recognition in FY 2011-12. This estimated shortfall for FY 1012-13 also $500,000. The two estimates together have decreased our revenue estimates by $1 million since December 31, 2011.

NOTE: This information was confirmed after the production of the 2012-13 proposed budget documents and will be presented as an amendment to the 2012-13 budget.

For the FY 11-12 budget, 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.

Currently, it is expected that Departments will achieve an additional $3 million of operational savings. These savings are almost entirely as a result of personnel vacancies and are expected to produce a one-time windfall in FY 11-12. Departments are actively recruiting for these vacancies so the magnitude of these savings is not expected to reoccur in FY 2012-13.

CONCLUSION:

In summary, the General Fund FY 2011-12 is expected to close with a $4.5 million surplus between excess revenue and expenditure savings. This money will be available for the City Manager to assign toward FY 2012-13 Council priorities. Finance also has an overview of FY 2012-13 for the General Fund.

Prepared by:

/s/Tracy McCraner

Tracy McCraner
Finance Director

Quarterly
Financial Report

city of newport beach | finance department

newportbeachca.gov | 949.644.3127

FACTORS INFLUENCING THE ECONOMY

Even though political and economic turmoil in Europe continues to create volatility in global financial markets, European leaders have made progress in addressing the region's debt crisis. While both Europe and China showed signs of cooling economic activity amid weaker manufacturing data, we continue to believe that the United States economy is continuing to improve at a relatively modest but consistent pace. However, in an increasingly global market place, politics and economic activity abroad continue to influence domestic economics. A severe contraction in Europe or China could still derail the progress of the United States economic recovery.

In a recent Economic and State Budget Update presentation in Sacramento, Michael Coleman, fiscal policy advisor to the League of California Cities stated the "U.S. Economy is recovering… gradually… and with trepidation." Several months of positive but modest domestic economic news support this view.

The soft recovery has contributed to a gradual but steadily improving unemployment rate. In March, the unemployment rate fell to 8.1% from 8.3% percent in February. Albeit slow and gradual, the jobs market is finally showing a sustained decline to its lowest level of the recovery. However, some economists warn that the jobs market may take another three years to reach normal unemployment levels around 6%. Consumer confidence continues to show strength despite volatility in gas prices.

While the recovery in the United States generally remains somewhat lackluster by historical standards, year three of the 1991 and 2001 recessions proved to be a pivotal year when economic activity yielded explosive economic growth. Wells Fargo economists are predicting that 2012 will be the "Gear Year," the year the reovery finally gains traction. It won't be about explosive growth like the previous recessions but it will be the year that national attitudes surrounding economic recovery finally agree the recovery is fully functional and sustainable.

Fiscal Year 2011-12

REVENUE UPDATE

In total, General Fund Revenue estimates are only slightly less optimistic than our midyear estimate reflecting an overall decrease of $100,260. While there is continued optimism and prospect of additional growth in Sales taxes and Transient Occupancy Tax revenues, a few concerns regarding property tax collections materialized over the last quarter and are discussed below.

FISCAL YEAR 2011-12 REVISED REVENUE PROJECTIONS

Revenue Source	FY 2010-11 Actuals	Original Budget	Mid Year Revised Est.	3rd QTR Revised Est.	Change from Mid Yr Est.
Property Taxes	$ 71,630,345	$ 72,155,615	$ 72,612,217	$ 71,629,617	$ (982,600)
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Total Revenues & Transfers	**$ 153,852,024**	**$ 155,462,783**	**$ 156,644,862**	**$ 156,544,602**	**$ (100,260)**

PROPERTY TAX

Overall, the housing market continues to remain under pressure. Supporting this view, County Assessor Webster Guillory, stated "the real estate market took a significant downturn at the end of this year" at his annual Orange County Property Tax Valuation update. While the secured property tax levy in Newport Beach increased 1.27% over the prior fiscal year, the Newport Beach median single family residence sales price decreased 6.08% in 2011 to $1,197,500 and decreased another 5.43% to $1,132,500 thus far in 2012. The 2012 median is 30.30% off the 2007 high of $1,625,000 and 11.49% below 2004 levels. This is a long-term indicator that the secured property tax levy will remain at historically suppressed levels for some time to come.

In the last quarterly financial report, we noted that secured property tax collections had trended upward significantly which was the primary impetus for increasing the overall property tax projection upward by $456,000. We also noted that there was some downside risk that the higher than expected distributions represented a simple payment trend anomaly. While we have considered that taxpayers are paying their tax bills in a more timely fashion than in recent years and therefore, accelerating the overall distribution trend, we have not adjusted for this possible anomaly yet.

