



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA - Final

100 Civic Center Drive - Civic Center Council Conference Room

Thursday, June 2, 2016 - 4:00 PM

Finance Committee Members:

Tony Petros, Chair / Council Member
Diane Dixon, Mayor
Keith Curry, Council Member
Patti Gorczyca, 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

The Finance Committee meeting is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee 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 Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Chair may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

The City of Newport Beach's goal is 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, we will attempt to accommodate you in every reasonable manner. Please contact Dan Matusiewicz, Finance Director, 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) 644-3123 or dmatusiewicz@newportbeachca.gov.

NOTICE REGARDING PRESENTATIONS REQUIRING USE OF CITY EQUIPMENT

Any presentation requiring the use of the City of Newport Beach's equipment must be submitted to the Finance Department 24 hours prior to the scheduled meeting.

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. CONSENT CALENDAR

A. MINUTES OF APRIL 28, 2016

Recommended Action:

Approve and file.

[DRAFT MINUTES 042816](#)

[4A1 CORRESPONDENCE DRAFT MINUTES 042816](#)

B. MINUTES OF MAY 4, 2016

Recommended Action:

Approve and file.

[DRAFT MINUTES 050416](#)

[4B1 CORRESPONDENCE DRAFT MINUTES 050416](#)

V. CURRENT BUSINESS

A. AUDITOR RECOMMENDATION

Summary:

Per Council Policy F-15, External Financial Reporting, Disclosure and Annual Audits, the City issued a Request for Proposal (RFP) for audit services dated March 21, 2016, to audit its financial statements for the fiscal year ending June 30, 2016, with the option of auditing its financial statements for four subsequent fiscal years. After a thorough selection process, staff recommends to the Finance Committee the services of White, Nelson, Diehl, Evans LLP as the City Auditor.

Recommended Action:

With Finance Committee concurrence of staff's recommendation, staff will proceed with the recommended action and bring the new auditor contract to the City Council for approval.

[STAFF REPORT](#)

[ATTACHMENT A](#)

B. SUBCOMMITTEE RECOMMENDATIONS

Summary:

An update will be provided regarding the Finance Subcommittee.

Recommended Action:

Receive and file.

[FINANCE COMMITTEE SUBCOMMITTEE MEMORANDUM 051916](#)

**C. FINANCE COMMITTEE FISCAL YEAR 2016-2017
BUDGET RECOMMENDATIONS**

Summary:

Continue review of the City Manager's Fiscal Year 2016-2017 Proposed Budget and prepare/discuss Finance Committee recommendations to Council.

Recommended Action:

Staff recommends that the Committee (1) direct staff to bring the Fiscal Year 2016-2017 Proposed Budget for City Council for consideration and; (2) prepare and or transmit Finance Committee budget recommendations to Council.

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

VII. ADJOURNMENT

June 2, 2016, Finance Committee Agenda Comments

These comments on items on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

III. PUBLIC COMMENTS

I seem to recall a comment made at the May 12, 2016, Finance Committee meeting (for which minutes don't yet seem to be available) – and repeated in the City Manager's [Insider's Guide](#) to the May 24th joint meeting with the City Council – that the City's unfunded pension liability “***is completely akin to debt - borrowed at 7.5%.***”

Although I understand that recent GASB rules may require recording the unfunded pension liability as “debt,” I find the idea that we effectively have a loan with CalPERS on which we are paying 7.5% *interest* deeply puzzling.

I'm not sure if the term of this hypothetical equivalent loan is 15, 30 or some other number of years, but whatever the hypothetical term, if this picture is correct, that we have a \$299 million loan with CalPERS on which we are paying 7.5% interest, then it would clearly be in the City's best interest to pay off the CalPERS loan with the proceeds from a different loan, say at 7%, on which the City would (for \$299 million) be paying something like \$21 million per year interest, perhaps in perpetuity (if it made no progress on the principal).

But that makes little sense to me, since I wasn't aware the City was paying CalPERS interest on the unfunded pension liability.

Does the City actually receive an annual bill from CalPERS demanding 7.5% interest on what the public is told is the dollar amount of the unfunded liability, independent of how well CalPERS did that year?

On the contrary, I had a vague notion that instead of having taken out a loan, the City has reserves *on deposit* with CalPERS which are *earning* money, and the “unfunded liability” is an *actuarial statement* regarding the shortfall between the actual reserve and the reserve that would be necessary to fund future pension obligations if CalPERS were, in the future, to achieve a steady 7.5% return on the deposits it holds. If CalPERS were to achieve better than 7.5%, the current reserve would be closer to sufficient, and the unfunded part would go down – as it seems to have done, according to the City's May 24th presentation, in 2011, for example (see [Slide 26](#) of the “*Budget Overview Handout*”). At least that was my understanding.

Something the principal of which goes down or up depending on whether attainable market rates are above or below 7.5% does not sound to me equivalent to a loan at 7.5%; but perhaps someone can disabuse me of my faulty understanding.

Based on my possibly faulty understanding I wonder if in addition to concern about growing unfunded pension liability, what the City also needs is a more thoughtful policy regarding what to do in years when CalPERS is doing well and the reserve is *more than adequate* to meet needs (that is, in years of *negative* unfunded liability). The past decision to respond to negative unfunded liability by increasing benefits and eliminating employee contributions doesn't seem, in retrospect, to have been a wise one, although I assume a positive unfunded liability could have appeared in bad years anyway.

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Item IV.B. MINUTES OF MAY 4, 2016

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Item V.A. AUDITOR RECOMMENDATION

This item seems to me to be a complete cop-out.

First, whether it conforms to modern practice or not, City Charter [Section 1116](#) appears to say the auditor for a particular year is supposed to be selected at “*the beginning of each fiscal year,*” not at its end.

Second, several years ago, in the wake of the City of Bell scandal and the embarrassing revelation that Newport Beach was among the cities that had retained the same (apparently ineffective) auditor for many years, the City Council adopted a policy of changing auditors.

My recollection is that White Nelson was already overdue for replacement last year, but City staff decided, without quite seeking Council approval until after the fact, because of disruptions created by the implementation of the Enterprise Resource Planning software.

Now, White Nelson is being recommended once more, for less obvious reasons, for yet another five years with little indication anyone feels there is any need to ever change auditors again.

It least in my view, this will lead to the public perception of a too cozy relationship between the auditor and the audited.

My other comment is to wonder how many people it takes to audit a city the size of Newport Beach. I have the impression the other firm City staff considered – Davis Farr – is a two person operation (Marc Davis serves as Treasurer to the Costa Mesa Sanitary District, and his wife Wendy [not part of Davis Farr] as Finance Director).

Item V.B. SUBCOMMITTEE RECOMMENDATIONS

The Subcommittee’s recommendations seem generally sound to me, but I have these comments:

1. Statements such as that at the end of the first full paragraph on page 2, that the Subcommittee “*has approached its review as if the operation of the City were a private sector business*” are troubling to many in the community. Governments, including city governments, are, to them, fundamentally different from private sector businesses.
2. It is not entirely clear to me how the “*all other things being equal*” in Recommendation A.4 is intended to be read. All other things are never exactly equal, so what importance are financial considerations proposed to be given in some practical situation?
3. I do *not* agree with Recommendation B.4, that the City should outsource even when doing so has little-to-no cost savings. Outsourcing is no panacea, and its purported financial benefits need to be weighed against its effects on employee morale and the public perception that their city services are being performed by dedicated public employees with “pride of ownership” and over whom their elected and appointed officials have complete control. And outsourcing arrangements can and do go sour. In addition to looking for *new* opportunities to outsource, I think the City needs to spend equal time evaluating whether *existing* outsourcing options continue to make sense, both in cost and performance.

4. Regarding Recommendation C.1, I'm not sure why the Subcommittee would view itself as non-political and averse to making policy recommendations. Policy has to come from somewhere, and Section E suggests the present document is in fact a policy recommendation, as I think it should be. As to politics, the decision to view the City as a business is already a political decision unpalatable to many.
5. Recommendation C.3 reminds one of what the status of the Civic Center Audit being overseen by the City Attorney is? Like many things, it seems to have fallen off the radar screen. The implication of Recommendation C.3 seems to be that the Police and Municipal Operations administrative functions could be brought to the City Hall, which I think is an idea worth exploring.

Item V.C. FINANCE COMMITTEE FISCAL YEAR 2016-2017 BUDGET RECOMMENDATIONS

Since most, if not all, of the City's outside expenses are by contract, my perennial comment about the budget has to do with how the line items relate to City Charter [Section 421](#), which gives the City Manager authority to contract for those items approved by the Council in the budget, and only those (so that all expenses are ultimately approved publicly, by the Council, either in the budget or as a separate request).

That sounds simple enough in concept, but aside from the Capital Improvements Program and possibly salaries, this resident is totally in the dark as to what the Council is being asked to approve in the line items. Rather than being a budget specifying exactly what goods and services we need to set money aside to purchase in the coming year (pursuant to Charter Section 421), the Newport Beach budget seems more a statement that we expect to have enough funds on hand to spend the same amounts we did in the prior year in certain broad categories that are oddly the same for all departments.

Yet, at times I have heard Newport Beach department heads say that funds for a particular item are "in the budget" or "not in the budget," which made me naively believe that before the budget's adoption there was a list, somewhere, of the anticipated expenses that would total that department's requested amount for, say, "professional services" or "supplies." Possibly all they meant was that if the expense asked about (along with a list of past expenses and other anticipated future expenses they keep in their head) was assigned to the category to which it belongs, it would put them over their spending limit in that category (or not).

At the May 24th Joint Meeting I used the example of airport consulting services, because I know the City has a recently renewed contract ([C-7071-1](#)) for \$70,000 per year for Airport Policy Implementation Services with former Council member and Mayor Tom Edwards, but at the same time the Budget Checklist requests eliminating the \$241,000 page titled "City Council Airport Issues" (page 3 of the City Council budget in the FY2016-17 [Budget Detail](#)).

The response was that the line item designation for the \$241,000 is "01005001 811008 SVCS PROF" and it isn't needed because there is \$240,000 with almost the same line item designation ("01005005 811008 SVCS PROF") on page 2 of the City Council budget, and another \$300,000 with line item designation "01020005 811008 SVCS PROF" on page 17 of the City Manager budget. Hence, it should be obvious to all that Tom Edwards' contract will be

expensed to one or the other, or some combination, of these, and there will still be nearly \$500,000 left for airport consulting.

The problem with this is that if we truly have a list of anticipated expenses justifying the budget requests in compliance with Charter Section 421, then there must be other expected needs for specific professional services – likely totally unrelated to the airport – contributing to and justifying the \$240,000 and \$300,000 line items. But if there are, then we have no idea how much is planned or left for airport consulting beyond the Tom Edwards contract. Indeed, it could be nothing at all, or given the looseness of the “budgeting,” it could be that airport expenses are anticipated in other requests, or could be expensed to them – for instance a Community Services line item. I have been chastised for suggesting there will be no clear answer, but my guess is we have *budgeted* (in the sense of identifying a definite expected need) *nothing* and just assume there will be money available if we haven’t spent it on something else.

Again, this does not seem to me to be a budget in the sense of Charter Section 421, but simply a statement we expect to have enough revenue to be able to spend similar amounts to what we did in the prior year in broad categories – with no details of what we actually anticipate spending those dollars on.

My other budget question is: has the FY2016-17 *Performance Plan* been presented to the City Council?

City Charter [Section 1102](#) requires the budget (and one assumes the *whole* budget) to be submitted for review at least 35 days prior to July 1. If the *Performance Plan* is part of the budget, it seems overdue and I would think the Committee would want to see it before making a recommendation.

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That sounds simple enough in concept, but aside from the Capital Improvements Program and possibly salaries, this resident is totally in the dark as to what the Council is being asked to approve in the line items. Rather than being a budget specifying exactly what goods and services we need to set money aside to purchase in the coming year (pursuant to Charter Section 421), the Newport Beach budget seems more a statement that we expect to have enough funds on hand to spend the same amounts we did in the prior year in certain broad categories that are oddly the same for all departments.

Yet, at times I have heard Newport Beach department heads say that funds for a particular item are "in the budget" or "not in the budget," which made me naively believe that before the budget's adoption there was a list, somewhere, of the anticipated expenses that would total that department's requested amount for, say, "professional services" or "supplies." Possibly all they meant was that if the expense asked about (along with a list of past expenses and other anticipated future expenses they keep in their head) was assigned to the category to which it belongs, it would put them over their spending limit in that category (or not).

At the May 24th Joint Meeting I used the example of airport consulting services, because I know the City has a recently renewed contract ([C-7071-1](#)) for \$70,000 per year for Airport Policy Implementation Services with former Council member and Mayor Tom Edwards, but at the same time the Budget Checklist requests eliminating the \$241,000 page titled "City Council Airport Issues" (page 3 of the City Council budget in the FY2016-17 [Budget Detail](#)).

The response was that the line item designation for the \$241,000 is "01005001 811008 SVCS PROF" and it isn't needed because there is \$240,000 with almost the same line item designation ("01005005 811008 SVCS PROF") on page 2 of the City Council budget, and another \$300,000 with line item designation "01020005 811008 SVCS PROF" on page 17 of the City Manager budget. Hence, it should be obvious to all that Tom Edwards' contract will be

expensed to one or the other, or some combination, of these, and there will still be nearly \$500,000 left for airport consulting.

The problem with this is that if we truly have a list of anticipated expenses justifying the budget requests in compliance with Charter Section 421, then there must be other expected needs for specific professional services – likely totally unrelated to the airport – contributing to and justifying the \$240,000 and \$300,000 line items. But if there are, then we have no idea how much is planned or left for airport consulting beyond the Tom Edwards contract. Indeed, it could be nothing at all, or given the looseness of the “budgeting,” it could be that airport expenses are anticipated in other requests, or could be expensed to them – for instance a Community Services line item. I have been chastised for suggesting there will be no clear answer, but my guess is we have *budgeted* (in the sense of identifying a definite expected need) *nothing* and just assume there will be money available if we haven’t spent it on something else.

Again, this does not seem to me to be a budget in the sense of Charter Section 421, but simply a statement we expect to have enough revenue to be able to spend similar amounts to what we did in the prior year in broad categories – with no details of what we actually anticipate spending those dollars on.

My other budget question is: has the FY2016-17 *Performance Plan* been presented to the City Council?

City Charter [Section 1102](#) requires the budget (and one assumes the *whole* budget) to be submitted for review at least 35 days prior to July 1. If the *Performance Plan* is part of the budget, it seems overdue and I would think the Committee would want to see it before making a recommendation.

**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) Committee 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/Amin 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

I. 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 if the Finance Committee would coming back for 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 Item No. 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.

II. 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 Curry closed public comments.

III. 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 salary 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 will be \$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, which is not net present value.

City Manager Kiff reported on Capital Improvement and stated that capital improvement budget are one-time expenses, not recurring expenses and half of the funds go toward meeting debt

obligations. Staff is recommending to have some of the funds be allocated toward sewer funds, which will allow the rate to decrease.

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 a negative amortization

City Manager Kiff concluded the presentation by stating that the information provided is new and appreciates the discussion and asked if there is a design 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 reach. 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 sewage 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" to "should" and read as follows; "Should absence 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 absence circumstances justifying otherwise..."

Committee Member Curry moved and seconded by Committee Member O'Neill to modify the Surplus Utilization Policy to replace the word "Shall" to "Should absence 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.

IV. 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 financial 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, as noted, was approved unanimously by Council in 2008.

Committee Member Gorczyca stated that it is not a matter of a 115 Trust; it is a matter of actuary funding policy or buyout. Ms. Gorczyca continued by saying that her intent was to have an independent actuary or consultant review the alternative strategies for 115 Trust and is requesting to have the item brought back for consideration at the May 26 meeting.

Chair Petros confirmed that nothing is to be done for Item No. 6 at the moment, except to include Committee Member Gorczyca's request to engage with an independent actuary for funding strategy as a proposed agenda item.

Committee Member O'Neill is unsure on how Certificates of Participation (COP) works and requested clarification as to how COP applies to debt issuance. 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 terms and 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

C. PENSION AND OPEB FUNDING POLICY

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, Chair
Finance Committee Chair

Date

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.

in the first line of policy C and Policy D

Committee Member Tucker believes the policy should have more flexibility. Mr. Tucker suggested for staff to replace the word "shall" to "should" and read as follows: "should, absence 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.

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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, absence circumstances justifying otherwise..."

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Committee Member Curry moved and seconded by Committee Member O'Neill to modify the Surplus Utilization Policy to replace the word "shall" to "should, absence circumstances justifying otherwise..." Motion passed unanimously.

Chair Petros closed public comments.

The first line of Policy C and Policy D

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.

IV. 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

Committee Member O'Neill requested Minutes modifications for 4/28/2016

- 4/28/2016
 - Page 1, second full paragraph from bottom. Change "Item No. 6" to "Council Policy A-6."
 - Page 5, mid-page, starting with "Committee Member O'Neill." The first sentence is frankly not even close to what was said. Replace that sentence with the following: "Committee Member O'Neill requested that the Finance Committee agenda 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."
 - *Note – this is the language that is largely reflected in the minutes for May 4, 2016*

DIXON

Minutes Correction April 28 2016 Finance Committee Meeting

Page 5

Minutes should read as follows:

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.

June 2, 2016

To: Marlene Burns
From: Committee Member Gorczyca

Committee Member Gorczyca Requested Changes to the Minutes for April 28, 2016 and May 4, 2016

April 28, 2016

Page 3 of 5, second full paragraph

Committee Member Gorczyca requested clarification regarding the status of the “Department” reaching the 25% contingency reserve. Mr. Kiff responded by stating that \$4m is needed to meet the 25 percent goal the goal is within reach. **What goal, the general liability fund? \$3M or \$4M?**

Third full paragraph

Mr. Matusiewicz reported that staff is proposing a Fresh Start with the 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 PER, it would create a negative amortization. **[This needs clarification regarding timing options and costs].**

Page 3 of 5, first full paragraph

Committee Member Gorczyca stated she would like to have an independent actuary brought on for **(strike Financial advising) and replace with “Pension and OPEB advising”.**

Committee Member Gorczyca **(Strike rest of paragraph and replace with “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 & OPEB Policy for the City”.**

Fourth full paragraph

Committee Member Petro confirmed that nothing is to be done at the moment, except to include Committee member Gorczyca’s request to engage **(strike “with”) an independent actuary for (add “helping the Committee develop an Pension and OPEB”)** funding strategy as a proposed agenda item.

B. OPEB Buyout and C. Pension and OPEB Funding Policy are covered by language above.

May 4, 2016

Mr. Kiff's Amendment to the February 11, 2016 Finance Committee Minutes were not included in the minutes for May 4, 2016.

The amendment should "clarify that there was not a full presentation on Section 115 Fund detailing its implementation requirements, costs, pros and cons, administrative requirements, use by other public agencies or range of investment options at the February 11, 2016 Finance Committee meeting".

June 2, 2016, Finance Committee Agenda Comments

These comments on items on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

III. PUBLIC COMMENTS

I seem to recall a comment made at the May 12, 2016, Finance Committee meeting (for which minutes don't yet seem to be available) – and repeated in the City Manager's [Insider's Guide](#) to the May 24th joint meeting with the City Council – that the City's unfunded pension liability “***is completely akin to debt - borrowed at 7.5%.***”

Although I understand that recent GASB rules may require recording the unfunded pension liability as “debt,” I find the idea that we effectively have a loan with CalPERS on which we are paying 7.5% *interest* deeply puzzling.

I'm not sure if the term of this hypothetical equivalent loan is 15, 30 or some other number of years, but whatever the hypothetical term, if this picture is correct, that we have a \$299 million loan with CalPERS on which we are paying 7.5% interest, then it would clearly be in the City's best interest to pay off the CalPERS loan with the proceeds from a different loan, say at 7%, on which the City would (for \$299 million) be paying something like \$21 million per year interest, perhaps in perpetuity (if it made no progress on the principal).

But that makes little sense to me, since I wasn't aware the City was paying CalPERS interest on the unfunded pension liability.

Does the City actually receive an annual bill from CalPERS demanding 7.5% interest on what the public is told is the dollar amount of the unfunded liability, independent of how well CalPERS did that year?

On the contrary, I had a vague notion that instead of having taken out a loan, the City has reserves *on deposit* with CalPERS which are *earning* money, and the “unfunded liability” is an *actuarial statement* regarding the shortfall between the actual reserve and the reserve that would be necessary to fund future pension obligations if CalPERS were, in the future, to achieve a steady 7.5% return on the deposits it holds. If CalPERS were to achieve better than 7.5%, the current reserve would be closer to sufficient, and the unfunded part would go down – as it seems to have done, according to the City's May 24th presentation, in 2011, for example (see [Slide 26](#) of the “*Budget Overview Handout*”). At least that was my understanding.

Something the principal of which goes down or up depending on whether attainable market rates are above or below 7.5% does not sound to me equivalent to a loan at 7.5%; but perhaps someone can disabuse me of my faulty understanding.

Based on my possibly faulty understanding I wonder if in addition to concern about growing unfunded pension liability, what the City also needs is a more thoughtful policy regarding what to do in years when CalPERS is doing well and the reserve is *more than adequate* to meet needs (that is, in years of *negative* unfunded liability). The past decision to respond to negative unfunded liability by increasing benefits and eliminating employee contributions doesn't seem, in retrospect, to have been a wise one, although I assume a positive unfunded liability could have appeared in bad years anyway.

Item IV.A. MINUTES OF APRIL 28, 2016

The content of these draft minutes is difficult to follow, in part due to awkward, and in some cases (probably unintentionally) misleading or inscrutable phrasing. I would again suggest the Committee consider preserving the digital audio recordings along with the minutes. Short of a complete rewrite, and in addition to the [corrections](#) suggested by Committee member Tucker, I might point out the following, which seem obvious errors:

Page 1, misnumbered item heading: “~~I. III.~~ III. PUBLIC COMMENTS”

Page 1, paragraph 3 from end: “Mr. Jim Mosher ..., asked **if how** the Finance Committee would **coming-back-for be handling the** future discussion items mentioned in Item No. **6 VI** (Announcement-Future Agenda), ...”

Page 1, paragraph 2 from end: “Committee Member O’Neill stated that his understanding was that **Item No. 6 Policy A-6** applies only to Council, not the Committee, ...”

Page 2, misnumbered item heading: “~~II. IV.~~ IV. CONSENT CALENDAR”

Page 2, Item “II.A”, last line: “Seeing no one wishing to address the Finance Committee, Chair **Gurry Petros** closed public comments.”

