

**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
MARCH 10, 2016 MEETING MINUTES**

**I. CALL MEETING TO ORDER**

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

**II. ROLL CALL**

PRESENT: Council Member Keith Curry (Chair), Mayor Diane Dixon, Council Member Tony Petros, Committee Member Patti Gorczyca, Committee Member William C. O'Neill, Committee Member Larry Tucker, and Committee Member John Warner

STAFF PRESENT: City Manager Dave Kiff, Finance Director/Treasurer Dan Matusiewicz, Deputy Finance Director Steve Montano, Assistant City Manager Carol Jacobs, Budget Manager Susan Giangrande, Revenue Manager Evelyn Tseng, Accounting Manager Rukshana Virany, Senior Accountant Theresa Schweitzer, and Administrative Specialist to the Finance Director Marlene Burns

MEMBER OF THE PUBLIC: Jim Mosher

**III. PUBLIC COMMENTS**

Chair Curry opened public comments.

Jim Mosher reminded the Committee of its role, to make recommendations to City Council regarding revisions to the City's financial policies. He reported that at a recent meeting, staff presented to City Council, a recommendation to consolidate three policies having to do with how contracts are executed, into one policy. He noted that the action was done without the Finance Committee's review and that under those policies, the City Attorney has unlimited authority to write, review and issue its own contracts for legal work and ignoring the Charter's directive that the contracts be executed and placed with the City Clerk for public inspection and the provision that if legal work is needed, beyond what the City Attorney can do, City Council must execute, review and grant that contract. He addressed the revision to the City Charter in terms of oral contracts versus written contracts. He addressed the adopted budget and noted that the version currently on the City's website does not show actual expenditures that occurred.

Chair Curry closed public comments.

**IV. CONSENT CALENDAR**

**A. MINUTES OF FEBRUARY 11, 2016**

**Recommended Action:**  
Approve and file.

Committee Members Tucker and Gorczyca noted corrections to the minutes of February 11, 2016.

Committee Member Tucker moved and Committee Member Gorczyca seconded, to approve the February 11, 2016, Finance Committee Minutes, as corrected. The motion carried, unanimously.

Chair Curry noted that the Finance Committee's meeting in May will be on May 26, 2016.

**V. CURRENT BUSINESS**

**A. FISCAL YEAR 2014-2015 AUDIT RESULTS**

**Summary:**

The City's external audit firm, White Nelson Diehl Evans, LLP will meet with the Finance Committee to discuss the audit findings for the Fiscal Year ending June 30, 2015. The Committee will have an opportunity to discuss any potential areas of concern and the auditors can discuss any changes in accounting standards or disclosures that were relevant for the audit year.

**Recommended Action:**

Receive and file.

Finance Director/Treasurer Dan Matusiewicz introduced Robert Callahan and Kassie Radermacher with White Nelson Diehl Evans, LLP, the City's external audit firm and deferred to them for a presentation.

Mr. Callahan, with a PowerPoint presentation, addressed their scope of services, required standards, Auditor's opinion and report, and the need to understand internal controls. He reported that they did not come across any material weaknesses during the course of the audit but noted significant deficiencies in terms of receivables that were on the books that were uncollectable and needed to be taken off, and payable balances related to payroll that needed to be adjusted to the appropriate amount. Mr. Callahan reported that there were no compliance issues and noted deficiencies including a change in the mooring rate (50 cents) that was not properly billed.

Finance Director/Treasurer Dan Matusiewicz clarified that the City under-billed for a specific time and staff made a decision to correct the error on a go-forward basis.

Mr. Callahan presented details of the required communications.

Brief discussion followed regarding deferred pension liabilities and inflows and outflows based on the estimate of the net pension liabilities. It was noted these will be amortized over different periods of time and do not affect the governmental funds financial statement. Mr. Callahan addressed cost-sharing and noted that the beginning entry affected net position.

Finance Director/Treasurer Matusiewicz reported that Deputy Finance Director Steve Montano and he will be authoring a white paper on how pension liabilities impacted the City's financial statement from one year to the next.

Mr. Callahan reported that the financial statements include significant estimates and listed them. He stated that they did not encounter any significant difficulties in performing the audit and noted there were some corrected and uncorrected misstatements. There were no disagreements on any issues related during the course of the audit and Mr. Callahan reported obtaining a representation letter from management.

Mr. Callahan addressed new GASB Standards and explained same.

In reply to Committee Member Tucker's question regarding the City's internal controls and the ERP process, Ms. Radermacher reported that it was taken into consideration.

In response to Committee Member Gorczyca's inquiry, Mr. Callahan commented on making sure that prior balances are rolled forward, accurately, and noted they look for anomalies.

Mayor Dixon asked regarding posting the documents on the website and Finance Director/Treasurer Matusiewicz listed documents that have been posted.

Chair Curry opened public comments.

Mr. Mosher commented on the audit confirming the accuracy of the financial statements but wondered if the Finance Committee will ever review the substantive content. He asked if some of the errors found can be attributed to the City's new ERP system and whether the auditor provided input as to how it could work better and whether it will make auditing the City easier or harder in future years. He commented on specific funds and suggested it would be beneficial if there were some tie-in to the legislative origin of the various funds. He commented on mooring fees and funds relative to the Library.

