



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

NEWPORT COAST CONFERENCE ROOM, BAY 2E
100 CIVIC CENTER DRIVE, NEWPORT BEACH
AUGUST 13, 2015, 4:00 P.M.

FINANCE COMMITTEE MEMBERS:

Keith Curry, Chair / Council Member
Diane Dixon, Mayor Pro Tem
Tony Petros, Council Member
Bill McCullough, Committee Member
William C. O'Neill, Committee Member
Larry Tucker, Committee Member
John Warner, Committee Member

STAFF MEMBERS:

Dave Kiff, City Manager
Dan Matusiewicz, Finance Director / Treasurer
Steve Montano, Deputy Director, Finance
Marlene Burns, Administrative Specialist to the Finance Director

I. CALL MEETING TO ORDER

II. ROLL CALL

III. 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 three (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.

IV. APPROVAL OF MINUTES

A. Summary:

Approval of the July 21, 2015, Finance Committee Minutes.

Recommended Action:

Approve and file.

V. CURRENT BUSINESS

A. ANNUAL INVESTMENT PORTFOLIO PERFORMANCE REVIEW

Summary:

A Staff and a City investment advisor will provide of brief fixed income market review of the past year and comment on the performance of the City's investment portfolio.

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.

Recommended Action:

Receive and file.

B. ANNUAL INVESTMENT POLICY REVIEW AND UPDATE

Summary:

In furtherance of Section K-2 of Council Policy F-1, Statement of Investment Policy (the Policy), the Finance Department has completed an annual review of the Policy to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. Staff is proposing two modifications to the Investment Policy as recommended by the City's investment advisors, Public Financial Management (PFM) and Chandler Asset Management (Chandler), and supported by the City's Finance Director/Treasurer.

Recommended Action:

Review, discuss, and approve or revise staff recommendations for Council approval.

C. RECOMMENDATIONS FOR THE ANNUAL FINANCE COMMITTEE BUDGET REVIEW PROCESS

Summary:

During the July 21, 2015, Finance Committee meeting, members discussed the need for greater transparency and accountability during the annual budget development process. This report provides recommendations and associated action items to improve budget transparency and to increase the Finance Committee's involvement during the annual review of the City's budget.

Recommended Action:

Review, discuss, and approve or revise staff recommendations and action items for Council approval.

D. WASTEWATER SERVICE IN NEWPORT BEACH

Summary:

The City Council has requested a review of the City's Wastewater Operation as part of the City's on-going effort to review operations for effectiveness, efficiency and cost. This report provides the roles and responsibilities of the Division.

Recommended Action:

Provide recommendation to the City Council considering the following options:

1. Keep the Wastewater Division as an in-house municipal function.
2. Engage a consultant to review the efficiency and effectiveness of the Division.
3. Consider outsourcing the maintenance function to a third party through a Request for Proposal Process (RFP).
4. Consider annexation of the system to another governmental entity such as a special district.

E. CITY COUNCIL POLICY F-9 CITY VEHICLE/EQUIPMENT GUIDELINES

Summary:

City Council Policy F-9 establishes the service life of vehicles and equipment and helps determine funding requirements for their replacement. At the request of City Council and due to a number of changes in operations, staff requests the Finance Committee to review and comment on the proposed changes.

Recommended Action:

Provide direction to staff on the proposed changes.

F. ERP UPDATE

Summary:

ERP (Enterprise Resource Planning) software is a business management software system that integrates all of the City's core functional requirements for financials, human capital

management, citizen services, and revenues. The ERP implementation is scheduled to take between 25 and 30 months and will consist of five major phases. The City has completed Phase 1 (Financials) and is currently implementing Phase 2 (HR/Payroll) and Phase 3 (Utility Billing/Revenue), each scheduled to be operational in January 2016 and May 2016, respectively. The software provider of the City's ERP is Tyler Technologies Inc. and this project is titled "eSAIL," short for ERP System Administration and Implementation Lineup.

Recommended Action:

Receive and file.

G. FINANCE COMMITTEE SCHEDULE UPDATE

Summary:

The Finance Committee work plan represents the planned topics of discussion; however, is subject to change based on the availability of Committee members, information and the need to schedule other topics as they arise. This item allows Committee consideration of an update to the work plan schedule.

Recommended Action:

Discuss and confirm upcoming meeting dates.

VI. ADJOURNMENT

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

I. CALL MEETING TO ORDER

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

II. ROLL CALL

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

ABSENT: Committee Member John Warner (Excused)

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

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

III. PUBLIC COMMENTS - None

IV. APPROVAL OF MINUTES

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

Recommended Action:
Approve and file.

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

Chair Curry opened public comments.

With no public comments, Chair Curry closed public comments.

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

V. CURRENT BUSINESS

A. 2014-15 AUDIT PLANNING AND COMMUNICATION

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

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

Recommended Action:

Receive and file report and letter.

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

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

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

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

Chair Curry opened public comments.

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

Chair Curry closed public comments.

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

B. COUNCIL RESERVE POLICY F-2 REVIEW

Summary:

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

Recommended Action:

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

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

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

Discussion followed regarding drawing on reserves.

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

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

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

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

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

Chair Curry opened public comments.

Jim Mosher commented on the Capital Improvement Fund and the creation of a Special Capital Improvement Fund created for a specific purpose and where the money needed to be used for that announced purpose. He opined that the current budget is not consistent with the Charter section that refers to the requirement for establishing Capital Improvement Fund. Council Member Petros noted that Council may create an ordinance to fund specific special capital improvement projects, at any time.

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

Chair Curry closed public comments.

Discussion followed regarding the Charter review process and update.

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

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

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

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

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

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

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

Summary:

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

Recommended Action:

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

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

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

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

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

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

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

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

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

Chair Curry opened public comments.

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

Chair Curry closed public comments.

VI. ADJOURNMENT

The Finance Committee adjourned at 5:09 p.m. to the next regular meeting of the Finance Committee on August 13, 2015, at 4:00 p.m.

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

The agenda for the Regular Meeting was posted on July 17, 2015, at 9:55 a.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

Keith Curry, Chair
Finance Committee Chair

Date

DRAFT

Finance Committee Meeting Minutes
July 21, 2015

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

Recommended Action:
Receive and file report and letter.

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

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

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Chair Curry opened public comments.

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

Chair Curry closed public comments.

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

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

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Finance Committee Meeting Minutes
July 21, 2015

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

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

Chair Curry closed public comments.

Discussion followed regarding the Charter review process and update.

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

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

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CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5A
August 13, 2015

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: ANNUAL INVESTMENT PORTFOLIO PERFORMANCE REVIEW

EXECUTIVE SUMMARY

The purpose of this memorandum is to report on the performance of the City's investment portfolio relative to the City's investment objectives. The report includes all invested City funds with the exception of bond proceeds. All investments are in compliance with California Government Code and the City's adopted Statement of Investment Policy.

DISCUSSION

Guided by Council Policy F-1 and constrained by California Government Code, the City's core investment objectives are to provide safety of the invested principal by maintaining a well-diversified, high quality portfolio of liquid assets while earning a market rate of return commensurate with the City's conservative risk profile. California State Code Section 53600.5 mandates that the City Treasurer shall follow three objectives when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds. The primary objective of the City Treasurer shall be to safeguard the principal of the funds under its control. The secondary objective shall be to meet the liquidity needs of the City. The third objective shall be to achieve a return on the funds under his or her control.

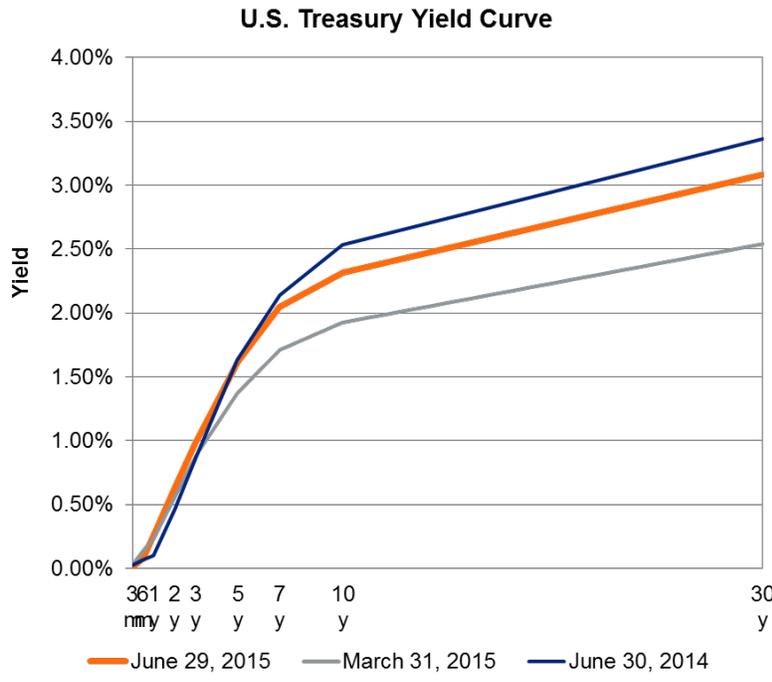
CURRENT MARKET CONDITIONS

Treasury yields fluctuated throughout the year, moving higher on strong economic news in the U.S., and lower when the Federal Open Market Committee (FOMC) indicated that they are not yet ready to raise rates. Yields also fluctuated when investors sought the safety of high quality government bonds as uncertain financial conditions in Greece continued to worsen. Overall, the trend was toward higher rates for yields on most

maturities shorter than five years, with yields for maturities longer than five years falling. Rates continue to remain low by historical standards, though many investors expect yields to rise moderately in late 2015 or early 2016.



Source: Bloomberg

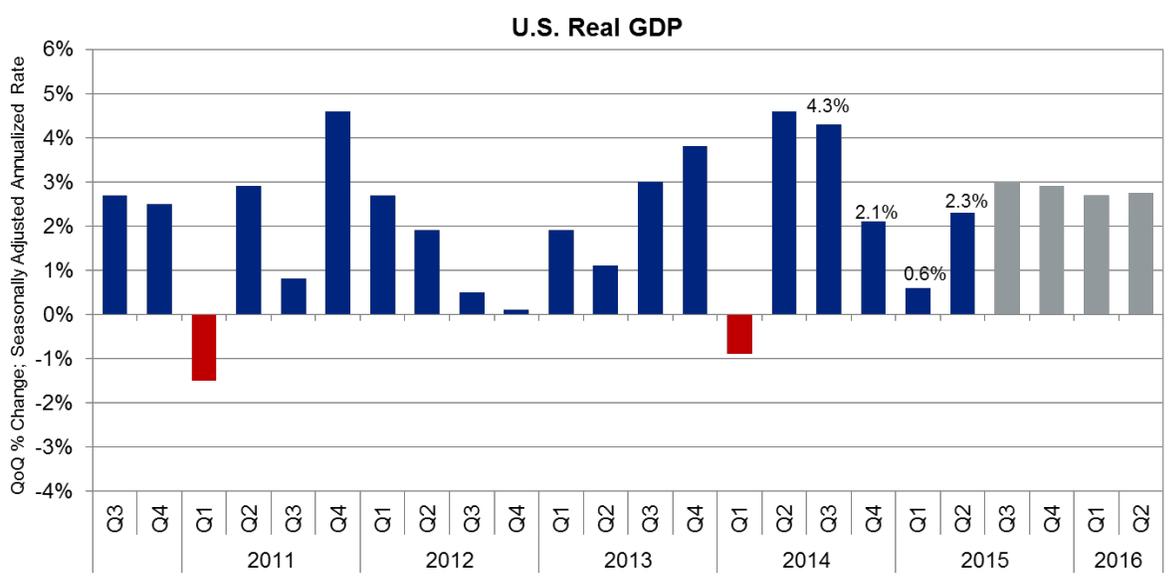


Yield Curve History

	6/30/14	03/31/15	06/29/15
1-Mo.	0.01	0.01	0.00
3-Mo.	0.02	0.02	0.00
6-Mo.	0.06	0.14	0.08
1-Yr.	0.10	0.23	0.26
2-Yr.	0.46	0.56	0.64
3-Yr.	0.87	0.88	0.98
5-Yr.	1.63	1.37	1.62
7-Yr.	2.14	1.71	2.05
10-Yr.	2.53	1.92	2.32
30-Yr.	3.36	2.54	3.08

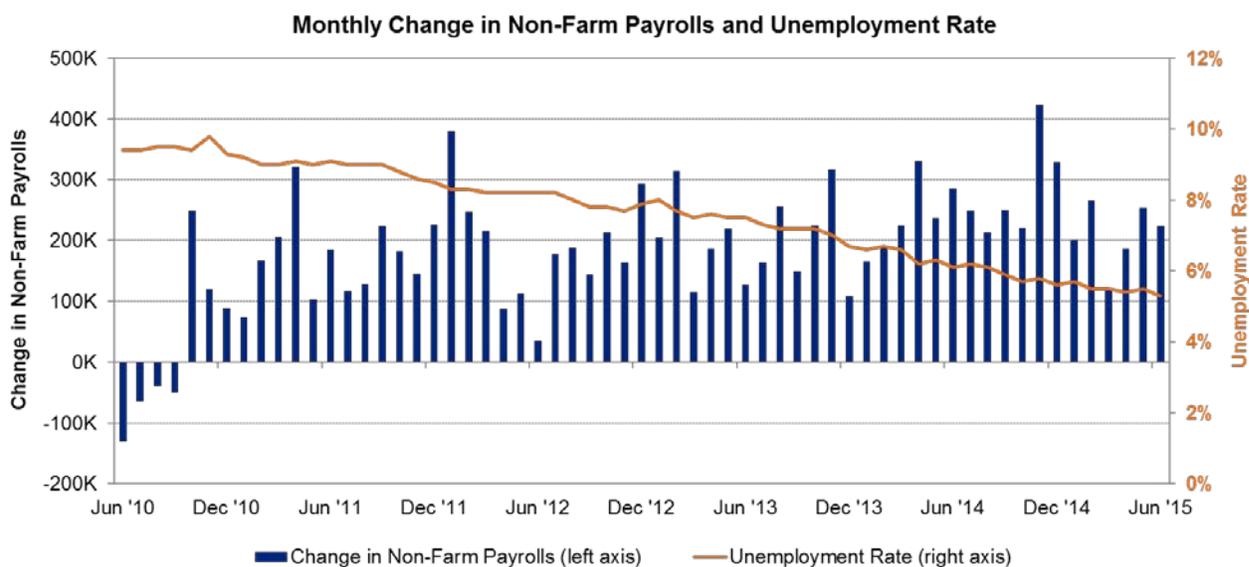
Source: Bloomberg

U.S. GDP grew at an estimated 2.3 percent in the second quarter of Calendar Year 2015. This second quarter upturn was boosted by higher consumer spending and a strengthened housing market. Calendar Year 2015 first quarter GDP was revised upwards to 0.6 percent from -0.2 percent. Original measurements for the first quarter indicated that gross domestic product (GDP) had declined by 0.2 percent, but increases in consumer spending and inventories contributed to the upward revision.



Source: Bureau Of Economic Analysis; Bloomberg survey results as of 8/4/2015.

The U.S. labor market continued to improve, as the unemployment rate fell from 5.5 percent in March to 5.3 percent in June. While robust headline job creation continued, some of the underlying metrics related to employment—particularly wage growth—were weak.



Source: Bureau of Labor Statistics

Greek-related tensions grew as the troubled nation missed a payment of €1.6 billion to the International Monetary Fund (IMF), and Greek voters overwhelmingly rejected austerity measures demanded by creditors as a condition for further financial assistance. These actions leave open the possibility that Greece would abandon the euro and even leave the Eurozone.

INVESTMENT STRATEGY

There is growing investor expectation that U.S. economic conditions will continue to grow. Rising consumer confidence, growth in personal spending and a stronger housing sector should contribute to improved economic conditions. Improving employment statistics in the U.S. suggest that an increase in the benchmark Federal Funds rate may be appropriate soon. However, stubbornly low inflation remains a concern for the Federal Reserve policy makers. Market participants still expect the FOMC to initiate at least one rate hike in 2015, but there is growing consensus that the pace of subsequent increases is likely to be gradual.

The City's strategy will continue to focus on working with its investment advisors to identify value from among the full range of investment options, while ensuring the portfolio continues to be well diversified.

PORTFOLIO OVERVIEW

The City's cash, excluding bond proceeds, is pooled for investment purposes. As of June 30, 2015, invested funds totaled over \$234 million. These investments are assets of the City Newport Beach, which includes the General Fund, special revenue funds, internal service funds, the enterprise funds (i.e., Water and Wastewater) as well as various non-major funds.

Short-Term Portfolio

The City uses a combination of demand deposit accounts (DDA) and the Local Agency Investment Fund (LAIF) in its short-term portfolio to provide sufficient liquidity to meet its operating requirements. Municipal deposits in DDA accounts are 110 percent collateralized by bank assets and the City currently receives a compensating balance credit against bank fees at a rate of .55 percent. The average investment life of the LAIF fund was 239 days on June 30, 2015. The average effective yield was 0.30 percent.

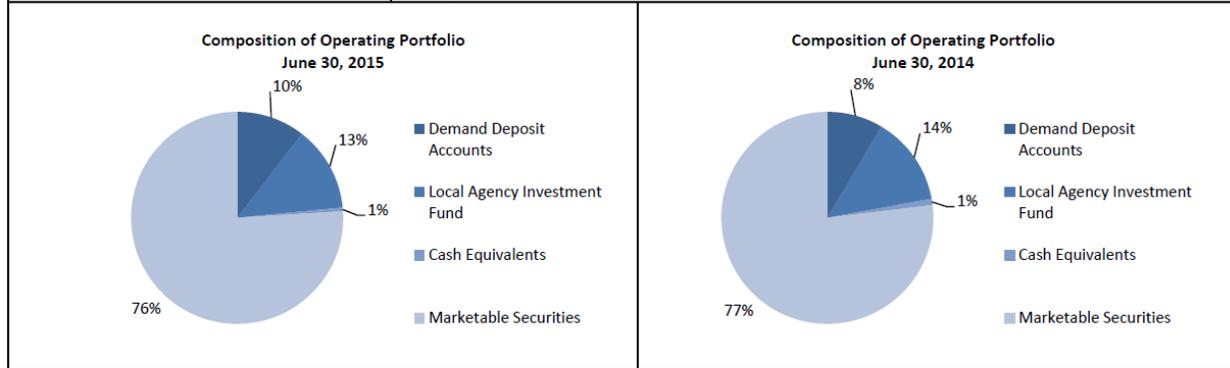
Medium-Term Portfolio

Funds that are unlikely to be spent in the near future are kept in a medium-term portfolio consisting of over \$169 million that is actively managed by two individual investment advisors in accordance with all applicable City policies and codes, State statutes, and Federal regulations.

The City's entire investment portfolio of over \$234 million as of June 30, 2015, is summarized as follows:



Portfolios	June 30, 2015									
Operating Portfolios	Amortized Cost	Unrealized Gains/(Loss)	Fair Value	Accrued Interest	Market Value	% Total	YTM @ Cost	YTM @ Market	Notes	
Short-term Portfolio										
Demand Deposit Accounts	\$ 23,143,600	\$ -	\$ 23,143,600	\$ -	\$ 23,143,600	10.45%	0.44%	0.44%	(1)	
Local Agency Investment Fund	28,788,102	-	28,788,102	-	28,788,102	13.00%	0.28%	0.29%	(2)	
Medium-term Portfolio										
Cash Equivalents	1,277,370	-	1,277,370	-	1,277,370	0.58%	0.16%	0.16%		
Marketable Securities	167,455,032	274,446	167,729,478	483,719	168,213,197	75.97%	0.93%	0.80%		
TOTAL OPERATING FUNDS	\$ 220,664,104	\$ 274,446	\$ 220,938,550	\$ 483,719	\$ 221,422,269	100.00%				
Bond Fund Portfolios										
2010 Civic Center COPs	\$ 7,937,222	\$ -	\$ 7,937,222	\$ -	\$ 7,937,222	59.93%	0.01%	0.01%		
Assessment Districts	2,206,238	-	2,206,238	-	2,206,238	16.66%	0.00%	0.00%		
Special Improvement Districts	3,101,630	-	3,101,630	-	3,101,630	23.42%	0.01%	0.01%		
TOTAL BOND FUNDS WITH FISCAL AGENT	\$ 13,245,090	\$ -	\$ 13,245,090	\$ -	\$ 13,245,090	100.00%				
TOTAL CASH & INVESTMENTS	\$ 233,909,194	\$ 274,446	\$ 234,183,640	\$ 483,719	\$ 234,667,359					



Notes:

- (1) Yield offsets bank fees
- (2) LAIF Yield is available Quarterly

The City's investment portfolio is structured to have risk and return characteristics similar to that of the City's benchmark, the Merrill Lynch 1-3YR Treasury Index. The City's medium-term portfolio average annual total return was 0.930 percent, as compared to the City's performance-measuring benchmark return of 0.88 percent during the fiscal year. This is largely attributable to increased yields in the maturity ranges in which the City invests, as well as the benefits of having diversified investments.

Although all investments contain an element of risk, the City's Investment Policy is designed to limit exposure to risk. Each of the professional investment advisors has unique strategies to minimize risk and take positions on key variables within the constraints of the City's Investment Policy. The total return performance of each advisor is shown on a monthly and annual basis in the table that follows.

City of Newport Beach Medium-Term Portfolio									
	Medium-Term			Chandler		Cutwater		PFM	
Month	Market Value	Duration	Total Return						
July	153,992,798	1.778	-0.045%	1.651	-0.055%	1.897	-0.033%	1.776	-0.047%
August	154,338,162	1.718	0.178%	1.669	0.148%	1.797	0.222%	1.682	0.162%
September	154,304,952	1.703	-0.078%	1.746	-0.060%	1.746	-0.124%	1.622	-0.050%
October	149,668,572	1.711	0.244%	1.794	0.241%	1.691	0.264%	1.652	0.227%
November	144,931,879	1.721	0.181%	1.764	0.195%	1.747	0.168%	1.653	0.181%
December	158,105,308	1.625	-0.190%	1.588	-0.179%	0.000	0.001%	1.668	-0.207%
January	158,773,441	1.618	0.461%	1.603	0.458%	0.000	0.001%	1.637	0.465%
February	158,636,601	1.640	-0.132%	1.623	-0.131%	0.000	0.000%	1.661	-0.133%
March	159,047,166	1.718	0.210%	1.708	0.217%	0.000	0.001%	1.730	0.202%
April	164,093,343	1.757	0.052%	1.754	0.043%	0.000	0.000%	1.763	0.061%
May	169,213,762	1.671	0.061%	1.738	0.071%	0.000	0.001%	1.606	0.052%
June	169,121,432	1.726	-0.013%	1.740	-0.028%	0.000	0.000%	1.713	0.003%
Fiscal Year	157,852,285	1.699	0.930%	1.70	0.920%	0.74	0.501%	1.68	0.916%

Note: Cutwater is included for the full year listed above. While Cutwater began the year as part of the Medium-Term Portfolio by the end of the year Cutwater was no longer part of the Medium-Term Portfolio.

Prepared by:

Submitted by:

/s/Jeremiah Lim

Jeremiah Lim
 Accountant

/s/Dan Matusiewicz

Dan Matusiewicz
 Finance Director



**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5B
August 13, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: Annual Investment Policy Review and Update

ABSTRACT:

In furtherance of Section K-2 of Council Policy F-1, Statement of Investment Policy (the Policy), the Finance Department has completed an annual review of the Policy to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends. Staff is proposing two modifications to the Investment Policy as recommended by the City's investment advisors, Public Financial Management (PFM) and Chandler Asset Management (Chandler), and supported by the City's Finance Director/Treasurer.

RECOMMENDATION:

With Finance Committee concurrence, Finance staff will bring the suggested revisions to Council for formal approval. These changes are in furtherance of the City's investment objectives of safety, liquidity and return.

DISCUSSION:

The investment of City funds is governed by California Code (Sections 53600-53610) that prescribe the investment vehicles in which local agencies are permitted to invest available funds. Staff, working with the City's investment advisors, Chandler and PFM, has completed a comprehensive review of the City's Investment Policy including compliance with relevant sections of the Government Code, as well as, incorporating best investment practices.

The most significant change to the Investment Policy is the inclusion of supranationals to the list of authorized investments. Supranationals are international development institutions that provide financing and financial services to member countries to promote

sustainable local economic growth. In January 2015, California Assembly Bill 1933 added subsection (q) to Government Code Section 53601. This subsection allows local agencies to invest in the senior debt obligations of three supranational issuers, specifically the International Bank for Reconstruction and Development, International Finance Corporation, and Inter-American Development Bank. In the current market, supranationals offer a comparable yield to traditional U.S. Agencies. Large supranational debt is rated AAA by most Nationally Recognized Statistical Rating Organizations (NRSROs), and is highly liquid. Also, supranational debt is issued and available in a wide range of maturities. The inclusion of the supranational issues opens up a new asset class for the City's portfolio. Having broader investment opportunities is important as the mandated winding down of the Federal Home Loan Mortgage Corporation (FHLMC) and the Federal National Mortgage Association (FNMA) will result in reduced investment options in the future.