Page 2, misnumbered item heading: “~~III. V.~~ V. CURRENT BUSINESS”

Page 2, paragraph 3 from end: “City Manager Kiff continued with the presentation by reporting that overall **salary salaries** increased by four percent.”

Page 2, last paragraph: “City Manager Kiff reported on Capital Improvement and stated that capital improvement budget are one-time expenses, not recurring expenses and **half of the funds go toward meeting debt obligations.**” [half the Capital Improvement budget goes to debt service? This doesn’t sound right.]

Page 3, paragraph 4: “City Manager Kiff concluded the presentation by stating that the information provided is new and appreciates the discussion and asked if there is a **design desire** from the committee to possibly schedule additional meetings to review the proposed budget in further detail.” [?]

Page 3, paragraph 6: “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 **reach reached.**”

Page 3, paragraph 2 before Item B: “... and thinks that the people using the **sewage sewer system** should be the ones paying for it.”

Page 4, misnumbered item heading: “~~IV. VI.~~ VI. FINANCE COMMITTEE ANNOUNCEMENTS ...”

Page 5, paragraph 3: “Mayor Dixon stated that her understanding was that **a** Section 115 **trust**, as noted, was approved unanimously by Council in 2008.” [? – this entire section is similarly garbled]

Page 5, paragraph 3: “Committee Member O’Neill is unsure ~~on~~ how Certificates of Participation (COP) ~~works work~~ and requested clarification as to how COP applies to debt issuance. City Manager Kiff will add this topic to the May 26 agenda for further discussion.”

Page 5, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

~~Item IV.B. MINUTES OF MAY 4, 2016~~

As with Item IV.A, above, one would have to have been present, or to have listened to the audio recording, or both, to understand much of what is reported in these draft minutes. In addition to the corrections [suggested](#) by Committee member Tucker, I offer the following:

Page 1, Item III, paragraph 2: “Mr. Jim Mosher commented on how items are placed on the agenda and mentioned procedures other ~~committee members committees~~ follow regarding agenda items. Mr. Mosher suggested ~~for~~ the Committee ~~to can~~ hold an unscheduled vote ~~after at~~ each meeting to discuss items to be included on following meeting agendas.”

Page 2, Item III, paragraph 2 of body: “City Manager Dave Kiff provided an overview of the proposed budget that touched on salary, cost of cafeteria plan ~~purge~~ rates, miscellaneous, and safety and employee.” [Seems a strange word. I recall the City Manager mentioning, on several occasions, that cafeteria plan benefits are not “PERSable.” Without benefit of listening to the recording, could this have something to do with that?]

Page 2, paragraph 4 from end: “City Manager Kiff and Budget Manager ~~Ms.~~ Giangrande continued with the presentation by discussing the cafeteria allowance. City Manager Kiff ~~explains explained~~ that the cafeteria allowance is medical, health and dental employee insurance bought by the City.”

Page 3, paragraph 1: “Mr. Mosher stated that compared to the last year’s budget, the ~~lines line~~ items ~~and line item identification numbers~~ for this budget have changed. Mr. Mosher also stated that the proposed budget ~~consists of contains~~ abbreviations that the public will not know what they stand for.”

Page 3, paragraph 4: “~~Council Committee~~ Member Warner left the meeting at 5:28 p.m.”

Page 3, Item 3, paragraph 3: “Mr. Mosher commented that it would be a good idea for the public and members of the ~~community Committee to~~ be told which ideas were not included, to which ~~a response was received~~ ~~Committee Member Tucker responded~~, stating that no ideas were excluded, just phrases or words needed to be revised for better understanding.”

Page 4, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

Item V.A. AUDITOR RECOMMENDATION

This item seems to me to be a complete cop-out.

First, whether it conforms to modern practice or not, City Charter [Section 1116](#) appears to say the auditor for a particular year is supposed to be selected at “*the beginning of each fiscal year,*” not at its end.

Second, several years ago, in the wake of the City of Bell scandal and the embarrassing revelation that Newport Beach was among the cities that had retained the same (apparently ineffective) auditor for many years, the City Council adopted a policy of changing auditors.

My recollection is that White Nelson was already overdue for replacement last year, but City staff decided, without quite seeking Council approval until after the fact, because of disruptions created by the implementation of the Enterprise Resource Planning software.

Now, White Nelson is being recommended once more, for less obvious reasons, for yet another five years with little indication anyone feels there is any need to ever change auditors again.

It least in my view, this will lead to the public perception of a too cozy relationship between the auditor and the audited.

My other comment is to wonder how many people it takes to audit a city the size of Newport Beach. I have the impression the other firm City staff considered – Davis Farr – is a two person operation (Marc Davis serves as Treasurer to the Costa Mesa Sanitary District, and his wife Wendy [not part of Davis Farr] as Finance Director).

Item V.B. SUBCOMMITTEE RECOMMENDATIONS

The Subcommittee’s recommendations seem generally sound to me, but I have these comments:

1. Statements such as that at the end of the first full paragraph on page 2, that the Subcommittee “*has approached its review as if the operation of the City were a private sector business*” are troubling to many in the community. Governments, including city governments, are, to them, fundamentally different from private sector businesses.
2. It is not entirely clear to me how the “*all other things being equal*” in Recommendation A.4 is intended to be read. All other things are never exactly equal, so what importance are financial considerations proposed to be given in some practical situation?
3. I do *not* agree with Recommendation B.4, that the City should outsource even when doing so has little-to-no cost savings. Outsourcing is no panacea, and its purported financial benefits need to be weighed against its effects on employee morale and the public perception that their city services are being performed by dedicated public employees with “pride of ownership” and over whom their elected and appointed officials have complete control. And outsourcing arrangements can and do go sour. In addition to looking for *new* opportunities to outsource, I think the City needs to spend equal time evaluating whether *existing* outsourcing options continue to make sense, both in cost and performance.

4. Regarding Recommendation C.1, I'm not sure why the Subcommittee would view itself as non-political and averse to making policy recommendations. Policy has to come from somewhere, and Section E suggests the present document is in fact a policy recommendation, as I think it should be. As to politics, the decision to view the City as a business is already a political decision unpalatable to many.
5. Recommendation C.3 reminds one of what the status of the Civic Center Audit being overseen by the City Attorney is? Like many things, it seems to have fallen off the radar screen. The implication of Recommendation C.3 seems to be that the Police and Municipal Operations administrative functions could be brought to the City Hall, which I think is an idea worth exploring.

Item V.C. FINANCE COMMITTEE FISCAL YEAR 2016-2017 BUDGET RECOMMENDATIONS

Since most, if not all, of the City's outside expenses are by contract, my perennial comment about the budget has to do with how the line items relate to City Charter [Section 421](#), which gives the City Manager authority to contract for those items approved by the Council in the budget, and only those (so that all expenses are ultimately approved publicly, by the Council, either in the budget or as a separate request).

That sounds simple enough in concept, but aside from the Capital Improvements Program and possibly salaries, this resident is totally in the dark as to what the Council is being asked to approve in the line items. Rather than being a budget specifying exactly what goods and services we need to set money aside to purchase in the coming year (pursuant to Charter Section 421), the Newport Beach budget seems more a statement that we expect to have enough funds on hand to spend the same amounts we did in the prior year in certain broad categories that are oddly the same for all departments.

Yet, at times I have heard Newport Beach department heads say that funds for a particular item are "in the budget" or "not in the budget," which made me naively believe that before the budget's adoption there was a list, somewhere, of the anticipated expenses that would total that department's requested amount for, say, "professional services" or "supplies." Possibly all they meant was that if the expense asked about (along with a list of past expenses and other anticipated future expenses they keep in their head) was assigned to the category to which it belongs, it would put them over their spending limit in that category (or not).

At the May 24th Joint Meeting I used the example of airport consulting services, because I know the City has a recently renewed contract ([C-7071-1](#)) for \$70,000 per year for Airport Policy Implementation Services with former Council member and Mayor Tom Edwards, but at the same time the Budget Checklist requests eliminating the \$241,000 page titled "City Council Airport Issues" (page 3 of the City Council budget in the FY2016-17 [Budget Detail](#)).

The response was that the line item designation for the \$241,000 is "01005001 811008 SVCS PROF" and it isn't needed because there is \$240,000 with almost the same line item designation ("01005005 811008 SVCS PROF") on page 2 of the City Council budget, and another \$300,000 with line item designation "01020005 811008 SVCS PROF" on page 17 of the City Manager budget. Hence, it should be obvious to all that Tom Edwards' contract will be

expensed to one or the other, or some combination, of these, and there will still be nearly \$500,000 left for airport consulting.

The problem with this is that if we truly have a list of anticipated expenses justifying the budget requests in compliance with Charter Section 421, then there must be other expected needs for specific professional services – likely totally unrelated to the airport – contributing to and justifying the \$240,000 and \$300,000 line items. But if there are, then we have no idea how much is planned or left for airport consulting beyond the Tom Edwards contract. Indeed, it could be nothing at all, or given the looseness of the “budgeting,” it could be that airport expenses are anticipated in other requests, or could be expensed to them – for instance a Community Services line item. I have been chastised for suggesting there will be no clear answer, but my guess is we have *budgeted* (in the sense of identifying a definite expected need) *nothing* and just assume there will be money available if we haven’t spent it on something else.

Again, this does not seem to me to be a budget in the sense of Charter Section 421, but simply a statement we expect to have enough revenue to be able to spend similar amounts to what we did in the prior year in broad categories – with no details of what we actually anticipate spending those dollars on.

My other budget question is: has the FY2016-17 *Performance Plan* been presented to the City Council?

City Charter [Section 1102](#) requires the budget (and one assumes the *whole* budget) to be submitted for review at least 35 days prior to July 1. If the *Performance Plan* is part of the budget, it seems overdue and I would think the Committee would want to see it before making a recommendation.

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
MAY 4, 2016 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 Tony Petros, (Chair), Mayor Diane Dixon, Committee Member Patti Gorczyca, Committee Member William C. O'Neill, Committee Member Larry Tucker, Committee Member John Warner, and Council Member Keith Curry (arrived at 4:08 p.m.)

STAFF PRESENT: City Manager Dave Kiff, Finance Director/Treasurer Dan Matusiewicz, Deputy Finance Director Steve Montano, Administrative Specialist to the Finance Director Marlene Burns, Budget Manager Susan Giangrande, Public Works Director David Webb, IT Manager Rob Houston, Budget Analyst Tam Ho, and Budget Analyst Katherine Warnke-Carpenter

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

III. PUBLIC COMMENTS

Chair Petros opened public comments.

Mr. Jim Mosher commented on how items are placed on the agenda and mentioned procedures other committee members follow regarding agenda items. Mr. Mosher suggested for the Committee to hold an unscheduled vote after each meeting to discuss items to be included on following meeting agendas. Mr. Mosher also stated that at last meeting Council Member Tucker commented that he was going to follow up on some needed answers to his questions offline. Mr. Mosher suggested for all questions regarding committee matters to be asked and answered during the meetings in order for members of the public to be kept informed of what is going on.

In reply to Mr. Mosher's comments regarding agenda items, Chair Petros stated the Committee will follow the standard best practices currently in place at other committee meetings and will also continue to follow the general recommendations currently in place to add items to the agenda.

Council Member O'Neill provided clarification on Section 115, Benefit Trust. Mr. O'Neill stated that there have not been any specific suggestions, strategies or positions of authority held with Section 115, Benefit Trust and if a community wants to pursue the topic further, staff or outside consultant can provide the pros and cons along with strategies and examples for better understanding.

Chair Petros appreciates the clarification made by Mr. O'Neill and informed the members that the comment will be incorporated into the meeting minutes. Chair Petros also stated that Section 115, Benefit Trust is geared towards a holistic review of investment opportunities, not one particular instrument. Therefore, he questioned if there is any value in pursuing it further.

Chair Petros closed public comments.

IV. CURRENT BUSINESS

A. FISCAL YEAR 2014-2016 BUDGET DISCUSSION

Summary:

Continue review of the City Manager's Fiscal Year 2016-2017 Proposed Budget.

Recommended Action:

Staff recommends that the Committee (1) direct staff to bring the Fiscal Year 2016-2017 Proposed Budget for City Council for consideration; (2) continue to review the budget at subsequent Finance Committee meetings; or (3) both of the aforementioned options.

City Manager Dave Kiff provided a presentation and materials regarding the Fiscal Year 2016-2017 Proposed Budget.

City Manager Dave Kiff provided an overview of the proposed budget that touched on salary, cost of cafeteria plan purge rates, miscellaneous, and safety and employee. The presentation addressed the City's overall projected growth, projected revenues and how funds are distributed among the City.

Discussion ensued regarding employee benefits. In response to question posed by Council Member O'Neill regarding if every employee is entitled to COLA, City Manager Kiff responded that every employee gets a COLA unless the employee is tied to a contract. Mr. Kiff also mentioned that employees are eligible for a yearly merit increase, unless the employee has reached the last step for merit increase.

In response to a question regarding the percentage of employees not at the 8-(highest in promotional range) step level, Ms. Giangrande, stated that approximately 275 employees are below the 8-step level. City Manager Kiff also stated that employees receive merit increases yearly with the exception of any employee who has a performance issue or due to disciplinary reasons.

In response to Mayor Dixon's question regarding having a uniform base rate increase, City Manager Kiff stated that the City has to conform to the policy per the MOU.

Discussions followed regarding how merit increase is calculated.

City Manager Kiff and Budget Manager Ms. Giangrande continued with the presentation by discussing the cafeteria allowance. City Manager Kiff explains that the cafeteria allowance is medical, health and dental employee insurance bought by the City. The plan allows each employee to opt-in or opt-out based on their medical needs.

In response to questions posed regarding whether or not the City works with a healthcare provider to create programs that employees can purchase on their own, Ms. Giangrande stated that due to the Affordable Health Care Act, employees have to be in a group plan and cannot purchase the plan on their own.

City Manager Kiff continued with the presentation by discussing budget items involving the Police and Fire Department as well as Community Development.

Chair Petros opened public comments.

Mr. Mosher stated that compared to the last year's budget, the lines items for this budget have changed. Mr. Mosher also stated that the proposed budget consists of abbreviations that the public will not know what they stand for. In addition, Mr. Mosher stated that he noticed some discrepancies in the report regarding the proposed numbers listed for salary.

In response to Mr. Mosher's comments, Budget Manager Ms. Giangrande, stated that the discrepancies have to do with the new software used to create the proposed budget. Ms. Giangrande stated that she will make sure that staff correct any discrepancies listed on the report.

Chair Petros asked due to the discrepancies noted by Mr. Mosher, if the projections listed affects the budget amounts for 2017 targets. Ms. Giangrande stated that it will not be affected.

Council Member Warner left the meeting at 5:28 p.m.

Chair Petros closed public comments.

B. SUBCOMMITTEE RECOMMENDATIONS

Summary:

An update will be provided regarding the Finance Subcommittee.

Council Member Tucker reported that they are in the process of submitting a fifth draft for review. Mr. Tucker stated they met with the City Manager's office and the fifth draft was reviewed and feedback and recommendation given. Mr. Tucker advised the members the document may be ready to be discussed at the regular June Finance Committee Meeting.

Chair Petros opened public comments.

Mr. Mosher commented that it would be a good idea for the public and members of the community be told which ideas were not included, to which a response was received stating that no ideas were excluded, just phrases or words needed to be revised for better understanding.

Chair Petros closed public comments.

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

A. RECOMMEND THE CITY HIRE AN INDEPENDENT ACTUARY TO ADVISE, EDUCATE AND DEVELOP STRATEGIES TO MANAGE ITS PENSION AND OPEB.

Suggestions made to hold off on the discussion of this topic until the proposed budget discussion is finalized.

B. RECOMMEND THE CITY CONSULT WITH AN INDEPENDENT THIRD PARTY AGENCY (E.G., ORANGE COUNTY AUDITOR CONTROLLER'S OFFICE, CONSULTANT, GFOA, OR A REGISTERED INDEPENDENT MUNICIPAL ADVISOR) TO EITHER (1) REVIEW THE CITY'S DEBT ISSUANCE PROCEDURES AND PROVIDE RECOMMENDATIONS TO IMPROVE AND INCORPORATE BEST PRACTICES FOR DEBT ISSUANCE AND ADMINISTRATION INTO THE CITY'S POLICIES AND PROCEDURES; (2) EVALUATE THE ECONOMIC FEASIBILITY OF REDUCING AMOUNT OF OUTSTANDING CERTIFICATES OF PARTICIPATION; OR (3) BOTH.

Discussion ensued regarding the continuation of the budget review to be added to next meeting agenda.

VI. ADJOURNMENT

The Finance Committee adjourned at 5:51 p.m. to the next regular meeting of the Finance Committee on May 12, 2016, at 4:00 p.m.

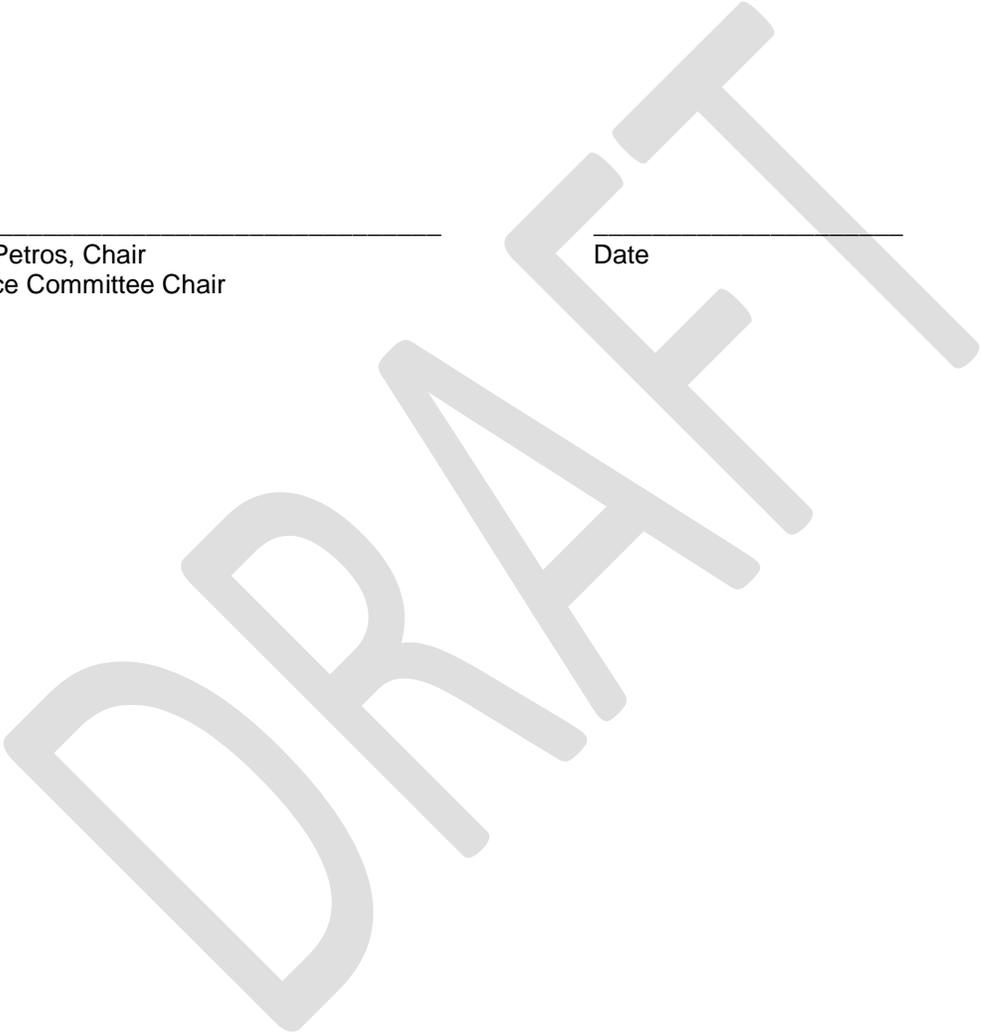
Filed with these minutes are copies of all materials distributed at the meeting.

The agenda for the Regular Meeting was posted on April 29, 2016, at 2:53 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, Chair
Finance Committee Chair

Date



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Discussion ensued regarding the continuation of the budget review to be added to next meeting agenda.

June 2, 2016

To: Marlene Burns
From: Committee Member Gorczyca

Committee Member Gorczyca Requested Changes to the Minutes for April 28, 2016 and May 4, 2016

April 28, 2016

Page 3 of 5, second full paragraph

Committee Member Gorczyca requested clarification regarding the status of the “Department” reaching the 25% contingency reserve. Mr. Kiff responded by stating that \$4m is needed to meet the 25 percent goal the goal is within reach. What goal, the general liability fund? \$3M or \$4M?

Third full paragraph

Mr. Matusiewicz reported that staff is proposing a Fresh Start with the 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 PER, it would create a negative amortization. [This needs clarification regarding timing options and costs].

Page 3 of 5, first full paragraph

Committee Member Gorczyca stated she would like to have an independent actuary brought on for (strike Financial advising) and replace with “Pension and OPEB advising”.

Committee Member Gorczyca (Strike rest of paragraph and replace with “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 & OPEB Policy for the City”.

Fourth full paragraph

Committee Member Petro confirmed that nothing is to be done at the moment, except to include Committee member Gorczyca’s request to engage (strike “with”) an independent actuary for (add “helping the Committee develop an Pension and OPEB”) funding strategy as a proposed agenda item.

B. OPEB Buyout and C. Pension and OPEB Funding Policy are covered by language above.

May 4, 2016

Mr. Kiff's Amendment to the February 11, 2016 Finance Committee Minutes were not included in the minutes for May 4, 2016.

The amendment should "clarify that there was not a full presentation on Section 115 Fund detailing its implementation requirements, costs, pros and cons, administrative requirements, use by other public agencies or range of investment options at the February 11, 2016 Finance Committee meeting".

June 2, 2016, Finance Committee Agenda Comments

These comments on items on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

III. PUBLIC COMMENTS

I seem to recall a comment made at the May 12, 2016, Finance Committee meeting (for which minutes don't yet seem to be available) – and repeated in the City Manager's [Insider's Guide](#) to the May 24th joint meeting with the City Council – that the City's unfunded pension liability “***is completely akin to debt - borrowed at 7.5%.***”

Although I understand that recent GASB rules may require recording the unfunded pension liability as “debt,” I find the idea that we effectively have a loan with CalPERS on which we are paying 7.5% *interest* deeply puzzling.

I'm not sure if the term of this hypothetical equivalent loan is 15, 30 or some other number of years, but whatever the hypothetical term, if this picture is correct, that we have a \$299 million loan with CalPERS on which we are paying 7.5% interest, then it would clearly be in the City's best interest to pay off the CalPERS loan with the proceeds from a different loan, say at 7%, on which the City would (for \$299 million) be paying something like \$21 million per year interest, perhaps in perpetuity (if it made no progress on the principal).