The immediate indicators that gave rise to our sharp and immediate revision to the third quarter property tax estimate are two-fold. 1) Redemptions, penalties and interest distributions have declined abruptly, or $500,000 below budget, a further indicator that taxpayers have returned to a more timely payment schedule. A note from Treasurer Tax Collector Shari Freidenrich confirmed “the County Treasurer is on track to have the highest collection rate on secured property taxes in the past six years.” 2) More significantly, an upgrade to the Assessor’s Office electronic reporting system has caused delays in the production of the Supplemental tax update. From a discussion with the Auditor Controllers Office, we understand the County Assessor has only been able to produce one of four usual supplemental assessment updates. According to a direct conversation with Mr. Guillory, on May 3, 2012, the Assessor’s Office will provide one additional supplemental assessment to the Tax Collector before June. This delay, however, may result in very little additional Supplemental tax collections for the remainder of fiscal year 2011-12. More likely, the delayed supplemental billing will represent an increase to fiscal year 2012-13 supplemental collections rather than any further revenue recognition in fiscal year 2011-12. This information was determined after the production of the 2012-13 proposed budget documents and will be presented as an amendment to the 2012-13 budget. The projected shortfall in fiscal year 2012-13 for supplemental revenue is a $500,000 decrease to our property tax revenue estimates. These two estimates combined resulted in a $1 million decrease from our mid-year property tax revenue estimates.

SALES TAX REVENUE

Sales tax remittances continue to represent a brighter story than property taxes. We have nudged our sales tax estimate upward $541,000 which represents a 7% increase on a year over year basis. This estimate is consistent with our trend analysis and sales tax consultant estimates.

Big-ticket spending often postponed during recessionary periods is coming back to life. Due to previous economic fears, the age of an automobile is near a record-setting 11 years old and is also why the housing affordability index is not stimulating much housing activity. Should fears begin to subside, big ticket spending could play catch up this year among both consumers and businesses.

Restaurants and auto sales continue to rank as the highest sales tax generating segments. When comparing the fourth quarter of 2011 to 2010, new auto sales increased 12.6% and restaurants sales improved 5.7%. While representing smaller segments of sales tax generation, retail, apparel stores, service stations and light industry all posted double digit gains in this same quarter over quarter comparison.

TRANSIENT OCCUPANCY TAX

Similar to Sales Tax, another bright spot in the City’s budget continues to be TOT collection. In a year over year comparison, commercial 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 8% over 2010-11 representing a $181,510 increase over our mid-year revenue estimate and $1.4 million over our original budget estimate. Once again, Pelican Hills Resort is leading hoteliers in total TOT production and year over year growth.

DEPARTMENT GENERAL FUND EXPENDITURE PERFORMANCE

Department	FY 12 Original Budget	FY 2011-12 Amended Budget	FY 2011-12 YTD as of 3/31/12	FY 2011-12 Percent Expended	FY 2010-11 YTD @ 3/31/11 - Audited	FY 2010-11 Percent Expended
City Council	$ 940,397	$ 1,137,377	$ 846,107	74%	$ 859,916	82%
City Clerk	546,465	555,365	426,015	77%	337,984	68%
City Manager	1,921,739	1,944,724	1,327,193	68%	1,553,932	63%
Human Resources	2,393,167	2,397,667	1,624,665	68%	1,600,262	69%
City Attorney	2,292,941	2,302,827	1,424,941	62%	2,114,197	81%
Finance	6,892,716	6,891,046	4,756,594	69%	5,430,495	67%
Police	41,502,813	41,667,012	30,173,535	72%	31,260,416	73%
Fire	34,353,768	34,725,815	25,234,970	73%	25,302,249	74%
Planning	3,457,855	3,230,793	2,395,176	74%	2,147,727	65%
Building	5,482,077	5,679,759	4,006,519	71%	3,140,118	74%
General Services	22,212,918	22,348,925	16,210,704	73%	15,993,703	68%
Library	6,889,590	7,644,001	5,203,247	68%	4,805,002	67%
Recreation	8,418,226	8,491,404	6,080,204	72%	6,051,082	71%
Public Works	5,834,035	6,134,766	4,360,222	71%	4,092,212	70%
Electrical	774,984	796,456	693,977	87%	790,402	59%
C.I.P.	4,610,730	5,523,267	2,384,785	43%	939,218	16%
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	780,000	0%	765,000	0%
Total	**$ 155,635,233**	**$ 158,582,015**	**$ 113,102,667**	**71%**	**$ 139,547,915**	**74%**

DEPARTMENTAL EXPENDITURE PROJECTIONS

For the FY 11-12 budget, 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.

Currently, it is expected that Departments will achieve an additional $3 million of operational savings. These savings are almost entirely as a result of personnel vacancies and are expected to produce a one-time windfall in FY 11-12. Departments are actively recruiting for these vacancies so the magnitude of these savings is not expected to reoccur, nor were they budgeted in FY 2012-13.