Finance staff recommends an amendment to the Policy, mirroring the Government Code, to add three supranationals as an authorized investment. All three organizations are AAA rated with conservative risk management policies. The Federal Reserve considers debt issued by these organizations as a high quality liquid asset. The United States is a shareholder in all three organizations. Additionally, Finance staff recommends that no more than 10 percent of the City's total portfolio shall be invested in any one issuer of supranational obligations and purchases of supranational obligations shall not exceed 30 percent of the investment portfolio of the City.

Staff also recommends including a statement that percentage limitations are applicable only on the date of purchase as explained in Code Section 53601. This may become applicable if a sector allocation is near its percentage limit and the overall size of the portfolio decreases. The City should not be required to bring the sector back under the limitation under any specific timeline, but may not purchase any additional investments in the sector until it falls back under the limit. See the redline Statement of Investment Policy for recommended changes, included as Attachment A.

POLICY LANGUAGE

Staff recommends that the City incorporate the following language into its Policy and establish the following restrictions:

G.) Where this section specifies a percentage limitation for a particular security type that percentage is applicable only at the date of purchase.

G.1.o) Supranationals which are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and

sale within the United States. Investments under this subdivision shall be rated "AA", its equivalent, or better by at least one NRSRO.

No more than 10 percent of the City's total portfolio shall be invested in any one issuer of supranational obligations. Purchases of supranational obligations shall not exceed 30 percent of the investment portfolio of the City.

Prepared by:

Submitted by:

/s/Steve Montano

Steve Montano
Deputy Finance Director

/s/Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachment:

A. Council Policy F-1, Statement of Investment Policy

ATTACHMENT A

Council Policy F-1 Statement of Investment Policy

STATEMENT OF INVESTMENT POLICY

PURPOSE:

The City Council has adopted this Investment Policy (the Policy) in order to establish the scope of the investment policy, investment objectives, standards of care, authorized investments, investment parameters, reporting, investment policy compliance and adoption, and the safekeeping and custody of assets.

This Policy is organized in the following sections:

- A. Scope of Investment Policy
 - 1. Pooling of Funds
 - 2. Funds Included in the Policy
 - 3. Funds Excluded from the Policy
- B. Investment Objectives
 - 1. Safety
 - 2. Liquidity
 - 3. Yield
- C. Standards of Care
 - 1. Prudence
 - 2. Ethics and Conflicts of Interest
 - 3. Delegation of Authority
 - 4. Internal Controls
- D. Banking Services
- E. Broker/Dealers
- F. Safekeeping and Custody of Assets
- G. Authorized Investments
 - 1. Investments Specifically Permitted
 - 2. Investments Specifically Not Permitted
 - 3. Exceptions to Prohibited and Restricted Investments
- H. Investment Parameters
 - 1. Diversification
 - 2. Maximum Maturities
 - 3. Credit Quality
 - 4. Competitive Transactions
- I. Portfolio Performance
- J. Reporting
- K. Investment Policy Compliance and Adoption
 - 1. Compliance
 - 2. Adoption

A. SCOPE OF INVESTMENT POLICY

1. Pooling of Funds

All cash shall be pooled for investment purposes. The investment income derived from the pooled investment shall be allocated to the contributing funds, net of all banking and investing expenses, based upon the proportion of the respective average balances relative to the total pooled balance. Investment income shall be distributed to the individual funds not less than annually.

2. Funds Included in the Policy

The provisions of this Policy shall apply to all financial assets of the City as accounted for in the City's Comprehensive Annual Financial Report, including;

- a) General Fund
- b) Special Revenue Funds
- c) Capital Project Funds
- d) Enterprise Funds
- e) Internal Service Funds
- f) Trust and Agency Funds
- g) Permanent Endowment Funds
- h) Any new fund created unless specifically exempted

If the City invests funds on behalf of another agency and, if that agency does not have its own investment policy, this Policy shall govern the agency's investments.

3. Funds Excluded from ~~this~~ the Policy

Bond Proceeds – Investment of bond proceeds will be made in accordance with applicable bond indentures.

B. INVESTMENT OBJECTIVES

The City's funds shall be invested in accordance with all applicable City policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Safety

Preservation of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk. To attain this objective, the City shall diversify its investments by investing funds

among several financial institutions and a variety of securities offering independent returns.

a) Credit Risk

The City shall minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments in securities that have higher credit risks, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business
- Diversifying the investment portfolio so as to minimize the impact any one industry/investment class can have on the portfolio

b) Interest Rate Risk

To minimize the negative impact of material changes in the market value of securities in the portfolio, the City shall:

- Structure the investment portfolio so that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity
- Invest in securities of varying maturities

2. Liquidity

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements, which might be reasonably anticipated without requiring a sale of securities. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or LAIF which offer same-day liquidity for short-term funds.

3. Yield

The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the liquidity characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

C. STANDARDS OF CARE

1. Prudence

The standard of prudence to be used for managing the City's investment program is California Government Code Section 53600.3, the prudent investor standard, which states that “~~w~~When investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency.”

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The Finance Director and authorized investment personnel acting in accordance with established procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion to the City Council and appropriate action is taken to control adverse developments.

2. Ethics and Conflicts of Interest

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City's investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall subordinate their personal investment transactions to those of the City. In addition, City Council members, the City Manager, and the Finance Director shall file a Statement of Economic Interests each year as required by California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

3. Delegation of Authority

Authority to manage the City's investment program is derived from the Charter of the City of Newport Beach section 605 (j). The Finance Director

shall assume the title of and act as City Treasurer and with the approval of the City Manager appoint deputies annually as necessary to act under the provisions of any law requiring or permitting action by the City Treasurer. The Finance Director may then delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City may engage the support services of outside investment advisors with respect to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources. Such companies must be registered under the Investment Advisors Act of 1940, be well-established and exceptionally reputable. Members of the staff of such companies who will have primary responsibility for managing the City's investments must have a working familiarity with the special requirements and constraints of investing municipal funds in general and this City's funds in particular. These firms must ensure that the portion of the portfolio under their management complies with various concentration and other constraints specified herein, and contractually agree to conform to all provisions of governing law and the collateralization and other requirements of this Policy. Selection and retention of broker/dealers by investment advisors shall be at their sole discretion and dependent upon selection and retention criteria as stated in the Uniform Application for Investment Advisor Registration and related Amendments (SEC Form ADV 2A).

4. Internal Controls

The Finance Director is responsible for establishing and maintaining a system of internal controls. The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by City employees and officers. The internal structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

D. BANKING SERVICES

Banking services for the City shall be provided by FDIC insured banks approved to provide depository and other banking services. To be eligible, a bank shall

qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC insurance coverage in accordance with California Government Code Section 53652.

E. BROKER/DEALERS

In the event that an investment advisor is not used to purchase securities, the City will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to the City's account.

Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code.

To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure, or
2. Report voluntarily to the Federal Reserve Bank of New York, or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

F. SAFEKEEPING AND CUSTODY OF ASSETS

The Finance Director shall select one or more banks to provide safekeeping and custodial services for the City. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Money Market Funds and local government investment pools, purchased by the City will be delivered by book entry and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities owned by the City shall be held in the Federal Reserve system in a customer account for the custodian bank which will name the City as “customer.”

All DTC eligible securities shall be held in the custodian bank’s DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as “customer.”

G. AUTHORIZED INVESTMENTS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted. The City has further restricted the eligible types of securities and transactions. The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be pre-approved by resolution of the City Council. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameter(s) will take precedence.

Where this section specifies a percentage limitation for a particular security type, that percentage is applicable only at the date of purchase.

1. Investments Specifically Permitted

- a) United States Treasury bills, notes, or bonds with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the City’s portfolio that may be invested in this category.
- b) Federal Instrumentality (government-sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category.
- c) Federal Agency Obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest and which have a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category.
- d) Mortgage-backed Securities, Collateralized Mortgage Obligation (CMO) and Asset-backed Securities limited to mortgage-backed

pass-through securities issued by a US government agency, or consumer receivable pass-through certificates or bonds with a final maturity not exceeding five years from the date of trade settlement. Securities eligible for investment under this subdivision shall be issued by an issuer whose debt is rated at least "A" or the equivalent by a Nationally Recognized Statistical Rating Organization (NRSRO). The security itself shall be rated at least "AAA" or the equivalent by an NRSRO. No more than five percent (5%) of the City's total portfolio shall be invested in any one issuer of mortgage-backed and asset-backed securities listed above, and the aggregate investment in mortgage-backed and asset-backed securities shall not exceed twenty percent (20%) of the City's total portfolio.

- e) Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated at least "A" or the equivalent by an NRSRO. No more than five percent (5%) of the City's total portfolio shall be invested in any one issuer of medium-term notes, and the aggregate investment in medium-term notes shall not exceed thirty percent (30%) of the City's total portfolio.
- f) Municipal Bonds: including bonds issued by the City of Newport Beach, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the City.

State of California registered warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Bonds, notes, warrants, or other evidences of indebtedness of a local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned,

controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

In addition, these securities must be rated at least "A" or the equivalent by a NRSRO with maturities not exceeding five years from the date of trade settlement. No more than five percent (5%) of the City's total portfolio shall be invested in any one municipal issuer. In addition, the aggregate investment in municipal bonds may not exceed thirty percent (30%) of the portfolio.

- g) Non-negotiable Certificates of Deposit and savings deposits with a maturity not exceeding two years from the date of trade settlement, in FDIC insured state or nationally chartered banks or savings banks that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. Deposits exceeding the FDIC insured amount shall be secured pursuant to California Government Code Section 53652. No one issuer shall exceed more than five percent (5%) of the portfolio, and investment in negotiable and nonnegotiable certificates of deposit shall be limited to thirty percent (30%) of the portfolio combined.
- h) Negotiable Certificates of Deposit only with a nationally or state-chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank whose senior long-term debt is rated at least "A", or the equivalent, or short-term debt is rated at least "A-1" or the equivalent by an NRSRO and having assets in excess of \$10 billion, so as to ensure security and a large, well-established secondary market. Ease of subsequent marketability should be further ascertained prior to initial investment by examining currently quoted bids by primary dealers and the acceptability of the issuer by these dealers. No one issuer shall exceed more than five percent (5%) of the portfolio, and maturity shall not exceed two years. Investment in negotiable and non-negotiable certificates of deposit shall be limited to thirty percent (30%) of the portfolio combined.
- i) Prime Commercial Paper with a maturity not exceeding 270 days from the date of trade settlement that is rated "A-1", or the equivalent, by an NRSRO. The entity that issues the commercial

paper shall meet all of the following conditions in either sub-paragraph i. or sub-paragraph ii. below:

- i. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of \$500,000,000 and (3) have debt other than commercial paper, if any, that is rated at least "A" or the equivalent by an NRSRO.
 - ii. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least "A-1" or the equivalent, by an NRSRO.
 - iii. No more than five percent (5%) of the City's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed ~~twenty~~ five percent (25%) of the City's total portfolio.
- j) Eligible Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, drawn on and accepted by a commercial bank whose senior long-term debt is rated at least "A" or the equivalent by an NRSRO at the time of purchase. Banker's Acceptances shall be rated at least "A-1", or the equivalent at the time of purchase by an NRSRO. If the bank has senior debt outstanding, it must be rated at least "A" or the equivalent by an NRSRO. The aggregate investment in banker's acceptances shall not exceed forty percent (40%) of the City's total portfolio, and no more than five percent (5%) of the City's total portfolio shall be invested in banker's acceptances of any one bank.
- k) Repurchase Agreements and Reverse Repurchase Agreements with a final termination date not exceeding 30 days collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in items G1 a and 2G1 b above with the maturity of the collateral not exceeding ten years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of one hundred and two percent (102%) of the dollar value

of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements and Reverse Repurchase Agreements shall be entered into only with broker/dealers and who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with firms that have a Primary Dealer within their holding company structure. Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least "A-1" or the equivalent and a long-term credit rating of at least "A" or the equivalent. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The Finance Director shall maintain a copy of the City's approved Master Repurchase Agreement and a list of the broker/dealers who have executed same.

In addition, the City must own assets for more than 30 days before they can be used as collateral for a reverse repurchase agreement. No more than ten percent (10%) of the portfolio can be involved in reverse repurchase agreements.

- l) State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1.
- m) County Investment Funds: Los Angeles County provides a service similar to LAIF for municipal and other government entities outside of Los Angeles County, including the City. Investment in this pool is intended to be used as a temporary repository for short-term funds used for liquidity purposes. The Finance Director shall maintain on file appropriate information concerning the county pool's current investment policies, practices, and performance, as well as its requirements for participation, including, but not limited to, limitations on deposits or withdrawals and the composition of the portfolio. At no time shall more than five percent (5%) of the City's total investment portfolio be placed in this pool.
- n) Money Market Funds registered under the Investment Company Act of 1940 that (1) are "no-load" (meaning no commission or fee shall be charged on purchases or sales of shares); (2) have a constant net asset value per share of \$1.00; (3) invest only in the securities and obligations authorized in the applicable California statutes and (4) have a rating of at least AAA or the equivalent by

at least two NRSROs. The aggregate investment in money market funds shall not exceed twenty percent (20%) of the City's total portfolio and no more than ten percent (10%) of the City's total portfolio shall be invested in any one fund.

- o) Supranationals which are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less, and eligible for purchase and sale within the United States. Investments under this subdivision shall be rated "AA", its equivalent, or better by at least one NRSRO.

No more than ~~five~~ten percent (10%) of the City's total portfolio shall be invested in any one issuer of supranational obligations. Purchases of ~~ssupranational obligations~~ shall not exceed thirty percent (30%) ~~percent~~ of the investment portfolio of the ~~City~~District.

2. Investments Specifically Not Permitted

Any security type or structure not specifically approved by this policy is hereby prohibited. Security types, which are thereby prohibited include, but are not limited to: "exotic" derivative structures such as range notes, dual index notes, inverse floating rate notes, leveraged or de-leveraged floating rate notes, interest only strips that are derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, or any other complex variable or structured note with an unusually high degree of volatility risk.

The City shall not invest funds with the Orange County Pool.

3. Exceptions to Prohibited and Restricted Investments

The City shall not be required to sell securities prohibited or restricted in this policy, or any future policies, or prohibited or restricted by new State regulations, if purchased prior to their prohibition and/or restriction. Insofar as these securities provided no notable credit risk to the City, holding of these securities until maturity is approved. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

H. INVESTMENT PARAMETERS

1. Diversification

The City shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. As such, no more than five percent (5%) of the City's portfolio may be invested in the instruments of any one issuer, except governmental issuers, [supranational issuers](#), investment pools and [mMoney](#) [mMarket](#) [fFunds](#). This restriction does not apply to any type of Federal Instrumentality or Federal Agency Security listed in Sections G1 b and G1 c above. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets and the City's anticipated cash flow needs.

2. Maximum Maturities

To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

3. Credit Quality

The City shall not purchase any security rated "A1" and / or "A+" or below if that security has been placed on "credit watch" for a possible downgrade by an NRSRO.

Each investment manager will monitor the credit quality of the securities in their respective portfolio. In the event a security held by the City is the subject of a rating downgrade which brings it below accepted minimums specified herein, or the security is placed on negative credit watch, where downgrade could result in a rate drop below acceptable levels, the investment advisor who purchased the security will immediately notify the Finance Director. The City shall not be required to immediately sell such securities. The course of action to be followed will then be decided on a case by case basis, considering such factors as the reason for the rate drop, prognosis for recovery or further drop, and market price of the security. The City Council will be advised of the situation and intended course of action.

4. Competitive Transactions

Investment advisors shall make best effort to price investment transactions on a competitive basis with broker/dealers selected consistent with their practices disclosed in form ADV 2A filed with the SEC. Where possible, at least three broker/dealers shall be contacted for

each transaction and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, the investment advisor shall make their best efforts to document quotations for comparable or alternative securities. If qualitative characteristics of a transaction, including, but not limited to, complexity of the transaction, or sector expertise of the broker, prevent a competitive selection process, investment advisors shall use brokerage selection practices as described above.

I. PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the total return of a benchmark that most closely corresponds to the portfolio's duration, universe of allowable securities, risk profile, and other relevant characteristics. When comparing the performance of the City's portfolio, its rate of return will be computed consistent with Global Investment Performance Standards (GIPS).

J. REPORTING

Monthly, the Finance Director shall produce a treasury report of the investment portfolio balances, transactions, risk characteristics, earnings, and performance results of the City's investment portfolio available to City Council and the public on the City's Website. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments and programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. A statement of compliance with this Policy or an explanation for non-compliance

K. INVESTMENT POLICY COMPLIANCE AND ADOPTION

1. Compliance

Any deviation from the policy shall be reported to Finance Committee as soon as is practical, but no later than the next scheduled Finance Committee meeting. Upon recommendation of the Finance Committee, the Finance Director shall review deviations from policy with the City Council.

2. Adoption

The Finance Director shall review the Investment Policy with the Finance Committee at least annually to ensure its consistency with the overall objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

The Finance Director shall review the Investment Policy with City Council at a public meeting if there are changes recommended to the Investment Policy.

This Policy was endorsed and adopted by the City Council of the City of Newport Beach on ~~October 9, 2012~~. It replaces any previous investment policy or investment procedures of the City.

Adopted - April 6, 1959
Amended - November 9, 1970
Amended - February 11, 1974
Amended - February 9, 1981
Amended - October 27, 1986
Rewritten - October 22, 1990
Amended - January 28, 1991
Amended - January 24, 1994
Amended - January 9, 1995
Amended - April 22, 1996
Corrected - January 27, 1997
Amended - February 24, 1997
Amended - May 26, 1998
Reaffirmed - March 22, 1999
Reaffirmed - March 14, 2000
Amended & Reaffirmed - May 8, 2001
Amended & Reaffirmed - April 23, 2002
Amended & Reaffirmed - April 8, 2003
Amended & Reaffirmed - April 13, 2004
Amended & Reaffirmed - September 13, 2005
Amended - August 11, 2009
Amended & Reaffirmed - August 10, 2010
Amended & Reaffirmed - September 28, 2010
Reaffirmed - June 28, 2011
Amended & Reaffirmed - October 9, 2012
Amended - August 13, 2013

Item No. 5B1
Annual Investment Policy Review and Update
Presentation
August 13, 2015



Investment Report

City of Newport Beach

Period Ending
July 31, 2015



SECTION 1	Economic Update
SECTION 2	Account Profile
SECTION 3	Portfolio Holdings
SECTION 4	Investable Universe



SECTION 1

Economic Update



- Momentum is building toward a potential fed funds rate hike at the September 16-17 Federal Open Market Committee (FOMC) meeting. Inflation is still running below target, but labor market conditions are likely at or near a level consistent with monetary policy normalization. Over the past three months, payrolls have increased by an average of 235,000 per month, compared to the trailing six-month average of 213,000. In July, the unemployment rate was 5.3%. The Personal Consumption Expenditures (PCE) price index was up just 0.3% on a year-over-year basis in June, while the Core PCE price index was up just 1.3%. Though inflation remains below the Fed's 2.0% target, multiple Fed Presidents have recently made public comments indicating they are moving closer toward the lift-off date for monetary policy normalization. We believe the first fed funds rate hike will occur before the end of this year. There are three remaining FOMC meetings scheduled this year (September 16-17, October 27-28, and December 15-16).
- The financial markets continue to experience volatility, fueled largely by the uncertain outlook for Fed monetary policy and mixed economic data. While employment trends have generally been favorable, consumer spending trends have been lackluster and manufacturing data remains soft. Housing data has been somewhat volatile, but the outlook remains constructive. Overall, we believe the economy continues to grow at a slow pace. According to the advance estimate, real annualized GDP growth was 2.3% in the second quarter of 2015, following growth of 0.6% in the first quarter. We are expecting GDP growth of about 2.5%-3.0% in the second half of 2015.
- Interest rate volatility remains elevated as global sovereign debt markets continue to be influenced by divergent central bank policies. The Treasury yield curve flattened modestly in July, with short-term rates up slightly and longer-term rates down about 20 basis points. We believe this flattening trend reflects market participants' expectations for a fed funds rate hike before the end of the year.



Nonfarm Payroll (000's)



Source: U.S. Department of Labor

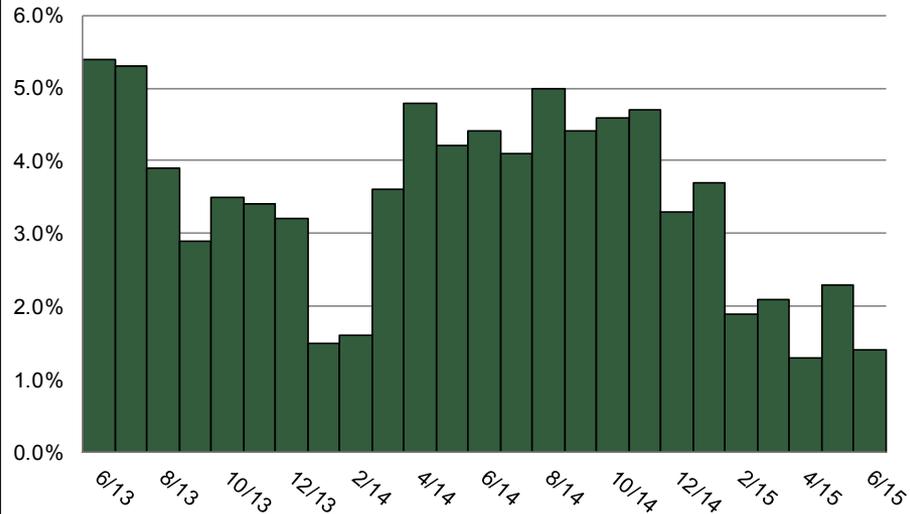
Unemployment Rate



Nonfarm payrolls rose by 215,000 in July, slightly below the consensus forecast of 225,000. However, May and June payrolls were revised upward by a total of 14,000. The unemployment rate was unchanged at 5.3%, and the participation rate held steady at a low level of 62.6%. A broader measure of unemployment called the U-6, which includes those whom are marginally attached to the labor force and employed part time for economic reasons, declined to 10.4% from 10.5%. Wages rose 0.2% on a month-over-month basis in July, and rose to 2.1% from 2.0% in June on a year-over-year basis. Over the past three months, payrolls have increased by an average of 235,000 per month, compared to the trailing six-month average of 213,000.



Retail Sales Y-O-Y % Change



Source: U.S. Department of Commerce

Consumer Credit

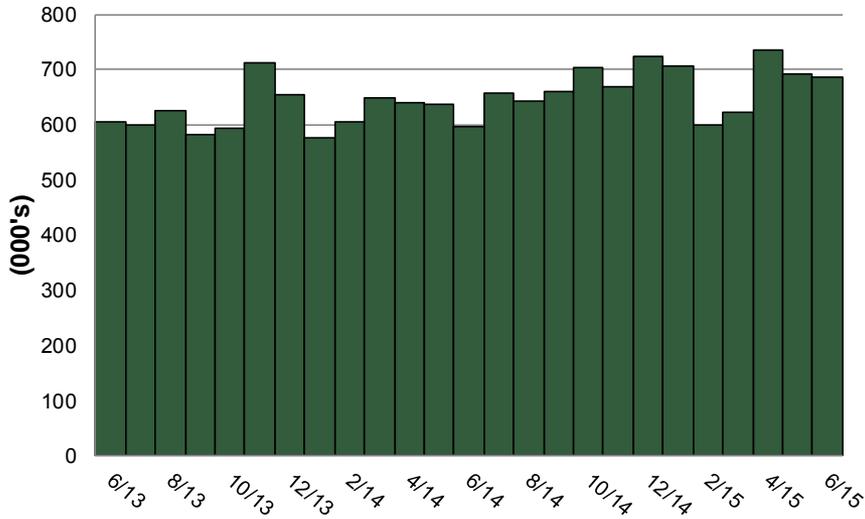


Source: Federal Reserve

Retail sales were weaker than expected in June, down 0.3% on a month-over-month basis. On a year-over-year basis, retail sales rose just 1.4% in the month. Ongoing improvement in the labor market should have a positive influence on consumer spending, but thus far consumer spending trends have been lackluster. Consumer credit rose by \$20.7 billion in June versus a gain of \$16.5 billion in May. Revolving credit (credit cards) rose by \$5.5 billion in June while nonrevolving credit (student and auto loans) increased by \$15.2 billion.