But that makes little sense to me, since I wasn't aware the City was paying CalPERS interest on the unfunded pension liability.

Does the City actually receive an annual bill from CalPERS demanding 7.5% interest on what the public is told is the dollar amount of the unfunded liability, independent of how well CalPERS did that year?

On the contrary, I had a vague notion that instead of having taken out a loan, the City has reserves *on deposit* with CalPERS which are *earning* money, and the “unfunded liability” is an *actuarial statement* regarding the shortfall between the actual reserve and the reserve that would be necessary to fund future pension obligations if CalPERS were, in the future, to achieve a steady 7.5% return on the deposits it holds. If CalPERS were to achieve better than 7.5%, the current reserve would be closer to sufficient, and the unfunded part would go down – as it seems to have done, according to the City's May 24th presentation, in 2011, for example (see [Slide 26](#) of the “*Budget Overview Handout*”). At least that was my understanding.

Something the principal of which goes down or up depending on whether attainable market rates are above or below 7.5% does not sound to me equivalent to a loan at 7.5%; but perhaps someone can disabuse me of my faulty understanding.

Based on my possibly faulty understanding I wonder if in addition to concern about growing unfunded pension liability, what the City also needs is a more thoughtful policy regarding what to do in years when CalPERS is doing well and the reserve is *more than adequate* to meet needs (that is, in years of *negative* unfunded liability). The past decision to respond to negative unfunded liability by increasing benefits and eliminating employee contributions doesn't seem, in retrospect, to have been a wise one, although I assume a positive unfunded liability could have appeared in bad years anyway.

Item IV.A. MINUTES OF APRIL 28, 2016

The content of these draft minutes is difficult to follow, in part due to awkward, and in some cases (probably unintentionally) misleading or inscrutable phrasing. I would again suggest the Committee consider preserving the digital audio recordings along with the minutes. Short of a complete rewrite, and in addition to the [corrections](#) suggested by Committee member Tucker, I might point out the following, which seem obvious errors:

Page 1, misnumbered item heading: “~~I. III.~~ III. PUBLIC COMMENTS”

Page 1, paragraph 3 from end: “Mr. Jim Mosher ..., asked ~~if how~~ if how the Finance Committee would ~~coming back for be handling the~~ future discussion items mentioned in Item No. ~~6 VI~~ (Announcement-Future Agenda), ...”

Page 1, paragraph 2 from end: “Committee Member O’Neill stated that his understanding was that ~~Item No. 6 Policy A-6~~ Policy A-6 applies only to Council, not the Committee, ...”

Page 2, misnumbered item heading: “~~II. IV.~~ IV. CONSENT CALENDAR”

Page 2, Item “II.A”, last line: “Seeing no one wishing to address the Finance Committee, Chair ~~Gurry Petros~~ Gurry Petros closed public comments.”

Page 2, misnumbered item heading: “~~III. V.~~ V. CURRENT BUSINESS”

Page 2, paragraph 3 from end: “City Manager Kiff continued with the presentation by reporting that overall ~~salary salaries~~ salaries increased by four percent.”

Page 2, last paragraph: “City Manager Kiff reported on Capital Improvement and stated that capital improvement budget are one-time expenses, not recurring expenses and ~~half of the funds go toward meeting debt obligations.~~” [half the Capital Improvement budget goes to debt service? This doesn’t sound right.]

Page 3, paragraph 4: “City Manager Kiff concluded the presentation by stating that the information provided is new and appreciates the discussion and asked if there is a ~~design desire~~ design from the committee to possibly schedule additional meetings to review the proposed budget in further detail.” [?]

Page 3, paragraph 6: “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 ~~reach reached.~~”

Page 3, paragraph 2 before Item B: “... and thinks that the people using the ~~sewage sewer system~~ sewer should be the ones paying for it.”

Page 4, misnumbered item heading: “~~IV. VI.~~ VI. FINANCE COMMITTEE ANNOUNCEMENTS ...”

Page 5, paragraph 3: “Mayor Dixon stated that her understanding was that ~~a~~ a Section 115 ~~trust~~ trust, as noted, was approved unanimously by Council in 2008.” [? – this entire section is similarly garbled]

~~Page 5, paragraph 3: "Committee Member O'Neill is unsure **on** how Certificates of Participation (COP) **works work** and requested clarification as to how COP applies to debt issuance. City Manager Kiff will add this topic to the May 26 agenda for further discussion."~~

~~Page 5, signature lines: "Tony Petros, **Chair** ... Finance Committee Chair"~~

Item IV.B. MINUTES OF MAY 4, 2016

As with Item IV.A, above, one would have to have been present, or to have listened to the audio recording, or both, to understand much of what is reported in these draft minutes. In addition to the corrections [suggested](#) by Committee member Tucker, I offer the following:

Page 1, Item III, paragraph 2: "Mr. Jim Mosher commented on how items are placed on the agenda and mentioned procedures other **committee-members committees** follow regarding agenda items. Mr. Mosher suggested **for** the Committee **to can** hold an unscheduled vote **after at** each meeting to discuss items to be included on following meeting agendas."

Page 2, Item III, paragraph 2 of body: "City Manager Dave Kiff provided an overview of the proposed budget that touched on salary, cost of cafeteria plan **purge** rates, miscellaneous, and safety and employee." [Seems a strange word. I recall the City Manager mentioning, on several occasions, that cafeteria plan benefits are not "PERSable." Without benefit of listening to the recording, could this have something to do with that?]

Page 2, paragraph 4 from end: "City Manager Kiff and Budget Manager **Ms.** Giangrande continued with the presentation by discussing the cafeteria allowance. City Manager Kiff **explains explained** that the cafeteria allowance is medical, health and dental employee insurance bought by the City."

Page 3, paragraph 1: "Mr. Mosher stated that compared to the last year's budget, the **lines line** items **and line item identification numbers** for this budget have changed. Mr. Mosher also stated that the proposed budget **consists-of contains** abbreviations that the public will not know what they stand for."

Page 3, paragraph 4: "**Council Committee** Member Warner left the meeting at 5:28 p.m."

Page 3, Item 3, paragraph 3: "Mr. Mosher commented that it would be a good idea for the public and members of the **community Committee to** be told which ideas were not included, to which **a response was received Committee Member Tucker responded**, stating that no ideas were excluded, just phrases or words needed to be revised for better understanding."

Page 4, signature lines: "Tony Petros, **Chair** ... Finance Committee Chair"

Item V.A. AUDITOR RECOMMENDATION

This item seems to me to be a complete cop-out.

First, whether it conforms to modern practice or not, City Charter [Section 1116](#) appears to say the auditor for a particular year is supposed to be selected at “*the beginning of each fiscal year,*” not at its end.

Second, several years ago, in the wake of the City of Bell scandal and the embarrassing revelation that Newport Beach was among the cities that had retained the same (apparently ineffective) auditor for many years, the City Council adopted a policy of changing auditors.

My recollection is that White Nelson was already overdue for replacement last year, but City staff decided, without quite seeking Council approval until after the fact, because of disruptions created by the implementation of the Enterprise Resource Planning software.

Now, White Nelson is being recommended once more, for less obvious reasons, for yet another five years with little indication anyone feels there is any need to ever change auditors again.

It least in my view, this will lead to the public perception of a too cozy relationship between the auditor and the audited.

My other comment is to wonder how many people it takes to audit a city the size of Newport Beach. I have the impression the other firm City staff considered – Davis Farr – is a two person operation (Marc Davis serves as Treasurer to the Costa Mesa Sanitary District, and his wife Wendy [not part of Davis Farr] as Finance Director).

Item V.B. SUBCOMMITTEE RECOMMENDATIONS

The Subcommittee’s recommendations seem generally sound to me, but I have these comments:

1. Statements such as that at the end of the first full paragraph on page 2, that the Subcommittee “*has approached its review as if the operation of the City were a private sector business*” are troubling to many in the community. Governments, including city governments, are, to them, fundamentally different from private sector businesses.
2. It is not entirely clear to me how the “*all other things being equal*” in Recommendation A.4 is intended to be read. All other things are never exactly equal, so what importance are financial considerations proposed to be given in some practical situation?
3. I do *not* agree with Recommendation B.4, that the City should outsource even when doing so has little-to-no cost savings. Outsourcing is no panacea, and its purported financial benefits need to be weighed against its effects on employee morale and the public perception that their city services are being performed by dedicated public employees with “pride of ownership” and over whom their elected and appointed officials have complete control. And outsourcing arrangements can and do go sour. In addition to looking for *new* opportunities to outsource, I think the City needs to spend equal time evaluating whether *existing* outsourcing options continue to make sense, both in cost and performance.

- 4. Regarding Recommendation C.1, I'm not sure why the Subcommittee would view itself as non-political and averse to making policy recommendations. Policy has to come from somewhere, and Section E suggests the present document is in fact a policy recommendation, as I think it should be. As to politics, the decision to view the City as a business is already a political decision unpalatable to many.
- 5. Recommendation C.3 reminds one of what the status of the Civic Center Audit being overseen by the City Attorney is? Like many things, it seems to have fallen off the radar screen. The implication of Recommendation C.3 seems to be that the Police and Municipal Operations administrative functions could be brought to the City Hall, which I think is an idea worth exploring.

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That sounds simple enough in concept, but aside from the Capital Improvements Program and possibly salaries, this resident is totally in the dark as to what the Council is being asked to approve in the line items. Rather than being a budget specifying exactly what goods and services we need to set money aside to purchase in the coming year (pursuant to Charter Section 421), the Newport Beach budget seems more a statement that we expect to have enough funds on hand to spend the same amounts we did in the prior year in certain broad categories that are oddly the same for all departments.

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Again, this does not seem to me to be a budget in the sense of Charter Section 421, but simply a statement we expect to have enough revenue to be able to spend similar amounts to what we did in the prior year in broad categories – with no details of what we actually anticipate spending those dollars on.

My other budget question is: has the FY2016-17 *Performance Plan* been presented to the City Council?

City Charter [Section 1102](#) requires the budget (and one assumes the *whole* budget) to be submitted for review at least 35 days prior to July 1. If the *Performance Plan* is part of the budget, it seems overdue and I would think the Committee would want to see it before making a recommendation.



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5A
June 2, 2016

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: AUDITOR RECOMMENDATION

EXECUTIVE SUMMARY

Per Council Policy F-15, External Financial Reporting, Disclosure and Annual Audits, the City issued a Request for Proposal (RFP) for audit services dated March 21, 2016, to audit its financial statements for the fiscal year ending June 30, 2016, with the option of auditing its financial statements for four subsequent fiscal years.

By the proposal due date of April 5, 2016, the following nine firms submitted proposals: Badawi & Associates; Chavan & Associates LLP; Davis Farr LLP; Gruber & Associates; Lance, Soll & Lunghard (LSL) LLP; The Pun Group; Rogers, Anderson, Malody & Scott LLP; Vavrinek, Trine & Day Co. LLP; and White, Nelson, Diehl, Evans LLP (WNDE).

After a thorough selection process, staff recommends to the Finance Committee the services of WNDE as the City Auditor.

DISCUSSION

Proposals were submitted in two parts, including a written technical proposal and a separated sealed dollar cost bid. Under the coordination of the Accounting Manager, proposals were reviewed and scored by a three-person Audit Selection Committee comprised of the Finance Director, the Deputy Finance Director and the Accounting Manager. The written technical proposals were reviewed and scored by the committee before the sealed dollar cost bids were opened and scored.

Staff evaluated each firm's proposals based on the following criteria:

- Providing consulting services related to auditing, with an emphasis on government accounting and auditing of entities with at least the size and complexity of Newport Beach.
- Quality, background, reputation, credibility and experience of the firm.
- Quality of the staff with emphasis placed on educational background, time spent in the field, and valid certifications possessed by the project team members.
- Practices and procedures used to carry out the requested services according to the City's expectations.

While all firms met the minimum qualifications, based on the technical content of the proposals, the quality and experience of the proposed engagement staff, comparable and prestigious clients, and other intangibles; the Audit Selection Committee rated WNDE as the top technical proposer as indicated below. Sealed dollar cost bids were then opened and revealed annual cost as also indicated below.

Firm	Annual Price	Technical Score
White Nelson Diehl Evans	\$45,500	97.0
Davis Farr, LLP	\$43,000	96.0
Rogers, Anderson, Malody & Scott	\$47,650	91.0
LSL	\$52,630	90.0
Gruber & Associates	\$37,000	89.5
Vavrinek, Trine, Day & Co.	\$63,000	85.5
The Pun Group	\$43,500	72.0
Badawi & Associates	\$45,990	66.5
Chavan & Associates	\$35,000	61.0
Average	\$45,919	83.2

LSL was not considered due to the recent alleged embezzlement disclosure in the City of Placentia where LSL is currently engaged as the City Auditor. Allegations of this nature tend to damage the reputation and credibility of an auditor. Since auditor's are hired to lend credibility to the City's financial statements, staff decided it was best not to consider LSL further, under the current circumstances. Due to the lower technical scores assigned to Pun, Badawi and Chavan relative to the other firms, staff did not advance these three firms for further consideration. After obtaining additional information by conducting an extensive reference check on the remaining firms, staff narrowed their selection consideration to Davis Farr and WNDE. Both reputable firms have municipal audit expertise, staff expertise, and the ability to provide high-quality consulting and tax expertise.

While either firm would make a great choice, staff selected WNDE because of its longevity and reputation, having provided services to governments for over 80 years, including to the City of Newport Beach for the past five. The specific knowledge WNDE has about the City and its operations will enhance the quality of the audit. WNDE will be able to identify and focus on specific risk areas and will reduce audit costs as staff will not spend time training the firm on the operations of the City. To maintain audit quality and auditor independence, WNDE proposed to rotate the audit partner and audit supervisor for this second engagement term with the City.

Davis Farr is a newly reconstituted firm of seasoned professionals who for the most part worked for Mayer Hoffman McCann (MHM). This firm no longer participates in the local government audit marketplace. MHM was engaged with the City of Bell at the time that the financial corruption scandal emerged there in 2010. While Davis Farr staff consists of highly experienced government audit professionals, staff believes that having a few more years as an established firm would make it more attractive.

With Finance Committee concurrence of staff's recommendation, staff will proceed with the recommended action and bring the new auditor contract to the City Council for approval.

Prepared by:

Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

/s/ Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachment:

A. WNDE Technical RFP Proposal

ATTACHMENT A
WNDE Technical RFP Proposal

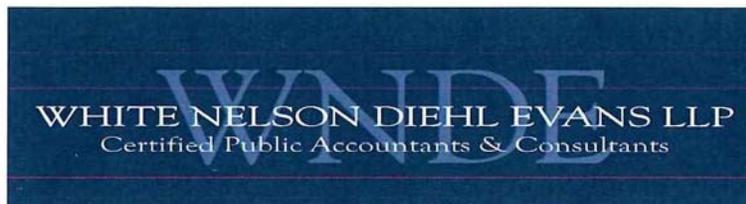
**CITY OF NEWPORT BEACH
PROFESSIONAL AUDITING
SERVICES PROPOSAL
RFP NO. 16-33**

FOR THE YEAR ENDING JUNE 30, 2016

**(WITH AN OPTION FOR THE FOUR YEARS
ENDING JUNE 30, 2020)**



Submitted By:



**2875 MICHELLE DRIVE, SUITE 300
IRVINE, CALIFORNIA 92606**

TITLE PAGE

RFP Subject: Certified Audits on the City of Newport Beach
For the Year Ending June 30, 2016
(With an Option for the Four Years
Ending June 30, 2020)

Name of Proposer: White Nelson Diehl Evans LLP
Certified Public Accountants and Consultants

Local Address: 2875 Michelle Drive, Suite 300
Irvine, CA 92606-5165

Telephone: (714) 978-1300

Fax: (714) 978-7893

Federal Identification Number: 33-0686301

California CPA License Number: PAR 6123

Website: www.wndecpa.com

Email: rcallanan@wndecpa.com

Contact Persons: Robert J. Callanan, CPA
Engagement Partner

Nitin P. Patel, CPA
Technical Review Partner

Date: April 5, 2016

CITY OF NEWPORT BEACH

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April 5, 2016

Mr. Anthony Nguyen
Purchasing Agent
City of Newport Beach
100 Civic Center Drive
Newport Beach, CA 92660

Dear Mr. Nguyen:

We are pleased to present our proposal to continue serving as independent auditors for the City of Newport Beach. We have prepared this information in accordance with the guidelines set forth in your request for proposal.

Who We Are

White Nelson Diehl Evans LLP is a California certified public accounting and consulting firm with offices in Irvine, Carlsbad and Escondido. Our firm has specialized in providing services to the governmental industry for over 80 years and has no intentions of discontinuing these services.

Why We Are The Best Qualified Firm

We consider ourselves to be the best qualified firm to perform auditing and accounting services for the City of Newport Beach. Please consider these qualifications:

- Our firm has provided the City with audit services for the past 5 years which has allowed the firm to gain specific knowledge about the City and its operations. The specific knowledge about the City and operations will enhance audit quality by allowing our firm to identify and focus on specific risk areas and will reduce audit costs as your staff will not spend time training us on the operations of the City. We understand the City's objective in enhancing auditor independence, objectivity and professional skepticism. To achieve the City's objective while maintaining audit quality and reducing costs to the City, we are proposing a rotation in the audit partner and audit supervisor.
- A significant part of our practice is devoted to providing professional services to the governmental industry and over the past year, the firm provided services to approximately 100 governmental organizations and on an annual basis our firm issues over 150 reports on audits of local governmental agencies including, Cities, the Successor Agency to Redevelopment Agencies, Special Districts and Joint Power Authorities.
- Our firm has devoted a substantial amount of time and resources in order to provide governmental agencies with quality audits. Our knowledge of the industry is best demonstrated by the fact that our clients who apply for the "Certificate of Achievement in Financial Reporting" issued by the Government Finance Officers Association (GFOA) consistently receive that award. A list of these clients is presented on page 7 of this proposal.
- We are in a professional alliance with BDO Seidman, a National Accounting Firm, and a network of accounting firms allowing us the ability to provide quality attestation services. The BDO Alliance provides us access to BDO's personnel and technical resources which allows White Nelson Diehl Evans LLP to deliver the range of services and capabilities of a large national firm, including the use of specialists to support the needs of our clients.
- We are a full service CPA firm. Our Consulting Services Department can provide the City with a variety of services, including investment policy compliance reviews, litigation support, dispute resolution services, and consulting on a wide array of governmental issues.
- Our audits include extensive use of information technology as described in detail on page 8 of this proposal.

Why We Are The Best Qualified Firm (Continued)

- We understand that we provide a service to the City. We are committed to providing an effective and efficient audit that will meet the proposed timing of the project deliverables by assigning experienced governmental auditors. Understanding the size of the City of Newport Beach and the scope of work requested in the proposal, we are proposing an engagement team with extensive governmental audit experience. The staffing plan includes Robert Callanan, CPA, the engagement partner with 26 years of experience, Kassie Radermacher, CPA, with 11 years of experience who will manage the audit, and Joseph Ludin, CPA, a supervisor with 7 years of experience who will be on-site supervising and performing the fieldwork. We are confident that the proposed staffing plan with an engagement team experienced in governmental audits and who are familiar with municipal procedures will result in an effective and efficient audit that meets the project timing and deliverables requirements with minimum disruption to your staff.

The scope of our services for the year ending June 30, 2016 would be as follows:

- A financial audit of the basic financial statements of the City of Newport Beach in accordance in with auditing standards generally accepted in the United States of America and Government Auditing Standards issued by the Comptroller General of the United States, to be included in the Comprehensive Annual Financial Report (CAFR).
- A Single Audit of Federal Grants to be performed to meet the requirements of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance).
- An agreed-upon procedures review of the calculation of the City's GANN Appropriations Limit (GANN), as required by Section 1.5 of Article XIIB of the California Constitution.
- A management letter containing any comments or recommendations resulting from our review of the systems of internal controls in connection with the financial audits.
- A report communicating information related to the audit to those in charge of governance at the conclusion of the audits.

We make a commitment to deliver all necessary reports based on the timetable presented herein on page 19. Also, a more detailed discussion of our understanding of the work to be performed is set forth on pages 19 through 26.

Our goal is to provide the City with the highest quality of service, including a CAFR which meets all required reporting standards. We are confident that our service and experience will be of benefit to the City and will provide added value over and above the performance of the audit itself. Throughout the year, you should feel comfortable in calling us for advice regarding accounting and auditing matters, as we are never too busy to meet the needs of our clients.

We thank the City for the opportunity to present our proposal. Please feel free to contact me, or Mr. Nitin P. Patel, CPA, at (714) 978-1300 if you have any questions. This proposal constitutes a firm and irrevocable offer for 60 days from the date of this letter. Mr. Patel and I are authorized to represent our firm, and bind the firm to a contract.