FISCAL YEAR 2011-12 CITY MANAGER ASSIGNMENTS

Council Policy F-2, Reserve Policy, delegates the authority to the City Manager to modify or create new assignments of fund balance; however appropriation of those assignments must be approved by the City Council. A schedule of City Manager Assignment activity during FY 2011-12 is below:

City Manager Assignments	Beginning Assignment Balance	New Assignments	Budgeted Assignment Uses	Relinquished Assignments	Estimated Ending Assignment Balance
Neighborhood Revitalization	$ 650,000	$ -	$ 419,160	$ 230,840	$ -
Tidelands Management	200,000	-	-	200,000	-
Marian Bergeson Pool Contribution	330,000	-	-	330,000	-
Airport Issues	100,000	100,000	-	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 Bay Dredging	2,500,000	300,000	2,500,000	-	300,000
FFP Reserve	-	1,416,399	-	-	1,416,399
IT Internal Service Fund	-	3,000,000	-	-	3,000,000
CIP FOR FY 13	-	1,600,000	-	-	1,600,000
Civic Center Move/FFE	-	200,000	-	-	200,000
Facilities Master Plan Consultant	-	250,000	-	-	250,000
CPS Infrastructure Buyout	-	600,000	-	-	600,000
Total City Manager Assignments	$ 3,980,000	$ 7,466,399	$ 2,919,160	$ 1,060,840	$ 7,466,399

At the end of FY 2010-11, the City Manager assigned $3,980,000 from the General Fund-fund balance to be carried over and available for Council approved programs during FY 2011-12. By fiscal year-end, $2,994,160 is projected to be utilized and $985,840 is expected to be returned to fund balance and available for new priority programs. These relinquishments have two categories: 1) assignment (fund balance) was not needed as the responsible department performing the service was able to cover the expenditure within their annual approved budget (neighborhood revitalization/tree replacement/ median maintenance) 2) program did not move forward during FY 2011-12 (Marian Bergeson pool/ Airport Issues).

The City Manager has made $7,466,399 in new assignments for FY 2011-12. All assignments, with the exception of the airport issue, were intended to ensure funding is available for our core values: maintaining our facilities and infrastructure and investing in our IT Strategic Plan. Assignments are estimates as of the financial analysis available March 31, 2012, and will be adjusted for actual year end results in the General Fund.

Fiscal Year 2012-13 Budget

FISCAL YEAR 2012-13 BUDGET GOALS

Listening to the community and City Council, the City Manager prepares 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*. The core values as confirmed by Council are:

A high quality physical environment

This means the natural environment and maintaining quality community centers, parkways and medians, roads, trees, alleys, beaches and more. We believe that Newport Beach has a different look and feel from other communities as you enter it, and we want to maintain that look.

Public safety and how City services and programs reinforce safety

From core public safety services like police and fire to programs (recreation and senior services, CERT and more) and infrastructure (parks, libraries and more) that draw people out into their community, we give our residents great things to do and enjoy – when people are out and about and involved, bad elements stay away.

Civic engagement

This is a community that loves its many strong community activities, events and groups and wants to be actively engaged with its city government.

Accountable, Responsive City Government

We should be about superior customer service, fiscal sustainability, accountability, transparency and ensuring an accessible and open environment. We want to ensure our community views us as the standard of excellence in city government.

PRIORITIZING SCARCE RESOURCES

Communicating our core values to the organization allows us to focus our resource allocation decisions toward programs and services that enhance these core values. That being said, FY 2012-13 is the third consecutive year of minimal to flat revenue growth in Newport Beach. In order to present a balanced budget for FY 2012-13, the City Manager instructed all director's to maintain FY 2011-12 departmental budgetary levels so that any increases in revenue estimates could be allocated to new or improved programs and services that would support these core values. This also supports a continued focus on transformation of the Newport Beach city government to a more accountable and performance-based organization. As such, the executive team is not only improving what we are best at, but also what we should "not" be doing. This budget builds in new opportunities to contract out certain services when it can be demonstrated that the private sector can perform these services with the same or better level of service and for less cost. These changes can be seen in some departmental budgets with reduced costs for personnel and increased costs for professional services.

OUTLOOK FOR FISCAL YEAR 2012-13

We have not only survived the recession, we have become a stronger albeit smaller organization. This was not without hard choices and significant budget reductions. We have maintained our key budget principles, and these have assisted us with increasing our General Fund Reserves in each year of the recession to a level that is the highest in the more than 100 year history of Newport Beach. Building reserves without compromising service levels to our community, also, maintaining and building our physical environment, and allocating resources to our IT Strategic Plan and performance management system to set the stage for continuing to become a more educated, versatile and smaller city government.

OUR BUDGET PRINCIPLES

1.	Adhere to 2010's Fiscal Sustainability Plan.
2.	Use the upcoming years as an opportunity to thoughtfully and methodically change the way our local government conducts business.
3.	Our "Shining City's" success includes our investment in our infrastructure.
4.	We should stop doing some things.
5.	We must continue to address pension costs, comprehensively and aggressively.
6.	Public Safety is paramount - but there are still smarter, better ways of delivering public safety services without compromising safety.