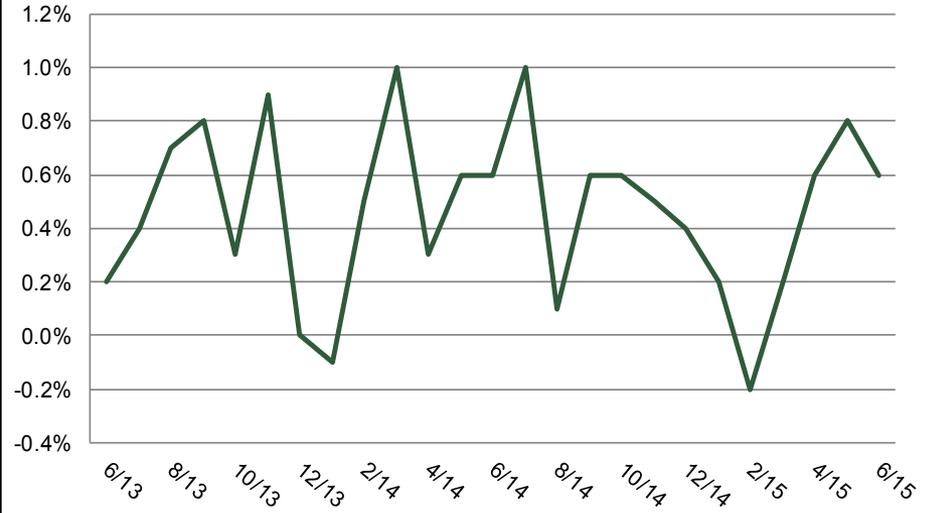


Single-Family Housing Starts



Source: US Department of Commerce

Leading Economic Indicators



Source: The Conference Board

Housing starts rose 9.8% in June following a 10.2% decline in May. The strength in June was driven by a 29.4% increase in multi-family starts. Single-family housing starts fell 0.9% in June. Permits were much stronger than expected in June, up 7.4%, following a 9.6% increase in May. Overall, activity in the housing sector has recently picked up. The index of Leading Economic Indicators (LEI) rose 0.6% in June, exceeding the consensus forecast, following an increase of 0.8% in May. Strength was driven by interest rate spread and building permits. Overall, the LEI points to modest economic expansion.



Institute of Supply Management Purchasing Manager Index



Source: Institute for Supply Management

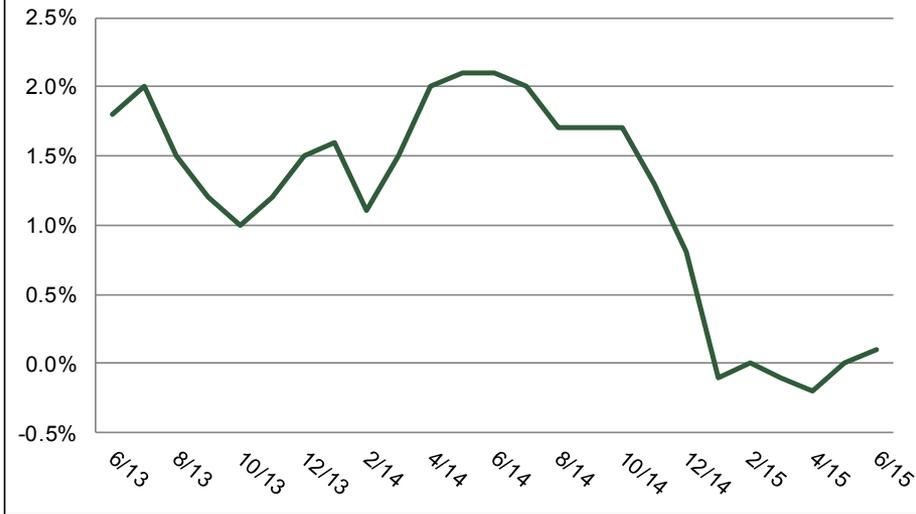
Capacity Utilization



Source: Federal Reserve

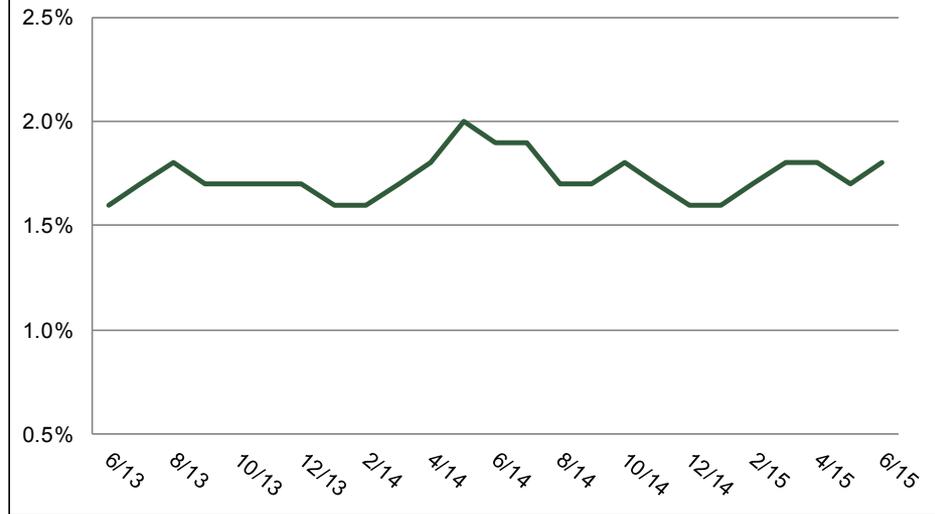
During July, the ISM manufacturing index declined to 52.7 from 53.5 in June. Overall, manufacturing trends remain soft, however, a reading above 50.0 is viewed as expansionary in the manufacturing sector, while a reading below 50.0 suggests contraction. Capacity utilization, which is production divided by capacity, increased to 77.8% in June from 77.7% in May. The capacity utilization rate is lower than the long-run average of 80.1% (1972-2014). Notably, manufacturing capacity utilization actually declined in June to 77.2% from 77.3% in May.

CPI Y-O-Y % Change



Source: US Department of Labor

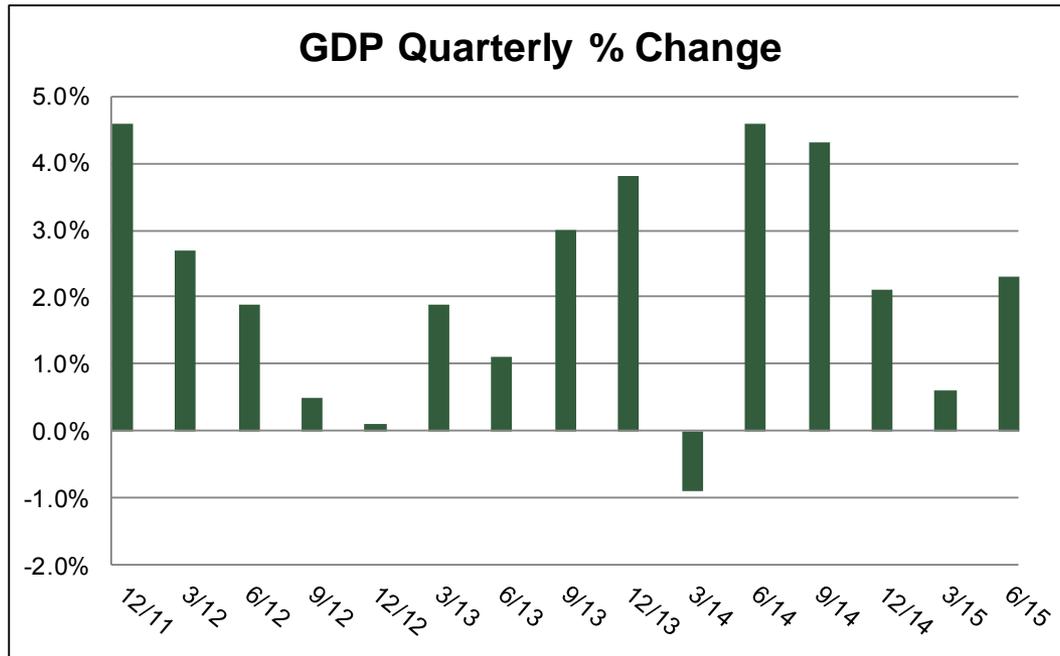
Core CPI Y-O-Y % Change



In June, overall Consumer Price Index (CPI) inflation was up 0.1% on a year-over-year basis after being flat in May. Headline inflation remains low, following a precipitous decline in energy prices at the end of last year. The year-over-year Core CPI (CPI less food and energy) rose slightly to 1.8% in June from 1.7% in May. Pricing pressures (excluding food and energy) at the consumer and producer levels have firmed slightly, but inflation remains below the Fed's target.



Gross Domestic Product

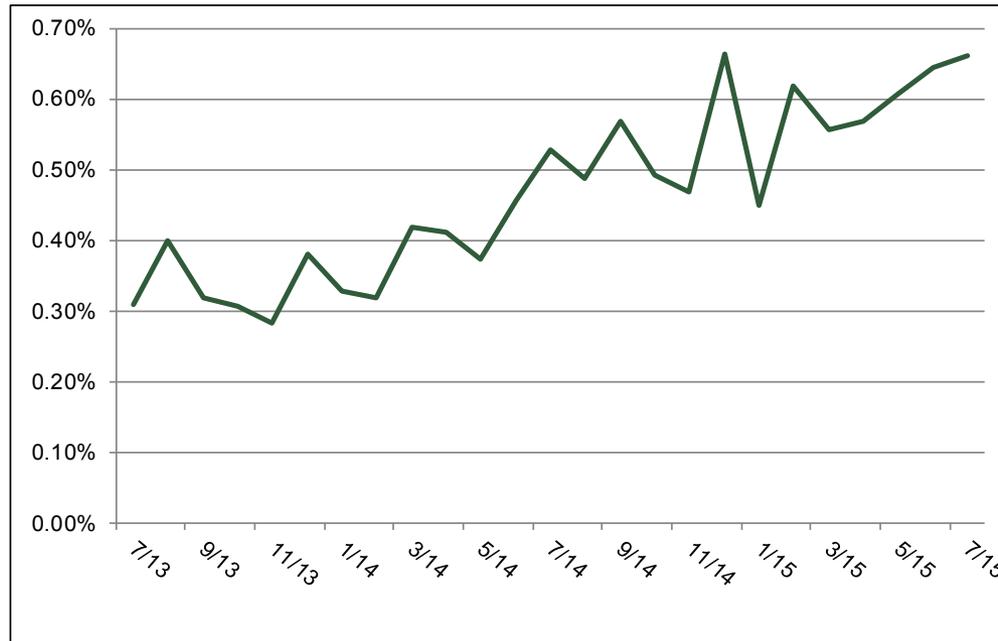


Source: U.S. Department of Commerce

According to the advance estimate, real annualized GDP growth was 2.3% in the second quarter of 2015, slightly weaker than the 2.5% consensus estimate. However, first quarter GDP was revised up to 0.6% from negative 0.2%. Growth in the second quarter was boosted by strength in residential investment and personal consumption expenditures. Net exports also added slightly to second quarter GDP growth after dragging down the first quarter.



Yield on the Two-Year Note July 2013 through July 2015

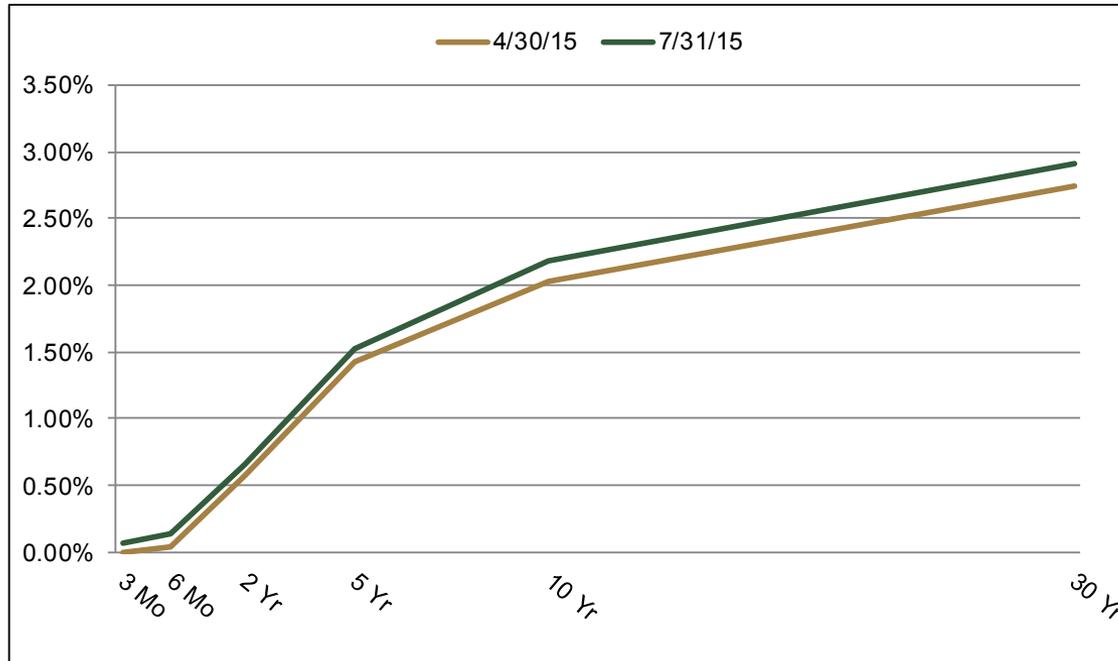


Source: Bloomberg

The yield on the two-year Treasury note rose slightly in July as the yield curve flattened. Market participants are anticipating a potential fed funds rate hike before the end of this year. Divergent global central bank monetary policies, both conventional and unconventional, have been a source of market volatility as the Federal Reserve remains the only major central bank contemplating a tightening of monetary policy over an intermediate time horizon.



April 30, 2015 and July 31, 2015



Source: Bloomberg

During the past three months, the Treasury yield curve shifted upward. Mixed U.S. economic data, divergent central bank monetary policies, and concerns about the ability and desire of Greece to remain in the Euro have fueled interest rate volatility in recent months.



SECTION 2

Account Profile

Investment Objectives

The investment objectives of the City of Newport Beach are first, to provide safety of principal to ensure the preservation of capital in the overall portfolio; second, to provide adequate liquidity to meet all requirements that may be reasonably anticipated; and third, to earn a commensurate rate of return.

Chandler Asset Management Performance Objectives

The performance objective of Newport Beach is to earn a return that equals or exceeds the return of the Bank of America Merrill Lynch 1-3 Year US Treasury Index.

Strategy

In order to achieve these objectives, we invest in high quality fixed income securities consistent with the investment policy and California Government Code.



City of Newport Beach

July 31, 2015

COMPLIANCE WITH INVESTMENT POLICY

Assets managed by Chandler Asset Management are in full compliance with State law and the City's investment policy.

Category	Standard	Comment
Treasury Issues	No Limit	Complies
Agency Issues	No Limit	Complies
Municipal Issues	"A" rated; 30% maximum	Complies
Banker's Acceptances	A-1/P-1; 40% max; 180 days max maturity	Complies
Commercial Paper	A-1 or equiv.; 25% max; 270 days max maturity	Complies
Repurchase Agreements	"A" rated issuer; 30 days max maturity	Complies
Rev. Repo Agreements	10% max; 30 days max maturity	Complies
Negotiable CDs	"A" rated issuer; 30% max; 1 year max maturity	Complies
Non-Negotiable CDs	Collateralized or FDIC Insured	Complies
Medium Term Notes	A-rated; 30% maximum	Complies
Mortgage-Backed Securities; Pass-Throughs; CMOs	"AAA" rated; 20% max combined with Asset-Backed Securities	Complies
Asset-Backed Securities	"AAA" rated; 20% max combined with Mortgage-Backed Securities; MPTs; CMOs	Complies
Money Market Mutual Funds	"AAA" rated; 20% maximum	Complies
LAIF	Not used by outside adviser	Complies
LA County Pool	Not used by outside adviser	Complies
Inverse floaters, range notes	Prohibited	Complies
Interest only strips	Prohibited	Complies
Zero interest accruals	Prohibited	Complies
Maximum maturity	5 years	Complies



Portfolio Characteristics

City of Newport Beach, California

	07/31/2015		04/30/2015
	Benchmark*	Portfolio	Portfolio
Average Maturity (yrs)	1.82	1.92	1.92
Modified Duration	1.78	1.73	1.76
Average Purchase Yield	n/a	0.95 %	0.93 %
Average Market Yield	0.63 %	0.83 %	0.70 %
Average Quality**	AAA	AA/Aa1	AA+/Aa1
Total Market Value		84,656,194	84,564,369

* BAML 1-3 Yr US Treasury Index

** Benchmark is a blended rating of S&P, Moody's, and Fitch. Portfolio is S&P and Moody's respectively.

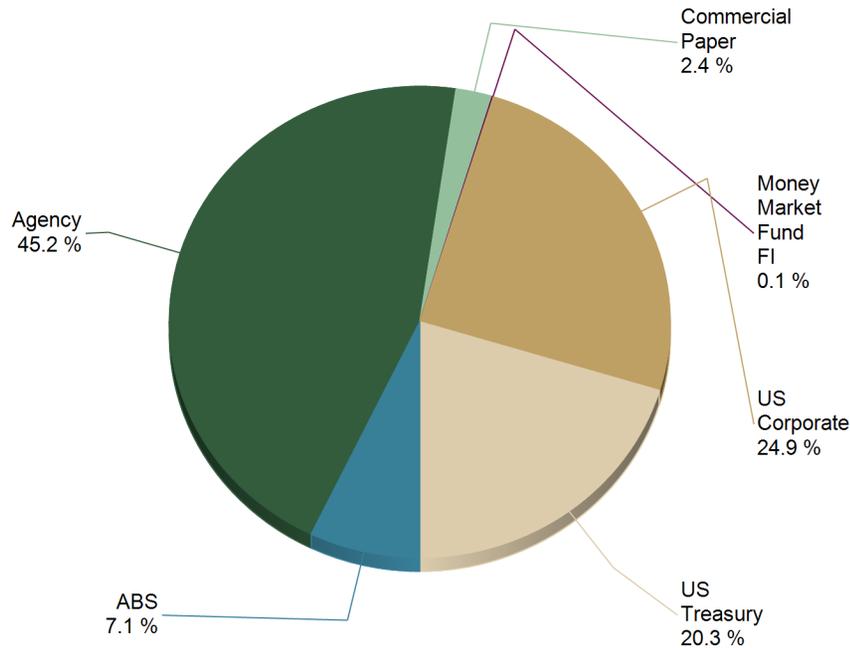
During the reporting period, we maintained the portfolio characteristics close to the strategy benchmark by evaluating opportunities for the reinvestment of recent maturities. New purchases included a diversified mix of Treasury, Agency, Asset Backed, Corporate and Commercial Paper securities. The portfolio increased its exposure to several high quality corporate issuers, such as Oracle and Occidental Petroleum. Securities were purchased with maturities ranging from October 2015 to August 2019.



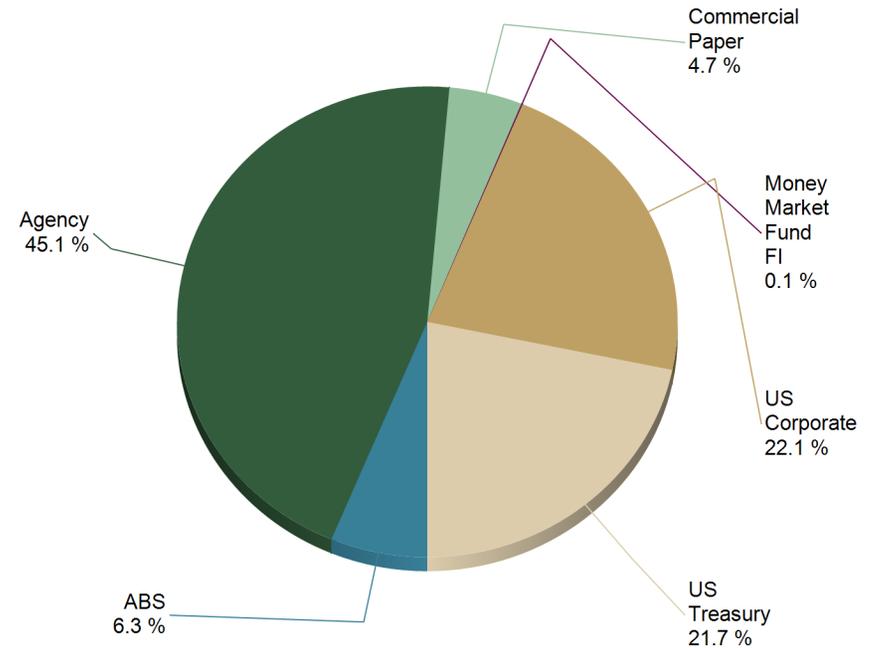
Sector Distribution

City of Newport Beach, California

July 31, 2015



April 30, 2015



The sector allocation changed slightly over the period. The portfolio's exposure increased to the Corporate and Asset Backed Securities (ABS) sectors while the Commercial Paper and Treasury sectors declined from recent maturities. We expect the allocation to Corporate securities to remain roughly constant while we look to increase our exposure to Asset Backed Securities as we see attractive valuation characteristics relative to government securities.



City of Newport Beach, California
Account #10

Issuer Report

As of 7/31/2015

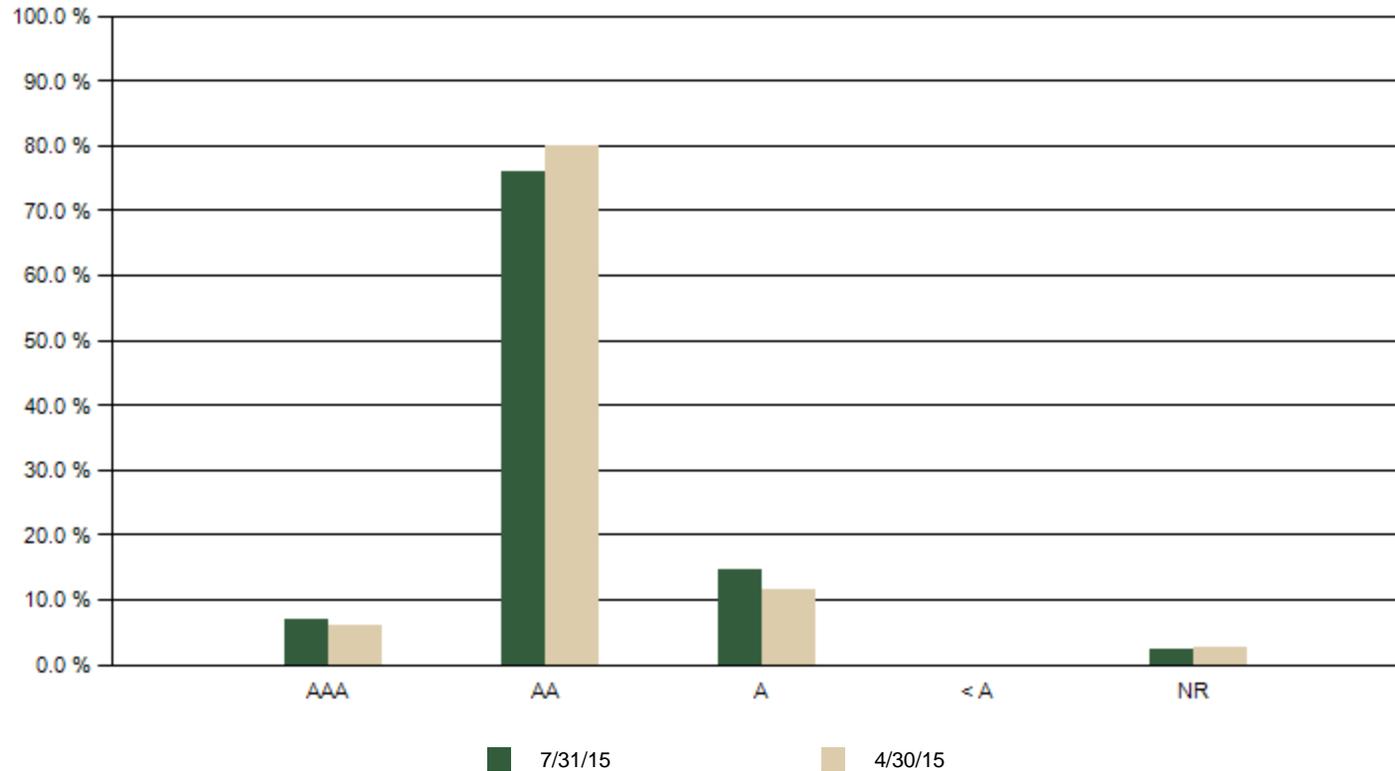
Issue Name	Investment Type	% Portfolio
Government of United States	US Treasury	20.30 %
Federal National Mortgage Association	Agency	14.35 %
Federal Farm Credit Bank	Agency	12.36 %
Federal Home Loan Mortgage Corp	Agency	10.31 %
Federal Home Loan Bank	Agency	8.16 %
Honda ABS	ABS	2.76 %
JP Morgan Chase & Co	US Corporate	2.43 %
Wells Fargo Corp	US Corporate	1.94 %
Toyota ABS	ABS	1.91 %
ChevronTexaco Corp	US Corporate	1.82 %
John Deere ABS	ABS	1.80 %
Paccar Financial	US Corporate	1.57 %
Qualcomm Inc	US Corporate	1.47 %
Charles Schwab Corp/The	US Corporate	1.35 %
Oracle Corp	US Corporate	1.30 %
Honda Motor Corporation	US Corporate	1.28 %
Occidental Petroleum Corporation	US Corporate	1.27 %
General Electric Co	US Corporate	1.26 %
IBM Corp	US Corporate	1.22 %
Deere & Company	US Corporate	1.20 %
Toyota Motor Corp	Commercial Paper	1.18 %
Bank of Tokyo-Mit UFJ	Commercial Paper	1.18 %
Microsoft	US Corporate	0.94 %
Wal-Mart Stores	US Corporate	0.92 %
Air Products & Chemicals	US Corporate	0.83 %
Apple Inc	US Corporate	0.77 %
Intel Corp	US Corporate	0.75 %
Berkshire Hathaway	US Corporate	0.69 %
JP Morgan ABS	ABS	0.66 %
Cisco Systems	US Corporate	0.60 %
Bank of New York	US Corporate	0.58 %
Google Inc	US Corporate	0.52 %
Pfizer Inc.	US Corporate	0.23 %
Federated GOVT Obligation MMF	Money Market Fund FI	0.08 %
Total		100.00 %