Very truly yours,

WHITE NELSON DIEHL EVANS LLP

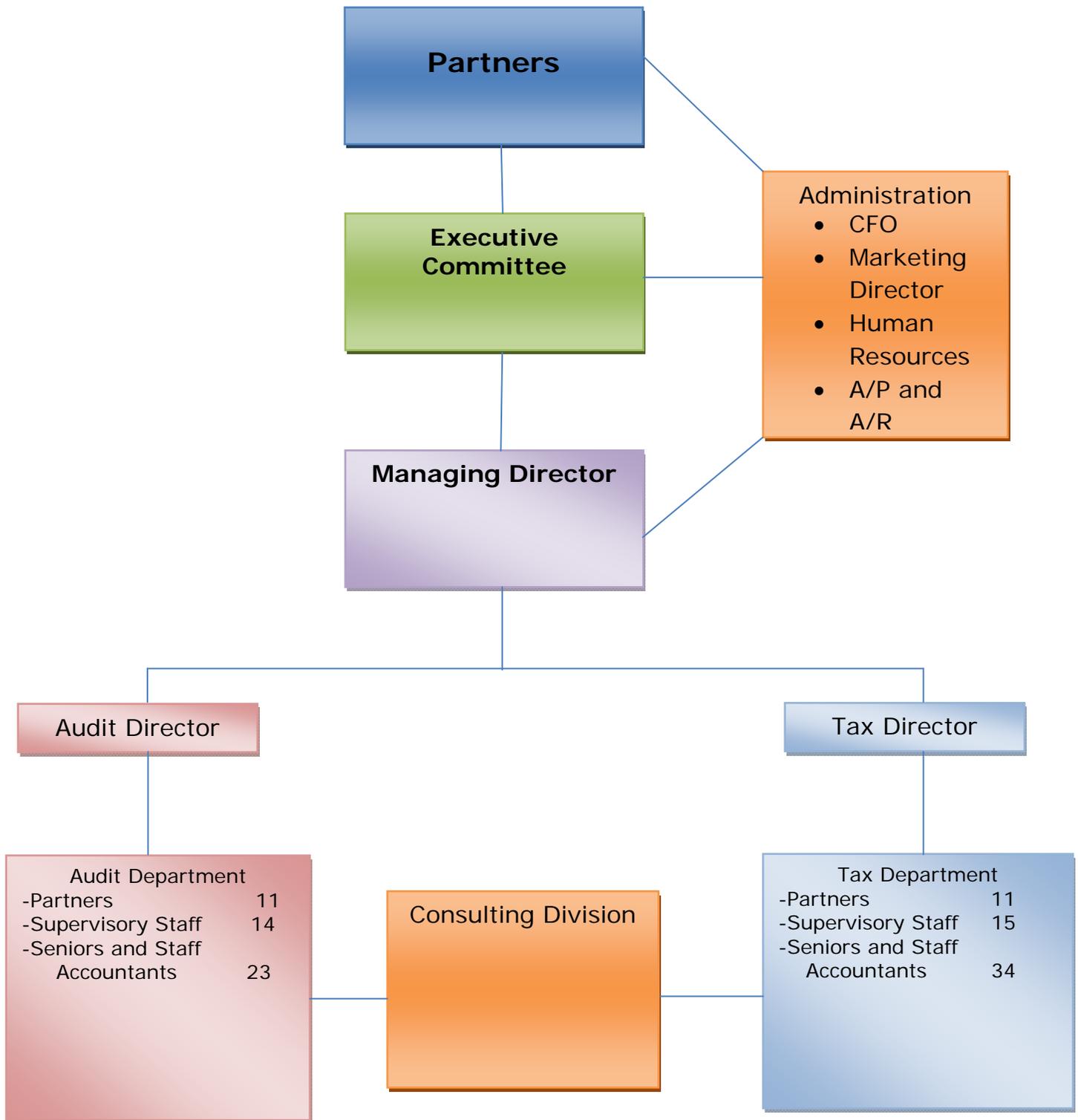


Robert J. Callanan, CPA
Engagement Partner



FIRM PROFILE AND QUALIFICATIONS

FIRM ORGANIZATION CHART



* The staffing levels described above have remained fairly constant for the past four years.

LICENSING AND INDEPENDENCE

Our firm, and all of our certified personnel, are properly licensed to practice public accounting in California.

Also, we meet the independence requirements of "Government Auditing Standards", as published by the U.S. General Accountability Office. We have no conflict of interest with the City and will provide written notice to the City of any professional relationships contemplated with the City during our term as auditors. We have been providing auditing and other services to the City since 2011.

SIZE AND LOCATION OF THE FIRM

White Nelson Diehl Evans LLP is a California accounting firm with offices in Irvine, Carlsbad and Escondido.



Our firm has approximately 140 employees, which includes 22 partners with separate assurance and tax departments. Your City would be served by the assurance department from our Irvine office, which has approximately 48 professional staff members, including 11 partners, and 14 managers and supervisors. The Irvine Office assurance department staff with governmental experience consists of four partners, four managers, seven supervisors, six seniors and twelve staff accountants.

White Nelson Diehl Evans LLP has extensive experience in providing auditing, accounting and consulting services in the governmental sector. Over twenty thousand hours per year are devoted to this area of our practice for over 100 governmental units including cities, successor agencies, special districts, nonprofit corporations and joint power authorities.

RANGE OF ACTIVITIES

White Nelson Diehl Evans LLP is a full service CPA firm. We offer a broad range of services, including:

- | | |
|-------------------------------|---|
| Certified Audits | Tax Planning and Consulting |
| Compilations and Reviews | Income Tax Preparation and Representation |
| Agreed-Upon Procedure Reviews | Consulting Services |
| Financial Services | Litigation Support Services |

Our specific services available to governmental agencies are more fully set forth in this proposal.



PARTICIPATION IN “QUALITY REVIEW” PROGRAMS

In July 2015, our firm underwent a quality review, by an independent CPA firm, under provisions of the AICPA Quality Review Program. This review is required every three years and covered our audits of governmental agencies. A final report dated July 22, 2015 with a pass rating on our systems and procedures was received. A copy of the independent CPA firm’s report is included herein at Attachment II. Accordingly, we are confident that our current auditing standards and techniques meet all existing requirements.

No regulatory action has ever been taken against any office of our firm due to substandard work. We had no significant deficiencies noted in any federal or state desk reviews over the past three years.

EDUCATION PROGRAMS

White Nelson Diehl Evans LLP has a formal continuing education program. All firm auditors are required to obtain 80 hours of continuing education every two years in the accounting and auditing area as required by Government Auditing Standards, and at least 24 hours of government related continuing education courses. Our staff is continually expanding their knowledge of the governmental industry through our in-house training programs, programs offered by the AICPA, GFOA, the California Society of Certified Public Accountants and other professional organizations, and through on-the-job training.

Noted below is a description of certain in-house education courses taken by our partners and staff to meet the governmental continuing education requirements. All personnel involved with governmental auditing are required to attend these courses.

- Understanding the Risk Assessment Standards
- Understanding of GASB Statement No. 34, Basic Financial Statements - and Management’s Discussion and Analysis - for State and Local Governments
- Understanding, and Auditing, Deposits and Investments of California Governmental Units
- Reviews of Internal Controls in Accordance With Statements on Auditing Standards
- Assessing Audit Risk and Materiality in Conducting An Audit
- Consideration of Fraud in a Financial Statement Audit
- Computer Auditing in the Governmental Environment
- The Single Audit - New Provisions under Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance).
- Laws and Regulations in the Government Sector
- Understanding GASB Statement 54 related to Fund Balance Reporting and Governmental Fund Type Definitions
- Understanding GASB Statement 65 related to reporting of Deferred Outflows and Deferred Inflows of Resources
- Understanding the new GASB Pension Standards

PARTICIPATION IN PROFESSIONAL ORGANIZATIONS

Our partners and staff are actively involved in professional organizations in the governmental accounting field. Noted below is a summary of our participation in various national and California governmental organizations.

AICPA

Our firm is a member of the AICPA Governmental Audit Quality Center. The Center is a firm-based voluntary membership Center whose primary purpose is to promote the importance of quality governmental audits to purchasers of governmental audit services. The Center provides members with an online forum tool for sharing best practices, as well as discussions on audit, accounting, and regulatory issues. As a member of the Center, the firm receives updates on changes in auditing and accounting standards that effect governmental audits. The quality control partner is required to attend an annual web cast to discuss auditing and reporting issues effecting governmental audits. Our firm uses the resources of the Center to maintain the quality of our governmental audits.

GFOA, GASB and FASB

Our firm is an associate member of the Government Finance Officers Association of the United States and Canada (GFOA).

Also, we have web based access to the latest pronouncements issued by the Governmental Accounting Standards Board (GASB) and the Financial Accounting Standard Board (FASB), including Interpretations, Technical Pronouncements and Newsletters. We regularly analyze these pronouncements and advise our governmental clients of changes in accounting rules.

CSMFO

Our Irvine office partners and our Director of Consulting Services are associate members of the California Society of Municipal Finance Officers (CSMFO). Our personnel regularly attend local CSMFO chapter meetings throughout Southern California, and the annual statewide conference. We often provide public speakers for these meetings.

CSCPA

Several partners and principals of the firm have been members of the Governmental Accounting and Auditing (GAA) Committee of the Orange County Chapter of the California Society of Certified Public Accountants (CSCPA). Mr. Patel, Mr. Ludin and Mr. Morgan have each served as chairman of this committee. Firm personnel have been involved over the years in preparing position papers issued for professional organizations on governmental accounting matters. Currently, Mr. Patel and Mr. Callanan are members of the State Governmental Accounting and Auditing Committee.

GFOA AWARD PROGRAM

The partner and manager will be involved in all phases of report preparation or review. Reporting checklists will be used to assure compliance with all reporting requirements. In addition, another member of the firm, not associated with the audit, and with extensive governmental auditing and accounting experience, will review each financial statement audited and related reports. Based on the high quality of our review process, we have been able to assist various clients in obtaining the GFOA "Certificate of Achievement for Excellence in Financial Reporting". The recent clients that have received the award are:

Cities:

Alhambra
Bellflower
Beverly Hills
Burbank
Camarillo
Campbell
Colton
Costa Mesa
Cypress
Del Mar
Downey
Fountain Valley
Gilroy
Goleta
Hawaiian Gardens
Highland
Lake Forest
Lakewood
Lancaster
Newport Beach

Cities (Continued):

Palm Desert
Pico Rivera
Rancho Santa Margarita
San Buenaventura
San Gabriel
Sanger
Signal Hill
Stanton
Tustin
West Covina
West Hollywood
Westminster

Special Districts:

Costa Mesa Sanitary District
Inland Empire Utilities Agency
Las Virgenes Municipal Water District
Olivenhain Municipal Water District
Otay Water District
Rancho California Water District
Santa Ana Watershed Project Authority
Yorba Linda Water District

COMPUTER AUDITING CAPABILITIES

White Nelson Diehl Evans LLP uses technology to make the audit process more effective. We utilize a paperless audit software, ProSystem fx Engagement, which allows us to manage our audit documentation electronically. Some of the benefits of paperless audit are:

- Receive the City's schedules in either hard copy or electronic format.
- Import and integrate trial balance data from virtually any accounting system. We avoid the time and expense of keying in account numbers, descriptions and account balances. We simply take your electronic trial balance and import it directly into our audit software.
- Create our own lead sheets, which can include prior year balances. This helps us to easily identify significant fluctuations between fiscal years.
- CAFR schedules are linked to trial balances. CAFR is updated automatically for any last minute journal entries, if any.

Our approach includes using IDEA (Interactive Data Extraction and Analysis) which is a data analysis software that can be used to analyze large amounts of information. It allows the firm to extract data from the City's accounting records to tailor specific audit tests based on risk assessments. Some audit procedures that IDEA can be utilized for are:

- Mechanical accuracy of worksheets or general ledgers.
- Exception and gap/completeness testing for missing check numbers.
- Cross checking different data bases for common information such as employee names.
- Duplicate testing of invoice numbers.
- Completeness of general ledger balances.

The firm also has document management software which allows our clients to access our web portal. We utilize the web portal to transfer data files that are confidential or too large to be sent by e-mail.

PARTNER, SUPERVISORY AND STAFF QUALIFICATIONS AND EXPERIENCE

AUDIT TEAM

The audit team assembled consists of individuals who have extensive experience auditing governmental agencies and are familiar with municipal accounting. In addition, each team member's skill and experience developed working in other industries our firm serves can be applied to the individual requirements of the City of Newport Beach.

The personnel assigned to the engagement team are as follows:

The engagement partner will be Mr. Robert J. Callanan, CPA. Mr. Callanan has over 26 years of experience with audits of local governments. He will be involved with all phases of the audit including (a) the planning phase of the audit to assess risks related to the audit (b) a final review of all the work papers and financial reports, and (c) attending any meetings with City's management and City council at the conclusion of the audit. He will be responsible for assuring that all work for the City is performed in a complete and timely manner.

Mr. Nitin P. Patel, CPA, will be the Technical Review Partner and will perform a quality review of all reports issued in connection with the audit. Mr. Patel has over 30 years of experience with audits of local governments. He will also consult on the accounting treatment of unusual transactions or audit issues.

Ms. Kassie Radermacher, CPA, will serve as the audit manager. Ms. Radermacher has over 11 years of experience with audits of local governments. She will be the primary contact for the City and related audits. She will (a) perform the initial review of the work papers including a review of the work completed related to internal controls, (b) supervise the completion of the financial reports and management letter and (c) assist in the audit of any complex or unusual audit areas.

The audit supervisor will be Mr. Joseph Ludin, CPA. Mr. Ludin has over 7 years of experience with audits of local governments. He will be on-site supervising staff accountants and performing the fieldwork including performing tests of internal controls, substantive tests of account balances, and analytical tests. He will also draft the financial statements and various reports required for this engagement.

Resumes for the above partners and personnel are included at pages 11 through 14.

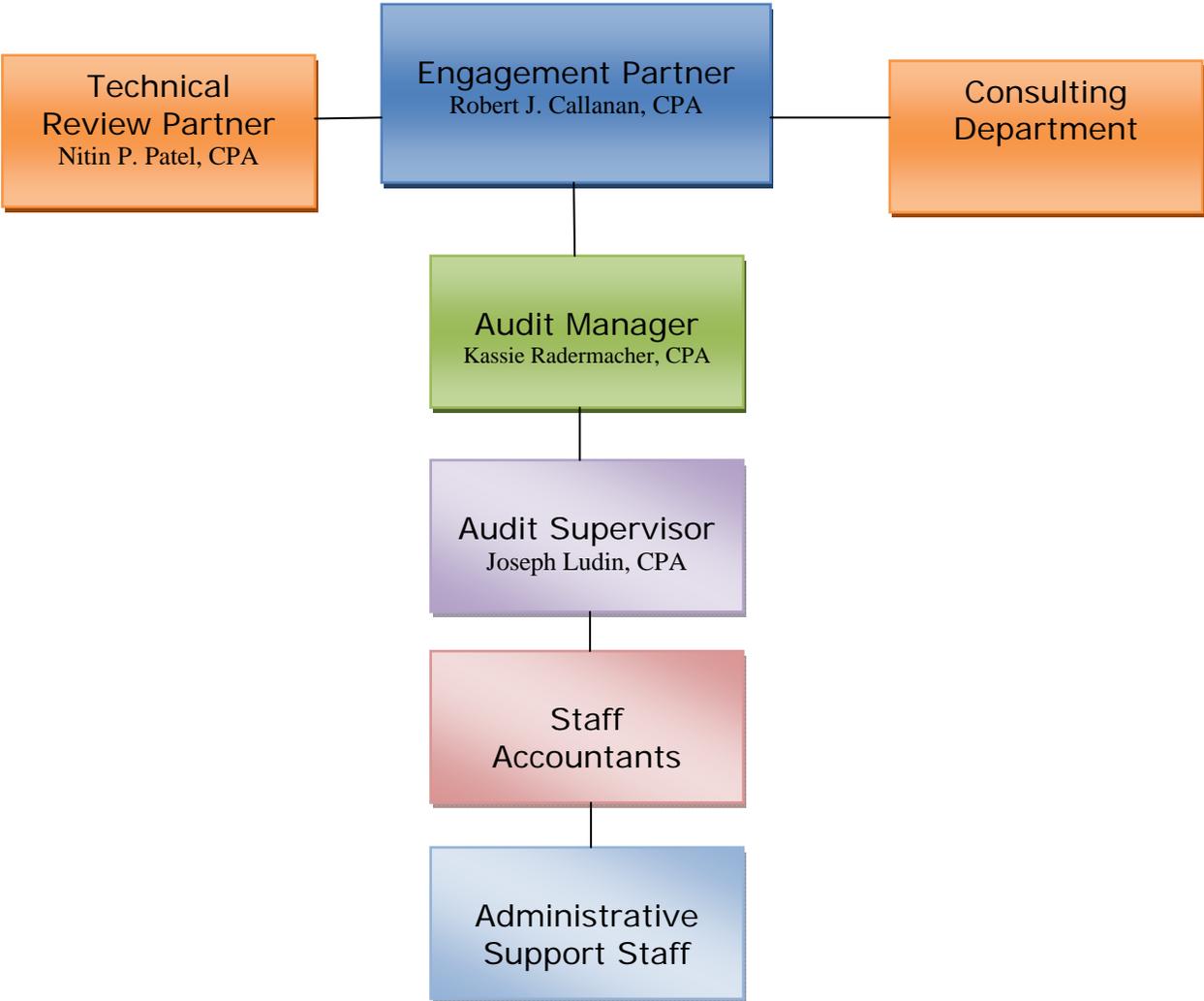
COMMITMENT RELATED TO PERSONNEL

We make a commitment to retain the same personnel on the City from year to year, except where such personnel leave the firm, or where the change is approved by the City. If a staff member is replaced, we make a commitment to replace that person with staff of at least equal experience.

NONDISCRIMINATION POLICY

Our firm has a policy to provide equal employment opportunities to all qualified persons without regard to race, color, age, sex, religion, national origin or handicap.

AUDIT TEAM ORGANIZATION CHART



ROBERT J. CALLANAN, CPA



Position

Engagement Partner

Education

Aquinas College, Grand Rapids, Michigan
Bachelor of Arts, Business Administration, 1988
Bachelor of Science, Accounting, 1988

Licensing

Certified Public Accountant in California since 1993

Professional Organizations

American Institute of Certified Public Accountants - Member
California Society of Certified Public Accountants - Member
California Society of Municipal Finance Officers (CSMFO) - Associate Member
California Governmental Accounting and Auditing Committee Member

Range of Experience

Twenty-six years with the firm specializing in governmental audit, accounting, and consulting services.

Two years of experience as Chief Financial Officer of a mortgage lending corporation.

Responsible for the firm's in-house governmental accounting and auditing training programs.

GFOA Report Reviewer for Award Program - Certificate of Achievement for Excellence in Financial Reporting.

Mr. Callanan was the engagement partner on the following local government audits in 2015:

Cities:

Camarillo
Campbell
Del Mar
Hawaiian Gardens
Norco
Pico Rivera
Rancho Santa Margarita
San Buenaventura

Special Districts:

Laguna Beach County Water District
Pico Rivera Water Authority
Pomona-Walnut-Rowland Joint Water
Line Commission
Rowland Water District
Southeast Water Coalition
Sunset Beach Sanitary District
Surfside Colony Stormwater Protection District
Surfside Community Services District
Ventura Port District

Continuing Professional Education

Total hours were 209 in the last three years, of which 157 hours were for meeting the requirements of the Government Audit Standards.



NITIN P. PATEL, CPA



Position

Technical Review Partner

Education

University of California at Irvine, Bachelor of Arts in Economics
California State University at Long Beach Masters of Accounting Program

Licensing

Certified Public Accountant in California since 1988

Professional Organizations

American Institute of Certified Public Accountants
California Society of Certified Public Accountants
California Society of Municipal Finance Officers (CSMFO) - Associate Member
Governmental Accounting and Auditing Committee of Orange County -
Committee Chairman (2001-2002)
California Governmental Accounting and Auditing Committee Member

Range of Experience

Has been with the firm since 1986 with emphasis in governmental accounting and financial reporting and is responsible for firm's in-house governmental accounting and auditing training programs.

Experience includes supervision of over one hundred audits of governmental agencies including cities, successor agencies/redevelopment agencies, non-profit corporations, joint powers authorities and special districts.

CSMFO Report Reviewer for Award Program.

GFOA Report Reviewer for Award Program - Certificate of Achievement for Excellence in Financial Reporting.

Other experience includes providing consulting services for governmental agencies including special internal control reviews, cost allocation plans, cable television rate reviews, reviews of City Treasurer operations and transient occupancy tax reviews of city hotels/motels.

Mr. Patel was the engagement partner on the following local government audits in 2015:

Cities:

Alhambra
Artesia
Bellflower
Burbank
Colton
Costa Mesa
Cypress
Gilroy
Lake Forest
Laguna Hills
Laguna Woods
Newport Beach
Norwalk
Palm Desert
Rialto
San Gabriel

Cities (Continued):

Stanton
West Hollywood
Westminster

Special Districts:

Calleguas Municipal Water District
Chino Basin Desalter Authority
Costa Mesa Sanitary District
Cypress Recreation and Park District
Inland Empire Regional Composting Authority
Inland Empire Utilities Agency
La Habra Heights County Water District
La Puente Valley County Water District
Orchard Dale Water District
Rancho California Water District
Santa Ana Watershed Project Authority
Yorba Linda Water District

Continuing Professional Education

Total hours were 186 in the last three years, of which 144 hours were for meeting the requirements of the Government Audit Standards.



KASSIE RADERMACHER, CPA



Position

Senior Audit Manager

Education

West Virginia University

Masters of Professional Accountancy, 2005

Bachelor of Science, 2003

Licensing

Certified Public Accountant in California since 2010

Certified Public Accountant in Virginia since 2006

Professional Organizations

California Society of Certified Public Accountants (CSCPA)

Range of Experience

Ms. Radermacher has been with the firm since June 2009. Ms. Radermacher has performed all phases of local governmental audits including cities, successor agencies/redevelopment agencies, single audit of federal grants, special districts, compliance audits and agreed-upon procedures engagements. As an audit manager, she is involved with planning the audit, performing fieldwork for all aspects of the audit, supervising staff accountants and preparation of financial statements. Ms. Radermacher served as the Audit Manager on the following local government audits in 2015:

City of Artesia	La Puente Valley County Water District
City of Bellflower	Lake Elsinore & San Jacinto
City of Cypress	Watersheds Authority
City of Fountain Valley	Local Agency Formation Commission (LAFCO) -
City of Laguna Hills	Orange County
City of Lake Forest	Midway City Sanitary District
City of Newport Beach	Orchard Dale Water District
City of Norwalk	Orange County Mosquito & Vector Control
City of Rancho Santa Margarita	District
City of Rialto	Pico Water District
City of San Gabriel	Rancho California Water District
City of Stanton	Santa Ana Watershed Project Authority
	Yorba Linda Water District

Prior to joining the firm, Ms. Radermacher was senior in-charge of compilations, reviews, single audits, and financial audits for non-profit and business clients with Rager, Lehman & Houck, P.C. in Frederick, MD. She was also responsible for educating and monitoring the staff.

Continuing Professional Education

Total hours were 209 in the last three years, of which 189 hours were for meeting the requirements of the Government Audit Standards.

JOSEPH LUDIN, CPA



Position

Audit Supervisor

Education

California Polytechnic, San Luis Obispo, California
Bachelor of Business Administration and Marketing, 2001

Licensing

Certified Public Accountant in California since June 2013

Range of Experience

Mr. Ludin has been with the firm since July 16, 2009. Mr. Ludin has performed all phases of local governmental audits including cities, successor agencies/redevelopment agencies, single audit of federal grants, special districts, compliance audits and agreed-upon procedures engagements. As an audit supervisor, he is involved with planning the audit, performing fieldwork for all aspects of the audit, supervising staff accountants and preparation of financial statements. Mr. Ludin served as the Audit Supervisor on the following local government audits in 2015:

City of Camarillo
City of Costa Mesa
City of Del Mar
City of West Covina
City of West Hollywood

Calleguas Municipal Water District
La Habra Heights County Water District
Sunset Beach Sanitary District
Surfside Colony Community
Services District
Surfside Colony Storm Water
Protection District

In recent years, Mr. Ludin has also been involved with the following governmental clients:

City of Avalon
City of Downey
City of Fountain Valley
City of Goleta
City of Huntington Beach
City of Irvine

City of La Habra Heights
City of Lake Elsinore
City of San Buenaventura
City of Sanger
City of Westminster
Midway City Sanitary District
Rancho California Water District

Continuing Professional Education

Total hours were 162 in the last three years, of which 142 hours were for meeting the requirements of the Government Audit Standards.