FISCAL YEARS 2012 AND 2013 GENERAL FUND COMPARATIVE BUDGET

	2011-12 Original Budget	Projected 2011-12 Year End	Proposed FY 2012-13 Budget
GENERAL FUND REVENUES:			
PROPERTY TAXES	$ 72,155,615	$ 72,612,217	$ 72,975,146
SALES TAXES	$ 25,088,167	$ 25,719,170	$ 26,793,879
TOT TAXES	$ 12,786,000	$ 13,715,150	$ 14,390,158
ALL OTHER GENERAL FUND REVENUES	$ 38,926,001	$ 40,455,757	$ 41,642,213
SUBTOTAL GENERAL FUND REVENUES	$ 148,955,783	$ 152,502,294	$ 155,801,396
GENERAL FUND EXPENDITURES:			
GENERAL GOVERNMENT	$ 13,379,052	$ 13,620,633	$ 14,477,488
PUBLIC SAFETY	$ 75,856,581	$ 76,392,827	$ 77,394,664
PUBLIC WORKS	$ 28,821,937	$ 28,947,199	$ 29,329,249
COMMUNITY DEVELOPMENT	$ 8,939,933	$ 9,243,500	$ 9,168,326
COMMUNITY SERVICES	$ 15,307,816	$ 17,743,778	$ 16,926,916
OPEB	$ 2,314,000	$ 2,314,000	$ 2,466,000
DEBT SERVICE	$ 780,000	$ 780,000	$ 750,000
OPERATING BUDGET SAVINGS	$ -	$ (3,000,000)	$ -
CAPITAL PROJECTS	$ 2,094,130	$ 2,094,130	$ 3,600,000
SUBTOTAL GENERAL FUND EXPENDITURES	$ 147,493,449	$ 148,136,067	$ 154,112,643
OPERATING SURPLUS / AVAILABLE FOR ASSIGNMENT	$ 1,462,334	$ 4,366,227	$ 1,688,753

GENERAL FUND PROPOSED FISCAL YEAR 2012-13 BUDGET

The General Fund is the key operating fund within the City's budget and is generally of most interest to residents as it is predominantly, 78%, funded by tax revenues.

REVENUE FORECAST

As stated previously, FY 2012-13 will be the third consecutive year of minimal to flat revenue growth in the City of Newport Beach. Although the economy continues to gradually improve, our projections remain conservative in keeping with our Fiscal Sustainability Plan.

We are projecting FY 2012-13 General Fund revenues at $155.8 million, an increase of approximately $3.3 million from our FY 2011-12 amended revenue budget. Property tax revenues which account for almost 47% of total General Fund revenues, or **$73.0 million, are estimated to minimally increase by 0.5% from revised FY 2011-12 revenues, or $360,000. The housing market recession is not over, and all local and state governments are experiencing low to negative growth in their assessed valuations (AV). Newport Beach continues to maintain positive growth in our AV, although only +0.5% in last year's case. This is not common in our neighboring cities and counties, as many have experienced declines in AV during the recession and are just now experiencing small positive growth. The Orange County Assessor continues to warn cities to be conservative when estimating property tax revenue, he assured us at his February 2012 meeting that he was still performing re-assessments which were decreasing property values in all areas of the County even in the beach cities.

SPECIAL NOTE ON PROPERTY TAX ESTIMATES FY 2012-13: As previously discussed in the quarterly financial report, Finance recently confirmed with the County Controller's Office that supplemental taxes will not be received for the second half of FY 2011-12 (approximately $500,000) due to implementation challenges with a new software in the County Assessor's Office. These revenues should be received during the first quarter of FY 2012-13, but too late for eligible modified-accrual accounting rules. Also confirmed, penalties/interest & redemption property tax collections are significantly down, approximately $500,000 for Newport Beach, in the second half of FY 2011-12. The Controller's Office confirmed this is county-wide, and they are reporting a noticeable improvement in timely secured collections which has caused all cities to realize significantly less in penalties/interest & redemptions. The proposed budget does NOT include adjustments for either of these issues as it was printed before confirmation was made. Both issues will be addressed in the final budget document.

REVENUE FORECAST (continued)

Sales Tax and Uniform Transient Occupancy Tax (TOT) are the next largest components (26% cumulatively) of the City's General Fund. The FY 2012-13 sales tax estimate is $20.6 million, an increase of almost $1 million or 5.0% over FY 2011-12 estimated revenue. TOT is also estimated to increase $835,000, or 5.0%, over the FY 2011-12 estimated final revenue. Consumer confidence has continued to improve and our sales and TOT taxes are reflecting that improvement. We have almost returned to pre-recession levels in sales tax and have surpassed those levels in TOT thanks in large part to Newport Coast's Pelican Hill Resort. We have estimated conservative growth in both areas after talking to our major hotels and our economic consultants, and we are confident these revenues will remain strong.

We are including a one-time revenue estimate of $2.5 million in FY 12-13 for the sale of the Airborne Law Enforcement Program (ABLE) helicopters and related equipment. FY 2012-13 intergovernmental revenue is projected to be about $600,000 less than FY 2011-12, due to the completion of several grants.

EXPENDITURE FORECAST

In FY 2012-13, proposed General Fund expenditures, including 'new' General Fund capital improvements, pension and OPEB payments, total $154.1 million. New General Fund capital improvement project funding for FY 2012-13 is proposed to be $3.6 million, an increase of $1.6 million over the previous year. Our goal is to increase the FY 2013-14 funding for new General Fund capital improvement projects to $5 million, which is the level we believe, is in keeping with our goal of maintaining our physical environment.