Quality Distribution

City of Newport Beach, California

July 31, 2015 vs. April 30, 2015



	AAA	AA	A	<A	NR
7/31/15	6.9 %	76.0 %	14.7 %	0.0 %	2.4 %
4/30/15	6.0 %	80.1 %	11.5 %	0.0 %	2.5 %

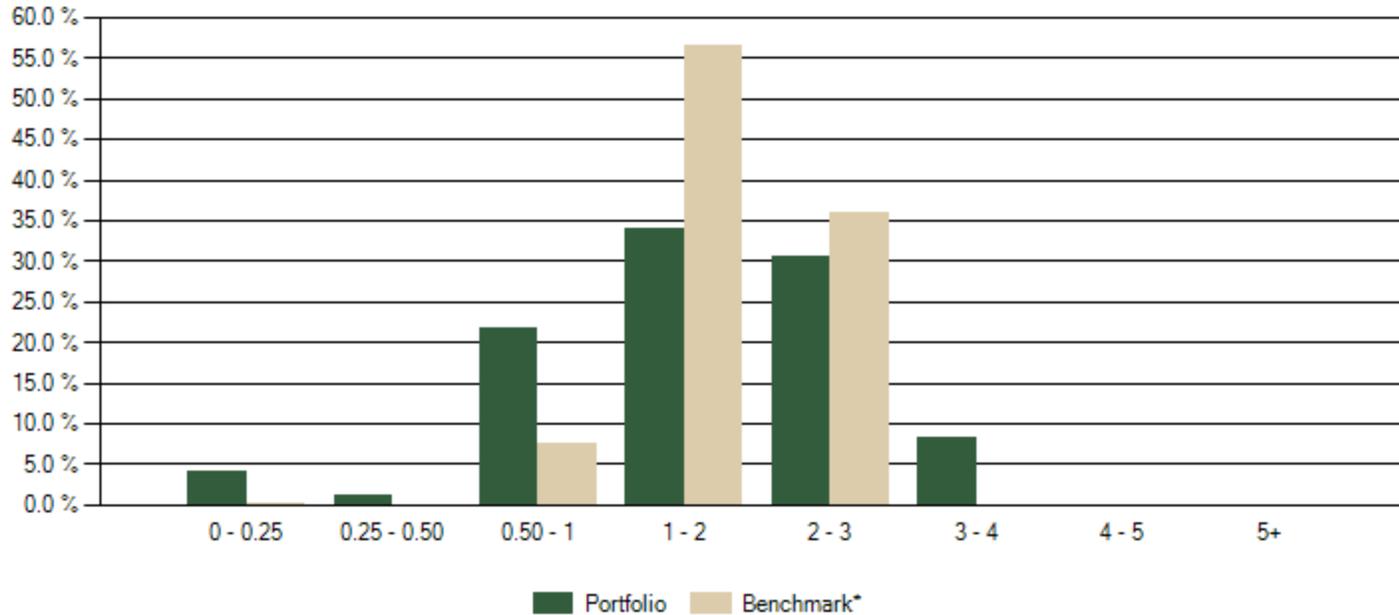
Source: S&P Ratings



Duration Distribution

City of Newport Beach, California

Portfolio Compared to the Benchmark as of July 31, 2015



	0 - 0.25	0.25 - 0.50	0.50 - 1	1 - 2	2 - 3	3 - 4	4 - 5	5+
Portfolio	4.2 %	1.2 %	21.8 %	34.0 %	30.5 %	8.2 %	0.0 %	0.0 %
Benchmark*	0.1 %	0.0 %	7.5 %	56.5 %	35.9 %	0.0 %	0.0 %	0.0 %

* BAML 1-3 Yr US Treasury Index

The duration of the portfolio decreased slightly during the reporting period, currently 1.73 versus 1.76 at the end of April 2015. Interest rate volatility is likely to remain elevated as the Federal Reserve considers raising the fed funds rate towards the end of 2015. We anticipate keeping the duration close to the benchmark in the coming quarter using the proceeds from maturities and sales to extend the duration of the portfolio.



Investment Performance

City of Newport Beach, California

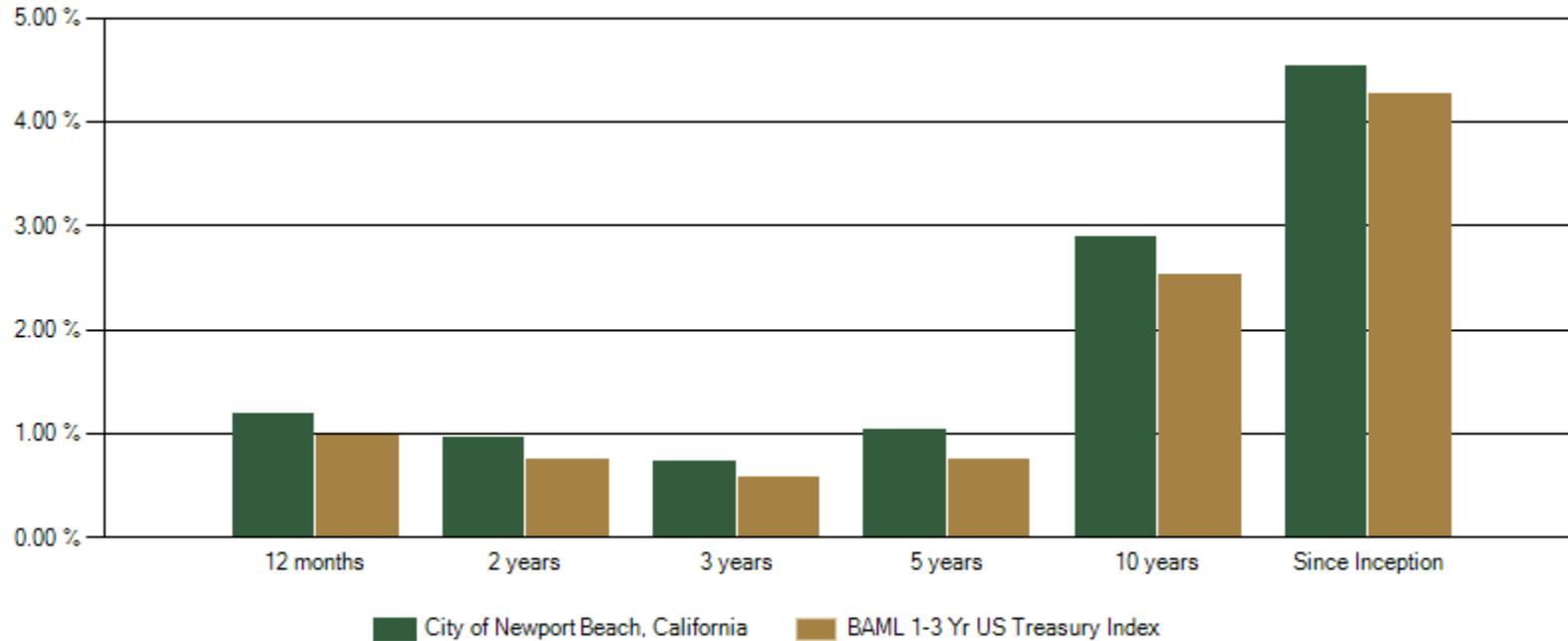
Period Ending

July 31, 2015

Total Rate of Return

Annualized Since Inception

March 31, 1991



	3 months	12 months	Annualized				
			2 years	3 years	5 years	10 years	Since Inception
City of Newport Beach, California	0.11 %	1.21 %	0.98 %	0.74 %	1.05 %	2.92 %	4.56 %
BAML 1-3 Yr US Treasury Index	0.15 %	1.01 %	0.77 %	0.59 %	0.78 %	2.55 %	4.29 %

Total rate of return: A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains and losses in the portfolio.



SECTION 3

Portfolio Holdings



Holdings Report

As of 7/31/15

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
ABS									
89231NAC7	Toyota Auto Receivable 2012-B A3 0.46% Due 7/15/2016	46,234.88	09/18/2012 0.46 %	46,230.48 46,234.70	100.00 0.45 %	46,235.43 9.45	0.05 % 0.73	Aaa / AAA NR	0.96 0.08
47787RAC4	John Deere Owner Trust 2012-B A3 0.53% Due 7/15/2016	23,361.44	11/18/2013 0.50 %	23,371.48 23,365.06	100.00 0.60 %	23,360.34 5.50	0.03 % (4.72)	Aaa / NR AAA	0.96 0.07
43813CAC4	Honda Auto Receivables 2012-4 A3 0.52% Due 8/18/2016	71,590.17	10/11/2012 0.52 %	71,583.24 71,589.66	100.00 0.54 %	71,588.45 13.44	0.08 % (1.21)	Aaa / AAA NR	1.05 0.13
161571FL3	Chase CHAIT Pool #2012-A5 0.59% Due 8/15/2017	560,000.00	03/19/2013 0.59 %	560,000.00 560,000.00	100.00 0.64 %	559,993.84 146.84	0.66 % (6.16)	NR / AAA AAA	2.04 0.02
43813JAC9	Honda Auto Receivables 2014-1 A3 0.67% Due 11/21/2017	525,000.00	01/22/2015 0.90 %	523,400.39 523,829.10	99.81 0.90 %	523,985.70 97.71	0.62 % 156.60	Aaa / NR AAA	2.31 0.86
89231MAC9	Toyota Auto Receivables Owner 2014-A 0.67% Due 12/15/2017	810,000.00	Various 0.79 %	809,096.11 809,347.20	99.89 0.82 %	809,109.81 241.20	0.96 % (237.39)	Aaa / AAA NR	2.38 0.75
43814GAC4	Honda Auto Receivables 2014-2 A3 0.77% Due 3/19/2018	395,000.00	05/13/2014 0.78 %	394,952.52 394,971.50	99.83 0.95 %	394,323.37 109.83	0.47 % (648.13)	Aaa / AAA NR	2.64 0.99
47787VAC5	John Deere Owner Trust 2014-A A3 0.92% Due 4/16/2018	565,000.00	04/02/2014 0.93 %	564,909.49 564,948.83	100.05 0.87 %	565,290.41 231.02	0.67 % 341.58	Aaa / NR AAA	2.71 0.95
43814HAC2	Honda Auto Receivables 2014-3 A3 0.88% Due 6/15/2018	390,000.00	08/12/2014 0.89 %	389,924.77 389,949.33	100.05 0.85 %	390,180.18 152.53	0.46 % 230.85	NR / AAA AAA	2.88 1.24
47787AD6	John Deere Owner Trust 2014-B A3 1.07% Due 11/15/2018	935,000.00	Various 1.09 %	934,749.69 934,810.97	100.05 1.03 %	935,484.33 444.64	1.11 % 673.36	Aaa / NR AAA	3.30 1.39
89236WAC2	Toyota Auto Receivables Owner 2015-A 1.12% Due 2/15/2019	760,000.00	02/24/2015 1.13 %	759,885.09 759,901.06	99.92 1.17 %	759,423.92 378.31	0.90 % (477.14)	Aaa / AAA NR	3.55 1.72
43813NAC0	Honda Auto Receivables 2015-2 A3 1.04% Due 2/21/2019	960,000.00	05/13/2015 1.05 %	959,852.64 959,860.47	99.78 1.16 %	957,930.24 277.33	1.13 % (1,930.23)	NR / AAA AAA	3.56 1.81
Total ABS		6,041,186.49	0.92 %	6,037,955.90 6,038,807.88	0.95 %	6,036,906.02 2,107.80	7.13 % (1,901.86)	Aaa / AAA Aaa	2.87 1.13
AGENCY									
3133ECFV1	FFCB Note 0.43% Due 1/29/2016	800,000.00	03/26/2013 0.45 %	799,608.00 799,931.65	100.12 0.18 %	800,972.80 19.11	0.95 % 1,041.15	Aaa / AA+ AAA	0.50 0.49
313382B77	FHLB Note 0.42% Due 2/12/2016	1,000,000.00	02/22/2013 0.46 %	998,800.00 999,783.73	100.09 0.25 %	1,000,918.00 1,971.67	1.18 % 1,134.27	Aaa / AA+ AAA	0.54 0.53
3133XFP43	FHLB Note 3.125% Due 3/11/2016	500,000.00	08/10/2011 1.11 %	544,792.50 505,966.98	101.74 0.28 %	508,688.50 6,076.39	0.61 % 2,721.52	Aaa / AA+ AAA	0.61 0.60
3133EDEC2	FFCB 0.55% Due 4/28/2016	2,000,000.00	02/06/2014 0.44 %	2,004,920.00 2,001,644.04	100.10 0.41 %	2,002,064.00 2,841.67	2.37 % 419.96	Aaa / AA+ AAA	0.75 0.74
3133ED6D9	FFCB Note 0.5% Due 5/4/2016	500,000.00	02/28/2014 0.41 %	500,975.00 500,340.57	100.05 0.43 %	500,255.00 604.17	0.59 % (85.57)	Aaa / AA+ AAA	0.76 0.76
3137EADQ9	FHLMC Note 0.5% Due 5/13/2016	850,000.00	02/24/2014 0.44 %	851,116.90 850,396.32	100.10 0.37 %	850,869.55 920.83	1.01 % 473.23	Aaa / AA+ AAA	0.79 0.78



Holdings Report

As of 7/31/15

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
AGENCY									
3137EACT4	FHLMC Note 2.5% Due 5/27/2016	500,000.00	03/23/2012 1.06 %	529,310.00 505,773.47	101.74 0.37 %	508,724.50 2,222.22	0.60 % 2,951.03	Aaa / AA+ AAA	0.82 0.81
313373SZ6	FHLB Note 2.125% Due 6/10/2016	660,000.00	12/24/2012 0.55 %	695,593.80 668,856.14	101.51 0.36 %	669,973.26 1,986.88	0.79 % 1,117.12	Aaa / AA+ AAA	0.86 0.85
3133EDDP4	FFCB Note 0.52% Due 6/17/2016	2,000,000.00	03/13/2014 0.48 %	2,001,600.00 2,000,621.79	100.14 0.36 %	2,002,862.00 1,271.11	2.37 % 2,240.21	Aaa / AA+ AAA	0.88 0.87
3137EACW7	FHLMC Note 2% Due 8/25/2016	800,000.00	11/08/2011 1.19 %	829,992.00 806,680.11	101.61 0.49 %	812,874.40 6,933.33	0.97 % 6,194.29	Aaa / AA+ AAA	1.07 1.05
3137EADS5	FHLMC Note 0.875% Due 10/14/2016	1,000,000.00	10/29/2013 0.65 %	1,006,530.00 1,002,660.37	100.46 0.49 %	1,004,630.00 2,600.69	1.19 % 1,969.63	Aaa / AA+ AAA	1.21 1.19
3135G0ES8	FNMA Note 1.375% Due 11/15/2016	625,000.00	09/14/2012 0.67 %	642,968.12 630,579.57	101.12 0.50 %	632,020.00 1,814.24	0.75 % 1,440.43	Aaa / AA+ AAA	1.30 1.28
3130A0C65	FHLB Note 0.625% Due 12/28/2016	1,000,000.00	12/23/2013 0.79 %	995,250.00 997,770.05	100.09 0.56 %	1,000,922.00 572.92	1.18 % 3,151.95	Aaa / AA+ AAA	1.41 1.40
3133EEHY9	FFCB Note 0.7% Due 1/13/2017	1,225,000.00	02/20/2015 0.71 %	1,224,840.75 1,224,877.45	100.13 0.61 %	1,226,641.50 428.75	1.45 % 1,764.05	Aaa / AA+ AAA	1.46 1.44
3133786Q9	FHLB Note 1% Due 2/13/2017	1,000,000.00	10/17/2012 0.75 %	1,010,600.00 1,003,772.77	100.54 0.65 %	1,005,373.00 4,666.67	1.19 % 1,600.23	Aaa / AA+ AAA	1.54 1.51
3137EADT3	FHLMC Note 0.875% Due 2/22/2017	825,000.00	02/24/2014 0.77 %	827,495.63 826,306.15	100.34 0.66 %	827,772.83 3,188.28	0.98 % 1,466.68	Aaa / AA+ AAA	1.57 1.54
3135G0VM2	FNMA Callable Note 1X 3/14/14 0.75% Due 3/14/2017	3,500,000.00	04/11/2013 0.75 %	3,507,350.00 3,500,000.00	100.18 0.64 %	3,506,426.00 9,989.58	4.15 % 6,426.00	Aaa / AA+ AAA	1.62 1.60
3135G0JA2	FNMA Note 1.125% Due 4/27/2017	625,000.00	Various 1.05 %	626,565.75 625,840.36	100.78 0.67 %	629,899.38 1,835.94	0.75 % 4,059.02	Aaa / AA+ AAA	1.74 1.72
313379FW4	FHLB Note 1% Due 6/9/2017	550,000.00	09/14/2012 0.82 %	554,652.18 551,827.45	100.51 0.72 %	552,795.10 794.44	0.65 % 967.65	Aaa / AA+ AAA	1.86 1.83
3137EADJ5	FHLMC Note 1% Due 7/28/2017	1,000,000.00	09/23/2013 1.19 %	992,760.00 996,248.41	100.52 0.74 %	1,005,223.00 83.33	1.19 % 8,974.59	Aaa / AA+ AAA	1.99 1.97
313370SZ2	FHLB Note 2.25% Due 9/8/2017	520,000.00	01/04/2013 0.89 %	552,271.20 534,572.26	102.85 0.88 %	534,837.68 4,647.50	0.64 % 265.42	Aaa / AA+ AAA	2.11 2.04
3135G0PP2	FNMA Callable Note 1X 9/20/2013 1% Due 9/20/2017	1,250,000.00	Various 0.94 %	1,253,387.50 1,251,480.63	100.41 0.80 %	1,255,153.75 4,548.61	1.49 % 3,673.12	Aaa / AA+ AAA	2.14 2.10
3133EAY28	FFCB Note 0.83% Due 9/21/2017	1,690,000.00	Various 0.84 %	1,689,087.20 1,689,600.03	100.89 0.41 %	1,704,983.54 5,065.30	2.02 % 15,383.51	Aaa / AA+ AAA	2.15 2.11
3135G0ZL0	FNMA Note 1% Due 9/27/2017	730,000.00	Various 1.08 %	728,182.90 728,725.70	100.50 0.76 %	733,667.52 2,514.44	0.87 % 4,941.82	Aaa / AA+ AAA	2.16 2.12
3133EDDV1	FFCB Note 1.16% Due 10/23/2017	600,000.00	01/29/2015 0.87 %	604,680.00 603,820.98	100.42 0.97 %	602,525.40 1,894.67	0.71 % (1,295.58)	Aaa / AA+ AAA	2.23 2.19
3134G5N76	FHLMC Callable Note Qtrly 11/13/2015 1.05% Due 11/13/2017	2,000,000.00	11/13/2014 1.11 %	1,996,500.00 1,997,331.05	100.21 0.96 %	2,004,160.00 4,550.00	2.37 % 6,828.95	Aaa / AA+ AAA	2.29 0.97



Holdings Report

As of 7/31/15

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
AGENCY									
3133EEFE5	FFCB Note 1.125% Due 12/18/2017	1,600,000.00	01/30/2015 0.85 %	1,612,496.00 1,610,324.33	100.71 0.82 %	1,611,368.00 2,150.00	1.91 % 1,043.67	Aaa / AA+ AAA	2.39 2.34
3135G0TG8	FNMA Note 0.875% Due 2/8/2018	1,225,000.00	01/15/2015 0.91 %	1,223,738.25 1,223,960.38	99.34 1.14 %	1,216,885.60 5,150.95	1.44 % (7,074.78)	Aaa / AA+ AAA	2.53 2.47
3130A4GJ5	FHLB Note 1.125% Due 4/25/2018	1,600,000.00	03/30/2015 1.00 %	1,605,910.40 1,605,261.89	100.36 0.99 %	1,605,772.80 4,800.00	1.90 % 510.91	Aaa / AA+ AAA	2.74 2.68
3135G0WJ8	FNMA Note 0.875% Due 5/21/2018	1,500,000.00	Various 1.18 %	1,484,200.00 1,487,329.52	99.56 1.04 %	1,493,370.00 2,552.08	1.77 % 6,040.48	Aaa / AA+ AAA	2.81 2.76
3135G0E33	FNMA Note 1.125% Due 7/20/2018	1,700,000.00	Various 1.18 %	1,697,059.95 1,697,187.38	99.99 1.13 %	1,699,746.70 584.38	2.01 % 2,559.32	Aaa / AA+ AAA	2.97 2.91
3135G0YT4	FNMA Note 1.625% Due 11/27/2018	940,000.00	Various 1.56 %	942,208.85 941,809.54	101.43 1.18 %	953,472.08 2,715.55	1.13 % 11,662.54	Aaa / AA+ AAA	3.33 3.22
3137EADK2	FHLMC Note 1.25% Due 8/1/2019	1,700,000.00	Various 1.36 %	1,692,427.40 1,692,845.26	99.12 1.48 %	1,685,108.00 10,625.00	2.00 % (7,737.26)	Aaa / AA+ AAA	4.01 3.86
Total Agency		38,015,000.00	0.87 %	38,227,870.28 38,064,126.33	0.71 %	38,150,955.89 102,620.70	45.19 % 86,829.56	Aaa / AA+ Aaa	1.86 1.75
COMMERCIAL PAPER									
89233HX25	Toyota Motor Credit Discount CP 0.31% Due 10/2/2015	1,000,000.00	01/15/2015 0.31 %	997,761.11 997,761.11	99.78 0.31 %	997,761.11 1,705.00	1.18 % 0.00	P-1 / A-1+ F-1	0.17 0.17
06538CXT3	Bank of Tokyo Mitsubishi NY Discount CP 0.3% Due 10/27/2015	1,000,000.00	06/26/2015 0.30 %	999,000.00 999,000.00	99.90 0.30 %	999,000.00 275.00	1.18 % 0.00	P-1 / A-1 F-1	0.24 0.24
Total Commercial Paper		2,000,000.00	0.31 %	1,996,761.11 1,996,761.11	0.31 %	1,996,761.11 1,980.00	2.36 % 0.00	P-1 / A-1 F-1	0.21 0.21
MONEY MARKET FUND FI									
60934N104	Federated GOVT OBLIG MMF	68,286.37	Various 0.01 %	68,286.37 68,286.37	1.00 0.01 %	68,286.37 0.00	0.08 % 0.00	Aaa / AAA AAA	0.00 0.00
Total Money Market Fund FI		68,286.37	0.01 %	68,286.37 68,286.37	0.01 %	68,286.37 0.00	0.08 % 0.00	Aaa / AAA Aaa	0.00 0.00
US CORPORATE									
931142CX9	Wal-Mart Stores Note 1.5% Due 10/25/2015	775,000.00	05/10/2013 0.43 %	795,064.75 776,909.86	100.25 0.41 %	776,960.75 3,100.00	0.92 % 50.89	Aa2 / AA AA	0.24 0.23
084664BN0	Berkshire Hathaway Note 2.45% Due 12/15/2015	250,000.00	01/23/2012 1.08 %	263,027.50 251,248.58	100.68 0.62 %	251,698.25 782.64	0.30 % 449.67	Aa2 / AA A+	0.38 0.37
594918AK0	Microsoft Note 2.5% Due 2/8/2016	775,000.00	05/10/2013 0.54 %	816,175.75 782,872.44	101.12 0.34 %	783,680.78 9,310.76	0.94 % 808.34	Aaa / AAA AA+	0.53 0.51