FIRM EXPERIENCE WITH GOVERNMENTAL ENTITIES

SIMILAR ENGAGEMENTS WITH OTHER MUNICIPAL ENTITIES

Your request for proposal called for a list of similar engagements performed for the fiscal year ended 2015 serviced in Los Angeles, Riverside, Orange and San Diego Counties. These are set forth below:

LIST OF CITY ENGAGEMENTS

We have listed below the cities which were under contract with us during the past fiscal year.

City	Period of Service		Scope of Work
	From	To	
Alhambra	2005	Present	CA, RDA, SA, SCR
Artesia	2012	Present	CA, RDA, SA
Bellflower	2013	Present	CA, SA, SCR, Financing Authority, Public Facilities Corp.
Beverly Hills	2013	Present	CA, SA
Burbank	2013	Present	CA, AQMD, SA, Water & Utility Enterprise Fund
Camarillo	2012	Present	CA, RDA, SA
Campbell	2013	Present	CA, SA, T, Solid Waste Management Authority
Colton	2014	Present	CA, SA, SCR, Child Care Program
Costa Mesa	2012	Present	CA, RDA, PFA, SA, Housing Authority
Cypress	2012	Present	CA, RDA, RA, SA
Del Mar	2014	Present	CA, SA, SCR
Fountain Valley	2013	Present	CA, SA, Housing Authority, Financing Authority
Gilroy	2013	Present	CA, SA
Goleta	2013	Present	CA, SA, SCR, SR
Hawaiian Gardens	2012	Present	CA, RDA, PFA, SA
Hesperia	1997	Present	CA, RDA, SA
Highland	2012	Present	CA, SA
Laguna Hills	2015	Present	CA, SA, SCR. SR
Laguna Woods	2015	Present	CA, SA
Lake Forest	2011	Present	CA, RDA, SA, Housing Authority
Lancaster	2013	Present	CA, SA, SCR - City, SCR - Power Authority
Newport Beach	2011	Present	CA, SA
Norco	2015	Present	CA, SA, SCR
Norwalk	2015	Present	CA, AQMD, PFA, SA, T, OCU, SCR - City & Transit
Palm Desert	2008	Present	CA, RDA, SA, Housing Authority
Pico Rivera	2012	Present	CA, PFA, SA, SCR, Water Authority
Rancho Santa Margarita	2012	Present	CA, SA
Rialto	2013	Present	CA, SA
San Buenaventura	2011	Present	CA, RDA, PFA, SA, SCR
San Gabriel	2013	Present	CA, SA
Sanger	2011	Present	CA, RDA, PFA, SA, SCR
Stanton	2012	Present	CA, RDA, SA
Tustin	2011	Present	CA, RDA, SA, SCR
West Covina	2011	Present	CA, RDA, AQMD, SA
West Hollywood	2014	Present	CA, SA, SCR
Westminster	1997	Present	CA, RDA, AQMD, SA

Legend:

AQMD - Air Quality Management District Audit
 CA - City Audit
 OCU - Other Component Unit Audits
 PFA - Public Financing Authority
 PI - Public Improvement
 PP - Pension Plans

RA - Recreation Authority
 RDA - Former Redevelopment Agency Audit
 SA - Single Audit
 SCR - State Controllers' Reports
 SR - Street Report
 T - Transportation

Substantially all of the above engagements were performed through the firm's Irvine office.



CITY CLIENT REFERENCES

One means of judging the high quality of our auditing and accounting services would be contact with some of our clients over the past year. We are including the names and phone numbers of the city clients as presented in Attachment I of this proposal. We encourage you to contact any of these individuals and verify our level of service.

ENTERPRISE FUND EXPERIENCE

Most cities audited by our firm have a water utility enterprise fund. Noted below is a partial listing of other enterprise funds audited by our firm in recent years:

<u>City</u>	<u>Enterprise</u>
Alhambra	Water, Sewer, Storm Drain, Sanitation, Golf Course
Artesia	Residential Refuse Service
Bellflower	Water
Beverly Hills	Water, Solidwaste, Wastewater, Stormwater
Burbank	Water Reclamation, Sewer, Golf, Electric Utility Water Utility, Refuse Collection and Disposal
Camarillo	Water, Sanitary, Solidwaste, Transit
Colton	Electric Utility, Water Utility, Wastewater Utility
Cypress	Sewer
Del Mar	Water, Wastewater, Cleanwater
Downey	Water, Sewer, Golf Course, Transit System
Fountain Valley	Water, Solidwaste
Gilroy	Water, Sewer
Hesperia	Water, Sewer
Laguna Hills	Property Leasing
Lakewood	Water
Lancaster	Power Authority
Newport Beach	Water, Sewer
Norco	Water, Sewer
Norwalk	Transit System, Water, Sewer, Golf Course
Palm Desert	Golf Course
Pico Rivera	Water, Sports Arena, Golf
Rialto	Airport, Cemetery, Recreation, Wastewater, Water
San Buenaventura	Water, Sewer
Sanger	Water, Sewer, Disposal, Ambulance
Signal Hill	Water
Stanton	Sewer
Tustin	Water
West Covina	Simulator, Computer
West Hollywood	Sewer District, Sewer Charge, Solid Waste, Landscape District and Street Maintenance
Westminster	Water

SINGLE AUDIT EXPERIENCE

We perform single audit services for most of our cities and special districts that receive federal funds as required by the Uniform Guidance. In recent years, Single Audits were performed for the following cities and special districts.

Cities:

City of Alhambra	City of Laguna Woods
City of Artesia	City of Lake Forest
City of Bellflower	City of Lakewood
City of Beverly Hills	City of Lancaster
City of Burbank	City of Newport Beach
City of Camarillo	City of Norco
City of Campbell	City of Norwalk
City of Colton	City of Palm Desert
City of Costa Mesa	City of Pico Rivera
City of Cypress	City of Rancho Santa Margarita
City of Del Mar	City of Rialto
City of Downey	City of San Buenaventura
City of Fountain Valley	City of San Gabriel
City of Gilroy	City of Sanger
City of Goleta	City of Signal Hill
City of Hawaiian Gardens	City of Stanton
City of Hesperia	City of Tustin
City of Highland	City of West Covina
City of La Habra Heights	City of West Hollywood
City of Laguna Hills	City of Westminster

Special Districts:

- Inland Empire Utilities Agency
- Las Virgenes Municipal Water District
- Olivenhain Municipal Water District
- Rancho California Water District
- Valley Wide Recreation and Park District

EXPERIENCE WITH PREPARATION OF STATE-MANDATED REPORTS

We have experience with the preparation of various state-mandated reports, such as the State Controller's Report and the Annual Street Report. Specifically, with regard to cities, we have prepared the state mandated reports, in recent years, for the following cities:

City of Alhambra	City of Norco
City of Bellflower	City of Norwalk
City of Colton	City of Pico Rivera
City of Del Mar	City of San Buenaventura
City of Goleta	City of Sanger
City of La Habra Heights	City of Tustin
City of Laguna Hills	City of West Hollywood
City of Lancaster	

SPECIAL DISTRICTS

Noted below is a listing of special districts audited by our firm in recent years:

Borrego Water District	Orange County Development Authority - Eco-Rapid Transit
Calleguas Municipal Water District	Orange County Vector Control District
Chino Basin Desalter Authority	Orchard Dale Water District
Chino Basin Regional Financing Authority	Otay Water District
Costa Mesa Sanitary District	Padre Dam Municipal Water District
Cypress Recreation and Park District	Pico Water District
Downey Cemetery District	Placentia Library District
El Toro Water District	Rancho California Water District
Grossmont Healthcare District	Rincon del Diablo Municipal Water District
Heber Public Utilities District	Rowland Water District
Inland Empire Regional Composting Authority	Santa Ana Watershed Project Authority
Inland Empire Utilities Agency	South Coast Water District
La Habra Heights County Water District	South County Regional Wastewater Authority
La Puente Valley County Water District	Sunset Beach Sanitary District
Laguna Beach County Water District	Surfside Colony Stormwater Drainage District
Lake Elsinore and San Jacinto Joint Powers Authority	Surfside Community Services District
Las Virgenes Municipal Water District	Vallecitos Water District
Leucadia Wastewater District	Valley Wide Recreation and Park District
Midway City Sanitary District	Ventura Port District
Monterey Peninsula Regional Park District	Yorba Linda Water District
Olivenhain Municipal Water District	

NONPROFIT CORPORATIONS AND JOINT POWER AUTHORITIES

Noted below is a partial listing of nonprofit corporations and joint power authorities audited by our firm over the past year. Some of these entities are “component units” which are combined into the basic financial statements of governmental organizations which exercise oversight responsibility.

American Family Housing	Pomona-Walnut-Rowland Joint Water Line Commission
Anaheim District of the Churches of the Nazarene	Public Cable Television Authority
Cal State L.A. Metrolink Authority	The RARE Project
California Transplant	Trinity Children’s Foundation
Casa de las Campanas	Trinity Youth Services
Casa Romantica Cultural Center	United Cerebral Palsy Association
Child Abuse Prevention Center	Valencia Heights Water Company
Palm Desert Recreational Facilities Corporation	Westview Services, Inc.

SCOPE OF WORK, TIMING AND AUDIT APPROACH

ENTITIES TO BE INCLUDED IN AUDIT

City of Newport Beach
Newport Beach Public Facilities Corporation

REPORTS TO BE ISSUED AND DUE DATES

	<u>Draft Due Dates</u>	<u>Final Due Dates</u>
City of Newport Beach:		
Independent Auditors' Report on the Comprehensive Annual Financial Report Management Letter Audit Committee Letter	December 1 December 1 December 1	December 20 December 20 December 20
Independent Auditors' Report on Internal Control Over Financial Reporting and on Compliance and Other Matters Based on an Audit of Financial Statements Performed in Accordance With <i>Government Auditing Standards</i>	December 1	December 20
Report on Compliance with Article XIII B Appropriation Limit (GANN Limit Review)	December 1	December 20
Single Audit Report:	February 15	March 1
<ul style="list-style-type: none">Independent Auditors' Report on Compliance for Each Major Program and on Internal Control Over Compliance Required by the Uniform Guidance and on the Schedule of Expenditures of Federal Awards.		

AUDIT TIMING

Assuming that the City's books are closed and ready for examination and that all necessary schedules and documents are available for our use by September 30th each year, the suggested time schedule for the various phases of the audit would be approximately as follows:

	<u>Completed By</u>
Entrance conference with key City staff. Discussion of any prior audit concerns and the performance of interim work.	June 15
Interim audit fieldwork and management review	June 30
List of Schedules to be prepared by the City of Newport Beach prior to final fieldwork	July 31
Final audit fieldwork and management review	November 4
Exit conference to summarize the results of the fieldwork and to review significant findings	November 4
Deliver draft copies of reports	See page 19
Deliver final reports	See page 19

COMMITMENT TO DELIVER REPORTS ON A TIMELY BASIS

If all books and records, schedules and documents are made available to us by September 30th, we make a commitment to have audit team members available and to provide all reports by the due dates specified above.

AUDITS TO BE IN ACCORDANCE WITH GAAS AND OTHER REQUIREMENTS

We will audit the financial statements of the City and the component units noted on the preceding page. The financial statements of all entities where the City exercises oversight will be combined with the City's financial statements, in accordance with GASB requirements. Our audit will be in accordance with auditing standards generally accepted in the United States of America as set forth by the AICPA, and will include such auditing procedures as we consider necessary under the circumstances. We will apply certain limited procedures, which consist principally of inquiries of management regarding methods of measurement and presentation of required supplementary information. However, we do not audit such information and do not express an opinion on it. Any supplemental financial statements will be subjected to auditing procedures as we consider necessary in relation to the financial statements taken as a whole. The scope of our audit will not include any statistical information, and we will not express an opinion concerning it.

AUDITS TO BE IN ACCORDANCE WITH GAAS AND OTHER REQUIREMENTS (CONTINUED)

Our audits will conform with the guidelines set forth in the AICPA's Industry Audit Guide, *Audits of State and Local Governmental Units*. Also, each examination will comply with the standards for financial and compliance audits contained in the *Government Auditing Standards*, issued by the U.S. General Accounting Office, the provisions of the Single Audit Act and the provisions of Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance).

Also, we will perform an agreed-upon procedures review of the City's Gann Spending Limitation Computation as required by Section 1.5 of Article XIIB of the California Constitution. Our review will be performed in conformance with the provision of the "League of California Cities Uniform Guidelines".

AUDIT APPROACH

- Our audit approach is tailored to meet the technical requirements while maintaining professional skepticism without forgetting that we provide a service. The following aspects of our audit approach will add additional value to the audit services and minimize the amount of time spent by the City's staff in dealing with the audit.
- We will assign experienced staff auditors including the in-charge field auditor having at least 3 years of experience. For first year engagements, all other staff will have at least 1 year of experience. You will not spend time training our auditors.
- Whenever possible, we will use same format for audit supporting schedules used in prior years for the current year audit. This will reduce time spent by the City staff in dealing with the audit when a different audit firm is chosen.
- Throughout the year we are available as a resource to our clients in researching technical questions, dealing with new pronouncements, reviewing complex financial entries and helping with any other issues as they arise.
- The work papers will be reviewed by the manager or partner as field work is being completed to minimize additional questions after the fieldwork is completed.

Our firm uses a governmental audit program which will be modified to the City of Newport Beach's operations to accommodate specific client circumstances. Our audit programs are organized by the financial statement approach and general procedures. The requirements by the Standards for assessing risk are utilized to modify the audit programs to focus on the higher risk areas of the financial statements.

1. Audit Planning Procedures:

- Pre-audit conference with the City to establish process of communication between the audit team and City staff.
- Discuss any new accounting pronouncements to be implemented in the current year.
- Establish scope of work and timing of fieldwork.

AUDIT APPROACH (CONTINUED)

2. Interim Fieldwork:

Gather information about the City and its environment, including internal control:

- Evaluate the design of internal controls that are relevant to the audit and determine whether the control, either individually or in combination is capable of effecting, preventing or detecting and correcting material misstatements.
- Determine that the controls have been implemented, that is, that the controls exist and that the City is using it.
- Specific areas to review include:
 - Accounts payable/cash disbursements
 - Accounts receivable/cash receipts
 - Payroll disbursements
 - Utility billing process
 - Investment compliance
 - Property and equipment
- Review of minutes of the City of Newport Beach.
- Review of important contracts and debt agreements.
- Interim exit conference with the City to review results of interim fieldwork, including any findings.

3. Final Audit Work:

During the final audit work, we will assess “risk” of material misstatement based on understanding of the City’s audit environment, including its internal control, to identify account balances to audit that appear in the City’s financial statements. Our audit programs will be specifically tailored to address any significant risks identified. The Prepared by Client (PBC) list will be provided at least one month in advance of fieldwork. Our work may include:

- Confirmation of cash and investments balances and testing of bank reconciliations.
- Confirm significant receivable balances or review subsequent cash receipts to verify receivable balance.
- Search for unrecorded liabilities.
- Testing of interfund balances and transfers.
- Test capital asset additions and depreciation expense.
- Confirm long-term debt balances and review the accounting treatment of debt issued or refunded.
- Test support for other significant assets or liabilities.
- Analytical procedures on balance sheet and revenue and expenditure accounts, to evaluate and explain unusual fluctuations from prior year balances or current year budgeted amounts.
- Review of attorney letters for significant legal matters affecting the City’s financial position.
- An exit conference will be held to review any significant adjustments or findings.

The audit workpapers will be reviewed by our management team as the work is being performed in the field so that at the conclusion of the fieldwork we are able to report any adjustments or findings.

AUDIT APPROACH REDEVELOPMENT AGENCY/SUCCESSOR AGENCY

Recent legislation related to the dissolution of Redevelopment Agencies will impact our audit approach as detailed below.

Our procedures will include:

- Audit the balances reported for cash, investments, receivables, payables, capital assets and long term liabilities as of end of the year.
- Review the activity reported on ROPS.
- Review the activities of the Successor Agency to ensure compliance with AB 26, AB 1484 and other relevant legislation enacted.

APPROACH TO INTERNAL CONTROL

Our audit will include obtaining an understanding of the entity and its environment, including internal control, sufficient to assess the risks of material misstatement of the financial statements and to design the nature, timing, and extent of further audit procedures. Our understanding of the internal controls will be completed by completing narratives and checklists for various processes related to internal control. Tests of controls may be performed to test the effectiveness of certain controls that we consider relevant to preventing and detecting errors and fraud that are material to the financial statements and to preventing and detecting misstatements resulting from illegal acts and other noncompliance matters that have a direct and material effect on the financial statements. Our tests, if performed, will be less in scope than would be necessary to render an opinion on internal control and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to *Government Auditing Standards*.

As required by Title 2 U.S. Code of Federal Regulations Part 200, *Uniform Administrative Requirements, Cost Principles, and Audit Requirement for Federal Awards* (Uniform Guidance), we will perform tests of controls over compliance to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with compliance requirements applicable to each major federal award program. However, our tests will be less in scope than would be necessary to render an opinion on those controls and, accordingly, no opinion will be expressed in our report on internal control issued pursuant to the Uniform Guidance.

An audit is not designed to provide assurance on internal control or to identify significant deficiencies. However, during the audit, we will communicate to management and those charged with governance internal control related matters that are required to be communicated under AICPA professional standards, *Government Auditing Standards*, and the Uniform Guidance.

SINGLE AUDIT APPROACH

The single audit will be performed in accordance with all the requirements of the Single Audit Act, the Uniform Guidance and *Government Auditing Standards* issued by the GAO (the “Yellow Book”) for cities that expend greater than \$750,000 in federal awards in fiscal year 2015-2016 and subsequent years.

- We will identify the Major and Nonmajor Federal Programs of the City through the risk-based approach required by the Uniform Guidance. This approach includes consideration of current and prior audit experience, oversight by Federal agencies and pass-through entities, and the inherent risk of the federal program.
- We will review all federal and industry-specific publications and guidance and inform the City of any recent changes.
- We will perform tests of controls to evaluate the effectiveness of the design and operation of controls that we consider relevant to preventing or detecting material noncompliance with applicable compliance requirements. If weaknesses in the internal controls are noted, we will modify our audit program as needed.
- Our audit will include tests of transactions related to major federal award programs for compliance with applicable compliance requirements and certain provisions of laws, regulations, contracts and grant agreements.
- Our procedures will consist of the applicable procedures described in the Uniform Guidance for the types of compliance requirements that could have a direct and material effect on each of the City’s major programs. The purpose of those procedures will be to express an opinion on the City’s compliance with requirements applicable to major programs in our report on compliance issued pursuant to the Uniform Guidance.
- We will assist the City in completing and filing the Data Collection Form.

DETERMINING LAWS AND REGULATIONS SUBJECT TO AUDIT

Under provisions of AICPA Auditing Standards, management of the City is responsible for identifying to its outside auditors any laws and regulations which would have a significant effect on the audit. This would include federal laws (such as federal grant regulations), State laws (such as permitted investments under the California Government Code) and local laws (such as restrictions on special revenues levied by the City). After our selection as auditors, we will consult with City officials regarding these matters, to determine what laws and regulations need to be evaluated in connection with our audit. If a City is not able to identify specific laws and regulations that effect it, we have references (California Government Code and Health and Safety Code) to the more common laws, rules and regulations in our standard audit programs for the usual activities of a California City or Successor Agency to the Redevelopment Agency which will assist us in identifying laws and regulations to review in the audit.

METHOD OF SAMPLING

Our approach is to utilize random sampling based in our testing of the internal control systems related to cash receipts, cash disbursements, payroll and utility billings. Based on a statistical conclusion used by the firm our sample sizes can range from 25 to 60 transactions for each system. A random sample selection allows each item in the population of an equal chance of being selected. In addition, for disbursements, we may select a stratified sample of all transactions over a specified dollar amount for review.

ANALYTICAL PROCEDURES

Analytical procedures are used in the planning and final stages of the audit. In the planning phase, we use analytical procedures to identify unusual financial transactions and comparing relationships to expected results. We compare current year information to the prior years for balance sheet items, revenues and expenditures. In addition, revenues and expenditures are compared to budgets to identify unexpected results. In the final stages of the audit, the financial statements are reviewed to identify expected relationships such as comparing debt paid to expenditures recorded on governmental funds, transfers between funds, depreciation expense, etc. For all significant relationships identified, explanations are obtained as to why the situation occurred and additional audit procedures are applied to resolve any concerns.

MANAGEMENT LETTERS

In connection with each audit, a complete review of internal controls will be made of all significant accounting procedures. Our firm uses an internal control questionnaire, computer systems questionnaire and narration to gain an understanding of the internal control process as part of our audit. We will identify weaknesses and after discussion with the appropriate City staff, we will submit a management letter which will identify weaknesses observed during these reviews and throughout the audit. The management letter will also assess the effect of the management letter comments on the financial reporting process and recommend steps towards eliminating the weaknesses.

POTENTIAL AUDIT PROBLEMS

We do not anticipate any significant potential audit problems. If any potential audit problems are identified, we will immediately discuss them with the City's management. Our approach is to coordinate the resolution of any problems with the City's management. Considering our experience with auditing governmental entities and resources, we expect minimal disruption to the City's management in resolving any identified audit problems.

RETENTION OF AND ACCESS TO AUDIT WORKPAPERS

In accordance with provisions of the Uniform Guidance, GAO requirements, and the California Board of Accountancy, our audit workpapers will be maintained for at least seven years after the date of the report. These workpapers will be made available as necessary to your cognizant audit agency (or its designee), to GAO representatives, or to any other federal or state agency needing access to the workpapers. Also, our firm will respond to any reasonable inquiries of successor auditors and we will allow any successor auditors to review our workpapers.

OTHER PROFESSIONAL SERVICES

We will be available for any other professional assistance you require to research and answer accounting and reporting problems raised by the City, regardless of the time of year. Such assistance may include, but is not limited to, tax questions, the review of bond documents, cost allocation programs and employee benefit programs. We have provided several tax opinions to City audit clients for matters relating to deferred compensation, fringe benefits, stipends and allowances, and other issues. We also will keep the City informed of new developments affecting municipal finance and reporting, changes in grant rules and regulations, etc.