The proposed FY 2012-13 General Fund operating budget is $148 million. This represents an increase of 3.0%, or $4.3 million, from the FY 2011-12 estimated final budget which is net of a projected $3 million of operational savings. The City Manager required all directors to maintain existing budget levels so that resources could be allocated to other priority projects that support our core values. The increases to operating departments were primarily limited to contractually obligated CPI adjustments within contracts, step increases and an increase in the contribution to the Information Technology Internal Service fund of $1 million. The estimated $3 million in operational savings expected for FY 2011-12 is not included as a reduction to the FY 2012-13 proposed budget. It is almost entirely the result of vacancies in the public safety and miscellaneous departments and will be needed to maintain high quality service levels in FY 2012-13.

Reshaping the City's workforce: To maintain our competitive advantage we need to invest in our employees to keep them abreast of changes in their service areas, to stay current with technology and to adapt the overall workforce to the needs of the community. We don't want to just be a smaller organization, we want to invest in our employees to continue to be the best, always strive to improve service and business process and be that "smarter" organization while maintaining our culture of superior customer service.

In keeping with this message, the recommendation in the proposed FY 2012-13 budget are personnel changes that result in the net reduction of 8 full-time positions. The City Manager instructed department directors that in order to add or reclassify a position they had to work together to ensure we did not grow the organization. Each addition or reclassification had to accompany a reduction of equal or greater value. A position could only be reclassified if a director could correlate how that position will support the core values of the organization, improve performance, reduce costs or increase resources. With this reduction of 8 full-time positions the City will have 755 full-time employees, down 78 positions since our City Manager took the reins in FY 2009-10.

SUMMARY

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 in our IT Strategic Plan so technology can be used to continue to be that "Shining City by the Bay". This financial status update will be provided by the Finance Department to the Finance Committee at its meeting of May 7, 2012, and included as part of the City Manager's Quarterly Business Report May 22, 2012.

City budget and salary information is available online at newportbeachca.gov/salary.

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

May 7, 2012

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: FISCAL YEAR 2012-13 PROPOSED BUDGET OVERVIEW

DISCUSSION:

The City Manager and Finance department have completed a balanced Fiscal Year (FY) 2012-13 Proposed Budget for the City of Newport Beach. We will provide the Committee with the budget overview presentation also scheduled to be discussed at Council's Study Session on Tuesday, May 8, 2012.

BACKGROUND

The City of Newport Beach budget is intended to be a reflection of the City policies, goals and priorities. It communicates to citizens and staff what program allocation decisions have been made by the City Council. The proposed budget continues to maximize existing staff resources and confirms the commitment to maintain the high levels of service that the community expects and deserves.

Recognizing the Council and community's interests, the City's Management Team worked last year to identify what makes Newport Beach unique – along with how to protect those qualities by allocating sufficient funding and staffing. We thought of the city as "the shining city by the bay" and identified these things as important to the Newport Beach community:

- A high quality physical environment.

  This means the natural environment and maintaining quality community centers, parkways and medians, roads, trees, alleys, beaches and more. We believe that Newport Beach has a different look and feel from other communities as you enter it, and we want to maintain that look.

- Public safety and how City services and programs reinforce safety.

  From core public safety services like police and fire to programs (recreation and senior services, CERT and more) and infrastructure (parks, libraries and more) that draw people out into their community, we give our residents great things to do and enjoy – when people are out and about and involved, bad elements stay away.

- ❖ Civic engagement

  This is a community that loves its many strong community activities, events and groups and wants to be actively engaged with its city government.

- ❖ Accountable, Responsive City Government

  We should be about superior customer service, fiscal sustainability, accountability, transparency and ensuring an accessible and open environment. We want to ensure our community views us as the standard of excellence in city government.

CONCLUSION

This is the third consecutive year of minimal to flat revenue growth. This has again required diligent attention to priorities and the wise distribution of resources. The proposed FY 2012-13 budget was prepared in light of the programs and activities that support the values stated above. It also supports a continued focus on transformation of the Newport Beach city government to a more accountable and performance-based organization. As such, the executive team is not only improving what we are best at, but also what we should “not” be doing. This budget builds in new opportunities to contract out certain services when it can be demonstrated that the private sector can perform these services with the same or better level of service and for less cost.

The development of the City’s annual budget takes an enormous amount of staff time and effort. I am proud of how management staff continues to work collaboratively to allocate resources in support of the City Council directed priorities and in support of the core qualities that make Newport Beach special. I also want to thank my finance team; their professionalism, dedication and technical abilities are incredible and it is an honor and a privilege to represent such a great team. My sincere appreciation is extended to the City Council and City Manager for their leadership and support; and, to all department directors, division managers and departmental budget liaisons for their contributions.