Holdings Report

As of 7/31/15

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
US CORPORATE									
46625HHX1	JP Morgan Chase Note 3.45% Due 3/1/2016	2,000,000.00	10/19/2012 1.31 %	2,140,000.00 2,024,362.75	101.49 0.88 %	2,029,798.00 28,750.00	2.43 % 5,435.25	A3 / A A+	0.59 0.57
037833AH3	Apple Inc Note 0.45% Due 5/3/2016	650,000.00	Various 0.54 %	648,369.50 649,571.21	100.02 0.43 %	650,105.95 715.00	0.77 % 534.74	Aa1 / AA+ NR	0.76 0.75
38259PAC6	Google Inc Note 2.125% Due 5/19/2016	435,000.00	11/15/2012 0.75 %	455,571.30 439,707.54	101.33 0.46 %	440,779.41 1,848.75	0.52 % 1,071.87	Aa2 / AA NR	0.80 0.79
166764AC4	Chevron Corp. Note 0.889% Due 6/24/2016	675,000.00	08/15/2013 0.87 %	675,317.25 675,100.15	100.25 0.61 %	676,676.03 616.74	0.80 % 1,575.88	Aa1 / AA NR	0.90 0.89
06406HBX6	Bank of New York Note 2.3% Due 7/28/2016	485,000.00	11/19/2012 0.89 %	509,618.80 491,635.89	101.20 1.08 %	490,825.34 92.96	0.58 % (810.55)	A1 / A+ AA-	0.99 0.98
949746JE2	Wells Fargo Company Note 5.125% Due 9/15/2016	978,000.00	04/29/2013 1.24 %	1,103,032.45 1,019,745.19	104.17 1.36 %	1,018,825.63 18,935.17	1.23 % (919.56)	A3 / A A+	1.13 1.08
458140AH3	Intel Corp Note 1.95% Due 10/1/2016	625,000.00	03/22/2013 0.91 %	647,500.00 632,482.48	101.41 0.73 %	633,806.88 4,062.50	0.75 % 1,324.40	A1 / A+ A+	1.17 1.15
36962GY40	General Electric Capital Corp Note 5.375% Due 10/20/2016	1,000,000.00	01/15/2013 1.31 %	1,148,590.00 1,048,337.81	105.21 1.06 %	1,052,113.00 15,079.86	1.26 % 3,775.19	A1 / AA+ NR	1.22 1.18
674599CB9	Occidental Petroleum Note 1.75% Due 2/15/2017	1,060,000.00	Various 1.12 %	1,077,702.80 1,070,163.75	100.82 1.21 %	1,068,687.76 8,553.61	1.27 % (1,475.99)	A2 / A A	1.55 1.50
17275RAT9	Cisco Systems Note 1.1% Due 3/3/2017	500,000.00	09/10/2014 1.07 %	500,330.00 500,211.73	100.35 0.88 %	501,762.00 2,261.11	0.60 % 1,550.27	A1 / AA- NR	1.59 1.57
084664BS9	Berkshire Hathaway Note 1.6% Due 5/15/2017	325,000.00	11/26/2013 1.18 %	329,657.25 327,404.10	101.05 1.01 %	328,408.28 1,097.78	0.39 % 1,004.18	Aa2 / AA A+	1.79 1.76
717081DJ9	Pfizer Inc. Note 1.1% Due 5/15/2017	195,000.00	05/12/2014 1.13 %	194,828.40 194,897.76	100.09 1.05 %	195,171.60 452.83	0.23 % 273.84	A1 / AA A+	1.79 1.76
009158AS5	Air Products & Chemicals Note 1.2% Due 10/15/2017	700,000.00	03/03/2015 1.28 %	698,551.00 698,775.79	99.72 1.33 %	698,039.30 2,473.33	0.83 % (736.49)	A2 / A NR	2.21 2.16
68389XAN5	Oracle Corp Note 1.2% Due 10/15/2017	1,100,000.00	Various 1.32 %	1,095,291.00 1,097,061.14	99.89 1.25 %	1,098,786.70 3,886.67	1.30 % 1,725.56	A1 / AA- A+	2.21 2.16
69371RM37	Paccar Financial Corp Note 1.4% Due 11/17/2017	500,000.00	11/12/2014 1.42 %	499,780.00 499,831.59	100.21 1.31 %	501,065.50 1,438.89	0.59 % 1,233.91	A1 / A+ NR	2.30 2.25
02665WAQ4	American Honda Finance Note 1.55% Due 12/11/2017	650,000.00	12/08/2014 1.58 %	649,395.50 649,524.01	100.30 1.42 %	651,950.65 1,399.31	0.77 % 2,426.64	A1 / A+ NR	2.37 2.31
94974BFG0	Wells Fargo Corp Note 1.5% Due 1/16/2018	600,000.00	09/09/2014 1.64 %	597,192.00 597,937.59	100.06 1.48 %	600,346.20 375.00	0.71 % 2,408.61	A2 / A+ AA-	2.47 2.40
459200HZ7	IBM Corp Note 1.125% Due 2/6/2018	1,035,000.00	02/03/2015 1.23 %	1,031,843.25 1,032,350.17	99.53 1.31 %	1,030,169.66 5,660.16	1.22 % (2,180.51)	Aa3 / AA- A+	2.52 2.46
166764AV2	Chevron Corp. Note 1.365% Due 3/2/2018	860,000.00	02/24/2015 1.37 %	860,000.00 860,000.00	99.88 1.41 %	858,931.88 4,826.03	1.02 % (1,068.12)	Aa1 / AA NR	2.59 2.52
69371RM45	Paccar Financial Corp Note 1.45% Due 3/9/2018	824,000.00	Various 1.47 %	823,560.84 823,581.05	100.04 1.44 %	824,300.76 4,712.82	0.98 % 719.71	A1 / A+ NR	2.61 2.53



Holdings Report

As of 7/31/15

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
US CORPORATE									
808513AK1	Charles Schwab Corp Callable Note Cont 2/10/2018 1.5% Due 3/10/2018	1,130,000.00	Various 1.49 %	1,130,242.70 1,130,269.74	100.18 1.42 %	1,132,067.90 6,638.76	1.35 % 1,798.16	A2 / A A	2.61 2.45
24422ESB6	John Deere Capital Corp Note 1.3% Due 3/12/2018	1,015,000.00	Various 1.39 %	1,012,047.05 1,012,630.32	99.58 1.46 %	1,010,720.76 5,094.74	1.20 % (1,909.56)	A2 / A NR	2.62 2.55
747525AG8	Qualcom Inc Note 1.4% Due 5/18/2018	1,255,000.00	Various 1.45 %	1,253,021.30 1,253,150.94	98.84 1.83 %	1,240,420.67 3,465.20	1.47 % (12,730.27)	A1 / A+ NR	2.80 2.72
02665WAC5	American Honda Finance Note 2.125% Due 10/10/2018	425,000.00	09/09/2014 1.93 %	428,149.25 427,466.10	101.35 1.69 %	430,757.05 2,784.64	0.51 % 3,290.95	A1 / A+ NR	3.20 3.06
Total US Corporate		20,822,000.00	1.21 %	21,383,859.64 20,967,229.68	1.13 %	20,976,856.69 138,415.26	24.94 % 9,627.01	A1 / AA- A+	1.71 1.66
US TREASURY									
912828WX4	US Treasury Note 0.5% Due 7/31/2016	1,000,000.00	09/11/2014 0.51 %	999,882.81 999,937.56	100.16 0.34 %	1,001,562.00 13.59	1.18 % 1,624.44	Aaa / AA+ AAA	1.00 1.00
912828RJ1	US Treasury Note 1% Due 9/30/2016	850,000.00	01/07/2013 0.55 %	864,080.97 854,407.42	100.67 0.42 %	855,711.15 2,856.56	1.01 % 1,303.73	Aaa / AA+ AAA	1.17 1.16
912828RX0	US Treasury Note 0.875% Due 12/31/2016	1,000,000.00	05/12/2014 0.70 %	1,004,531.25 1,002,442.44	100.55 0.49 %	1,005,469.00 760.87	1.19 % 3,026.56	Aaa / AA+ AAA	1.42 1.41
912828A91	US Treasury Note 0.75% Due 1/15/2017	1,300,000.00	07/07/2014 0.78 %	1,298,882.81 1,299,354.16	100.34 0.52 %	1,304,366.70 450.41	1.54 % 5,012.54	Aaa / AA+ AAA	1.46 1.45
912828B74	US Treasury Note 0.625% Due 2/15/2017	675,000.00	02/28/2014 0.68 %	673,947.57 674,450.40	100.13 0.54 %	675,843.75 1,946.22	0.80 % 1,393.35	Aaa / AA+ AAA	1.55 1.53
912828SM3	US Treasury Note 1% Due 3/31/2017	1,000,000.00	06/05/2014 0.75 %	1,006,875.00 1,004,062.20	100.71 0.57 %	1,007,109.00 3,360.66	1.19 % 3,046.80	Aaa / AA+ AAA	1.67 1.65
912828SS0	US Treasury Note 0.875% Due 4/30/2017	1,400,000.00	Various 0.83 %	1,401,673.22 1,401,078.50	100.45 0.61 %	1,406,343.40 3,095.79	1.66 % 5,264.90	Aaa / AA+ AAA	1.75 1.73
912828SY7	US Treasury Note 0.625% Due 5/31/2017	975,000.00	03/24/2014 1.04 %	962,282.56 967,684.46	99.96 0.65 %	974,618.78 1,032.27	1.15 % 6,934.32	Aaa / AA+ AAA	1.84 1.82
912828TG5	US Treasury Note 0.5% Due 7/31/2017	1,400,000.00	Various 0.62 %	1,394,067.19 1,396,665.74	99.64 0.68 %	1,394,968.40 19.03	1.65 % (1,697.34)	Aaa / AA+ AAA	2.00 1.99
912828TW0	US Treasury Note 0.75% Due 10/31/2017	750,000.00	09/09/2014 1.16 %	740,598.22 743,232.69	99.98 0.76 %	749,824.50 1,421.54	0.89 % 6,591.81	Aaa / AA+ AAA	2.25 2.22
912828UA6	US Treasury Note 0.625% Due 11/30/2017	1,410,000.00	Various 1.00 %	1,393,418.40 1,397,898.65	99.63 0.79 %	1,404,712.50 1,492.83	1.66 % 6,813.85	Aaa / AA+ AAA	2.34 2.31
912828UE8	US Treasury Note 0.75% Due 12/31/2017	735,000.00	Various 1.21 %	723,550.90 727,036.74	99.85 0.81 %	733,909.26 479.35	0.87 % 6,872.52	Aaa / AA+ AAA	2.42 2.39
912828UJ7	US Treasury Note 0.875% Due 1/31/2018	775,000.00	08/21/2014 1.20 %	766,677.40 768,938.76	100.08 0.84 %	775,605.28 18.43	0.92 % 6,666.52	Aaa / AA+ AAA	2.51 2.47



Holdings Report

As of 7/31/15

CUSIP	Security Description	Par Value/Units	Purchase Date Book Yield	Cost Value Book Value	Mkt Price Mkt YTM	Market Value Accrued Int.	% of Port. Gain/Loss	Moody/S&P Fitch	Maturity Duration
US TREASURY									
912828RH5	US Treasury Note 1.375% Due 9/30/2018	1,250,000.00	Various 1.29 %	1,253,092.08 1,253,173.86	100.93 1.08 %	1,261,621.25 5,776.13	1.50 % 8,447.39	Aaa / AA+ AAA	3.17 3.08
912828SD3	US Treasury Note 1.25% Due 1/31/2019	1,500,000.00	04/29/2015 1.18 %	1,504,106.59 1,503,828.23	100.20 1.19 %	1,503,046.50 50.95	1.78 % (781.73)	Aaa / AA+ AAA	3.51 3.42
912828ST8	US Treasury Note 1.25% Due 4/30/2019	1,100,000.00	07/31/2015 1.24 %	1,100,519.31 1,100,518.93	100.03 1.24 %	1,100,343.20 3,474.86	1.30 % (175.73)	Aaa / AA+ AAA	3.75 3.64
Total US Treasury		17,120,000.00	0.92 %	17,088,186.28 17,094,710.74	0.74 %	17,155,054.67 26,249.49	20.30 % 60,343.93	Aaa / AA+ Aaa	2.17 2.13
TOTAL PORTFOLIO		84,066,472.86	0.95 %	84,802,919.58 84,229,922.11	0.83 %	84,384,820.75 271,373.25	100.00 % 154,898.64	Aa1 / AA Aaa	1.92 1.73
TOTAL MARKET VALUE PLUS ACCRUED						84,656,194.00			



SECTION 4

Investable Universe



City's Investable Universe

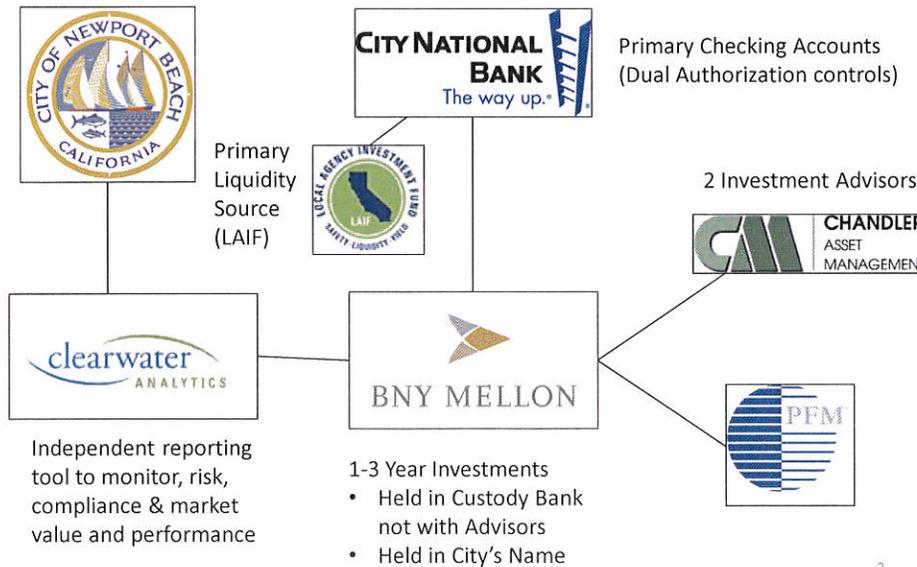
Security Type	Max % Exposure	Max Maturity	Minimum Rating
United States Treasury	N/A	5 Years	N/A
Federal Instrumentality	N/A	5 Years	N/A
Agency Obligations	N/A	5 Years	N/A
Supranationals	30%	5 Years	"AA"
MBS, CMO, & ABS	20%	5 Years	"AAA"
Medium Term Notes	30%	5 Years	"A"
Municipal Bonds	30%	5 Years	"A"
Non negotiable CDs	30% combined with NCDs	2 Years	
Negotiable CDs	30% combined with NNCDs	2 Years	LT "A", ST "A-1"
Commercial Paper	25%	270 days	"A-1"
Banker's Acceptance	40%	180 days	"A-1"
LAF			
Money Market Funds	20%		"AAA"

Miscellaneous Visual Aids

Finance Committee
August 13, 2015



Investment Management Program





**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5C
August 13, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: Recommendations for the Annual Finance Committee Budget Review Process

SUMMARY:

During the July 21, 2015, Finance Committee meeting, members discussed the need for greater transparency and accountability during the annual budget development process. This report provides recommendations and associated action items to increase the Finance Committee's involvement during the annual review of the City's budget.

RECOMMENDED ACTION:

See the recommended actions in the discussion section of this report.

DISCUSSION:

The Finance Committee has expressed an interest in having greater involvement in the review of the proposed budget prior to its adoption by the City Council. During the July 21, 2015, Finance Committee meeting, members discussed the need for greater transparency and accountability during the annual budget development process. Many of the comments shared with staff can be generalized along these four major themes:

1. The need to better define and communicate our budgeting priorities or principles to ensure that budget dollars further these goals.
2. The need to discuss budget assumptions and strategies prior to the development of the budget.
3. The need to better demonstrate accountability for the resources consumed and to demonstrate the value of programs and services.

4. The need to better communicate the value of keeping certain job functions in-house or propose potential areas for outsourcing, where it makes sense.

To address these themes and to facilitate greater Finance Committee involvement in the review of the annual budget, we have the following recommendations for the Committee's consideration:

Recommendation 1: Seek City Council's explicit statements of budgeting principles to guide the development of the annual budget. Seek Finance Committee guidance on budget assumptions and strategies prior to the development of the Fiscal Year 2016-2017 budget.

Budget principles or priorities capture the fundamental purposes for which the City serves its citizens and are broad enough to have staying power from year to year. Unlike the priorities set by the City Council in January during the annual "Goal Setting" session which typically refer to desired projects or areas that require special attention, budget priorities refer to statements upon which the entire budget can be based. What follows is a list of staff derived budget principles that were used in the development of the Fiscal Year 2015-2016 budget. We welcome the Committee's input and Council's approval of budget principles for Fiscal Year 2016-2017 that either builds upon or provides alternatives to the concepts expressed below.

- a. Maintain a Customer Focused/Quality of Life Enhancing Government – This budget principle is an ongoing, organization-wide effort to maintain the City as a highly performing municipal corporation that anticipates and responds to customer needs by delivering public services better, faster, less expensively, and when customers need them.
- b. Safety and Security of Neighborhoods – Our goal is to provide a safe and healthy environment for all community members and visitors.
- c. Maintain a High Quality Physical Environment – Another key goal is to maintain a high-quality natural and physical environment by creating aesthetically pleasing places in which to live, work, recreate, and visit.
- d. Maintain a Prosperous, Fiscally Sustainable, and Economically Viable City Another aspect of our balanced approach to management maintains the City's financial health by managing resources as efficiently as possible, responsibly managing debt, and working collaboratively with employees to recalibrate the compensation structure and share in the costs of pension obligations.

Recommended Action:

City Council can consider and approve a recommended list of budget principles and priorities in September or October 2015, prior to the development of the annual budget.

In October or November 2015, the Committee can also work on developing budget recommendations or guidance on items such as pension funding, Other Post-Employment Benefits (OPEB), Facilities Financial Planning (FFP), Seawall replacement(s), programs, services, and other budget items prior to the development of the FY 2016-17 budget.

Recommendation 2: Prior to Budget Development, provide Finance Committee and other stakeholders the ability to assess services, programs, and resource utilization. If needed, involve the participation of department directors and their key staff to describe program purposes, beneficiaries, and needs served.

Certain members of the Finance Committee expressed a desire to be more involved in the early stages of the budget process, as was the case with the Fiscal Year 2015-2016 budget prior to its adoption by the City Council in May of 2015. As Attachment A, Draft Fiscal Year 2016-2017 Budget Calendar indicates, budget development is typically well underway by February, the month that the Committee convened its first meeting in 2015. Soliciting Committee input earlier will provide the Finance Committee with a better opportunity to be involved and better understand the proposed budget.

Finance Committee members identified the need for clarity in the following areas:

1. The broad and varied components of compensation across bargaining units;
2. The reasons for large year-over-year budget changes; and
3. Various funding allocations for departments and an understanding of program specific line items.

Recommended Actions:

1. Between July and December of 2015, the Finance Committee should continue its review of the Fiscal Year 2015-2016 budget to assess current services, programs, and resource utilization. This will provide members with the context and understanding of the City's programs in advance of the Fiscal Year 2016-2017 budget process and reinforce an environment of continual process improvement.
2. Upon Committee request, department directors and their key staff could be made available at Committee meetings so that questions about program operations can be adequately addressed.
3. The Finance Committee can develop a formal list of items for the City Council and City Manager to consider in November, prior to the development of the Fiscal Year 2016-2017 budget.
4. In February, staff will then present major strategies, assumptions and tactics to coalesce Council adopted principles, Finance Committee recommendations and ideas that may surface during the Council goal setting session(s). Finance Committee and City Council review of entire budget would then commence in April/May.

Recommendation 3: City Manager’s Office can facilitate a Finance Committee review of selected City programs or functions that have the potential to operate more efficiently or at lower cost if outsourced in whole or in part. The City fosters an environment of continuous process improvement which continues throughout the year. Evaluation of program and services should not be limited to the budget cycle. In fact, generally, it is preferable that this analysis start well before the budget cycle.

Details about this recommendation and associated action items are the subject of “Wastewater Service in Newport Beach,” Agenda Item No. 5D, of this August 13, 2015, agenda packet. Staff will similarly present other operational areas for consideration in the two subsequent Finance Committee meetings.

We look forward to working collaboratively with both the Finance Committee and the City Council in preparation of the Fiscal Year 2016-2017 budget.

Prepared and Submitted by:

/s/ Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachment:

A. Draft Budget Calendar Fiscal Year 2016-2017

ATTACHMENT A

Draft Budget Calendar Fiscal Year 2016-2017

DRAFT Budget Calendar FY 2016-17

DATE	OWNER	TASK
Sep. 2015	<i>Finance Committee</i>	Recommend budget principles/priorities for Council consideration. Begin review of the current FY 15-16 budget to assess current services, programs, and resource utilization in preparation for the new budget cycle.
	<i>City Council</i>	Study Session to consider FY 16-17 budget principles/priorities.
Oct. 2015	<i>City Council</i>	City Council adopts FY 16-17 budget principles/priorities.
	<i>Finance Committee</i>	Draft FY 16-17 budget recommendations/guidance
Nov. 2015	<i>Finance Committee</i>	Finalize FY 16-17 budget recommendations/guidance
	<i>Finance Dept.</i>	Revenue budget training for departments.
	<i>Departments</i>	FY 2015-16 Year-end Estimates and FY 2016-17 Preliminary Revenue Estimates are due.
Dec. 2015	<i>Finance Dept.</i>	Payroll budget training conducted by Tyler Munis staff.
	<i>Departments</i>	Expenditure Budget workshop-½ day session. Budget processors can work on their department's budget with OMB staff available to provide assistance or answer questions.
Jan. 2016	<i>Departments</i>	Expenditure budgets and Performance Plan pages (excluding Service Indicators) must be completed; budget module will be closed.
	<i>City Council</i>	Annual Council Goal Setting Session
Feb. 2016	<i>Finance Committee</i>	Review strategies, assumptions and tactics
	<i>Departments</i>	Service Indicators for the Performance Plan due.
	<i>Finance Dept.</i>	Meet with City Manager to discuss departmental budgets.
Mar. 2016	<i>Finance Public Works</i>	Prepare and print Proposed Budget documents.
Apr. 2016	<i>City Manager</i>	Submit Proposed Budget to City Council and Finance Committee.
May 2016	<i>Finance Committee</i>	Review of Proposed Budget.
	<i>City Council</i>	First budget review with staff at the Study Session. Set date for public hearing on budget.
Jun. 2016	<i>City Council</i>	Public Hearing and Adoption of FY 2015-16 Budget and GANN Limit.
Jul. 2016		Beginning of FY 2016-17.
Aug. 2016	<i>Finance Dept.</i>	Target posting of final budget documents online.

Miscellaneous Visual Aids

Finance Committee
August 13, 2015



Financial & Budget Preparation

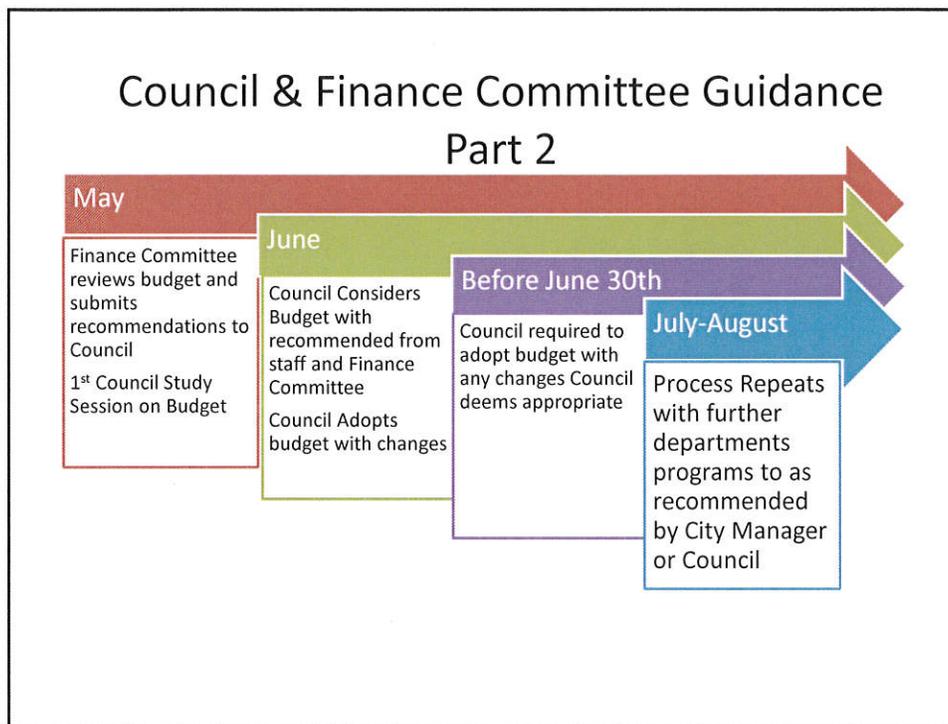


3

Council & Finance Committee Guidance

Part 1







**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5D
August 13, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Municipal Operations Department and City Manager's Office
George Murdoch, Municipal Operations Director (949) 644-3011,
gmurdoch@newportbeachca.gov
Carol Jacobs, Interim Assistant City Manager (949) 644-3313,
cjacobs@newportbeachca.gov

SUBJECT: Wastewater Service in Newport Beach

SUMMARY:

The City Council has requested a review of the City's Wastewater Operation as part of the City's on-going effort to review operations for effectiveness, efficiency and cost. This report provides the roles and responsibilities of the Division.

