

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
APRIL 28, 2016 MEETING MINUTES**

I. CALL MEETING TO ORDER

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

II. ROLL CALL

PRESENT: Council Member Tony Petros (Chair) Council Member Keith Curry, 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, City Attorney Aaron Harp, Finance Director/Treasurer Dan Matusiewicz, Deputy Finance Director Steve Montano, Assistant City Manager Carol Jacobs, IT Manager Rob Houston, Budget Manager Susan Giangrande, Human Resources Director Barbara Salvini, Human Resources Manager Cheryl Anderson, Library Services Director Tim Heatherston, Fire Chief Scott Poster, Fire Administrative Manager Angela Crespi, Revenue Manager Evelyn Tseng, Public Works Administrative Manager Lucie Delorme, Public Works Director Dave Webb, Public Works Finance/Admin Manager Jamie Copeland, Deputy Public Works Director Mark Vukojevic, Senior Budget Analyst Shannon Espinoza, Purchasing Agent Anthony Nguyen, Accounting Manager Rukshana Virany, Senior Accountant Theresa Schweitzer, and Administrative Specialist to the Finance Director Marlene Burns

MEMBERS OF THE PUBLIC: Jim Mosher, Nancy Skinner, and Hannah Fry of the Daily Pilot

III. PUBLIC COMMENTS

Chair Petros opened public comments

Mr. Jim Mosher requested and received clarification from Chair Petros as to whether the Committee will invite the public to comment on each agenda item as they come up, asked how the Finance Committee would be handling the future discussion items mentioned in Item No. 6 (Announcement-Future Agenda), and how the Newport Center Development Agreement would benefit the public.

Committee Member O'Neill stated that his understanding was that Council Policy A-6 applies only to Council, not the Committee, to which City Manager Dave Kiff replied that was his understanding as well and added that the same rules and procedures currently in place can be followed by each Committee because they are the standard rules enforced by Council. Chair Petros confirms that the Finance Committee will be using the rules and procedures, unless decided against.

Chair Petros closed public comments.

IV. CONSENT CALENDAR

A. MINUTES OF MARCH 10, 2016

Recommended Action:

Approve and file.

Motion made by Mayor Diane Dixon, seconded by Committee Member Patti Gorczyca, to approve March 10, 2016, Finance Committee Minutes as submitted.

Chair Petros opened public comments.

Seeing no one wishing to address the Finance Committee, Chair Petros closed public comments.

V. CURRENT BUSINESS

A. FISCAL YEAR 2016-2017 PROPOSED BUDGET PRESENTATION & CIP FIRST LOOK

Summary:

The City Manager's Fiscal Year 2016-2017 Proposed Budget will be reviewed with a PowerPoint presentation, with a more detailed look at the proposed Capital Improvement Program (CIP). Budget Documents will also be posted to the web at newportbeachca.gov/budget.

Recommended Action:

Staff recommends that the Committee directs staff to bring the Fiscal Year 2016-2017 Proposed Budget for City Council Approval.

City Manager Dave Kiff presented a PowerPoint presentation and distributed the Budget Detail of the proposed budget, subject to amendment, that's in consideration before the City Council. Mr. Kiff stated that there is no expectation from staff for the Committee Members to have any working knowledge of the document, but the hope is to use it as a take-away for later discussions. The goal for the Finance Department is to receive recommendations from the Committee.

Chair Petros added that the expectation to be derived from the presentation and review of the budget is the Committee's willingness to hold additional meetings, which can be done on a daily basis or weekly basis. The end result is for all committee members to have the necessary time to review the budget and provide recommendations.

Mr. Kiff provided an overview of the proposed budget and addressed various aspects of the budget including general fund revenue, salary and benefits, OPEB (Other Post-Employment Benefits) and the overall theme of the proposed budget. Discussion and questions followed regarding the budget, how the funds are being allocated, and the revenue components.

City Manager Kiff continued with the presentation by reporting that overall salaries increased by four percent. This was calculated by taking under consideration employee promotions and different levels of staff. Mr. Kiff also reported that Pension Liability payments increased by \$3M.