IRREGULARITIES AND ILLEGAL ACTS

We will make an immediate, written report of all irregularities, illegal acts or indications of illegal acts of which we become aware, to the following parties:

- City Manager, David A. Kiff
- City Attorney, Aaron Harp
- Finance Director and City Treasurer, Dan Matusiewicz

SEGMENTATION OF THE AUDIT HOURS, BY PARTNER AND STAFF LEVEL

Service	Partner	Managers	Supervisory			Total
			Staff	Staff	Clerical	
City of Newport Beach - Financial Audit	15	28	101	163	6	313
City of Newport Beach - Single Audit	2	5	20	24	4	55
City Total	17	33	121	187	10	368
Government-Wide Statements and Reconciliations (Optional)	1	2	-	14	1	18
TOTAL HOURS	18	35	121	201	11	386

SEGMENTATION OF THE AUDIT HOURS, BY PHASES OF THE AUDIT

	Partners	Managers	Supervisory			Total
			Staff	Staff	Clerical	
Planning	4	6	10	5	-	25
Interim Fieldwork	4	8	30	80	-	122
Final Fieldwork and Review	10	21	81	116	11	239
Total Hours	18	35	121	201	11	386



DISCUSSION OF RELEVANT ACCOUNTING ISSUES

GASB STATEMENT NO. 72

GASB Statement No. 72, *“Fair Value Measurement and Application”*, is effective for periods beginning after June 15, 2015. This Statement addresses accounting and financial reporting issues related to fair value measurement. The definition of *fair value* is the price that would be received to sell an asset or paid to transfer a liability in an orderly transaction between market participants at the measurement date. This Statement provides guidance for determining a fair value measurement for financial reporting purposes. This Statement also provides guidance for applying fair value to certain investments and disclosures related to all fair value measurements.

GASB STATEMENT NO. 73

GASB Statement No. 73, *“Accounting and Financial Reporting for Pensions and Related Assets That Are Not within the Scope of GASB Statement 68, and Amendments to Certain Provisions of GASB Statements 67 and 68”*, is effective for periods beginning after June 15, 2015 - except for those provisions that address employers and governmental nonemployer contributing entities for pensions that are not within the scope of Statement 68, which are effective for periods beginning after June 15, 2016. The requirements of this Statement extend the approach to accounting and financial reporting established in Statement 68 to all pensions, with modifications as necessary to reflect that for accounting and financial reporting purposes, any assets accumulated for pensions that are provided through pension plans that are not administered through trusts that meet the criteria specified in Statement 68 should not be considered pension plan assets. It also requires that information similar to that required by Statement 68 be included in notes to financial statements and required supplementary information by all similarly situated employers.

GASB STATEMENT NO. 74

GASB Statement No. 74, *“Financial Reporting for Postemployment Benefit Plans Other Than Pension Plans”*, is effective for periods beginning after June 15, 2016. The objective of this Statement is to improve the usefulness of information about postemployment benefits other than pensions (other postemployment benefits or OPEB) included in the general purpose external financial reports of state and local governmental OPEB plans for making decisions and assessing accountability. This Statement also includes requirements to address financial reporting for assets accumulated for purposes of providing defined benefit OPEB through OPEB plans that are **not** administered through trusts that meet the specified criteria.

GASB STATEMENT NO. 75

GASB Statement No. 75, *“Accounting and Financial Reporting for Postemployment Benefits Other Than Pensions”*, is effective for periods beginning after June 15, 2017. The scope of this Statement addresses accounting and financial reporting for postemployment benefits other than pension (other postemployment benefits or OPEB) that is provided to the employees of state and local governmental employers. This Statement establishes standards for recognizing and measuring liabilities, deferred outflows of resources, deferred inflows of resources, and expense/expenditures for defined benefit and defined contribution plans.

GASB STATEMENT NO. 76

GASB Statement No. 76, *“The Hierarchy of Generally Accepted Accounting Principles for State and Local Governments”*, is effective for periods beginning after June 15, 2015. The requirements of this Statement improve financial reporting by (1) raising the category of GASB Implementation Guides in the GAAP hierarchy, (2) emphasizing the importance of analogies to authoritative literature when the accounting treatment for an event is not specified in authoritative GAAP; (3) requiring the consideration of consistency with the GASB Concepts Statements when evaluating accounting treatments specified in nonauthoritative literature.

GASB STATEMENT NO. 77

GASB Statement No. 77, *“Tax Abatement Disclosures”*, is effective for periods beginning after December 15, 2015. This Statement requires governments that enter into tax abatement agreements to disclose the following information:

- Brief descriptive information, such as the tax being abated, the authority under which tax abatements are provided, eligibility criteria, the mechanism by which taxes are abated, provisions for recapturing abated taxes, and the types of commitments made by tax abatement recipients.
- The gross dollar amount of taxes abated during the period.
- Commitments made by a government, other than to abate taxes, as part of a tax abatement agreement.

Governments should organize those disclosures by major tax abatement program and may disclose information for individual tax abatement agreements within those programs.

GASB STATEMENT NO. 78

GASB Statement No. 78, *“Pensions Provided Through Certain Multiple-Employer Defined Benefit Pension Plans”*, is effective for periods beginning after December 15, 2015. This Statement amends the scope and applicability of Statement 68 to **exclude** pensions provided to employees of state or local governmental employers through a cost-sharing multiple-employer defined benefit plan that (1) is not a state or local governmental pension plan, (2) is used to provide defined benefit pensions both to employees of state or local governmental employers and to employees of employers that are not state or local governmental employers, and (3) has no predominant state or local governmental employer (either individually or collectively with other state or local governmental employers that provide pensions through the pension plan). This Statement establishes requirements for recognition and measurement of pension expense, expenditures, and liabilities; note disclosures; and required supplementary information for pensions that have the characteristics described above.

GASB STATEMENT NO. 79

GASB Statement No. 79, *“Certain External Investment Pools and Pool Participants”*, is effective for periods beginning after June 15, 2015, except for certain provisions on portfolio quality, custodial credit risk, and shadow pricing, those provisions are effective for reporting periods beginning after December 15, 2015. This Statement addresses accounting and financial reporting for certain external investment pools and pool participants. It establishes criteria for an external investment pool to qualify for making the election to measure all of its investments at amortized cost for financial reporting purposes. An external investment pool qualifies for that reporting if it meets certain applicable criteria established in this Statement. It establishes additional note disclosure requirements for qualifying external investment pools that measure all of their investment at amortized cost for financial reporting purposes and for government that participate in those pools.

GASB STATEMENT NO. 80

GASB Statement No. 80, *“Blending Requirements for Certain Component Units - An Amendment of GASB Statement No.14”*, is effective for periods beginning after June 15, 2016. This Statement amends the blending requirements established in paragraph 53 of Statement No. 14, *“The Financial Reporting Entity, as amended”*. This Statement amends the blending requirements for the financial statement presentation of component units of all state and local governments. The additional criterion requires blending of a component unit incorporated as a not-for-profit corporation in which the primary government is the sole corporate member. The additional criterion does not apply to component units included in the financial reporting entity pursuant to the provisions of Statement No. 39, *“Determining Whether Certain Organizations Are Component Units”*.

WORK REQUIRED BY CITY STAFF

Our fixed annual fees contemplate that conditions satisfactory to the normal progress and completion of the examination will be encountered and that City accounting personnel will furnish the agreed-upon assistance in connection with the audit. However, if unusual circumstances are encountered which make it necessary for us to do additional work, we shall report such conditions to the responsible City officials and provide the City with an estimate of the additional accounting fees involved.

Noted below is a listing of work required by City staff to assist in the audit.

1. Technical assistance in familiarizing our staff with:
 - The flow of information through the various departments and accounting systems.
 - Reports generated by your accounting system.
 - The system of internal controls.
 - Controls established to monitor compliance with federal grants.
2. Preparation of trial balances for all funds, after posting of all year end journal entries.
3. Preparation of schedules supporting all major balance sheet accounts, and selected revenue and expenditure accounts.
4. Typing of all confirmation requests.
5. Pulling and refileing of all supporting documents required for audit verification.
6. Assistance with the preparation of the CAFR and footnotes, including:
 - a. Determination of major funds.
 - b. Determination of general and program revenues and allocation of program revenues to:
 1. charges for services,
 2. operating grants and contributions, and
 3. capital grants and contributions.
 - c. Determination of components of net position (net investment in capital assets, restricted and unrestricted net position).
 - d. Assistance in determining the amounts to be reported (1) the Reconciliation of the Balance Sheet of Governmental Funds to the Statement of Net Position and (2) in the Reconciliation of the Statement of Revenues, Expenditures and Changes in Fund Balances of Governmental Funds to the Statement of Activities.
 - e. Consolidation of internal service fund activity into governmental activities or business-type activities in the government-wide financial statements.
 - f. Preparation of the management's discussion and analysis, transmittal letter and all statistical tables for the CAFR.

CONSULTING SERVICES DEPARTMENT

OVERVIEW OF SERVICES PROVIDED

White Nelson Diehl Evans LLP offers a wide range of consulting services to governmental agencies. This section of our proposal summarizes the primary types of services provided by the firm.

The firm's Director of Consulting Services is Mr. William S. Morgan, CPA. Mr. Morgan has over thirty years of experience in providing accounting, auditing and consulting services to California cities, counties, successor agencies/redevelopment agencies, water districts, special districts, joint power authorities and nonprofit corporations. Many of the firm's consulting projects are planned, supervised and reviewed by Mr. Morgan.

Our firm provides the following types of services:

- Governmental Tax Consulting
- Performance and Operational Studies
- Redevelopment Consulting Services
- Reviews of City Treasurer Operations
- Cable Television and Broadband Consulting Services
- Reviews of Solid Waste Haulers and Assistance With Trash Rate Negotiations
- Litigation Support and Dispute Resolution Services
- Fraud Investigations
- Hotel/Motel Transient Occupancy Tax Reviews
- Business License Operation Reviews

With regard to these engagements, we would intend to perform limited procedures reviews in connection with each assignment, in accordance with the AICPA's attestation standards. Under the provisions of the attestation standards, the City would designate what specific procedures it wishes to have performed. We would then perform those procedures and report on our findings. This type of engagement would not constitute a certified audit in accordance with auditing standards generally accepted in the United States of America. Such special services are not part of our standard fee arrangements and would be subject to a separate fee quotation.

ATTACHMENT I
CURRENT CITY CLIENT REFERENCES

CURRENT CITY CLIENT REFERENCES

One means of judging the high quality of our auditing and accounting services would be contact with some of our existing clients. We are including the names and phone numbers of our city clients over the past year. We encourage you to contact any of these individuals.

City of Alhambra

Mr. Paul Espinoza
Finance Director
(626) 570-5027

City of Artesia

Ms. Justine Menzel
Deputy City Manager
(562) 865-6249

City of Bellflower

Mr. Tae Rhee
Director of Finance
(562) 804-1424

City of Beverly Hills

Mr. Don Rhoads
Finance Director
(310) 285-2429

City of Burbank

Mr. Dino Balos
Accounting Manager
(818) 238-5518

City of Camarillo

Mr. Ronnie Campbell
Finance Director
(805) 388-5320

City of Campbell

Mr. Jesse Takahashi
Finance Director
(408) 866-2113

City of Colton

Ms. Anita Agramonte
Finance Director
(909) 370-5039

City of Costa Mesa

Ms. Colleen O'Donoghue
Assistant Finance Director
(714) 754-5421

City of Cypress

Mr. Matt Burton
Director of Finance & Administrative Services
(714) 229-6718

City of Del Mar

Ms. Teresa McBroome
Director of Finance/Treasurer
(858) 755-9354

City of Fountain Valley

Mr. David Cain
Finance Director/Treasurer
(714) 593-4501

City of Gilroy

Ms. Christina Turner
Finance Director
(408) 846-0750

City of Goleta

Ms. Genie Wilson
Finance Director
(805) 961-7527

City of Hawaiian Gardens

Ms. Linda Hollinsworth
Finance Director/Treasurer
(562) 420-2641 x236

City of Hesperia

Mr. Brian Johnson
Director of Administrative Services
(760) 947-1442

City of Highland

Mr. Chuck Dantuono
Director of Administrative Services
(909) 864-6861

City of Laguna Hills

Ms. Janice Mateo-Reyes
Finance Manager
(949) 707-2623

City of Laguna Woods

Ms. Margaret Cady
Administrative Services/
City Treasurer
(949) 639-0500

City of Lake Forest

Mr. Keith Neves
Director of Finance
(949) 461-3400

City of Lancaster

Ms. Pamela Statsmann
Assistant Finance Director
(661) 723-6038

City of Newport Beach

Mr. Dan Matusiewicz
Director of Finance
(949) 644-3126

City of Norco

Ms. Gina Schuchard
Finance Officer
(951) 270-5650

City of Norwalk

Ms. Jana Stuard
Director of Finance
(562) 929-5056

City of Palm Desert

Mr. Paul Gibson
Director of Finance
(760) 346-0611

City of Pico Rivera

Mr. Michael Solorza
Director of Finance
(562) 801-4391

City of Rancho Santa Margarita

Ms. Stefanie Turner
Finance Director
(949) 635-1812

City of Rialto

Mr. George Harris, II
Director of Administrative
and Community Services
(909) 421-7219

City of San Buenaventura

Ms. Bridgette McInally
Accounting Manager
(805) 654-7892

City of San Gabriel

Mr. Thomas Marston
Director of Finance
(626) 308-2812

City of Sanger

Ms. Patty Hartman
Interim Finance Director
(559) 876-6300

City of Stanton

Mr. Stephen Parker
Director of Administrative Services
(714) 890-4226

City of Tustin

Ms. Jenny Leisz
Finance Manager
(714) 573-3079

City of West Covina

Ms. Christa Buhagiar
Finance Director
(626) 939-8463

City of West Hollywood

Ms. Lorena Quijano
Accounting Services Manager
(323) 848-6513

City of Westminster

Ms. Sherry Johnson
Accounting Manager
(714) 898-3311

ATTACHMENT II
RESULTS OF OUTSIDE QUALITY REVIEW

System Review Report

July 22, 2015

To the Owners of
White Nelson Diehl Evans LLP
and the Peer Review Committee of the CA Society of CPAs

We have reviewed the system of quality control for the accounting and auditing practice of White Nelson Diehl Evans LLP (the firm) in effect for the year ended March 31, 2015. Our peer review was conducted in accordance with the Standards for Performing and Reporting on Peer Reviews established by the Peer Review Board of the American Institute of Certified Public Accountants. As a part of our peer review, we considered reviews by regulatory entities, if applicable, in determining the nature and extent of our procedures. The firm is responsible for designing a system of quality control and complying with it to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Our responsibility is to express an opinion on the design of the system of quality control and the firm's compliance therewith based on our review. The nature, objectives, scope, limitations of, and the procedures performed in a System Review are described in the standards at www.aicpa.org/prsummary.

As required by the standards, engagements selected for review included engagements performed under the *Government Auditing Standards* and audits of employee benefit plans.

In our opinion, the system of quality control for the accounting and auditing practice of White Nelson Diehl Evans LLP in effect for the year ended March 31, 2015, has been suitably designed and complied with to provide the firm with reasonable assurance of performing and reporting in conformity with applicable professional standards in all material respects. Firms can receive a rating of *pass*, *pass with deficiency(ies)* or *fail*. White Nelson Diehl Evans LLP has received a peer review rating of *pass*.

Heidenreich & Heidenreich CPAs PLLC

Heidenreich & Heidenreich, CPAs, PLLC

June 2, 2016, Finance Committee Agenda Comments

These comments on items on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

III. PUBLIC COMMENTS

I seem to recall a comment made at the May 12, 2016, Finance Committee meeting (for which minutes don't yet seem to be available) – and repeated in the City Manager's [Insider's Guide](#) to the May 24th joint meeting with the City Council – that the City's unfunded pension liability “***is completely akin to debt - borrowed at 7.5%.***”

Although I understand that recent GASB rules may require recording the unfunded pension liability as “debt,” I find the idea that we effectively have a loan with CalPERS on which we are paying 7.5% *interest* deeply puzzling.

I'm not sure if the term of this hypothetical equivalent loan is 15, 30 or some other number of years, but whatever the hypothetical term, if this picture is correct, that we have a \$299 million loan with CalPERS on which we are paying 7.5% interest, then it would clearly be in the City's best interest to pay off the CalPERS loan with the proceeds from a different loan, say at 7%, on which the City would (for \$299 million) be paying something like \$21 million per year interest, perhaps in perpetuity (if it made no progress on the principal).

But that makes little sense to me, since I wasn't aware the City was paying CalPERS interest on the unfunded pension liability.

Does the City actually receive an annual bill from CalPERS demanding 7.5% interest on what the public is told is the dollar amount of the unfunded liability, independent of how well CalPERS did that year?

On the contrary, I had a vague notion that instead of having taken out a loan, the City has reserves *on deposit* with CalPERS which are *earning* money, and the “unfunded liability” is an *actuarial statement* regarding the shortfall between the actual reserve and the reserve that would be necessary to fund future pension obligations if CalPERS were, in the future, to achieve a steady 7.5% return on the deposits it holds. If CalPERS were to achieve better than 7.5%, the current reserve would be closer to sufficient, and the unfunded part would go down – as it seems to have done, according to the City's May 24th presentation, in 2011, for example (see [Slide 26](#) of the “*Budget Overview Handout*”). At least that was my understanding.

Something the principal of which goes down or up depending on whether attainable market rates are above or below 7.5% does not sound to me equivalent to a loan at 7.5%; but perhaps someone can disabuse me of my faulty understanding.

Based on my possibly faulty understanding I wonder if in addition to concern about growing unfunded pension liability, what the City also needs is a more thoughtful policy regarding what to do in years when CalPERS is doing well and the reserve is *more than adequate* to meet needs (that is, in years of *negative* unfunded liability). The past decision to respond to negative unfunded liability by increasing benefits and eliminating employee contributions doesn't seem, in retrospect, to have been a wise one, although I assume a positive unfunded liability could have appeared in bad years anyway.

Item IV.A. MINUTES OF APRIL 28, 2016

The content of these draft minutes is difficult to follow, in part due to awkward, and in some cases (probably unintentionally) misleading or inscrutable phrasing. I would again suggest the Committee consider preserving the digital audio recordings along with the minutes. Short of a complete rewrite, and in addition to the [corrections](#) suggested by Committee member Tucker, I might point out the following, which seem obvious errors:

Page 1, misnumbered item heading: "~~I. III.~~ III. PUBLIC COMMENTS"

Page 1, paragraph 3 from end: "Mr. Jim Mosher ..., asked ~~if~~ how the Finance Committee would ~~coming back for~~ be handling the future discussion items mentioned in Item No. ~~6~~ VI (Announcement-Future Agenda), ..."

Page 1, paragraph 2 from end: "Committee Member O'Neill stated that his understanding was that ~~Item No. 6~~ Policy A-6 applies only to Council, not the Committee, ..."

Page 2, misnumbered item heading: "~~II. IV.~~ IV. CONSENT CALENDAR"

Page 2, Item "II.A", last line: "Seeing no one wishing to address the Finance Committee, Chair ~~Curry~~ Petros closed public comments."

Page 2, misnumbered item heading: "~~III. V.~~ V. CURRENT BUSINESS"

Page 2, paragraph 3 from end: "City Manager Kiff continued with the presentation by reporting that overall ~~salary~~ salaries increased by four percent."

Page 2, last paragraph: "City Manager Kiff reported on Capital Improvement and stated that capital improvement budget are one-time expenses, not recurring expenses and ~~half of the funds go toward meeting debt obligations.~~" [half the Capital Improvement budget goes to debt service? This doesn't sound right.]

Page 3, paragraph 4: "City Manager Kiff concluded the presentation by stating that the information provided is new and appreciates the discussion and asked if there is a ~~design~~ desire from the committee to possibly schedule additional meetings to review the proposed budget in further detail." [?]

Page 3, paragraph 6: "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 ~~reach~~ reached."

Page 3, paragraph 2 before Item B: "... and thinks that the people using the ~~sewage~~ sewer system should be the ones paying for it."

Page 4, misnumbered item heading: "~~IV. VI.~~ VI. FINANCE COMMITTEE ANNOUNCEMENTS ..."

Page 5, paragraph 3: "Mayor Dixon stated that her understanding was that ~~a~~ Section 115 trust, as noted, was approved unanimously by Council in 2008." [? – this entire section is similarly garbled]

Page 5, paragraph 3: “Committee Member O’Neill is unsure ~~on~~ how Certificates of Participation (COP) ~~works work~~ and requested clarification as to how COP applies to debt issuance. City Manager Kiff will add this topic to the May 26 agenda for further discussion.”

Page 5, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

Item IV.B. MINUTES OF MAY 4, 2016

As with Item IV.A, above, one would have to have been present, or to have listened to the audio recording, or both, to understand much of what is reported in these draft minutes. In addition to the corrections [suggested](#) by Committee member Tucker, I offer the following:

Page 1, Item III, paragraph 2: “Mr. Jim Mosher commented on how items are placed on the agenda and mentioned procedures other ~~committee members committees~~ follow regarding agenda items. Mr. Mosher suggested ~~for~~ the Committee ~~to can~~ hold an unscheduled vote ~~after at~~ each meeting to discuss items to be included on following meeting agendas.”

Page 2, Item III, paragraph 2 of body: “City Manager Dave Kiff provided an overview of the proposed budget that touched on salary, cost of cafeteria plan ~~purge~~ rates, miscellaneous, and safety and employee.” [Seems a strange word. I recall the City Manager mentioning, on several occasions, that cafeteria plan benefits are not “PERSable.” Without benefit of listening to the recording, could this have something to do with that?]

Page 2, paragraph 4 from end: “City Manager Kiff and Budget Manager ~~Ms.~~ Giangrande continued with the presentation by discussing the cafeteria allowance. City Manager Kiff ~~explains explained~~ that the cafeteria allowance is medical, health and dental employee insurance bought by the City.”

Page 3, paragraph 1: “Mr. Mosher stated that compared to the last year’s budget, the ~~lines line~~ items ~~and line item identification numbers~~ for this budget have changed. Mr. Mosher also stated that the proposed budget ~~consists-of contains~~ abbreviations that the public will not know what they stand for.”

Page 3, paragraph 4: “~~Council Committee~~ Member Warner left the meeting at 5:28 p.m.”

Page 3, Item 3, paragraph 3: “Mr. Mosher commented that it would be a good idea for the public and members of the ~~community Committee to~~ be told which ideas were not included, to which ~~a response was received~~ ~~Committee Member Tucker responded~~, stating that no ideas were excluded, just phrases or words needed to be revised for better understanding.”

Page 4, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

Item V.A. AUDITOR RECOMMENDATION

This item seems to me to be a complete cop-out.