Prepared by:

/s/Tracy McCraner
Tracy McCraner
Finance Director

Agenda Item 5D

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

May 7, 2012

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: AMENDMENT OF THE AGREEMENT FOR PARKING METER SERVICES BETWEEN THE CITY OF NEWPORT BEACH ("CITY") AND CENTRAL PARKING SYSTEM, INC. ("CPS"), DATED MARCH 31, 2011 ("ORIGINAL AGREEMENT")

ABSTRACT:

City staff and CPS find it mutually beneficial to refine and amend the Original Agreement to eliminate finance costs incurred by the City and to adjust the payment structure based on a full year of financial information and the final revenue collections for 2011. This proposed amendment simplifies and provides an annual operating guaranteed payment to CPS at a fair return and it allows the City to eliminate costly financing charges for purchase of equipment and infrastructure.

BACKGROUND

The City entered into the Original Agreement with CPS on March 31, 2011. The four key goals identified for CPS were:

- Maximize parking meter revenue
- Increase the quality of services to the public
- Modernize parking meter equipment and infrastructure; and
- Streamline and improve parking enforcement service

CPS met all four goals within its first full year of operations.

PARKING METER REVENUE

CPS has increased parking meter revenues by almost 25% in their first full year of operation. We expect this percentage to continue to grow. A table comparing the parking meter revenues collected from May 2011 through April 2012 to the previous year is provided here.

Parking Meter Revenue Year Ended April 2011 vs. April 2012		
**May - April 2012	$	3,605,381
May - April 2011		2,898,059
Variance	$	707,323
$ Increase	$	707,323
% Increase		24.41%

** denotes that amounts are net of credit card fees ($86,583)

QUALITY OF SERVICES

CPS provides the city enhanced meter services that ensure frequent revenue collection and rapid repair of broken meters resulting in decreased revenue downtime. CPS also is delivering excellent customer service as evidenced in their 24 hour response to customer complaints and concerns. We find that they are committed to continually enhancing customer service operations.

PARKING METER EQUIPMENT & INFRASTRUCTURE

CPS installed 1,325 state-of-the-art credit card single-space and 7 multi-space meters within the agreed upon deadline. The credit card option facilitates payment for parking, and allows more options for customer payment which increases customer satisfaction. CPS reports show that customers are using credit cards at the meters 43% of the time.

PARKING ENFORCEMENT

Comparison of Parking Citations Issued
Year Ended April 2011 vs. April 2012

Dates	# of Citations	Amount $
May - April 2011	17,846	959,911
May - April 2012	22,609	1,301,638
$ Increase	4,763	341,727
% Increase	26.69%	35.60%

CPS' enforcement ambassadors increased collectible parking meter citation revenues by 36%, or $341,727, while continuing to encourage customers to pay the meter before issuing the citation. The proposed amendment will not change the provision that the City receive 100% of citation revenues.

It is in the City's and CPS' interest for customers to pay the meters rather than receive citations. In the future, staff expects the parking citation revenue to level out as compliance with meter payments increase.

ORIGINAL CPS AGREEMENT PAYMENT STRUCTURE

In the Original Agreement, parking revenues were to be distributed as follows, so long as the revenues were available:

1. $3,010,351 to the City;
2. $1,186,617 to CPS ($804,855 for operating expenses and profit; $381,762 for reimbursement for the amortized portion of the new parking meters and supporting equipment); then
3. 11.5% remaining revenues to CPS (until March 31, 2013);
   16.5% remaining revenues to CPS (from April 1, 2013 to March 31, 2015); and
   21.5% remaining revenues to CPS (from April 1, 2015 until expiration/termination of the Agreement).

AMENDMENT OF AGREEMENT

In reviewing with CPS this year's performance and revenue collection process, we agreed that it would be mutually beneficial to simplify the complicated payment structure in the original agreement and replace it with a $700,000 annual payment for operating expenses and CPS agreed to a lower annual operational reimbursement.

Part of the reasons to restructure the agreement is also based on an analysis we conducted that reviewed the foundational data used as a basis for the payment structure adopted by Council. The City's revenue estimates, provided to all the vendors during the Request for Proposal process and that were used by CPS to estimate their revenue flow for seven years of operation, were optimistic. We found that unseasonably cold summer and spring weather experienced during FY 2010-11 produced an unanticipated revenue shortfall during their first operating year. The Original Agreement inadvertently penalizes CPS for the poor economic conditions of FY 2010-11, but the proposed amendment would assure that CPS is adequately reimbursed for their operating costs.

The bonus payments from the Original Agreement shall remain the same to incentivize CPS, and so CPS can share in the proceeds of excess revenue of which they are a significant contributor.

For the reasons mentioned above, this structure does not reimburse CPS adequately to cover their day-to-day operations. The City and CPS want this partnership to thrive, but it cannot do so if CPS cannot cover their basic operational expenses in this or any year of the Original Agreement.

In the proposed amendment, CPS will be paid $700,000 annually (on a monthly basis) for their services, and the City will retain all parking meter revenues regardless of amount. CPS will be paid a bonus only if parking meter revenues exceed $3,400,000, then any excess above the $3,400,000 would be shared as follows:

> 11.5% of revenues > $3.4 million to CPS (until April 30, 2013);
>
> 16.5% of revenues > $3.4 million to CPS (from May 1, 2013 to April 30, 2015);
>
> 21.5% of revenues > $3.4 million to CPS (from May 1, 2015 until expiration/ termination of the Agreement).