RECOMMENDED ACTION:

Provide recommendation to the City Council considering the following options:

1. Keep the Wastewater Division as an in-house municipal function.
2. Engage a consultant to review the efficiency and effectiveness of the Division.
3. Consider outsourcing the maintenance function to a third party through a Request for Proposal Process (RFP).
4. Consider annexation of the system to another governmental entity such as a special district.

BACKGROUND:

The Wastewater Division of the Municipal Services Department is responsible for four core functions:

1. Pump Stations – Operate, maintain and repair the sewer pump station system.
2. Maintenance – Minimize sewer spills by performing routine maintenance and cleaning.

3. Construction Operations – Replace sewer mains, laterals and manholes as needed.
4. Emergency Response – Respond to unplanned sewer system issues that occur anytime that could result as a hazard to public health.

These operations must be in compliance with Federal and State regulations in order to protect the public health and the water quality in Newport Beach's bays and ocean. The California Regional Water Quality Control Board is the primary regulatory agency that enforces the Waste Discharge Requirements that include a Sewer System Management Plan, which City Council adopted in 2014. The Division has been successful in meeting all regulatory standards.

Prior to determining the best method to deliver this service, the Division developed a detailed report that identifies all of the specific operations of the Division. This report is included as Attachment A.

Many of the functions of the Wastewater Division have been contracted out to private firms over the years, these functions include: closed circuit television inspections, root foaming, sewer roach control, man hole lining, and pipe relining at a cost of \$1,668,800. In addition, there are number of on-call services that are shared with several departments totaling over \$1,000,000.

The Wastewater Division is in one of the City's two Enterprise Funds. These funds are established with separate accounting and financial reporting systems as a fee is charged for the service rendered. Revenues anticipated to be collected during Fiscal Year 2015-2016 are \$3,054,551. The Division has a total of 12 employees and a budget of \$3,388,614. This Fiscal Year 2015-2016 expenditure budget includes \$500,000 for Capital Improvement Projects (CIP) that is currently not meeting the needs to replace the aging infrastructure. The City's rate structure has not kept pace with the rising costs and needed infrastructure improvements. The last rate increase was in 2006.

DISCUSSION:

Outsourcing is not new to the City. There have been a number of services outsourced to the private sector over the years while other services have been studied and determined that the service is best provided by City staff. The driving force behind many of these decisions has been the rising retirement costs of City employees and providing a similar level of service to the community.

The following issues should be considered when determining whether or not to outsource a service:

- Is it something the private sector does well?
- What is the state of our own service? Can we avoid layoffs?

- Are there enough quality vendors from which to select?
- Is a quality contract available and does the City have the skills to manage it?
- Are there enough long-term cost savings to warrant the change?
- Can the liability of the function be shifted to a contractor?

There are a number of pros and cons that should be considered prior to making a decision to contract a service or keep the service in-house.

Pros	Cons
<ul style="list-style-type: none"> • No long-term retirement costs 	<ul style="list-style-type: none"> • Loss of control of rate structure
<ul style="list-style-type: none"> • Cost 	<ul style="list-style-type: none"> • Low price may mean low quality
<ul style="list-style-type: none"> • More efficient with less staff and equipment 	<ul style="list-style-type: none"> • Need to provide contract oversight
<ul style="list-style-type: none"> • Cost containment through contract negotiations 	<ul style="list-style-type: none"> • Response times may be extended due to location of vendor
<ul style="list-style-type: none"> • Shift liability to vendor 	<ul style="list-style-type: none"> • Ratepayer ultimately responsible
<ul style="list-style-type: none"> • Lower equipment costs for maintenance of the system 	<ul style="list-style-type: none"> • Loss of overhead costs to General Fund
<ul style="list-style-type: none"> • Establish penalties and fines for non-performance 	<ul style="list-style-type: none"> • Less control over quality of customer service

In addition, it is recommended that the City invest over \$29 million dollars in infrastructure improvements over the next 30 years. The existing rate structure does not accommodate this funding and a vendor, another governmental agency or the City will need to determine if this investment will be made in the wastewater system.

Should the Finance Committee and the City Council choose to explore annexation of the system to another governmental agency, the Local Agency Formation Commission would be required to approve the annexation of the City's system into either the Costa Mesa Sanitary District or the Irvine Ranch Water District, which are the only two viable agencies that are geographically close enough to consider. Additionally, should this option be evaluated further, a decision regarding infrastructure ownership would need to be addressed.

Prepared and Submitted by:

/s/Carol Jacobs
 Carol Jacobs
 Interim Assistant City Manager

Attachment:

A. Wastewater Services in Newport Beach

ATTACHMENT A
Wastewater Services in Newport Beach

Wastewater Services in Newport Beach

August 3, 2015



**MUNICIPAL OPERATIONS
DEPARTMENT**



MUNICIPAL OPERATIONS DEPARTMENT

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MUNICIPAL OPERATIONS DEPARTMENT

Executive Summary

The City of Newport Beach is known for its beautiful beaches and bays. The close proximity of residences, businesses and sewer lines to these waterways presents a significant hazard should untreated wastewater resulting from a sanitary sewer overflow reach these areas. This could potentially result in the City receiving a considerably large fine from the State Water Board. Moreover, the closure of these water ways would have a tremendous impact on the local community and economy in Newport Beach due to the large tourist population.

Wastewater Division Overview

The Wastewater Division of the Municipal Operations Department provides sewer services to approximately 64,465 residents in Newport Beach. The City's wastewater service area lies within the Orange County Sanitation District (OCSD). OCSD is responsible for treating the City's wastewater. The City owns and operates 21 pump stations in various areas which lift the wastewater from the lower areas of Newport Beach and several island communities for transportation to OCSD's treatment plant. The total length of the wastewater collection system in Newport Beach is 285.7 miles.

The Wastewater Division is tasked with performing preventative maintenance on the City's pump stations, sewer mains, and laterals. The division also repairs and replaces damaged sewer mains and laterals in order to prevent a sewer system overflow. The maintenance and repair of the sewer laterals is unique to the City of Newport Beach as most other wastewater agencies and jurisdictions do not maintain wastewater laterals. The lateral is the connection between the property and the City's sewer main. In addition, personnel respond to emergency incidents that involve power outages, sewer backups and sewer spills both during normal business hours, after hours, and weekends.

Regulations

Almost every aspect of the wastewater system is regulated by federal, state or local regulations. These regulations have been put in place in order to protect the environment and public health. A violation of these regulations, or a significant sewer system overflow that impacts the beaches or bays of Newport Beach can result in a substantial fine to the City. It is imperative that the City's maintains its wastewater collection system so that there are no sewer system overflows that reach the public water ways.

Customer Service

Division staff provides customer service to the residents, businesses, and visitors of Newport Beach. The average emergency response time of staff during normal business hours is 15 to 20 minutes. Staff is also on-call after-hours and weekends. Per department policy, all on-call personnel must have the ability to respond to city limits within 30 minutes. This provides a rapid response to any sewer overflow situation occurring so that the impact can be minimized. On-call personnel are assigned a City owned vehicle to take home to respond directly to the incident



from their residence. The Municipal Operations Department frequently receives feedback from customers thanking them for their quick and efficient work.

Budget

The Wastewater Division's budget is designated as an enterprise fund. An enterprise fund has separate accounting and financial reporting mechanisms for municipal services, such as wastewater. Operating costs, capital expenditures, long term maintenance, and repair expenses for wastewater services are recovered through charges to the residents and businesses in Newport Beach. In order to appropriately fund the Wastewater Enterprise Fund, revenues should slightly exceed expenses in order to set aside funding for the replacement of the sewer system as it ages.

For Fiscal Year 2015/2016, City Council adopted a budget of \$3,388,614 for expenses related to wastewater. This includes expenditures for personnel, equipment, internal service fees, contracts, and an administrative transfer to the general fund to partially fund the City Manager, City Attorney, and other staff who provide support to the Wastewater Division. City Council adopted a revenue budget of \$3,054,441 for the Wastewater Division. This results in a shortfall of \$334,063 between expenses and revenue which will be covered this fiscal year by the wastewater reserve fund. The reserve fund, as set by City Council Policy, is to have a fund balance of at least half of the expenses for the current fiscal year. More detail on the budget can be found on page 17.

Capital Improvement Program

Any major construction that is necessary for improving or replacing the City's aging wastewater infrastructure is typically contracted through Public Works. These projects are subject to prevailing wage and must go through the City's formal bid process. Beginning in 2011, the Wastewater Enterprise Fund has contributed \$500,000 a year for major capital improvement projects. According to the City's Finance Department, this amount has been increased every year by three percent so that the current contribution for Fiscal Year 2015/2016 is estimated to be \$562,754 in the adopted budget for Wastewater services.

Wastewater Rate Study

The City retained the services of HF&H Consulting to conduct a wastewater and recycled rate study. The proposed recycled rates were presented to City Council and approved in 2014 which resulted in the reduction of overall charges. In June of 2015, staff presented the wastewater rates to City Council at a study session. The study concluded that the current revenues are not enough to cover the adopted operating and capital expenditures. One of the primary causes is that the rates have not increased since 2006.

The capital expenditures are identified in the Wastewater Master Plan which outlines infrastructure that is in need of repair or replacement. The Master Plan recommends an estimated \$1,000,000 a year to be spent on capital improvements. This would increase to \$1,300,000 by Fiscal Year 2019/2020 to cover increased costs of construction. The rate study incorporates an increase in revenue to meet the Master Plan recommendations.



Although revenues are insufficient to cover expenditures and capital improvement costs, the Wastewater Reserve account is fully funded. The study shows that reserves will be depleted by 2017 without an increase in rates. At the City Council study session in June several options were discussed including the use of General Funds to cover wastewater operations, reducing the capital replacement program, and outsourcing services in lieu of raising rates. This report addresses the outsourcing option. An overview of the wastewater rate study can be found on page 22.

Comparison Costs for Contracting Services versus City Paid Personnel

The City utilizes contractors to perform some wastewater services and the Municipal Operations Department continually looks at cost efficiency by comparing the cost of City staff to outsourced vendors. It is difficult to locate pump station operation or emergency response vendors; however the cost for maintenance and cleaning operations as well as construction operations can be compared. The maintenance and cleaning operations that are conducted by City personnel cost approximately \$584,379 per year. Recent proposals from outside vendors performing the same maintenance and cleaning operations would range from approximately \$819,000 to \$1,120,392 per year. The estimates provided by the vendors do not include what it would cost for them to respond after hours to emergencies related to sewer system issues. More details for this comparison are available on page 21.

The repair of sewer laterals, sewer mains, spot repairs to the sewer system, and the installation of sewer cleanouts are typically conducted by City staff. In order to examine the cost of potentially contracting out the Construction Operations Division, three actual incidents that occurred in Newport Beach were proposed to the emergency, on-call repair vendors with whom the City already has established contracts. In all three instances, City personnel were able to perform the repairs and/or installations at a lower cost than the vendors. The cost savings to the City ranged from \$10,422.85 to \$19,070.85 or an average of \$3,474.28 to \$6,356.67 per project. The details for these projects can be viewed on page 22.

Wastewater Division Overview

The Wastewater Division is responsible for the collection of residential and commercial wastewater. Wastewater is water containing wastes from residential, commercial, and industrial processes. Wastewater requires treatment to remove pollutants prior to discharge.

A wastewater collection system is a network of pipes, manholes, cleanouts, traps, siphons, lift stations and other required structures to collect all the wastewater from an area and transport it to a treatment plant or disposal system. The existing wastewater collection system in the City of Newport Beach consists of 198 miles of mainline gravity pipes, 4.7 miles of force mains with 4,922 manholes and cleanouts as well as 25,525 sewer laterals with an approximate length of 83 miles in the public right-of-way. The City of Newport Beach owns and maintains the laterals within the public right-of-way, whereas most other cities and sanitary districts they do not own the laterals. Assuming an average lateral length of 25 feet within the public right-of-way, the



total length of sewers owned by the City is 285.7 miles. All wastewater is transported via this system to the Orange County Sanitation District for treatment and disposal.

The Municipal Operations Wastewater Division serves four core functions for the City of Newport Beach which are:

- Pump Stations - Operate, maintain and repair the sewer pump station system
- Maintenance - Minimize sewer spills by performing routine maintenance and cleaning
- Construction Operations - Replace sewer mains, laterals and manholes as needed
- Emergency Responses – Responses to unplanned sewer system issues that occur regardless of time of day that could result in a hazard to public health.

Additionally, the Municipal Operations Department has several defined department goals. Of these goals, two of them are relevant to the Wastewater Division. These goals are:

- Operate, maintain and repair the City's sewer collection system to convey wastewater to the Orange County Sanitation District for treatment. Make every effort to minimize spills and continue to comply with all regulations
- Quickly respond to all emergencies that arise at any time, during working hours or at nights, on weekends and holidays.

In order to meet the established goals and core functions, the Wastewater Division is divided into three sub-sections: Pump Station Operation, Cleaning Operation and Construction Operation. These three sub-sections provide services related to pump station repair and maintenance; sewer main, lateral and manhole cleaning; sewer blockage and odor; and sewer main and lateral breaks and repairs.

Regulations

Wastewater management encompasses a broad range of efforts that promote effective and responsible water use, treatment and disposal. Through effective management of wastewater, the nation's watersheds, local watersheds, and the beaches of Newport Beach can be maintained in a way as to protect the watersheds and the environment from the hazards of improper wastewater disposal.

Federal

The Clean Water Act (33 U.S.C §1251 et seq. (1972)), adopted by Congress and signed into law by the President of the United States, establishes the basic structure for regulating discharges of pollutants into the waters of the United States and regulating quality standards for surface waters. Initially, Congress enacted the Federal Water Pollution Control Act in 1948; however, the Act was significantly reorganized and expanded in 1972. The "Clean Water Act" became the Act's common name with amendments in 1972. Under the Clean Water Act, the Environmental Protection Agency (EPA) has implemented pollution control programs such as setting industry standards for wastewater control. They also set water quality standards for all contaminants in surface waters.



State

The California Environmental Protection Agency further regulates the discharge of wastewater. While some wastewater discharge may be exempt under federal law, California law may still apply as some stricter regulations have been adopted by the state.

To provide a consistent, statewide regulatory approach to address Sanitary Sewer Overflows (SSOs), the State Water Resources Control Board (State Water Board) adopted Statewide General Waste Discharge Requirements (WDRs) for Sanitary Sewer Systems, Water Quality Order No. 2006-0003 (Sanitary Sewer Systems WDR) on May 2, 2006. The Sanitary Sewer Systems WDR requires public agencies that own or operate sanitary sewer systems to develop and implement sewer system management plans (SSMP) and report all SSOs to the State Water Board's online SSO database.

Local

The City of Newport Beach further regulates wastewater through Title 14 of the Municipal Code which regulates sewer construction. All sewer construction must be in accordance with City standards (Section 14.24). The inspection requirements by City staff are provided in Chapter 14.04.120.

Additionally, Newport Beach complies with the State Water Board Order Number 2006-0003 which requires the City to have a Sewer System Management Plan (SSMP). The SSMP describes the activities that the Wastewater Division undertakes in order to effectively manage the City's wastewater collection system. Some of the required elements that are present in the City's SSMP include:

- Collection system management goals
- Overflow emergency response plan
- Fats, oils and grease (FOG) control program
- Measures and activities to maintain the wastewater collection system

Pump Station Operation

In general, wastewater moves through a system by gravity. From the homes/businesses, wastewater flows to an underground tank called a "wet well". Pumps then lift the wastewater to a higher elevation where gravity can continue the conveyance to another pump station or treatment plant. It is essential that these stations remain operational 24 hours a day. Failure of a station can result in neighborhood sewer backing up into homes/businesses or spills that can reach the bay and ocean. The City of Newport Beach has 21 Wastewater Pump Stations. They are:

19th Street Pump Station
Balboa/19th Street
Newport Beach, CA

62nd Street Pump Station
515 ½ Clubhouse
Newport Beach, CA

Back Bay Pump Station
2149 Vista Entrada
Newport Beach, CA



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Bren Tract Pump Station
1799 Port Sheffield
Corona Del Mar, CA

Buck Gully Pump Station
Glen/Ocean Blvd
Corona Del Mar, CA

Cameo Shores Pump Station
115 Milford Drive
Corona Del Mar, CA

Carnation Pump Station
2323 ½ Bayside Drive
Corona Del Mar, CA

China Cove Pump Station
3733 ½ Ocean Blvd.
Corona Del Mar, CA

Collins Island Pump Station
½ Collins Island
Balboa Island, CA

Diamond Street Pump Station
106 ½ Diamond Street
Balboa Island, CA

Ford Road Pump Station
2779 ½ Ford Road
Corona Del Mar, CA

Harbor Island Pump Station
36 ½ Harbor Island Drive
Newport Beach, CA

Harbor Ridge Pump Station
25 ½ Vienna
Corona Del Mar, CA

Lido Island Pump Station
102 Piazza Genoa
Newport Beach, CA

Linda Isle Pump Station
½ Linda Isle
Newport Beach, CA

Main Beach Pump Station
3299 ½ Breakers Drive
Corona Del Mar, CA

Mariners Pump Station
950 ½ Mariners Drive
Newport Beach, CA

Newport Pier
9 Newport Pier
Newport Beach, CA

Polaris Pump Station
1019 Polaris Drive
Newport Beach, CA

Section 5 Pump Station
1086 S. Bayfront
Balboa Island, CA

Shellmaker Island
600 Shellmaker Road
Newport Beach, CA

A map of the Sewer Pump Stations located in the City of Newport Beach can be found on the next page.



All 21 pump stations in Newport Beach receive routine maintenance on a weekly, monthly, quarterly, biannual, annual, and biennial basis. Some of the maintenance items include:

- Checking the wet well washers, bypass pumps, generators and portable compressor
- Cleaning wet wells, sump pumps and discharge manholes
- Backflush forced mains
- Testing sump pump, dry pit flood alarm and control panel indicator lights
- Grease motor, pumps and power frames as required
- Inspecting pipes leading to and from the pump station for leaks and/or damage.

Maintenance

As part of the City's Sewer System Management Plan, the wastewater collection lines must be regularly cleaned and repaired to ensure reliable operation and to prevent sewer system overflows. Cleaning and inspecting sewer lines are essential to maintaining a properly functioning sanitary sewer system. Most sewer lines are inspected using either closed-circuit television (CCTV) or visual inspection.

CCTV and Visual Inspections

CCTV inspections are the most frequently utilized and most effective method to inspect the internal condition of a sewer. The City of Newport Beach does employ CCTV to inspect the City's wastewater collection system in order to identify any potential issue prior to an actual incident occurring. Preventative maintenance and/or repairs can be made when a problem is recognized during a CCTV inspection. The Municipal Operations Department contracts with Houston and Harris to perform all of the CCTV inspections in Newport Beach. The City does have a CCTV vehicle that can be used by City personnel for troubleshooting issues when the City's contractor is unavailable.



*Figure 1: CCTV Inspection of
Sewer Line*

Visual inspections are vital in fully understanding the condition of a sewer system. Visual inspections of manholes and pipelines are comprised of surface and internal inspections. During inspections, City personnel pay specific attention to sunken areas in the groundcover above a sewer line and areas with ponding water as this indicates there may be issues with the sewer collection system.

City Maintenance and Cleaning

To maintain its proper function, a sewer system needs to have a preventative maintenance cleaning schedule. There are several traditional cleaning techniques used to clear blockages and to act as preventative maintenance tools. The two tools primarily utilized by the Wastewater Division are sewer cleaning vehicles known as Vactors and chemical root foaming.



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Figure 2: 32 Foot Root Removed from Sewer Lateral

Effective sewer cleaning vehicles help protect the environment by cleaning and maintaining sewer systems. It is the Division's standard practice to not only jet rod the pipe but to root cut the pipe to remove any tree roots during routine maintenance. It is an extra step not typically taken by vendors or other jurisdictions; however, it ensures a good functioning pipe. The jet rodding, root cutting, and cleaning of both sewer mains and laterals are currently performed by City staff in the Wastewater Division.

Vactor vehicles are utilized to vacuum up the waste from a sewer system overflow so that the spill is contained and there is little to no effect on the environment. These vehicles are used on a daily basis to maintain and clean the wastewater collection system; reduce localized flooding due to clogged storm drains; and respond to main line and resident emergency incidents on short notice. The City of Newport Beach owns two Vactor vehicles and one jet rodding vehicle.



Figure 3: Vactor Being Used to Clean Sewer System

Contract Maintenance

Maintenance of sewer lines also includes the mitigation of root intrusion through root foaming. Root foaming is a preventive maintenance technique where Environmental Protection Agency (EPA) registered products are applied into the sewer line in order to kill any roots that have infiltrated through the pipes, without harming the vegetation above. An on-call contractor provides this service to the City.

Other programs for the maintenance of the wastewater collection system include sewer roach control and manhole lining. Sewer roach control is currently handled by an outside contractor with a two year on-call agreement. Sewer manhole lining is the process of rehabilitating existing sewer manholes by relining all interior concrete surfaces with a suitable polyurethane lining. This is done annually on an as-needed basis, using a contractor under the direction of the Wastewater Division.

Fats, Oils, and Grease Program

The City of Newport Beach has a proactive, cooperative relationship with local restaurants to keep fats, oils, and grease out of the sewer system and prevent spills. It has been demonstrated that fats, oils, and grease clog sewer lines which can cause sewage backups and overflows. This will cause property damage, environmental problems, and other health hazards.



Figure 4: Grease Buildup inside a Sewer Pipe

Fats, oils and grease (FOG) primarily infiltrate the sewer system from commercial food preparation establishments that do not have adequate grease control measures in place such as grease interceptors. As FOG infiltrates the pumping system, it will stick to the



MUNICIPAL OPERATIONS DEPARTMENT

inside of sewer pipes both on the consumer’s property and on the City’s property. Over time, FOG will build up and block the entire pipe causing sewage backups and overflow.

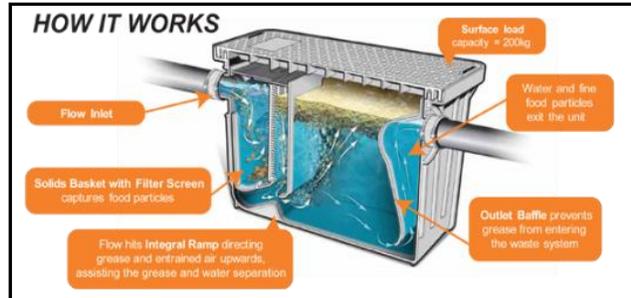


Figure 5: How a Grease Interceptor Works

Each year, the Municipal Operations Department, in accordance with state law, ensures that businesses are appropriately preventing FOG from entering the sewer system. The Department contracts with Environmental Compliance Inspection Services (ECIS) to execute the City’s FOG program. ECIS inspects all restaurants that may create FOG on an annual basis to ensure that any FOG created is removed by an

authorized waste hauler, employees are trained how to appropriately dispose of FOG, and kitchen equipment is properly maintained. This inspection and one follow up inspection are at no cost to the business owner with the primary benefit of the City being a free flowing sewer system with little to no back up due to clogged wastewater lines.

Construction Operation

The Construction Operation subsection of the Wastewater Division repairs sewer mains, manholes, and laterals. Additionally, they are responsible for installing sewer cleanouts, and replacing sewer laterals.

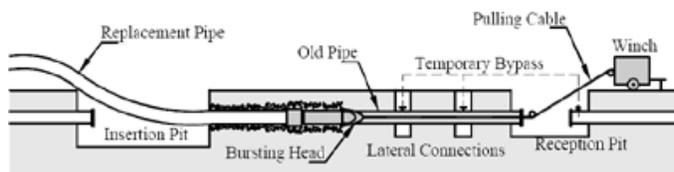


Figure 6: Diagram of Pipe Bursting

The Municipal Operations Department has instituted a sewer lateral line replacement technique known as pipe bursting that has made Construction Operations more efficient and cost effective. Pipe bursting is a trenchless method of replacing buried pipelines (such as water and sewer lines)

without the need for a traditional construction trench. This results in no damage to the existing street, gutter, curb, or sidewalk that the pipeline may be under. With this technique, a project that used to take several days can be accomplished in half of the time and at a significant cost savings to the City.