First, whether it conforms to modern practice or not, City Charter [Section 1116](#) appears to say the auditor for a particular year is supposed to be selected at “*the beginning of each fiscal year,*” not at its end.

Second, several years ago, in the wake of the City of Bell scandal and the embarrassing revelation that Newport Beach was among the cities that had retained the same (apparently ineffective) auditor for many years, the City Council adopted a policy of changing auditors.

My recollection is that White Nelson was already overdue for replacement last year, but City staff decided, without quite seeking Council approval until after the fact, because of disruptions created by the implementation of the Enterprise Resource Planning software.

Now, White Nelson is being recommended once more, for less obvious reasons, for yet another five years with little indication anyone feels there is any need to ever change auditors again.

It least in my view, this will lead to the public perception of a too cozy relationship between the auditor and the audited.

My other comment is to wonder how many people it takes to audit a city the size of Newport Beach. I have the impression the other firm City staff considered – Davis Farr – is a two person operation (Marc Davis serves as Treasurer to the Costa Mesa Sanitary District, and his wife Wendy [not part of Davis Farr] as Finance Director).

~~Item V.B. SUBCOMMITTEE RECOMMENDATIONS~~

~~The Subcommittee’s recommendations seem generally sound to me, but I have these comments:~~

- ~~1. Statements such as that at the end of the first full paragraph on page 2, that the Subcommittee “*has approached its review as if the operation of the City were a private sector business*” are troubling to many in the community. Governments, including city governments, are, to them, fundamentally different from private sector businesses.~~
- ~~2. It is not entirely clear to me how the “*all other things being equal*” in Recommendation A.4 is intended to be read. All other things are never exactly equal, so what importance are financial considerations proposed to be given in some practical situation?~~
- ~~3. I do *not* agree with Recommendation B.4, that the City should outsource even when doing so has little-to-no cost savings. Outsourcing is no panacea, and its purported financial benefits need to be weighed against its effects on employee morale and the public perception that their city services are being performed by dedicated public employees with “pride of ownership” and over whom their elected and appointed officials have complete control. And outsourcing arrangements can and do go sour. In addition to looking for *new* opportunities to outsource, I think the City needs to spend equal time evaluating whether *existing* outsourcing options continue to make sense, both in cost and performance.~~

4. Regarding Recommendation C.1, I'm not sure why the Subcommittee would view itself as non-political and averse to making policy recommendations. Policy has to come from somewhere, and Section E suggests the present document is in fact a policy recommendation, as I think it should be. As to politics, the decision to view the City as a business is already a political decision unpalatable to many.
5. Recommendation C.3 reminds one of what the status of the Civic Center Audit being overseen by the City Attorney is? Like many things, it seems to have fallen off the radar screen. The implication of Recommendation C.3 seems to be that the Police and Municipal Operations administrative functions could be brought to the City Hall, which I think is an idea worth exploring.

Item V.C. FINANCE COMMITTEE FISCAL YEAR 2016-2017 BUDGET RECOMMENDATIONS

Since most, if not all, of the City's outside expenses are by contract, my perennial comment about the budget has to do with how the line items relate to City Charter [Section 421](#), which gives the City Manager authority to contract for those items approved by the Council in the budget, and only those (so that all expenses are ultimately approved publicly, by the Council, either in the budget or as a separate request).

That sounds simple enough in concept, but aside from the Capital Improvements Program and possibly salaries, this resident is totally in the dark as to what the Council is being asked to approve in the line items. Rather than being a budget specifying exactly what goods and services we need to set money aside to purchase in the coming year (pursuant to Charter Section 421), the Newport Beach budget seems more a statement that we expect to have enough funds on hand to spend the same amounts we did in the prior year in certain broad categories that are oddly the same for all departments.

Yet, at times I have heard Newport Beach department heads say that funds for a particular item are "in the budget" or "not in the budget," which made me naively believe that before the budget's adoption there was a list, somewhere, of the anticipated expenses that would total that department's requested amount for, say, "professional services" or "supplies." Possibly all they meant was that if the expense asked about (along with a list of past expenses and other anticipated future expenses they keep in their head) was assigned to the category to which it belongs, it would put them over their spending limit in that category (or not).

At the May 24th Joint Meeting I used the example of airport consulting services, because I know the City has a recently renewed contract ([C-7071-1](#)) for \$70,000 per year for Airport Policy Implementation Services with former Council member and Mayor Tom Edwards, but at the same time the Budget Checklist requests eliminating the \$241,000 page titled "City Council Airport Issues" (page 3 of the City Council budget in the FY2016-17 [Budget Detail](#)).

The response was that the line item designation for the \$241,000 is "01005001 811008 SVCS PROF" and it isn't needed because there is \$240,000 with almost the same line item designation ("01005005 811008 SVCS PROF") on page 2 of the City Council budget, and another \$300,000 with line item designation "01020005 811008 SVCS PROF" on page 17 of the City Manager budget. Hence, it should be obvious to all that Tom Edwards' contract will be

expensed to one or the other, or some combination, of these, and there will still be nearly \$500,000 left for airport consulting.

The problem with this is that if we truly have a list of anticipated expenses justifying the budget requests in compliance with Charter Section 421, then there must be other expected needs for specific professional services – likely totally unrelated to the airport – contributing to and justifying the \$240,000 and \$300,000 line items. But if there are, then we have no idea how much is planned or left for airport consulting beyond the Tom Edwards contract. Indeed, it could be nothing at all, or given the looseness of the “budgeting,” it could be that airport expenses are anticipated in other requests, or could be expensed to them – for instance a Community Services line item. I have been chastised for suggesting there will be no clear answer, but my guess is we have *budgeted* (in the sense of identifying a definite expected need) *nothing* and just assume there will be money available if we haven’t spent it on something else.

Again, this does not seem to me to be a budget in the sense of Charter Section 421, but simply a statement we expect to have enough revenue to be able to spend similar amounts to what we did in the prior year in broad categories – with no details of what we actually anticipate spending those dollars on.

My other budget question is: has the FY2016-17 *Performance Plan* been presented to the City Council?

City Charter [Section 1102](#) requires the budget (and one assumes the *whole* budget) to be submitted for review at least 35 days prior to July 1. If the *Performance Plan* is part of the budget, it seems overdue and I would think the Committee would want to see it before making a recommendation.

REQUEST FOR QUALIFICATIONS 16-33 (PROFESSIONAL AUDIT SERVICES)

PROCUREMENT PROCESS OVERVIEW

RFQ DISTRIBUTION

- * Posted on PlanetBids system
 - * 74 vendors pre-registered with the City
 - * 250 vendors registered with PlanetBids but not specifically with the City
- * 25 vendors registered as Interested Bidders
- * 9 Interested Bidders submitted an RFQ response

EVALUATION PROCESS

- * Qualifications-Based System
 - * Designated for Professional Services
 - * Technical Factors and Sealed Price Proposals
- * Audit Selection Committee (panel)

TECHNICAL FACTORS

- * Experience in providing consulting services related to auditing, with an emphasis on government accounting and auditing of entities with at least the size and complexity of Newport Beach.
- * Quality, background, reputation, credibility and experience of the firm.
- * Quality of the staff with emphasis placed on educational background, time spent in the field, and valid certifications possessed by the project team members.
- * Practices and procedures used to carry out the requested services according to the City's expectations.

TECHNICAL SCORES

Firm	Technical Score
White Nelson Diehl Evans, LLP	97.00
Davis Farr, LLP	96.00
Rogers, Anderson, Malody & Scott	91.00
LSL	90.00
Gruber & Associates	89.50
Vavrinek, Trine, Day & Co.	85.50
The Pun Group	72.00
Badawi & Associates	66.50
Chavan & Associates	61.00

FINALISTS

- * White Nelson Diehl Evans, LLP and Davis Farr, LLP were identified as the two highest-qualified firms for this project.
- * Reference Checks performed on both finalists.
- * Technical Factors and Reference Checks resulted in WNDE being identified as the most qualified firm for this project.
- * Sealed cost proposals opened and WNDE pricing confirmed.

PROPOSED ANNUAL COSTS

Firm	Annual Cost
White Nelson Diehl Evans, LLP	\$45,500.00
Davis Farr, LLP	\$43,000.00
Rogers, Anderson, Malody & Scott	\$47,650.00
LSL	\$52,630.00
Gruber & Associates	\$37,000.00
Vavrinek, Trine, Day & Co.	\$63,000.00
The Pun Group	\$43,500.00
Badawi & Associates	\$45,990.00
Chavan & Associates	\$35,000.00

MEMORANDUM

To: Finance Committee

From: Finance Committee Subcommittee (Members O'Neill, Tucker and Warner)

Date: May 19, 2016

BACKGROUND

The Finance Committee (the "Committee") was established by City Council (the "Council") Resolution No. 94-110 dated December 12, 1994. The original duties of the Committee included: (1) review and monitor events and issues which may affect the financial status of the City; (2) make recommendations to the Council regarding amendments of financial and budgetary policies; (3) recommend actions to the Council to further the aims of the Finance Committee's policies; (4) review the activities of staff regarding the preparation of the City's budget and other fiscal matters consistent with Council policy; (5) review the activities of staff as outlined in the Council Income Property Policy, periodically review and inventory all City-owned income property, and make recommendations to the full Council related to the management of income property; and (6) review the activities of staff pursuant to the City Council Annexation Policy and make recommendations to the Council regarding the annexation of additional territory to the City.

The Committee was disbanded in 1998 but re-established on December 12, 2000 by Resolution No. 2000-103. Over time, the Committee's responsibilities and membership have been amended three times, with the most recent time being Resolution No. 2015-5 (the "Resolution"). The Resolution reconstituted the Committee from a three (3) member Council subcommittee to a seven (7) member committee that includes three (3) Council Members appointed by the Mayor and four (4) public members each of whom is nominated by a Council Member not a member of the Committee and confirmed by the Council. A goal of the Council in expanding the Committee was to increase citizen input into the City's financial and budget practices. The Resolution recommends that appointed resident members of the Committee possess a level of expertise in financial matters (the "Public Members").

The City staff has spent the last year acquainting the Committee with the financial statements, budgets and operations of the City. At the February 11, 2016 meeting of the Committee, the Committee unanimously resolved that a subcommittee of three Public Members (the "Subcommittee") be appointed with the charge of reviewing and making recommendations to the full Committee with respect to financial and budgetary policies of the City as contemplated by the Resolution. Those recommendations are to be reviewed by the Committee and, to the extent deemed appropriate by the Committee, will be forwarded (as they may be modified by the Committee) as recommendations for consideration by the Council. The appointment of the Subcommittee was delegated to then Committee Chairman Curry who appointed Public Members O'Neill, Tucker and Warner as the Subcommittee.

The Subcommittee notes that the current and projected revenues of the City appear to be consistent with the Resolution's direction to the Committee. Revenues have adequately satisfied annual operating budget needs, with a surplus exceeding \$14M for the fiscal year ending June 30, 2015. The 2015-2016 budgeted amounts include a "Fresh Start" accelerated pay down of the City's unfunded pension liabilities and the yearly debt service on long-term debt incurred in connection with the Civic Center and Park project. Revenues are projected to adequately satisfy these projected long-term obligations as well

as address anticipated costs associated with department budgets for the foreseeable future, the largest being salaries and benefits.

Under the Resolution, in addition to other Purposes and Responsibilities, the Committee is to make recommendations to the Council “to maximize the City’s revenues”¹ and “to minimize the City’s cost to provide core services and required activities.”² The Subcommittee has chosen to focus in this Memorandum on aspects of those functions and budget process issues that have come to the attention of the Subcommittee members over the past year. The Subcommittee has not attempted to evaluate the political viability of its suggestions, but rather has approached its review as if the operation of the City were a private sector business.

A. MAXIMIZE REVENUES

At the March 2016 Finance Committee meeting, City staff presented projected FY2017 General Fund revenues, which included property tax (\$94M), sales tax (\$36.2M), transient occupancy tax (\$22M), service fees and charges (\$19.2M), other taxes (\$8.3M), property income (\$9.3M), and other revenues (\$10M), totaling approximately \$199M. The two largest sources of revenues (65% of the total), property taxes and sales taxes, come to the City based upon formulas over which the City has no control. Other sources such as transit occupancy taxes, business license taxes, rates charged for services and development related charges are within the control of the City. With respect to revenues, the Subcommittee recommends the following:

1. The Subcommittee notes that the City has a backlog of capital projects that it has identified as either being necessary to undertake, or desirable to undertake. The ability of the City to fund these capital projects is tied directly to the generation of revenue by the City. Each year, the City allocates money out of the Operating Budget towards the CIP Budget. In addition, a substantial portion of any yearly surplus from the Operating Budget is often also allocated to the CIP Budget. Accordingly, in order to have the ability to fund the CIP Budget to the maximum extent practicable, or to achieve other priorities of the Council, the Subcommittee recommends no changes to the types and calculations of recurring revenues that are due the City. The Subcommittee also recommends that fees or rents charged related to development or use of City property or assets overseen by the City also be updated on a fixed schedule to remain current (the Subcommittee recommends every three years).
2. The Subcommittee recommends that amounts charged by enterprise funds should also be updated on a fixed schedule to remain current (the Subcommittee recommends at least every five years).
3. There has been a trend in the City to replace obsolete or less desirable commercial uses with residential uses. Presumably that trend reflects an economic reality that in those locations residential uses create more value for the property owner. While good land planning and environmental considerations should be the paramount factors, residential uses do demand more services from the

¹ “Recommend for Council approval, and manage an on-going process for measuring and setting goals designed to maximize the City’s revenues consistent with existing taxation structures and inter-governmental funding opportunities, fee generation consistent with market rate charges for City provided services and market rate fees for utilization of City owned assets.”

² “Recommend for Council approval, and manage an on-going process for measuring and setting goals designed to minimize the City’s cost to provide core services and required activities, consistent with the desired service level for residents and other internal and external customers.”

City and more demand on City infrastructure. To the extent they replace retail uses, they also could result in a reduction in sales taxes, while perhaps increasing property taxes. Accordingly, the Subcommittee recommends that the City undertake a review of policies in the General Plan to ensure that property owners who propose conversions to residential uses contribute an appropriate amount towards infrastructure costs and maintenance. Those contributions could be implemented through development agreements detailing the benefits to the public and to the property owner seeking a land use change.

4. In statistical areas of the City where more than one project is under consideration, but they all cannot be implemented without one or more of them being required to go through a Charter Section 423 vote of the public, all other things being equal, the Subcommittee recommends that if the Council chooses to prioritize the projects, the generation of maximum financial benefit to the City should be a factor in deciding which project would have priority.

B. MINIMIZE COSTS

1. While there are significant expenditures of City funds across the many City departments, it is beyond the scope of the Committee to effectively review expenditures on a line by line basis of the various departments. However, due to the significant percentage of the City's operating budget being expended on salaries and the long term benefits that inure to employees, the Subcommittee believes a primary function of the Committee could be to assist the Council in finding potential strategies to reduce the financial burden of employee benefits to the long term financial health of the City.

2. Approximately 57.6% of the City's overall operating budget goes toward salaries and benefits, with 70.49% of the general fund operating budget going toward such uses. Salaries and benefits are governed by bargaining unit contracts reflected in ten (10) Memoranda of Understanding. These amounts include payments that fund defined-benefit pensions for current, retired and separated employees. The Subcommittee has been advised that approximately 70% of the nearly \$300,000,000 unfunded pension liability (projected as of June 30, 2016) is owed to retired and separated employees.

3. The Subcommittee has also been advised that the City has outsourced a number of functions over the past few years. At present, a determination of whether to outsource additional functions is based upon an analysis that savings will occur. That analysis in turn is based upon the best information that may be generated at the time it is prepared. However, revisions by CalPERS of its actuarial assumptions as to life expectancy, and other factors like future salary increases or average time of service before retirement have shown that assumptions can change to the detriment of the City. In addition, the rate of investment return assumed in determining the obligations of the City to contribute towards pensions can likewise materially affect the City's obligations by a further adjustment.

4. Due to the risk of pension obligations being greater than what they reasonably appeared to be when an analysis was completed, the Subcommittee recommends that when an analysis indicates that there is little-to-no cost savings in outsourcing, the City consider doing so anyway since outsourcing would reduce the risk of a later determination that the assumptions used in the original analysis were incorrect. However, the decision on whether to outsource those functions that involve public safety or greater potential liability from an outside contractor failing to properly or timely perform should be evaluated in light of those risks as well as financial considerations. Further, the prospect of vendor pricing firming and/or the quality of service diminishing below the pre-outsourcing level once a service is outsourced, and whether future State legislation could increase the costs of an outsourced service (such as revisions to prevailing wage legislation), should also be evaluated as part of the analysis.

5. Pension costs throughout the organization should be mitigated by employees continuing to contribute significant amounts to their pensions.

6. The Subcommittee has been advised that the employee benefit exposure involved in contracting with another agency to perform the public safety function cannot be expected to be reduced with respect to sworn functions, so it does not appear there would be a benefit in contracting out sworn public safety functions. However, the City should thoroughly analyze the number of public safety employees to see if management and administration can be streamlined, or functions can be combined internally or with other nearby agencies. In addition, functions that are not required to be staffed by sworn personnel should be performed by non-sworn personnel. In addition those functions that are not required to be performed by sworn personnel should be subjected to the same outsourcing analysis as other functions in the City.³ The Subcommittee recommends that department management justify sworn personnel being used to perform any functions other than those that require sworn personnel.

7. The Subcommittee is not in a position to judge whether the number of employees in a department is the number of employees that are necessary, or whether some employee and management functions can be combined to reduce the employee count. However, a review of staffing levels of various City departments should be entertained. Accordingly, the Subcommittee recommends that the City retain an outside consultant to review the City's staffing practices to ensure that only the number of employees are on staff that are necessary to properly perform the work expected of staff. Given the City's wide variety of activities, it would be best if the City Manager initially selected a single department to undergo review to ensure that the process is found to be worthwhile before expanding the review more broadly. The scope of the consultant's services should be reviewed by the Subcommittee or the entire Committee to ensure that the consultant's scope is appropriate and focused.

8. As for a line by line review of the material expenditures unrelated to salaries and benefits throughout the organization, the City might consider engaging an outside internal auditor to conduct a review of the appropriateness of expenditures that are routinely made by departments. The rate charged by a firm with internal audit expertise should be materially less than rates charged by a CPA firm, but would give assurances to the Committee that a hard look has occurred at expenditures in City departments where economies may be available or waste or inefficiencies avoided.

C. BUDGET PROCESS

1. Once revenue is maximized and costs minimized, any decision on how to spend available money is a political decision and therefore the Subcommittee makes no recommendation to the Committee or the Council on spending choices. However, the Subcommittee observes that to the extent expenditures are made which increase the value of real property in the City and/or the prospects of retail sales or occupancy tax generating businesses, the Council will have available to it more revenue with which to address the Council's priorities.

2. The Subcommittee believes it would be prudent for the Council to consider prioritizing expenditures it chooses to make in the Capital Improvement Program on the basis of potential exposure to the City for failing to make such expenditures in a timely fashion. To the extent the City has a master plan for a particular infrastructure type of item, the Subcommittee recommends that the master plan be adhered to if the failure to do so could result in liability to the City for failing to follow its own plan. Alternatively, the master plan could be change in a reasonable fashion so that it can be implemented on the schedule set forth in an amended master plan. Given that the Council has historically not been asked to approve

³In its report to the Committee, the Police Department noted that using civilian employees reduces staffing costs, allows for additional continuity and specialization of staff, and ensures that more sworn Officers are assigned to field positions.

master plans for infrastructure replacements and refurbishment, funding decisions that would restrict the ability of staff to implement a master plan should be identified to the Council so that funding may be provided or staff may be directed to modify the master plan to be consistent with the funding priorities of the Council.

3. At the time the City Hall project began, a “programming analysis” was conducted in order to size the facility. The facility was sized to accommodate existing personnel and to allow for a modest increase in personnel over time since that had been the history of the employee count of the City for many years. Instead, what has occurred is a reduction in employees with an increase in employees not being likely in the foreseeable future. So City Hall may have more space than is needed by the functions currently being conducted at City Hall. If so, to the extent that administrative functions are being carried out in other facilities in the City, they may be able to be relocated to City Hall if the current employee functions at City Hall can efficiently be consolidated into less space. Thereafter, if new facilities are needed to replace old facilities that no longer are able to efficiently carry out their mission (“Presumed Outdated Facilities”), the sizing of those new facilities should consider whether the administrative function of the Presumed Outdated Facilities could be relocated to City Hall (thereby reducing the size of the new facility), or if instead of a new facility, the relocation of administrative functions to City Hall could allow a Presumed Outdated Facility to instead be updated and refurbished so that it may continue to be used after relocation of the administrative function to City Hall. Such an analysis has the prospects of reducing capital improvements which could allow the City to fund other items in the CIP Budget sooner. The same logic would also apply to other non-core functions in the Presumed Outdated Facilities that may be capable of being relocated and combined with other existing City facilities.

4. The Subcommittee recommends that expenditures be based upon the adopted Annual Budget. Unbudgeted expenditures that require amendment to the Annual Budget ought to be avoided to the extent practicable. The integrity of the budget process is best preserved in most cases by ensuring that each proposed expenditure has to compete with every other potential expenditure at the time the Annual Budget is adopted. Budget Year Amendments do not usually go through the same competition as they would if they were considered at the time of deliberation of the Annual Budget. Therefore, the Subcommittee recommends that Budget Amendments be infrequently used especially in the second half of a fiscal year when the Annual Budget deliberations are or will shortly be underway.

5. The Subcommittee recommends that enterprise funds be operated on a stand-alone basis with the City being charged the same rates by enterprise funds as unrelated customers, and likewise the City should charge the same amounts to an enterprise fund as are charged to unrelated customers for goods and services provided by the City. The goal should be to ensure that rates charged customers are sufficient to cover costs, including sufficient reserves to cover expected replacements and upgrades that will occur over time.

D. PENSION REFORM

The Subcommittee has been taken aback at the size of the City’s unfunded pension obligations that have all accrued since June 30, 2007. While it appears that Newport Beach is in a position to be able to fund its obligations, it is not hard to imagine that many agencies will not be able to do so in the not too distant future. If that were to happen, it seems somewhat likely that a legislative solution would be crafted and it is possible that it could have an adverse financial impact on the financial well-being of the City. Accordingly, the Subcommittee would urge the Council to seek a leadership position in the advocacy of comprehensive pension reform in California. The sooner comprehensive pension reform is addressed by the Legislature and Governor, the less difficult it should be to enact something that is palatable. Waiting until many agencies are in deep trouble would be problematic. The Subcommittee

recommends that the Committee stand ready to assist the Council in this endeavor as the Council may see fit.