The City projects parking meter revenues for FY 2011-12 to be $3,700,000, an increase of $700,000 compared to FY 2010-11. Collectible parking citation revenues for FY 2011-12 are estimated to be $1,300,000, an increase of $340,000 over the previous year. The City typically experiences a collection rate of 70%, this would result in actual increased citation revenue to the City of $238,000. If the payment structure is amended, CPS will be assured their payment of $700,000 plus $34,500 of bonus revenue, and City will receive additional revenue of $938,000, all contemplated with the Original Agreement but executed in a different manner. The net increased revenue to the City would be $203,500 in FY 2011-12.

EQUIPMENT PURCHASE

CPS had entered into various purchase or lease agreements in order to obtain parking meters and other related equipment for the City. Pursuant to the Original Agreement, the City was to pay $381,762/year to CPS for the amortized portion of those leases. After working with CPS, and reviewing their leasing arrangements, the City has determined it could save approximately $240,000 by paying off the leases as of May 31, 2012. The payoff amount is anticipated to be $618,000 (see Exhibit "A" attached for list of equipment and amounts). The City would also like to pay cash, or self finance, all future purchases of parking meter equipment and this amendment would allow the City to do just that.

CONCLUSION

The partnership between the City and CPS is a success, for both the City and for its community. This amendment to the Original Agreement would ensure fair compensation to CPS and cost savings to the City by purchasing the parking meter infrastructure and equipment outright. The City and CPS look forward to working together to continue to enhance, improve and streamline the parking meter program for Newport Beach's community and visitors.

Prepared by:

/s/Tracy McCraner
Finance Director

Attachments: Exhibit A – List of Equipment and Prices

Newport Beach CapEx Log

** Projected city Payout	$	**1,031,899.28**
City Remittals to CPS	$	**(413,575.50)**
** Net Due to CPS	$	**618,323.78**

Item	Vendor	Payment	Direct Purchases	Previous Lease Payments Through 5/31/12	Lease Buy-Outs Through 5/31/12	Total
IPS Meters & Replacements	IPS	Leased		$ 192,814	$ 626,309	$ 819,123
3 Ford Vehicles	New Concepts Leasing	Leased		$ 15,534	$ 69,123	$ 84,657
Copier/ Scanner	California Office System	Leased		$ 2,799	$ 8,334	$ 11,134
7 Luke Machines	Digital Payment Tech	Purchased	$ 52,647			$ 52,647
Handhelds / Setup and Programming	Duncan Parking Tech	Purchased	$ 49,466			$ 49,466
5 Bikes	Jax Bikes	Purchased	$ 2,795			$ 2,795
Start Up Costs	Various	Purchased	$ 12,077			$ 12,077
		Totals	**$ 116,985**	**$ 211,148**	**$ 703,766**	**$ 1,031,899**
			Less City Capital Avances To Central Through 5/31/12			**$ (413,576)**
					Net Due to CPS	**$ 618,324**

IPS LEASE		
Meter Lease Term Total	$	922,627
Meter Lease Residual	$	132,380
5 Year w/residual	$	1,055,007
Payments through 5/31	$	192,814
Buy Out Quote	$	626,309
**** Meter Lease Buyout Savings**	**$**	**235,884**

Vehicle Leases		
Vehicle Lease Term Total	$	71,697
Vehicles Lease Residual	$	17,000
5 Year w/residual	$	88,697
Payments through 5/31	$	15,534
Buy Out Quote	$	69,123
**** Vehicle Lease Buyout Savings**	**$**	**4,040**

Copier Lease		
Copier Lease Term Total	$	7,752
Copier Lease Residual	$	2,800
3 Year w/residual	$	10,552
Payments through 5/31	$	2,799
Buy Out Quote	$	8,334
**** Copier Lease Buyout Savings**	**$**	**(581)**

**** Total Gross Savings From Buyout**	**$**	**239,343**
**** Total NPV Savings From Buyout**	**$**	**204,518**

**** Pending verification of direct expenditures and lease amounts.**

Agenda Item 5E

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

May 7, 2012

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: GASB PENSION REPORTING AND DISCLOSURE UPDATE

ABSTRACT:

The Finance Director attended the California Debt and Investment Advisory Commission (CDIAC) seminar on Municipal Market Disclosure: Applications to Pension Obligations on Thursday, May 3, 2012. One discussion was an update from David Sundstrom (GASB Board Member) and Alan Milligan (CalPERS Chief Actuary) regarding the proposed amendment to GASB Statement No. 25 on Pension reporting and disclosure requirements; this update will be provided to the Finance Committee.