Mr. Kiff reported that the Unfunded Pension Liability increased approximately \$11M by end of June 2015 and estimated that by end of June 30, 2016, the Unfunded Pension Liability may approach \$299M. Mr. Kiff concluded by saying that tracking the Unfunded Pension Liability is a challenge because it fluctuates every year and 70 percent of it is uncontrollable because it involves people who have left the workforce. Finance Director Matusiewicz stated from start to finish, the Unfunded Pension Liability is approximately \$287M, rolled from June 30, 2014, balance of \$253M.

City Manager Kiff reported on Capital Improvement projects and stated that the dollars allocated to the capital improvement budget represents investment in new projects. Regarding the re-budgeting of projects this represents the projects that are presently underway and addressed that the funds are carried over after June 30 for either active projects that have not concluded or projects that have not begun.

Mr. Kiff reported on replenishing the general liability funds. Mr. Kiff explained that general liabilities are from claims and lawsuits and attorney fees associated with the claims and lawsuits. Staff is recommending \$3M to replenish the general liability funds.

Committee Member Gorczyca requested clarification regarding the status of the department reaching the 25 percent contingency reserve. Mr. Kiff responded by stating that \$4M is needed to meet the 25 percent goal and the goal is within reach.

Mr. Matusiewicz reported that staff is proposing a fresh start with an amount of \$2.7M, more than the minimum contribution to PERS. Mr. Matusiewicz also stated that if staff were to remain with the minimum contribution to PERS, it would create negative amortization of the unfunded liability.

City Manager Kiff concluded the presentation by stating that the information provided is new and appreciates the discussion and asked if there is a desire from the Committee to possibly schedule additional meetings to review the proposed budget in further detail. Mr. Kiff stated that there is a council study session to be held May 24, and suggested for the Committee to meet frequently prior to the May 24 meeting to discuss the budget and receive recommendations to be taken to Council.

Discussion followed regarding future meetings to review the budget in depth.

Committee Member Curry suggested conducting the first meeting the following Thursday, and continue on for as many Thursdays as needed until a comfort level is reached. As Mr. O'Neill will not be available on Thursday, it was decided to schedule the meeting for Wednesday, May 4, at 4:00 p.m., with tentative date for a follow up on May 12, at 4:00 p.m.

Chair Petros opened public comments.

Nancy Skinner thanked staff for adding additional time to the lifeguard hours during the summer months. Mr. Mosher stated that there appears to be a completed budget for current fiscal year on the City's website and the only thing that is lacking is that the old budget had the adopted amendment and actual budget expenditures, while the current year is missing the actual expenditures. Mr. Mosher is hoping the new budget will have a detail page listing last year's original budget amended versus the actual expenditures. Mr. Matusiewicz confirmed that the website will be updated in the morning.

Additionally, Mr. Mosher commented on the allocation of the sewer funds. He believes that it is unfair for those who are not part of the sewer system to be affected by the increase and thinks that the people using the sewer system should be the ones paying for it.

Chair Petros closed public comments.

B. CITY COUNCIL GENERAL FUND SURPLUS UTILIZATION POLICY
Summary:

Staff will propose a new City Council policy for the use of surplus funds resulting from unrestricted General Fund annual revenues exceeding total actual expenditures, encumbrances and commitments for that year.

Recommended Action:

Review the draft General Fund Surplus Utilization Policy, suggest changes as needed and recommend the policy for submission to the City Council for final approval.

City Manager Kiff reported that the drafted Surplus Utilization Policy is part of the committee's packet and welcomed any questions and feedback.

Committee Member Curry supports the policy. It was stated that surplus funds had recently been used to subsidize the sewer funds and it wasn't clear if that was a proper expenditure. So this policy is needed.

Committee Member O'Neill agreed with Mr. Curry and continued by stating that he believes the language is solid and supports other F policies, including the F-2 Reserve policy, which is a \$50M reserve policy. Mr. O'Neill concluded by stating that it is important to be cohesive with other F policies especially when thinking of using the surplus towards the reserve policy.