Title 14 of the City’s Municipal Code regulates all sewer construction and any sewer construction must be in accordance with City standards. The inspection requirements by City staff are provided in Chapter 14.04.120.

The City has its Standard Plans and Specifications for the Construction of Sanitary Sewers, which assures the sewer lines and connections are properly designed and constructed. The City’s



Figure 7: Pipe Bursting



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Specifications by reference incorporate the Standard Plans and Specifications for Public Works Construction (the "Green Book"), which helps ensure proper design and construction of sewer facilities.

Emergency Responses

The Wastewater Division has a well-established history of responding quickly to issues with the City's sewer system. Due to the rapid response of on-call after-hours personnel, large sewer spills that could have very significant impacts to the health and safety of residents, businesses, and visitors to Newport Beach have been mitigated. A few examples of staff responses to include:

- November 1, 2014: on-call after-hours personnel responded to water flowing out of an AT&T conduit and junction box under the Arches Bridge. Further investigation revealed a sinkhole next to the sidewalk on the southwest side of the bridge which contained wastewater. It was determined that the wastewater was coming from an Orange County Sanitary District (OCSD) force main. Additional City personnel were requested to respond due to the size of spill and the potential environmental impact. Two City Vector trucks were staffed to control the overflow until OCSD staff and their contractors could arrive. Although there was a closure of the canal waterway in the area, the Wastewater crew's quick response and diagnosis averted a potentially larger spill into the harbor.



Figure 8: Newport Beach Personnel on Scene Treating Spill



Figure 9: Sewer Overflow from Sinkhole

- August 2012: A dredging firm working in Newport Bay accidentally pulled up a section of the Balboa Island sewer force main. Irvine Ranch Water District (IRWD), Costa Mesa Sanitation District (CMSD), and Orange County Sanitation District (OCSD) assisted in the City's response to maintain sewer service. The repairs were made to the line in a cooperative effort between the City and the dredging firm. Divers spent several days replacing the section of underwater sewer main that was damaged. The Wastewater Division supplied the necessary parts to get the line back in service as soon as possible.
- October 11, 2011: A Southern California Edison (SCE) power outage affected six of the City's sewer lift stations. Two of the lift stations regained power immediately while the remaining four lift stations required Vector crews to respond until portable generators could be installed. The timely response by Wastewater personnel averted any overflows from entering the bay and ocean.

Potential Fines Associated with Spills

The Santa Ana Regional Water Quality Control Board (Regional Board) under the State Water Resources Control Board has jurisdiction regarding any Sanitary Sewer Overflows that reach



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public waters. Due to the close proximity to the bay and ocean it is highly likely that any spill in Newport Beach of significant size will reach the bay and ocean by means of the storm drain system or directly if a spill occurs in the Island areas. The typical fines associated with spills are calculated at \$10 per gallon. The Regional Board does have the option to adjust fines given certain conditions. An example of a recent spill resulting in the discharge to public waters is presented below.

- In July 2015, the Costa Mesa Sanitary District (CMSD) responded to fines assessed by the Regional Board for two sewer spills that occurred in their service area and discharged wastewater into the Upper Newport Bay. The proposed fines are estimated to be \$503,000. The City of Newport Beach did respond to the spill and contained it but thousands of gallons had already been discharged into the bay. CMSD, like many agencies, rely on the mutual aid of surrounding agencies to assist in responding. CMSD has since added more staff and equipment to respond quicker.

Personnel

The Wastewater Division currently has twelve full-time equivalent (FTE) allocated positions for Fiscal Year 2015-2016 that are funded by Wastewater Enterprise Fund as shown in Table 1. The Municipal Operations Director and four administrative staff support this division but are not funded by the Wastewater Fund. In addition, the fund pays an approximate annual cost of \$360,000 to the General Fund for administrative assistance from other departments. Breakdowns of those costs are identified in the budget on Page 18.

Position	Assigned To	Number of employees
Utilities Manager	Overall Wastewater Division Operations	.5
Utilities Supervisor	Pump Station, Maintenance, Construction, and Managing Contracts	1
Utilities Crew Chief	1 FTE assigned 100% to cleaning; 1 FTE assigned 80% to pump station repair and maintenance with 20% assigned to cleaning and/or construction as needed; 1 FTE assigned 80% to repairs and construction of sewer lines with 20% assigned to cleaning	3
Utilities Specialist Senior	1 FTE assigned 100% to cleaning; 1 FTE assigned 80% to repairs and construction of sewer lines with 20% assigned to cleaning	2
Utilities Specialist	1 FTE assigned 80% of the time to reviewing CCTV video with the other 20% assigned to the Vactor, construction, or repairs; 3 remaining FTEs assigned 80% to construction for repairs and/or construction of sewer lines with the remaining 20% assigned to cleaning operations	4
M&O Specialist	One FTE assigned to SCADA and half a FTE assigned to generator maintenance	1.5
TOTAL:		12

Table 1: Personnel Assigned to Wastewater Division

The number of personnel funded by the Wastewater Enterprise Fund has decreased by 20 percent over the last four fiscal years. In Fiscal Year 2011/2012 fifteen City staff members were



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assigned to the Wastewater Fund. Due to the economic recession, three positions were defunded resulting in a total of twelve FTE positions assigned to the Wastewater Services Division as of Fiscal Year 2015/2016.

Disaster Service Worker

All City employees are designated by both State and City law as Disaster Service Workers. When the City declares a state of emergency, all City employees serve as disaster service workers and are expected to immediately report to work once they ensure that their home and family are safe. All Municipal Operations Department (MOD) Staff, especially field personnel, are vital to a successful response to a natural or manmade disaster. Personnel assigned to MOD are expected to respond to floods, high tides, tsunamis, and other disasters as MOD staff are experienced in handling these situations. Staff are trained to work within the Incident Command System so that personnel can effectively prioritize disaster related emergencies and operate within the established chain of command.

Performance Measures

The Wastewater Division operates and maintains the City's sanitary sewer system in accordance with federal, state, and local regulations to protect public health to ensure efficient, economical, and environmentally sound collection and transportation of the City's wastewater to the Orange County Sanitation District.

Wastewater performance measures are critical in ensuring that the Wastewater Division is delivering high quality service for maintaining, cleaning, and repairing the City's sewer pump stations and wastewater collection lines. The current Performance Measurements for the Wastewater Division are listed in the table below.

	FY 12/13 Actual	FY 13/14 Actual	FY 14/15 Estimated	FY 15/16 Projected
Pipe Cleaned (miles)	250	234	240	240
Pipe Video Inspected (miles)	23	37	40	40
Wastewater Repairs	50	53	50	50
Wastewater Services Requested	300	435	400	400

Table 2: Performance Measures

In addition to these Performance Measures, the Wastewater Division tracks the number of after - hour emergency calls they respond to, how much time is spent on emergency calls, and the nature of the emergency call out. The Wastewater Division has seen an increase in calls for service afterhours. In Fiscal Year 2013/2014, on-call personnel responded to 63 incidents after normal business hours. Normal business hours are considered to be 7:00 a.m. to 4:30 p.m. Monday thru Thursday and 7:00 a.m. to 3:30 p.m. on Friday. In Fiscal Year 2014/2015 the



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Wastewater Division on-call personnel responded to 71 after-hour emergency calls, an increase of 11 percent over the previous fiscal year. When comparing FY 14/15 to FY 11/12, there is a 34 percent increase in after-hour emergency calls. The four year average for these incidents is 64 per year.

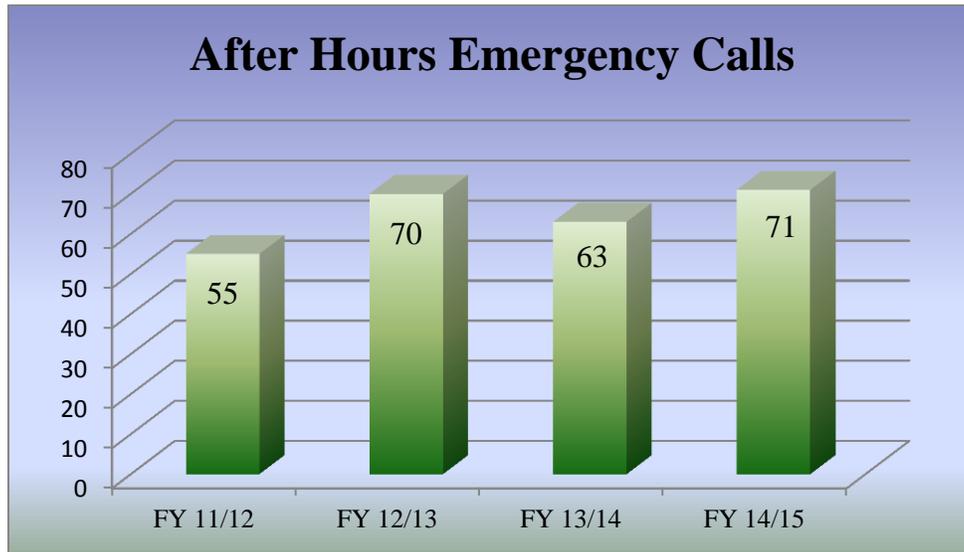


Figure 10: After Hours Calls For Service

Overall, staff has averaged 311 hours each year for the last four fiscal years for after-hour emergency responses for wastewater incidents. A chart depicting the number of hours spent handling each of these situations is depicted in Figure 11.

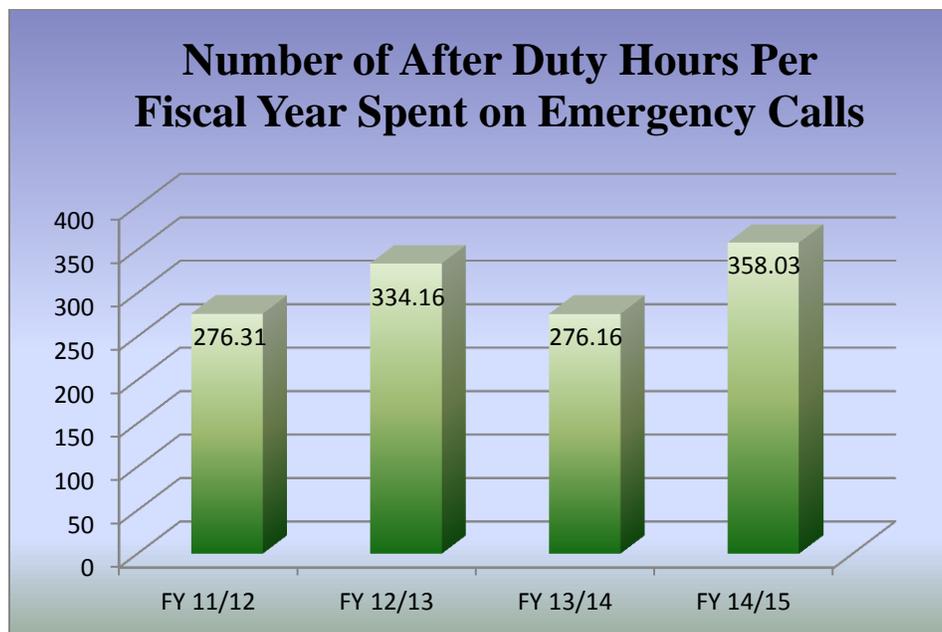


Figure 11: Total Hours Spent Responding to Emergency Calls after Hours per Fiscal Year



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Finally, the types of emergency responses that the Wastewater Division responds to 24 hours a day, 7 days a week, 365 days a year consist of:

- CCTV - Lateral
- Generator By-pass
- Odor Complaint
- Roach Complaints
- Sewer - Other
- Sewer cleanout back up
- Sewer inspections
- Sewer lateral repair
- Sewer main repair
- Sewer manhole back up
- Sewer manhole repair
- Sewer overflow - cleanout
- Sewer overflow - manhole
- Sewer pipe blockage
- Sewer Pump Station
- Wastewater lift station alarm

The statistics for each call type for Fiscal Years 2011/2012 through Fiscal Year 2014/2015 are shown in Table 3.

Calls for Services by Call Type and Fiscal Year

Call Type	FY 11/12	FY 12/13	FY 13/14	FY 14/15
CCTV – Lateral	1	3	-	-
Generator By-pass	5	9	5	8
Odor Complaint	2	2	1	4
Roach Complaints	-	-	-	-
Sewer - Other	3	8	4	6
Sewer cleanout back up	7	12	22	21
Sewer inspections	-	1	-	1
Sewer lateral repair	-	-	-	1
Sewer main repair	-	-	1	-
Sewer manhole back up	2	-	1	3
Sewer manhole repair	-	-	3	1
Sewer overflow - cleanout	9	8	4	3
Sewer overflow - manhole	2	1	1	2
Sewer pipe blockage	1	4	4	2
Sewer Pump Station	23	20	13	17
Wastewater lift station alarm	-	2	4	2
Totals	55	70	63	71

Table 3: Numbers of Calls for Service by Call Type

Customer Service

The Wastewater Division provides sewer services to approximately 64,465 customers. Staff responds to calls from residents who have sewer back-ups into their homes, sewer overflows into



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the environment, power outages that can cause a sewer pump station to go out of service, and many other types of calls related to the sewer system as shown in Table 3 above.

When an emergency event occurs during normal business hours, staff are redirected from their current assignment of cleaning and maintaining sewer lines to respond to incident. Staff response time on average is within 15-20 minutes. Depending on the situation, they can prevent a sewer system overflow from reaching the storm drain and entering the ocean and bay.

When an emergency event occurs after normal business hours the wastewater division has staff on-call and available to respond within 30 minutes to the event. To meet the department policy directed 30 minute response time, personnel are assigned a City owned vehicle to go straight to the scene. As noted in the Performance Measurement section, off duty personnel responded to 71 incidents last fiscal year and averaged 5.04 hours of off duty time mitigating emergency events.

The Wastewater Division frequently receives letters, emails, and phone calls from the customers thanking them for their quick and efficient work in addressing any wastewater issue they might be experiencing. A few recent examples of the positive feedback the Wastewater division receives from the public are shown below.

From: Robert Craig
Subject: Public Works
Date: July 16, 2015 at 7:40:34 PM PDT

Hello to all City Council members: this morning my family discovered that our sewer line was blocked. Toilets and all drains in our house did not work. We called Tweety plumbing and they used a special camera to find the issue. Tweety plumbing found that the sewer line was blocked on the City property easement and a City tree root penetrated the sewer line which caused the blockage. We were advised to call the City as the blockage was on "City property". We called Mike Lynch at Municipal Operations and here is what happened:

1. The City viewed the video and photo's of the plug provided by Tweety Plumbing and agreed the blockage was on city property
2. The City sent a crew from Municipal Operations and they removed the soil and tree roots to find the sewer line - - buried 7 feet below grade. They found where the City tree root entered the sewer pipe - - all on City property.
3. The City crew repaired the damage and we were able to use our home toilets and showers again.

As special "thank you" to my City for professional and quick service to help us use our home again - - our other option was moving to a local hotel.

I am proud to live in Newport Beach

Kind Regards,

Robert Craig

Letter of Commendation 1



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July 20, 2015

Hi Mr. Auger

My name is Lisa Clifford and I am a resident [on] Anada Avenue down on the peninsula.

I have been wanting to call and say thank you very much for your fantastic employee Chris Newton. He was absolutely amazing today and so nice and so thorough, and so helpful I don't think I've ever had the pleasure of working with someone or had the service of somebody who was totally above and beyond the service. I just wanted to say thank you very much and give your employee, Mr. Newton a five gold star.

Transcription of Phone Message

From: Matt Stone [<mailto:matthewsstone@earthlink.net>]
Sent: Thursday, July 30, 2015 4:11 PM
Subject: Thank You!!!

I just want to say THANK YOU so much to you for sending out both Kiel and Dustin out to my home. They went above and beyond to resolve my sewer issue. I called my HOA today and they gave me the contact for the city. Your department not only responded, you came out within an hour of my call to fix our clogged sewer issue on the city side in front of my home. I would have never expected that kind of response. Your employees are the best! They kept in contact with me as the were resolving the issue. Thank you so much.

All my best
Matt Stone

Letter of Commendation 2

Budget

The Wastewater Division operates from an enterprise fund. An enterprise fund establishes a separate accounting and financial reporting mechanism from the General Fund for municipal utility services. Wastewater revenues are collected from the rate payers and used for specifically for wastewater operations and capital improvements.

Table 4 illustrates the revenue that is received for the services rendered by the Wastewater Division while Table 5 shows a summary of expenditures. Included in Table 5 is a transfer of \$357,657 to the City's general fund for administrative assistance from other departments such as Public Works, Finance, and City Manager's office. Fiscal Years 2011/2012 through Fiscal Year 2015/2016 have been included in these tables for reference. Please note Fiscal Year 2012/2013 was the first year that some services previously rendered by City employees were contracted out.



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Revenue for Wastewater

Wastewater Enterprise Fund	FY 2011/2012 Adopted	FY 2012/2013 Actual	FY 2013/2014 Actual	FY 2014/2015 Projected	FY 2015/2016 Proposed
Charges for Services	\$3,171,844	\$3,416,719	\$3,425,551	\$3,023,000	\$3,037,000
Interest Income	\$0	\$5,688	\$17,559	\$14,497	\$13,354
Other Revenue	\$3,000	\$6,221	\$13,176	\$4,947	\$4,197
Revenue Total	\$3,174,844	\$3,428,628	\$3,456,286	\$3,042,444	\$3,054,551

Table 4: Budget for Wastewater Enterprise Fund Revenue

Expenditures for Wastewater

Wastewater Enterprise Fund	FY 2011/2012 Adopted	FY 2012/2013 Adopted	FY 2013/2014 Adopted	FY 2014/2015 Amended	FY 2015/16 Proposed
Salaries and Benefits	\$1,573,152	\$1,566,059	\$1,479,875	\$1,616,872	\$1,532,098
Maintenance and Operations	\$802,899	\$744,251	\$684,855	\$800,704	\$1,146,380
Administrative Transfer to General Fund	\$223,084	\$223,084	\$223,084	\$369,424	\$357,657
Automotive ISF	\$321,424	\$366,424	\$372,940	\$372,940	\$183,331
Other IS	\$93,703	\$102,805	\$52,157	\$52,157	\$136,148
Capital Outlay	\$36,000	\$60,894	\$33,000	\$33,000	\$33,000
Expenditure Total	\$3,050,262	\$3,063,517	\$2,845,911	\$3,245,097	\$3,388,614

Table 5: Budget for Wastewater Fund Expenses

These two tables demonstrate that expenses are exceeding revenue as of Fiscal Year 2014/2015. For Fiscal Year 2014/2015, there will be a deficit of \$334,063 between the revenue collected for wastewater services and the expenditures for maintaining, repairing, and improving the wastewater infrastructure.

As wastewater rates have not increased since 2006, the Municipal Operations Department retained the consulting services of HF&H Consultants, LLC (“HF&H”) to prepare a wastewater and recycled water rate study. This study was presented to City Council on June 9, 2015.

Per City Council Policy, the Wastewater Enterprise Fund needs to maintain a reserve balance of 50 percent of the annual expenditure budget. The Fiscal Year 2014/2015 estimated ending reserves are approximately \$1,865,103. While this is currently above the minimum reserve balance, in order to continue to fund operating and capital improvement costs, reserve funds will need to be used to balance the expenditure budget should no rate increase occur. This trend will deplete reserves by 2017 as shown in Figure 12.



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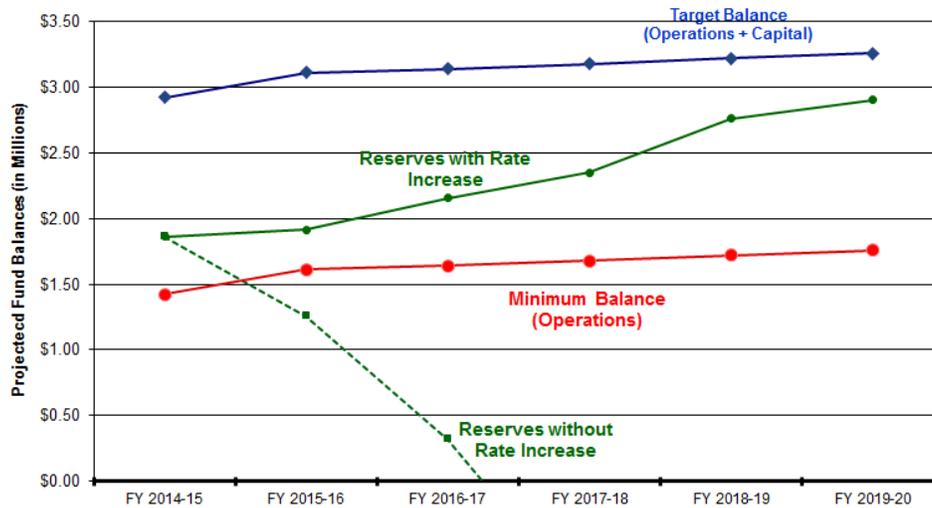


Figure 12 : Reserve Balances from Wastewater Rate Study

Under the proposed rate structure by the consultant, a single family home with a 3/4” meter size and 15 HCF usage would see their monthly rate increase from \$8.52 a month to \$12.28 a month. This rate increase is necessary in order to properly maintain the City’s wastewater infrastructure and to cover annual expenditures for maintaining, cleaning and repairing the City’s pump stations, sewer mains and laterals. A further discussion on the wastewater rate study can be found on page 22.

Overview of Current Wastewater Division Contracts

The Wastewater Division utilizes several contractors for implementing programs, managing services, and maintaining certain aspects of the Cleaning Operations associated with the wastewater collection system. The contracts that are specific to wastewater are listed in Table 6.

Contract Number	Description	Contractor	Expires	Amount
C-5734	Grease control inspections services, and Best Management Practices program (Fat, Oil, and Grease Program)	Environmental Compliance Inspection Services (ECIS)	1/31/2019	NTE \$318,800
C-4298	Sewer roach control services	Golden Bell Products, Inc.	7/30/2015	NTE \$25,000
C-5548	CCTV Services	Houston & Harris	7/30/2023	NTE \$750,000
C-5587	Pacific Sewer Maintenance	Sewer Root Control Services	06/30/2015*	NTE \$150,000
C-6150	Pipe relining service	Sancon Engineering	5/26/2018	NTE \$200,000
C-5094	Sewer Manhole Lining Service	Zebtron Corporation Inc.	7/31/2017	NTE \$225,000
Total				\$1,668,800

Table 6: Contracts within the Wastewater Division

*Request for Proposal Complete, New Contract Awaiting Signatures



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Additionally, the Wastewater Division participates in several citywide contracts. These include:

Contract Number	Description	Contractor	Expires	Amount
C6147	On-Call Underground Utility Repair and Installation Services	Doty Bros Equipment Co.	4/30/2018	NTE \$300,000
C-6418	On-Call Underground Utility Repair and Installation Services	GCI Construction Inc.	4/30/2018	NTE \$300,000
C-6149	On-Call Underground Utility Repair and Installation Services	T.E. Roberts, Inc.	4/30/2018	NTE \$300,000
C-6185	City-wide generator preventative maintenance and as-needed repairs	Global Power	6/30/2020	NTE \$210,686
Total				\$1,110,686

Table 7: Citywide Contracts that Wastewater Participates in

City versus Contracting Costs

In government contracting, prevailing wage is defined as the hourly wage, usual benefits and overtime that are paid to the majority of workers, laborers, and mechanics within a particular area. Prevailing wages are established by regulatory agencies for each trade and occupation employed in the performance of public work, as well as by State Departments of Labor or their equivalents. In California, the Director of the Department of Industrial Relations (DIR) determines the general prevailing rate of per diem wages for the locality in which the work is to be performed for each craft, classification, or type of workman or mechanic needed to execute the contract. Section 1770 of the California State Labor Code provides the legal basis by which prevailing wage is paid for contract work performed for government agencies.

With the passage of Senate Bill 7 - Public Works: Prevailing Wage, all charter cities as of January 1, 2015 are required to pay prevailing wage per Labor Code Section 1782. Charter cities must pay prevailing wage on any construction contract that exceeds \$25,000 and for maintenance contracts that exceed \$15,000 in order to remain eligible for state funding and any other type of state financial support for projects including loans and loan guarantees.