Chair Curry closed public comments.

In response to Chair Curry's inquiry, Mr. Callahan reported there was nothing further to report.

## **B. PROPOSED FISCAL YEAR 2016-2017 BUDGET ASSUMPTIONS**

### **Summary:**

Staff will provide an overview of the Proposed Fiscal Year 2016-2017 Budget Assumptions.

### **Recommended Action:**

Receive and file.

Deputy Finance Director Steve Montano introduced a PowerPoint presentation addressing budget assumptions, the budget process and an economic overview.

City Manager Dave Kiff addressed the City's overall projected growth, projected revenues, assessed valuation growth, distribution of property taxes and sales tax.

In response to Chair Curry's question regarding property tax, Finance Director/Treasurer Matusiewicz noted there are several categories of property tax and identified them.

City Manager Kiff explained the assessed valuation.

In response to a question about the decline of property taxes from the prior year, Deputy Finance Director Montano reported there was a prior year one-time receipt of redevelopment agency that makes the current year revenue appear lower.

City Manager Kiff continued the presentation addressing sales tax, sales tax by category, distribution of sales tax revenue, transit-oriented taxes (TOT) and growth in revenue. He presented expenditure assumptions, and merit increases, and, in response to an inquiry from Committee Member O'Neill, he provided a brief explanation of the employee evaluation process and merit/salary increases.

In response to Mayor Dixon's question, City Manager Kiff stated that during the recession, the City froze positions but not merit increases.

City Manager Kiff reported that the growth of unfunded liabilities was built into the expense assumptions and noted the assumption of a partial fresh-start, PERS investment earnings and the application of the surplus from the prior year.

In reply to Mayor Dixon's inquiry, City Manager Kiff described the potential projects that could be budgeted beyond the \$5 million allocated annually to the General Fund CIP.

City Manager Kiff presented options for the use of the surplus, and responded to a question from Mayor Dixon in terms of what would occur if the City did not have a surplus.

Discussion followed regarding the source of the proposed subsidy to off-set waste-water fees, salary savings, operations, next steps and subsequent meetings where the Finance Committee will review the budget.

Ensuing discussion followed regarding factoring in Worker's Compensation, current vacant positions and reserves.

Chair Curry reported that the April Finance Committee meeting will be on April 28, 2016.

Chair Curry opened public comments.

Jim Mosher referenced the breakdown of property tax dollars in Newport Beach noting that allocations are different from one property to another. He commented on the surplus and expressed concerns that it is like a personal checkbook and noted that it is just a snapshot whereas, he suggested, the City should be looking ahead.

Chair Curry closed public comments.

In response to Committee Member Tucker's question, City Manager Kiff addressed the CIP and prioritization of projects.

Council Member Petros added that for some CIP projects, the City already made an investment in design, permitting, etcetera and the project is therefore, ready for the expenditure.

Chair Curry stated that the Mayor's idea of using half of the surplus for long-term obligations and the other half for one-time capital project expenditures is a good idea and suggested Council consider a policy for such.

Discussion followed regarding funding for the sea wall.

#### **C. UPDATED ON STATUS OF SUBCOMMITTEE RECOMMENDATIONS**

**Summary:**

An update will be provided regarding the Finance Subcommittee.

**Recommended Action:**

Receive and file.

Committee Member Tucker reported that the Finance Subcommittee met and reviewed the policies and decided to focus on maximizing revenues, minimizing expenses and make observations about the budget process. He added that the Subcommittee formed to have outside people with finance experience offer their thoughts about the City's financial process. He added that the Subcommittee prepares ideas and vets these with staff to present to the Finance Committee. He addressed next steps and the goal of presenting the ideas to the Committee at its April meeting.

Chair Curry opened public comments.

Chair Curry closed public comments.

#### **D. QUARTERLY ERP UPDATE**

**Summary:**

Staff will provide the Committee with a progress report on the Enterprise Resource Plan project.

**Recommended Action:**

Receive and file.

Deputy Finance Director Montano noted the only change made from the last report was the implementation of the work orders module and reported that the utilities billing module is well under way with an expected live launch in October.

Council Member Petros stated he is interested in looking at programmatic budgets when the system is at equilibrium.

Deputy Finance Director Montano noted the new finance system can be configured for program budgeting and that effort can begin as early as next year after the implementation of the remaining ERP modules.

Chair Curry opened public comments.

Chair Curry closed public comments.

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

Committee Member O'Neill requested adding the creation of a policy for use of the City's surplus on a future agenda.

Mayor Dixon would like a discussion on the idea of a rebate for residential property owners.

Committee Member Gorczyca requested consideration of hiring an actuary. Chair Curry noted that the City already has one and Committee Member Gorczyca suggested engaging him further.

Mayor Dixon requested a review of the City's professional service contracts for investment advisors.

Committee Member Gorczyca requested consideration of doing a five- or ten-year budget projection.

**VII. ADJOURNMENT**

The Finance Committee adjourned at 5:11 p.m. to the next regular meeting of the Finance Committee on April 28, 2016, 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 March 7, 2016, at 12:20 p.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:



Keith Curry, Chair  
Finance Committee Chair



Date