Committee Member Tucker believes the policy should have more flexibility. Mr. Tucker suggested for staff to replace the word "shall" in the first line of Council Policy C and Policy D to the words "should, absent circumstances justifying otherwise." Mr. Tucker continued by stating the policy should have the flexibility to adapt to certain circumstances that may occur during the course of the year. Discussion of the merits of using the word "shall" or "should" ensued among the committee members.

Chair Petros opened public comments.

Jim Mosher questioned whether or not Clause B is correcting the surplus of revenue. In addition, he questioned if after allocations have been made if the City Manager comes up with some corrective surplus. Manager Kiff responded by stating that it is clear in his mind what the surplus is, which is a balance of funds available at the end of the year, and that the recommendation made is straight forward.

Nancy Skinner commented on the sewer fees and stated that the fees should be taken out of the budget.

Chair Petros suggested a straw vote to recommend the changing the word "shall" to "should, absent circumstances justifying otherwise."

Committee Member Curry moved and seconded by Committee Member O'Neill to modify the first line of Policy C and Policy D of the Surplus Utilization Policy to replace the word "shall" with the words "should, absent circumstances justifying otherwise." Motion passed unanimously.

Chair Petros closed public comments.

C. BUDGET AMENDMENTS

Summary:

Staff will report on the budget amendments for the prior quarter. All budget amendments are in compliance with City Council Policy F-3, Budget Adoption and Administration.

Recommended Action:

Receive and file.

Committee Member Curry moved and seconded by O'Neill to approve the Budget Amendments. Motion passed unanimously.

Chair Petros 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)

A. SECTION 115 TRUST

In response to City Manager Kiff's inquiry as to when Section 115 Trust is to be discussed, Chair Petros suggested for the item to be included at the regularly scheduled meeting May 26, 2016.

Committee Member Gorczyca stated she would like to have an independent actuary brought on for Pension and OPEB advising. Mr. Curry did not concur, and opined that the 115 Trust can be misconstrued.

Mayor Dixon stated that her understanding was that Section 115 Trust (called the California Employers' Retiree Benefit Trust), as noted, was approved unanimously by Council in 2008. Further, Mayor Dixon stated that the City had approximately \$14.9 million of funds with the OPEB Section 115 Trust as of June 30, 2015. The City selected Strategy 1 (most aggressive) investment strategy for those funds which included allocations in Global Equity, Fixed Income, Global Real Estate, Treasury Inflation Protected Securities and Commodities.

Committee Member Gorczyca stated that an independent Actuary would educate the Committee regarding the range of tools available to address the City's Pension and OPEB liabilities and would help the Committee develop a Pension and OPEB Policy for the City.

Chair Petros confirmed that nothing is to be done at the moment, except to include Committee Member Gorczyca's request to engage an independent actuary for funding strategy as a proposed agenda item.

Committee Member O'Neill requested that the Finance Committee agendaize for the June meeting whether to recommend that the City consult with an independent third party agency – such as the Orange County Auditor Controller's Office or a consultant – to either (1) review the City's debt issuance procedures for best practices, (2) provide a financial analysis of whether we are currently in a position to take advantage of interest rates and at least alleviate some of the COP long-term debt, or (3) both." City Manager Kiff will add this topic to the May 26 agenda for further discussion.

City Manager Kiff requested clarification from Committee Member Tucker as to whether or not he would like information regarding how CalPERS calculate the unfunded liability as future items on the agenda, to which Mr. Tucker answered that he will follow up with staff and there is no need to add it as a future item on the agenda.

B. OPEB BUYOUT – Covered by the language above.

C. PENSION AND OPEB FUNDING POLICY – Covered by the language above.

VII. ADJOURNMENT

The Finance Committee adjourned at 5:44 p.m. to the next regular meeting of the Finance Committee on May 26, 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 April 22, 2016, at 3:51 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:



Tony Petros
Finance Committee Chair

Date 6/14/16