Cleaning Operations

The Utilities Manager that oversees the Wastewater Division solicited information from three companies as to what their costs would be to perform root cutting, rodding, and Vactor services to maintain the wastewater collection system for the City of Newport Beach. The costs obtained from these companies was strictly for performing services related to rodding, vacuuming, and root cutting for the system and were not related to repairs. This cost does not include any



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requirements for after hour responses related to sewer system overflows or any other wastewater related emergency. The prevailing wage costs for the three companies are:

- Downstream, \$342 per hour
- National Plant Services, \$300 per hour
- Propipe, \$250 per hour

In order to determine the annual cost for contracting, the Wastewater Division examined the total normal work day hours for its employees and found that 3,120 hours a year were dedicated by crew personnel to rodding, root cutting, and use of the Vector to maintain the City's Wastewater System. This figure for the number of hours combined with the quotes obtained from three companies is shown in Table 8. A five percent administrative fee for processing invoices, contract evaluation, and follow up on correcting any issues that may arise with the contractor was added to the cost estimate for outsourcing Cleaning Operations. This five percent administrative fee was not included for the City costs listed below as the costs for program oversight, internal service fees, etc. are already included in the hourly rate.

Contractor	Hourly Rate	Hours Per Year	Annual Cost	Administrative Fee	Total Annual Cost
City Cost	\$187.30	3,120	\$584,379	N/A	\$584,379
Propipe	\$250	3,120	\$780,000	\$39,000	\$819,000
National Plan Services	\$300	3,120	\$936,000	\$46,800	\$982,800
Downstream	\$342	3,120	\$1,067,040	\$53,352	\$1,120,392

Table 8: Comparison Cost for Wastewater Maintenance & Cleaning Operations

Construction Operations

The City's Construction Operations Division routinely replaces sewer laterals throughout Newport Beach. In order to obtain a cost estimate for a contractor to perform the routine replacement of sewer laterals the Wastewater Division reached out to Doty Bros. Equipment Company, GCI Construction Inc., and T.E. Roberts Incorporated. Each company was presented with three scenarios for the replacement of sewer laterals. These projects were actual routine assignments performed by City Staff in the last several months. Of the three companies contacted, only GCI Construction Inc. and T.E. Roberts Incorporated responded to the request. Table 9 reflects the City's actual costs for these projects as well as the quotes from the two responsive vendors.



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Project	GCI Estimate	T.E. Roberts Estimate	City Cost
Santella Terrace - Sewer Clean Out	\$6,000.00	\$4,876.00	\$975.06
Surfview Lane - Install City Clean Out and Run a New Lateral	\$15,000.00	\$12,585.00	\$6,917.55
Via Lido Soud - Install City Clean Out and Connect to City Main	\$10,200.00	\$5,091.00	\$4,236.54
Total Cost for Repairs	\$31,200.00	\$22,552.00	\$12,129.15
City Costs	\$12,129.15	\$12,129.15	N/A
Cost Savings to City for City Staff to Perform Services	\$19,070.85	\$10,422.85	N/A

Table 9: Summary of Project Costs

In all three instances listed in Table 9, City personnel were able to perform the repairs and/or installations at a significantly lower cost than the vendors. The total cost savings to the City ranged from \$10,422.85 to \$19,070.85 or an average of \$3,474.28 to \$6,356.67 per project. Each project listed took approximately one day to complete.

Last fiscal year, the Construction Operations staff completed 60 projects. Utilizing the average cost per project, and applying it to 60 projects, the anticipated costs for the City as well as the contractors to perform the projects are listed in Table 10.

Company	Average Cost Per Project	Estimated Cost For a Year
GCI	\$10,400	\$624,000
T.E. Roberts	\$7,517	\$451,020
City Costs	\$4,043	\$242,580

Table 10: Estimated Annual Construction Costs to City for Sewer Line Repairs

Wastewater Rate Study and Rate Comparison to Other Cities

The City's current sewer customers pay the sum of the following: a fixed monthly sewer use charge that is based on the size of the connection and a commodity charge based on metered water use during the monthly period. The wastewater rate should generate sufficient revenue to fund the City's wastewater collection system expenses, local capital improvements funded from cash, and to maintain the Wastewater Reserve Fund at 50% of the adopted fiscal year expenditure budget per City policy. Table 11 lists the costs of other jurisdictions and/or districts that provide wastewater services in Orange County who utilize a fixed monthly use charge coupled with a flow-based commodity charge in order to conduct a fair comparison of costs for wastewater charges. As a side note, larger agencies tend to have lower rates than smaller agencies as they are able to take advantage of economies of scale so they are better able to distribute fixed costs over a larger customer base. Figure 13 shows that the City's current and proposed sewer rates are in line with our neighbors.



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City	Population	Monthly Rate	As of
Newport Beach - Current	86,874	\$8.52	7/1/2011
Newport Beach - Proposed	86,874	\$12.28	7/1/2015
Buena Park	82,344	\$17.03	Note*
Fullerton	140,131	\$6.53	Note*
Seal Beach	24,591	\$15.71	7/1/2014
Garden Grove Sanitary District	170,883	\$12.61	Until 7/1/2016; capped at \$12.61
Costa Mesa Sanitary District	116,700	\$7.25	7/1/2014
La Habra	61,717	\$7.96	7/1/2013
Huntington Beach	195,999	\$10.90	10/20/2010
Irvine Ranch Water District	370,000	\$9.02	7/1/2015

Table 11: Sewer Rate Comparison

*Most current rate increase based on rates available on website

One of the considerations for the study was to fund the replacement of the wastewater collection system in a manner as to prevent a major failure of the system. Over the next 30 years, it is recommended that the City invest just over \$29 million dollars in improving the wastewater collection system capacity, the condition of the system, and pump station improvements. In order to fund these projects utilizing cash from rate revenue, the City would need to increase its traditional formula for cost allocation to capital projects to approximately \$1.3 million annually by Fiscal Year 2019-2020.

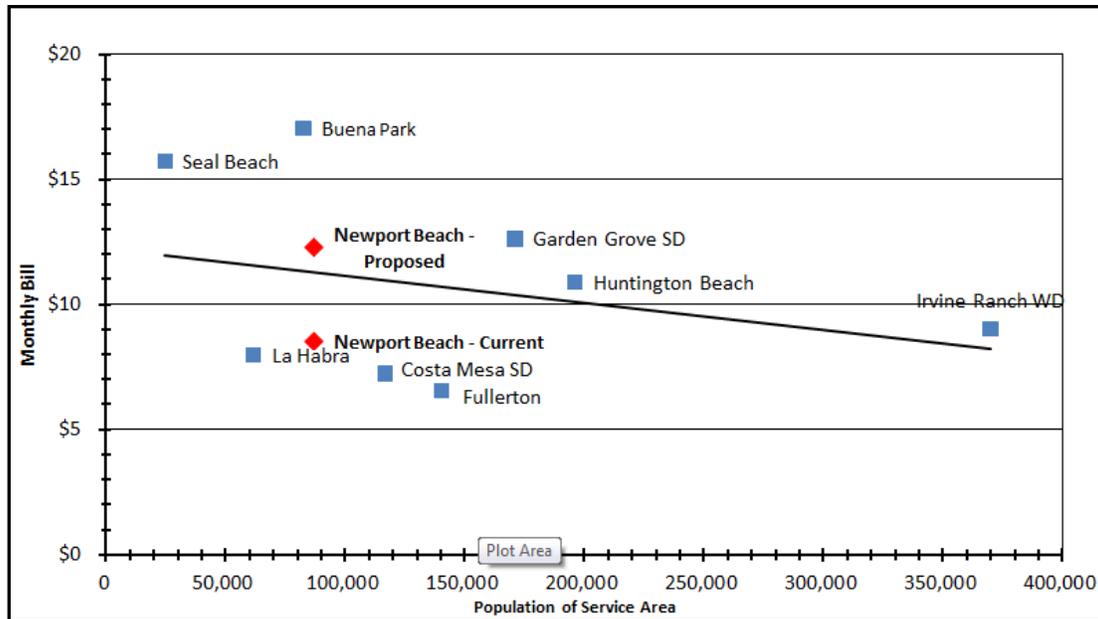


Figure 13: Cost Comparison to Other Agencies

Capital Improvement Program

The primary goal of the Capital Improvement Program (CIP) is to provide the City of Newport Beach with a long-range planning tool for implementing sewer infrastructure improvements in an



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orderly manner. Projects within the CIP are prioritized primarily with the health and safety considerations for the community in mind as well as the protection of the environment by minimizing sewer system overflows. The City's Sewer Master Plan that was published in 2010 recommended projects based on the results of a hydraulic analysis and established priorities. These priorities should be updated annually as CCTV inspections of the wastewater system are completed. These inspections may identify severe and/or major defects in the system that may be addressed in the immediate future which will require the CIP to be updated.

The Sewer Master Plan mentions the City should be spending approximately \$1 million dollars a year to maintain and replace items associated with the wastewater certain; currently, a bare minimum of \$500,000 is being spent on these items. Without a wastewater rate increase, the amount spent per year on CIP projects will continue at the \$500,000 level and may need to decrease in order for the wastewater fund to remain solvent.

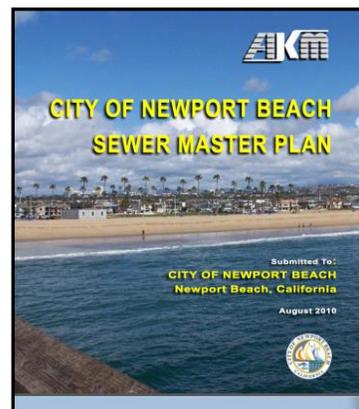


Figure 14: Sewer Master Plan

Summary

Due to its close proximity to the bays and ocean, the City of Newport Beach is challenged to maintain its wastewater collection system in pristine condition in order to prevent sewer system overflows from reaching these public waterways and contaminating them. Should an incident occur, personnel from the City must be able to rapidly respond to the emergency, contain the overflow, and correct the issue before the environment and the community become impacted.

The Municipal Operations Department Wastewater Division performs preventative maintenance on the City's pump stations, sewer mains, and laterals. They also replace sewer mains, laterals, and manhole covers as needed to ensure the City's wastewater collection system remains in good condition. The City of Newport Beach is one of a few jurisdictions in California that owns the sewer laterals. Most sanitary sewer districts and cities will not maintain or replace damaged sewer laterals as they are owned by the property owner. This level of maintenance ensures that there is a routine level of preventative maintenance conducted on the sewer laterals so the occurrence of sewer system issues is minimal.

Additionally, the Wastewater Division responds to emergency incidents that involve power outages, sewer backups, sewer spills, and numerous other incidents during both normal business hours and after normal business hours. In Fiscal Year 2014/2015, City staff responded to 71 emergency incidents after hours. Due to the quick actions of City staff, there were no significant impacts to the environment.

Overall, the current FY 2015/2016 budget for the Wastewater Enterprise Fund is \$3,388,614 for expenditures and \$3,054,441 for revenue. This leaves a deficit of \$334,063 between revenue that is expected to be collected and the anticipated costs to maintain and operate the City's sewer system. The difference between revenue and expenditures will be covered by the wastewater



MUNICIPAL OPERATIONS DEPARTMENT

reserve fund; however, without a rate increase in the near future the reserve fund will become depleted by 2017.

In order to efficiently and effectively provide for the maintenance and repairs to the City's existing sewer collection system and pump stations, the Municipal Operations Department uses a combination of City paid staff and private companies. A review of potential vendors that could perform services currently accomplished with personnel paid for by the City's Wastewater Fund was conducted in July 2015. The survey resulted in the following findings:

- 1) Without going through a formal request for proposal, no vendor was located to perform the routine maintenance and repairs associated with pump station maintenance
- 2) The City will minimally save \$234,621 a year by continuing to provide cleaning and maintenance operations services for the wastewater collection system with City personnel who are funded by the Wastewater Enterprise Fund (see page 21).
- 3) The City will minimally save \$3,474 per project completed by the Construction Operations section of the Wastewater Division (see page 22).

Wastewater Services in Newport Beach

Item No. 5D1
Wastewater Service in
Newport Beach
Presentation
August 13, 2015



Finance Committee Meeting
August 13, 2015

Goals and Objectives

- Collect and convey wastewater from residents and businesses to the Orange County Sanitation District for treatment
- Repair, maintain, and replace infrastructure
 - 198 miles of sewer mains
 - 83 miles of sewer laterals
 - 25,525 connections
 - 21 pump stations
- Respond quickly to prevent property damage, spills, ocean/bay contamination and public health issues.



Service Overview

- Four Core Functions
 1. Pump Station operations, maintenance and repair
 2. Maintenance and cleaning of pipelines
 3. Construction operation of mains, laterals and manholes
 4. Emergency response to stoppages, overflows, power failures and disasters



Staffing

- 12 FTE (Full Time Equivalent)
 - 20% decline in personnel since FY 11/12
 - Serve as disaster service workers
- Department Support Staff
 - Director and four administrative staff
- Other Department Support Staff
 - \$360,000 transfer to General Fund - City Manager's Office, City Attorney's Office, Public Works, and Finance.



Wastewater Budget

Wastewater Enterprise Fund	FY 11/12 Adopted	FY 12/13 Actual	FY 13/14 Actual	FY 14/15 Projected	FY 15/16 Proposed
Revenue	\$3,174,844	\$3,428,628	\$3,456,286	\$3,042,444	\$3,054,551
Expenditure	\$3,050,262	\$3,063,517	\$2,845,911	\$3,245,097	\$3,388,614
Difference	\$124,582	\$365,111	\$610,375	(\$202,653)	(\$334,063)

- Reserve balance is currently \$1,865,103
- Rates
 - Wastewater Rate Study completed in 2014
 - Finance Committee reviewed November, 2014
 - City Council study session June, 2015



Current Contracts

- Video inspection of sewer mains and laterals
- Sewer manhole lining
- Sewer pipe relining
- Sewer root control
- Sewer roach control
- FOG program compliance
- Main line repair
- Capital Improvement Projects (CIP)



Prevailing Wage

- As of January 1st, all jurisdictions must pay prevailing for construction and maintenance contracts
- Increases the cost to contract services with private companies



Outsource Opportunities

- Pump station operations/maintenance
- Emergency response
- Sewer main cleaning*
- Lateral repair/replacement*

* Staff requested proposals from Southern California firms that provide these services. A full RFP process may generate lower proposals.



Proposals - Cleaning Operations

Contractor	Hourly Rate	Hours Per Year	Annual Cost	Admin Fee	Total Annual Cost
City of Newport Beach	\$187.30	3,120	\$584,379	N/A	\$584,379
Propipe	\$250	3,120	\$780,000	\$39,000	\$819,000
National Plant Services	\$300	3,120	\$936,000	\$46,800	\$982,800
Downstream	\$342	3,120	\$1,067,040	\$53,352	\$1,120,392



Proposals - Lateral Replacement

Company	Average Cost Per Project	Projects Per Year	Estimated Cost Per Year
City of Newport Beach	\$4,043	60	\$242,580
T.E. Roberts	\$7,517	60	\$451,020
GCI	\$10,400	60	\$624,000



Outsourcing Options

- Annexation of entire system to another agency
 - Sell infrastructure
- Outsource all services to another agency
 - Keep infrastructure.
- Outsource additional services to contractors
 - Outsource Opportunities



Outsourcing Pros/Cons

Pros

- No Long Term Retirement Costs
- Possibly Less Expensive
- More Efficient – Less Staff/Equipment
- Cost Containment through Contract Negotiations
- Shift Liability to Vendor
- Lower Equipment Costs for Maintenance of System
- Establish Penalties and Fines for Non-Performance

Cons

- Loss of Control of Rate Structure
- Low Price May Mean Low Quality
- Need to Provide Contract Oversight
- Response Times May be Extended Due to Location of Vendor
- Ratepayer Ultimately Responsible
- Loss of Overhead Costs to General Fund
- Less Control Over Quality of Service



Possible Recommendations to City Council

- Keep Division as an in-house function
- Engage Consultant to review Division
- Release an RFP for maintenance functions
- Consider Annexation of entire system



Questions?





**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 5E
August 13, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: City Manager's Office & Municipal Operations Department

Carol Jacobs, Interim Assistant City Manager
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Mike Pisani, Municipal Operations Director (949) 644-3059,
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SUBJECT: City Council Policy F-9 City Vehicle/Equipment Guidelines

SUMMARY:

City Council Policy F-9 establishes the service life of vehicles and equipment and helps determine funding requirements for their replacement. At the request of City Council and due to a number of changes in operations, staff requests the Finance Committee to review and comment on the proposed changes.

RECOMMENDED ACTION:

Provide direction to staff on the proposed changes.

DISCUSSION:

Council Policy F-9 City Vehicle/Equipment Replacement Guidelines was established on December 14, 1992. Since that time the policy has been updated three times (1994, 1995 and 2001). The purpose of the policy is twofold: 1) to establish a funding mechanism for the replacement of vehicles and equipment through the Internal Service Fund and 2) to estimate the useful life of each type of vehicle/equipment taking into consideration safety, cost of maintenance and uniformity among all City departments.

The City has an Equipment Maintenance Internal Service Fund which is utilized to collect "rents" from the departments in order to pay for annual maintenance as well as equipment replacement of City vehicles and large pieces of equipment. Each year the Municipal Operations Department and Finance Department work with each department to determine their operational needs. Vehicles and equipment that have reached their useful life based on age of the vehicle, maintenance costs, mileage and fuel efficiency are scheduled for replacement through the Equipment Maintenance Fund.

The Equipment Maintenance Fund supports 7.5 full-time employees who are responsible for maintaining approximately 340 vehicles and other pieces of equipment managed by the Municipal Operations Department. The Police Department has a staff of two and a budget of \$1,970,313 funded through the

General Fund. The proposed policy changes would affect the useful life of police vehicles and equipment as well as all other City vehicles/equipment. There are two components to the fund: 1) the Equipment Maintenance Premium and 2) the Equipment Replacement Premium. Council Policy F-9 relates to the Equipment Replacement Premium and would not affect the Maintenance Premium.

In Fiscal Year 2015-16, the charges for replacement (considered revenue to the Internal Equipment Fund) are budgeted at \$3,921,991. There are 49 vehicles/pieces of equipment scheduled to be replaced during the year at an estimated cost of \$3,488,982. This includes 31 Public Safety vehicles/boats and 18 vehicles from all other departments. Should the Finance Committee and City Council approve the proposed changes, it is estimated that the annual contribution to the replacement fund will decrease by \$1,039,172 as the City will be capturing the replacement cost of the vehicles over an extended life of the vehicles/equipment. At the end of Fiscal Year 2014-15, the reserve in the Equipment Replacement Fund is estimated to be approximately \$7.5 million.

Attachment A is the current adopted policy and Attachment B is the proposed policy. The major changes to the policy include:

- Extending the life/mileage of police motorcycles, sedans and wagons, SUV's, pickup trucks, vans, heavy trucks, welders, saws, pumps, radios and beacons, and fire engines.
- Added a category for police detective/plain vehicles
- Added ATV's and SUV's to the equipment list
- Added personal watercraft to the equipment list
- Eliminated small emergency boats from the proposed policy
- Added Reserve categories for Fire Engines, Fire Trucks and Ambulances
- Eliminated refuse trucks, paint strippers and refuse transfer trailers, as the City no longer operates these programs in-house.

In addition, staff added clarifying language to the policy with regard to frontline and reserve equipment in the Fire Department. After a fire engine or truck reaches its useful life, the unit is placed in a reserve status for 5-15 years depending on the type of vehicle. This allows the Fire Department to have additional equipment on hand in case of a major emergency or a vehicle should one be out of service. Each piece of equipment will be evaluated annually to determine the appropriateness of replacing the vehicle/equipment.

Due to the diligence of the Fleet Maintenance staff many of the vehicles and equipment exceed the useful life and mileage guidelines; however they are mechanically functional with low maintenance costs. The staff will continue to monitor the vehicles and equipment based on the policy and prudent care of the equipment.

Attachments:

- A. Existing City Vehicle/Equipment Replacement Guidelines
- B. Proposed City Vehicle/Equipment Replacement Guidelines

Prepared and Submitted by:

/s/Carol Jacobs
Carol Jacobs
Interim Assistant City Manager

ATTACHMENT A

Existing City Vehicle Equipment Replacement Guidelines

CITY VEHICLE/EQUIPMENT REPLACEMENT GUIDELINES

PURPOSE

To establish the policy to insure that the full service life of each City vehicle or item of equipment is achieved and that uniform guidelines be implemented among all departments.

POLICY

It shall be the policy of the City that the replacement of all motor vehicles shall be normally based on the following schedule:

Police Patrol/Traffic Vehicles	75,000 miles or 4 years
Police Motorcycles	60,000 miles or 5 years
Beach Vehicles	4 Years
Sedans and Station Wagons	80,000 miles or 8 years
Pickup Trucks (1/4 to 3/4 Ton)	85,000 miles or 9 years
Vans, excluding Paramedic Vans	80,000 miles or 8 years
Paramedic Vans	80,000 miles or 6 years
Heavy Trucks (1 Ton and larger)	100,000 miles or 9 years
Refuse Trucks	100,000 miles or 8 years
Paint Strippers	9 years
Beach Cleaners	8 years
Street Sweepers	7 years
Small Boats	10 years
Small Emergency Boats	12 years
Large Emergency Boats	25 years
Heavy Equipment	10 years or 5,000 hours
Trailers	12 years
Refuse Transfer Trailers	6 years
Vactors/Sewer Rodders	10 years
Welders, Saws, Pumps	10 years
Transfer Equip (Radios/Beacons)	8 years
Fire Engines	10 years
Fire Trucks	15 years

After these milestones are reached, the General Services Department shall inspect the equipment annually to determine the appropriateness of replacing the vehicles. Factors to consider include, but are not limited to, maintenance and upkeep costs, fuel efficiency, etc.

Adopted - December 14, 1992

Amended - January 24, 1994

Amended - March 27, 1995

Amended - May 8, 2001

Formerly F-26

ATTACHMENT B

Attachment B - Proposed City Vehicle Equipment Replacement Guidelines

CITY VEHICLE/EQUIPMENT REPLACEMENT GUIDELINES

PURPOSE

To establish a policy to ensure that the full service life of each City vehicle or item of equipment is utilized to its fullest potential, provide for a funding timeline and implement uniform guidelines be among all departments.

POLICY

It shall be the policy of the City that the funding and replacement of all motor vehicles shall be normally based on the expected service life of the vehicle described on the following schedule:

<u>Vehicle/Equipment</u>	<u>Current</u>	<u>Revised</u>
Police Patrol/Traffic Vehicles	75,000 miles or 4 years	Current
Police Motorcycles	60,000 miles or 5 years	75,000 miles or 5 years
Police Detective/Plain Vehicles	N/A	80,000 miles or 8 years
Beach Vehicles/ATV's	4 years	4 years
Sedans/Station Wagons/SUV's	80,000 miles or 8 years	120,000 miles or 12 years
Pickup Trucks (1/4 to 3/4 Ton)	85,000 miles or 9 years	100,000 miles or 10 years
Vans	80,000 miles or 8 years	100,000 miles or 10 years
Ambulances (commercial chassis)	80,000 miles or 6 years	100,000 miles or 8 years
Ambulances – Reserve	N/A	4 years
Heavy Trucks (1 Ton and larger)	100,000 miles or 9 years	120,000 miles or 10 years
Refuse Trucks	100,000 miles or 8 years	N/A
Paint Stripers	9 years	N/A
Beach Cleaners	8 years	8 years
Street Sweepers	7 years	10 years
Small Boats/Personal Watercraft	10 years	10 years
Small Emergency Boats	12 years	N/A
Large Emergency Boats	25 years	25 years
Heavy Equipment	10 years or 5,000 hours	10 years or 5,000 hours
Trailers	12 years	10 years
Refuse Transfer Trailers	6 years	N/A
Vactors/Sewer Rodders	10 years	10 years
Welders, Saws, Pumps	10 years	13 years
Transfer Equip (Radios/Beacons)	8 years	10 years
Fire Engines – Frontline	10 years	13 years
Fire Trucks – Frontline	15 years	15 years
Fire Engine – Reserve	N/A	5-7 years
Fire Truck - Reserve	N/A	10-15 years

Fire engines, trucks and ambulances are placed within stations as frontline vehicles when they are purchased. They will remain in a frontline status until the expected useful life is over. At that time the engines and trucks will be placed in reserve status for an additional period of time as described above.

The Municipal Operations Department shall inspect the equipment annually to determine the appropriateness of replacing each piece of equipment in conjunction with the assigned Department. All non-emergency vehicles shall be replaced based on, but not limited to, the following factors: expected service life, lifecycle maintenance costs, fuel efficiency, purchase price (cost), environmental rating, etc. The City will actively seek opportunities to use cleaner burning fuels and higher efficiency vehicles when possible.

Should the expected life of the equipment be less than expected, the Municipal Operations Department in conjunction with the Finance Department and the assigned Department will make a recommendation to the City Manager or his designee on the disposition and replacement of the equipment.

Adopted - December 14, 1992

Amended - January 24, 1994

Amended - March 27, 1995

Amended - May 8, 2001

Formerly F-26