BACKGROUND

The last update to the Committee on the proposed GASB change was at the September 12, 2011, meeting, along with an update in the City Manager's Quarterly Business Report dated September 30, 2011. That update summarized the following:

> "In June 2010, the Governmental Accounting Standards Board (GASB) released a new accounting exposure draft intended to improve the visibility and quality of pension information contained in governmental financial statements.
>
> In summary, if the exposure draft is approved, the City would be required to record a liability on its Government Wide balance sheet associated with the unfunded liability, at a market value calculation, estimated at $200 million as of the June 30, 2010 valuation data. The City would be required to record accrued pension costs in a defined manner which will differ significantly from our actuarial funding schedule. The accounting standard may limit both the discount rate used to measure future liabilities and the amortization period in which actuarial gains and losses can be amortized. The cumulative impact of the proposed standard would significantly accelerate the recognition and volatility of pension expenses.
>
> While this standard is still in draft form, if approved, the new pension reporting standard will have some drastic impacts on future pension financial reporting and has not been universally embraced. A coalition of 21 issuers, public pension and

professional associations submitted a joint two-page comment letter, stating the draft represents "radical departure from long-held practice" and the proposal would significantly alter how state and local government account for pension benefits and create "much confusion." Collectively, the groups – including the Government Finance Officers Association, the National League of Cities and the U.S. Conference of Mayors – said GASB should "clearly and specifically articulate" that the new accounting measures are not based on, and should not be used for, government pension funding and budgeting. Separately, the GFOA submitted a comment letter saying it "adamantly opposes" the Board's proposal to "abandon" the ARC as the basis for measuring pension cost. Such a move "would mark a major step backward," the GFOA said. In particular, the group noted, "the unfunded actuarial accrued liability is simply too volatile to display as a liability on the face of the financial statements." The GFOA also said there was no "cause to jettison" the ARC "in favor of an alternative approach that promises little in the way of information of practical use to actual public-sector decision makers."

On Thursday, May 3, 2012, GASB and CalPERS joined forces to provide an overview of changes that have taken place since last year. GASB has heard the criticisms from the professionals mentioned above and there have been changes to both the proposed GASB statement and <u>possible</u> changes by CalPERS as well.

Listed here are the more significant changes as discussed:

- Implementation will be effective fiscal years beginning after June 15, 2014, (FY 2014-15 for Newport Beach), a delay of one year from the original proposal. This was agreed upon to allow the professionals needed to conduct the additional actuarial valuations time to prepare, implement new systems and hire additional staff.
- GASB also agreed to change the time delay it would accept between actuarial dates and CAFR reporting. As proposed, GASB required a valuation dated no more than 24 months before the fiscal year end reported. After consideration of the time and volume of the number of valuations needed by relatively few professionals, GASB changed that requirement to 30 months.
- Blended Rate concept: GASB has not changed the concept of a blended rate for those trusts which are not fully-funded, to what they refer to as a more realistic earnings assumption. However, Alan Milligan expressed his concern for this calculation, stating it took a significant amount of actuarial time to calculate even one plan's "blended rate." GASB would not concede this issue, so CalPERS examined other alternative methods they could assume which would all but eliminate the need for a blended rate calculation. The changes considered are:

    - 30 year closed amortization (versus 30 year open)
    - 5 year closed asset smoothing with no corridor (versus a 15 year open with 20% corridor)

Mr. Milligan assured the crowd that these two assumption changes would not have a material impact to the participant's rates for possibly more than 30 years, giving agencies time to make other plan amendments. But these changes would eliminate the need to perform a blended rate calculation because it would bring the longer term asset values equivalent to what the GASB is proposing. This would require CalPERS Board approval; Mr. Milligan is recommending these changes to the Board in December, 2012. He also mentioned that this would re-align the unfunded liabilities for both funding (actuarial) and accounting (GASB) purposes.

CalPERS remains concerned about timing. Will they have the system changes ready? Will they be able to handle the sheer volume of requests? Will they meet employer's fiscal year end deadlines? Mr. Milligan said he was hopeful many challenges have been reduced but some remain.

GASB is still planning to issue the Statement in June, 2012. I asked Mr. Milligan when he would be ready to provide Newport Beach a valuation using the new statement requirements; he stated not before FY 2013-14. When the GASB recommended early implementation, Mr. Milligan just smiled and shook his head. I did meet with Mr. Milligan after his panel and told him I would be interested in being an initial implementer and he said he would keep that in mind.

CONCLUSION

We will continue to monitor these events and work with CALPERS and our professional organizations to prepare the City for this change. We will also be sure to be first in line at CalPERS to avoid the certain surge of requests that will be made right before June 30, 2014.

Prepared by:

/s/Tracy McCraner
Tracy McCraner
Finance Director

DECLARATION OF POSTING

On May 4, 2012, at 1:50 a.m./p.m.
under penalty of perjury, I posted the Agenda/Supplemental Agenda (circle one) for the

☐ Regular City Council Meeting of ______

☐ Study Session (Adjourned Regular Meeting) of ______

☐ Special Meeting of ______

☐ Adjourned Regular Meeting of ______

☒ Finance Committee Meeting of May 7, 2012

pursuant to the Brown Act Amendments (effective January 1, 1987), on the City Hall bulletin board located outside of Building B, 3300 Newport Boulevard, Newport Beach.

Posted by: T Frederickson

agenda posted on
the Web 5/4/12 12:48pm