E. NEXT STEP

To the extent the Committee determines that suggestions of the Subcommittee should be recommended to the Council for review (as they may be modified), City staff should be asked to incorporate the accepted concepts into one or more existing policies, or come up with a new policy. Any revised policy or new policy would be subject to the review and approval of the Committee before it is formally recommended to the Council for consideration. This Memo as updated for Committee consensus should also be provided to the Council so that the Council is informed of the process undertaken by its Finance Committee to address issues related to revenues, costs and the budget process.

June 2, 2016, Finance Committee Agenda Comments

These comments on items on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

III. PUBLIC COMMENTS

I seem to recall a comment made at the May 12, 2016, Finance Committee meeting (for which minutes don't yet seem to be available) – and repeated in the City Manager's [Insider's Guide](#) to the May 24th joint meeting with the City Council – that the City's unfunded pension liability "***is completely akin to debt - borrowed at 7.5%.***"

Although I understand that recent GASB rules may require recording the unfunded pension liability as "debt," I find the idea that we effectively have a loan with CalPERS on which we are paying 7.5% *interest* deeply puzzling.

I'm not sure if the term of this hypothetical equivalent loan is 15, 30 or some other number of years, but whatever the hypothetical term, if this picture is correct, that we have a \$299 million loan with CalPERS on which we are paying 7.5% interest, then it would clearly be in the City's best interest to pay off the CalPERS loan with the proceeds from a different loan, say at 7%, on which the City would (for \$299 million) be paying something like \$21 million per year interest, perhaps in perpetuity (if it made no progress on the principal).

But that makes little sense to me, since I wasn't aware the City was paying CalPERS interest on the unfunded pension liability.

Does the City actually receive an annual bill from CalPERS demanding 7.5% interest on what the public is told is the dollar amount of the unfunded liability, independent of how well CalPERS did that year?

On the contrary, I had a vague notion that instead of having taken out a loan, the City has reserves *on deposit* with CalPERS which are *earning* money, and the "unfunded liability" is an *actuarial statement* regarding the shortfall between the actual reserve and the reserve that would be necessary to fund future pension obligations if CalPERS were, in the future, to achieve a steady 7.5% return on the deposits it holds. If CalPERS were to achieve better than 7.5%, the current reserve would be closer to sufficient, and the unfunded part would go down – as it seems to have done, according to the City's May 24th presentation, in 2011, for example (see [Slide 26](#) of the "*Budget Overview Handout*"). At least that was my understanding.

Something the principal of which goes down or up depending on whether attainable market rates are above or below 7.5% does not sound to me equivalent to a loan at 7.5%; but perhaps someone can disabuse me of my faulty understanding.

Based on my possibly faulty understanding I wonder if in addition to concern about growing unfunded pension liability, what the City also needs is a more thoughtful policy regarding what to do in years when CalPERS is doing well and the reserve is *more than adequate* to meet needs (that is, in years of *negative* unfunded liability). The past decision to respond to negative unfunded liability by increasing benefits and eliminating employee contributions doesn't seem, in retrospect, to have been a wise one, although I assume a positive unfunded liability could have appeared in bad years anyway.

Item IV.A. MINUTES OF APRIL 28, 2016

The content of these draft minutes is difficult to follow, in part due to awkward, and in some cases (probably unintentionally) misleading or inscrutable phrasing. I would again suggest the Committee consider preserving the digital audio recordings along with the minutes. Short of a complete rewrite, and in addition to the [corrections](#) suggested by Committee member Tucker, I might point out the following, which seem obvious errors:

Page 1, misnumbered item heading: “~~I. III.~~ III. PUBLIC COMMENTS”

Page 1, paragraph 3 from end: “Mr. Jim Mosher ..., asked **if how** the Finance Committee would ~~coming back for~~ **be handling the** future discussion items mentioned in Item No. ~~6~~ VI (Announcement-Future Agenda), ...”

Page 1, paragraph 2 from end: “Committee Member O’Neill stated that his understanding was that ~~Item No. 6~~ Policy A-6 applies only to Council, not the Committee, ...”

Page 2, misnumbered item heading: “~~II. IV.~~ IV. CONSENT CALENDAR”

Page 2, Item “II.A”, last line: “Seeing no one wishing to address the Finance Committee, Chair **Gurry Petros** closed public comments.”

Page 2, misnumbered item heading: “~~III. V.~~ V. CURRENT BUSINESS”

Page 2, paragraph 3 from end: “City Manager Kiff continued with the presentation by reporting that overall **salary salaries** increased by four percent.”

Page 2, last paragraph: “City Manager Kiff reported on Capital Improvement and stated that capital improvement budget are one-time expenses, not recurring expenses and **half of the funds go toward meeting debt obligations.**” [half the Capital Improvement budget goes to debt service? This doesn’t sound right.]

Page 3, paragraph 4: “City Manager Kiff concluded the presentation by stating that the information provided is new and appreciates the discussion and asked if there is a **design desire** from the committee to possibly schedule additional meetings to review the proposed budget in further detail.” [?]

Page 3, paragraph 6: “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 **reach reached.**”

Page 3, paragraph 2 before Item B: “... and thinks that the people using the **sewage sewer system** should be the ones paying for it.”

Page 4, misnumbered item heading: “~~IV. VI.~~ VI. FINANCE COMMITTEE ANNOUNCEMENTS ...”

Page 5, paragraph 3: “Mayor Dixon stated that her understanding was that **a** Section 115 **trust**, as noted, was approved unanimously by Council in 2008.” [? – this entire section is similarly garbled]

Page 5, paragraph 3: “Committee Member O’Neill is unsure ~~on~~ how Certificates of Participation (COP) ~~works work~~ and requested clarification as to how COP applies to debt issuance. City Manager Kiff will add this topic to the May 26 agenda for further discussion.”

Page 5, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

Item IV.B. MINUTES OF MAY 4, 2016

As with Item IV.A, above, one would have to have been present, or to have listened to the audio recording, or both, to understand much of what is reported in these draft minutes. In addition to the corrections [suggested](#) by Committee member Tucker, I offer the following:

Page 1, Item III, paragraph 2: “Mr. Jim Mosher commented on how items are placed on the agenda and mentioned procedures other ~~committee members committees~~ follow regarding agenda items. Mr. Mosher suggested ~~for~~ the Committee ~~to can~~ hold an unscheduled vote ~~after at~~ each meeting to discuss items to be included on following meeting agendas.”

Page 2, Item III, paragraph 2 of body: “City Manager Dave Kiff provided an overview of the proposed budget that touched on salary, cost of cafeteria plan ~~purge~~ rates, miscellaneous, and safety and employee.” [Seems a strange word. I recall the City Manager mentioning, on several occasions, that cafeteria plan benefits are not “PERSable.” Without benefit of listening to the recording, could this have something to do with that?]

Page 2, paragraph 4 from end: “City Manager Kiff and Budget Manager ~~Ms.~~ Giangrande continued with the presentation by discussing the cafeteria allowance. City Manager Kiff ~~explains explained~~ that the cafeteria allowance is medical, health and dental employee insurance bought by the City.”

Page 3, paragraph 1: “Mr. Mosher stated that compared to the last year’s budget, the ~~lines line~~ items ~~and line item identification numbers~~ for this budget have changed. Mr. Mosher also stated that the proposed budget ~~consists of contains~~ abbreviations that the public will not know what they stand for.”

Page 3, paragraph 4: “~~Council Committee~~ Member Warner left the meeting at 5:28 p.m.”

Page 3, Item 3, paragraph 3: “Mr. Mosher commented that it would be a good idea for the public and members of the ~~community Committee to~~ be told which ideas were not included, to which ~~a response was received~~ ~~Committee Member Tucker responded~~, stating that no ideas were excluded, just phrases or words needed to be revised for better understanding.”

Page 4, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

Item V.A. AUDITOR RECOMMENDATION

This item seems to me to be a complete cop-out.

First, whether it conforms to modern practice or not, City Charter [Section 1116](#) appears to say the auditor for a particular year is supposed to be selected at “*the beginning of each fiscal year,*” not at its end.

Second, several years ago, in the wake of the City of Bell scandal and the embarrassing revelation that Newport Beach was among the cities that had retained the same (apparently ineffective) auditor for many years, the City Council adopted a policy of changing auditors.

My recollection is that White Nelson was already overdue for replacement last year, but City staff decided, without quite seeking Council approval until after the fact, because of disruptions created by the implementation of the Enterprise Resource Planning software.

Now, White Nelson is being recommended once more, for less obvious reasons, for yet another five years with little indication anyone feels there is any need to ever change auditors again.

It least in my view, this will lead to the public perception of a too cozy relationship between the auditor and the audited.

My other comment is to wonder how many people it takes to audit a city the size of Newport Beach. I have the impression the other firm City staff considered – Davis Farr – is a two person operation (Marc Davis serves as Treasurer to the Costa Mesa Sanitary District, and his wife Wendy [not part of Davis Farr] as Finance Director).

Item V.B. SUBCOMMITTEE RECOMMENDATIONS

The Subcommittee’s recommendations seem generally sound to me, but I have these comments:

1. Statements such as that at the end of the first full paragraph on page 2, that the Subcommittee “*has approached its review as if the operation of the City were a private sector business*” are troubling to many in the community. Governments, including city governments, are, to them, fundamentally different from private sector businesses.
2. It is not entirely clear to me how the “*all other things being equal*” in Recommendation A.4 is intended to be read. All other things are never exactly equal, so what importance are financial considerations proposed to be given in some practical situation?
3. I do *not* agree with Recommendation B.4, that the City should outsource even when doing so has little-to-no cost savings. Outsourcing is no panacea, and its purported financial benefits need to be weighed against its effects on employee morale and the public perception that their city services are being performed by dedicated public employees with “pride of ownership” and over whom their elected and appointed officials have complete control. And outsourcing arrangements can and do go sour. In addition to looking for *new* opportunities to outsource, I think the City needs to spend equal time evaluating whether *existing* outsourcing options continue to make sense, both in cost and performance.

4. Regarding Recommendation C.1, I'm not sure why the Subcommittee would view itself as non-political and averse to making policy recommendations. Policy has to come from somewhere, and Section E suggests the present document is in fact a policy recommendation, as I think it should be. As to politics, the decision to view the City as a business is already a political decision unpalatable to many.
5. Recommendation C.3 reminds one of what the status of the Civic Center Audit being overseen by the City Attorney is? Like many things, it seems to have fallen off the radar screen. The implication of Recommendation C.3 seems to be that the Police and Municipal Operations administrative functions could be brought to the City Hall, which I think is an idea worth exploring.

Item V.C. FINANCE COMMITTEE FISCAL YEAR 2016-2017 BUDGET RECOMMENDATIONS

Since most, if not all, of the City's outside expenses are by contract, my perennial comment about the budget has to do with how the line items relate to City Charter [Section 421](#), which gives the City Manager authority to contract for those items approved by the Council in the budget, and only those (so that all expenses are ultimately approved publicly, by the Council, either in the budget or as a separate request).

That sounds simple enough in concept, but aside from the Capital Improvements Program and possibly salaries, this resident is totally in the dark as to what the Council is being asked to approve in the line items. Rather than being a budget specifying exactly what goods and services we need to set money aside to purchase in the coming year (pursuant to Charter Section 421), the Newport Beach budget seems more a statement that we expect to have enough funds on hand to spend the same amounts we did in the prior year in certain broad categories that are oddly the same for all departments.

Yet, at times I have heard Newport Beach department heads say that funds for a particular item are "in the budget" or "not in the budget," which made me naively believe that before the budget's adoption there was a list, somewhere, of the anticipated expenses that would total that department's requested amount for, say, "professional services" or "supplies." Possibly all they meant was that if the expense asked about (along with a list of past expenses and other anticipated future expenses they keep in their head) was assigned to the category to which it belongs, it would put them over their spending limit in that category (or not).

At the May 24th Joint Meeting I used the example of airport consulting services, because I know the City has a recently renewed contract ([C-7071-1](#)) for \$70,000 per year for Airport Policy Implementation Services with former Council member and Mayor Tom Edwards, but at the same time the Budget Checklist requests eliminating the \$241,000 page titled "City Council Airport Issues" (page 3 of the City Council budget in the FY2016-17 [Budget Detail](#)).

The response was that the line item designation for the \$241,000 is "01005001 811008 SVCS PROF" and it isn't needed because there is \$240,000 with almost the same line item designation ("01005005 811008 SVCS PROF") on page 2 of the City Council budget, and another \$300,000 with line item designation "01020005 811008 SVCS PROF" on page 17 of the City Manager budget. Hence, it should be obvious to all that Tom Edwards' contract will be

expensed to one or the other, or some combination, of these, and there will still be nearly \$500,000 left for airport consulting.

The problem with this is that if we truly have a list of anticipated expenses justifying the budget requests in compliance with Charter Section 421, then there must be other expected needs for specific professional services – likely totally unrelated to the airport – contributing to and justifying the \$240,000 and \$300,000 line items. But if there are, then we have no idea how much is planned or left for airport consulting beyond the Tom Edwards contract. Indeed, it could be nothing at all, or given the looseness of the “budgeting,” it could be that airport expenses are anticipated in other requests, or could be expensed to them – for instance a Community Services line item. I have been chastised for suggesting there will be no clear answer, but my guess is we have *budgeted* (in the sense of identifying a definite expected need) *nothing* and just assume there will be money available if we haven’t spent it on something else.

Again, this does not seem to me to be a budget in the sense of Charter Section 421, but simply a statement we expect to have enough revenue to be able to spend similar amounts to what we did in the prior year in broad categories – with no details of what we actually anticipate spending those dollars on.

My other budget question is: has the FY2016-17 *Performance Plan* been presented to the City Council?

City Charter [Section 1102](#) requires the budget (and one assumes the *whole* budget) to be submitted for review at least 35 days prior to July 1. If the *Performance Plan* is part of the budget, it seems overdue and I would think the Committee would want to see it before making a recommendation.

[SUGGESTED LANGUAGE/CONCEPTS FOR THE FINANCE COMMITTEE'S CONSIDERATION FOR INCLUSION IN THIS BUDGET TRANSMITTAL TO THE CITY COUNCIL ARE INDICATED IN BLUE TEXT]

ABSTRACT:

In accordance with the authorizing resolution (the "Resolution") that formed, and identifies the roles and responsibilities of, the Finance Committee, the Finance Committee has reviewed the City Manager's proposed budget and recommends approval of the budget by the City Council. [The Committee also may propose or comment upon other recommendations that would maximize the City's revenues, minimizing the City's cost to provide core services, improve the budget process, and advocate for comprehensive pension reform in California.] Staff will incorporate these recommendations into existing policies, and/or propose new policies for further consideration by the Finance Committee and City Council at a later time.

RECOMMENDATION:

- a) Determine that the action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because it will not result in a physical change to the environment, directly or indirectly;
- b) [Offer a formal recommendation to the City Council regarding the adoption of the proposed Fiscal Year 2016-2017 City budget; and
- c) Offer any other comments or perspectives on the upcoming decision(s) of the City Council relating to the Budget, the Budget Checklist, the allocation of the Fiscal Year 2014-2015 Year End Fund Balance, or requests made by individual council members regarding specific operational changes/reforms.]

FUNDING REQUIREMENTS:

The Fiscal Year 2016-2017 proposed budget is balanced but subject to change based on Council's final recommended action.

DISCUSSION:

In furtherance of the Resolution, Finance Committee members agreed on September 16, 2015, to pursue a series "deep dives" into the Fiscal Year 2015-2016 Budget. This action provided members with the context and understanding of the City's programs in advance of the Fiscal Year 2016-2017. The Committee reviewed several of the City's largest budget divisions and programs, and received explanations about the budget detail including salaries, benefits, contract service accounts, and more as indicated on the schedule below.

Fiscal Year 2015-2016 Budget Review Summary

10/15/15	Implementation of Budget Preparation Framework - Review of Fiscal Year 2016 Operating Budget, Session 1 (Recreational and Senior Services Department).
11/12/15	Implementation of Budget Preparation Framework - Review of Operating Fiscal Year 2016 Budget, Session 2 (Police Department)
12/10/15	Implementation of Budget Preparation Framework - Review of Fiscal Year 2016 Operating Budget, Session 3 (Fire Department).
01/14/16	Implementation of Budget Preparation Framework - Review of Fiscal Year 2016 Operating Budget, Session 4 (Public Works Department).
02/11/16	Implementation of Budget Preparation Framework - Review of Fiscal Year 2016 Operating Budget, Session 5 (Municipal Operations Department)

When the Fiscal Year 2016-2017 Proposed Budget became available, the Committee also reviewed various aspects of the Fiscal Year 2016-2017 budget including economic overview, revenues, expenditures, revenue/expenditure trends, use of surplus funding and the nature of budget variances from prior years according to the schedule below.

Fiscal Year 2016-2017 Budget Review Summary

03/10/16	Review of Fiscal Year 2017 Budget Assumptions
04/28/16	First review of Fiscal Year 2017 Operating Budget
05/04/16	Second review of Fiscal Year 2017 Operating Budget
05/12/16	Third review of Fiscal Year 2017 Operating Budget
05/24/16	Joint City Council/Finance Committee Budget Study Session
06/02/16	Budget Discussion and Recommendations to Council

The General Fund budget, as submitted, is balanced and includes \$199.2 million in operating revenues, \$190.1 million in General Fund operating expenditures and \$5.6 million in new General Fund Capital Improvement Plan Expenditures. General Fund operating revenues are projected to increase 2.58% and 4.52% over Fiscal Years 2015-2016 and 2014-15, respectively. Net of a one-time \$2.0 million receipt expected in Fiscal Year 2015-2016, the Fiscal Year 2016-2017 budget assumes a 3.65% increase over the prior year. The budget increase is only 0.2% when the cost of MOUs and accelerated payments on the City’s net pension obligation are removed. The average rate of revenue increase over the past six years is 4.79%.

The Committee notes that the current and projected revenues of the City appear to be consistent with the Resolution’s direction to the Committee. Revenues have adequately satisfied annual operating budget needs, with a surplus exceeding \$14 million for the fiscal year ending June 30, 2015. Revenues are projected to adequately satisfy projected long-term obligations as well as address anticipated costs associated with department budgets for the foreseeable future, the largest being salaries and benefits.

General Fund operating expenditures are projected to increase 3.87% and 8.92% over Fiscal Years 2015-2016 and 2014-2015, respectively. The average rate of expenditure increase over the past six years is 4.98%. The majority of expenditure increases are the result of MOUs and pension costs. Pension costs are increasing \$3.9 million to a total of \$40.36 million in Fiscal Year 2016-2017. This is offset by higher employee pension contributions of \$1 million for a total employee pension contribution of \$9.5 million in Fiscal Year 2016-2017. Results of financial operations produced net savings to the City in the last seven years due to conservative budgeting and Council Direction

to conserve resources. The budget proposes a net 6.0 FTE decrease in staffing, which will contribute to additional operational savings in Fiscal Year 2016-2017.

The City maintains financial flexibility by funding and maintaining a \$47.5 million contingency reserve equal to 25% of operating costs. In addition, more than \$20 million of the City's revenues is saved to fund the City's long-term liabilities and capital replacement plans including \$8.5 million to the Facilities Financial Plan, \$1 million to the long-term facilities maintenance plan, \$0.5 million towards equipment replacement and \$6.9 million to fund the City's general liability and workers' compensation program.

The budget as submitted is reflective of healthy revenues to support a variety of programs, strong reserves, a sound debt position and addresses long-term obligations such as pension liabilities and other post-employment benefits. In accordance with its roles and responsibilities, the Finance Committee has reviewed the City Manager's proposed budget and recommends approval of the budget by the City Council.

[Additionally, at the May 24, 2016, Joint meeting of the Finance Committee and the City Council, some Council members expressed comments about the following strategic issues relating to City operations and activities:

1. Whether to ask departments to return annually with 1-3% in operational savings.
2. Whether to examine a new model for mooring management that may involve greater use of technology and less operational hours for supervision.
3. Whether to sell the former City Hall site, now under construction as the Lido House Hotel.
4. Whether to move to a flat business license fee of \$50 (versus a business license tax) and to offset that General Fund revenue reduction with an increase in the Wastewater Enterprise Fund's fees.
5. Whether to consider a longer replacement schedule for Newport Harbor's public piers and docks.
6. Whether to consider outsourcing all plan check for commercial properties' tenant improvement (TI) plans.
7. Whether to conduct a new review of Capital Improvement Projects with a priority on essential efforts versus "wants."
8. Whether to wait on any pension "Fresh Start" decision until additional Finance Committee review occurs as to alternatives to another Fresh Start.

[Finance Committee members may wish to discuss any of these items, as well as the proposed use of the Fiscal Year 2014-2015 excess Fund Balance, including whether or not to suggest that the Council adopt an allocation of up to \$3.5 million of the Fund Balance for stabilization of the Wastewater Fund.]

[If the Finance Committee makes a recommendation to supplement the Enterprise Fund with General Fund dollars, it is the City Manager's strong recommendation that the Committee also consider recommending that the Council move forward (after public hearing and protest measurement) to adopt a new wastewater rate structure in Fall 2016 that fully funds the Wastewater Fund's capital and operational needs.

Doing so would avoid making this same General Fund to Enterprise Fund transfer in future years.

The City Manager suggests this because:

- The Wastewater Enterprise Fund should be self-sufficient and recession-proof, while accommodating a robust capital improvement plan to replace and maintain the community's wastewater infrastructure; and
- There are significant other obligations – including but not limited to excessive unfunded pension liabilities – that deserves the Budget's attention in the months and years to come.]

At the February 11, 2016, Finance Committee meeting, the Finance Committee unanimously resolved that a subcommittee consisting of the three Public Members (the "Subcommittee") be appointed with the charge of reviewing and making recommendations to the full Committee. Specifically, the recommendations address the responsibilities of the Finance Committee pertaining to the development of recommendations that would maximize the City's revenues, minimizing the City's cost to provide core services, improving the budget process, and the need for comprehensive pension reform. The Finance Committee, as a whole, reviewed and concurred with the recommendations of the Finance Subcommittee, (as amended) on June 2, 2016. Staff will incorporate these recommendations into existing policies, and/or propose new policies for further consideration by the Finance Committee and City Council.

ENVIRONMENTAL REVIEW:

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

NOTICING:

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

June 2, 2016, Finance Committee Agenda Comments

These comments on items on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

III. PUBLIC COMMENTS

I seem to recall a comment made at the May 12, 2016, Finance Committee meeting (for which minutes don't yet seem to be available) – and repeated in the City Manager's [Insider's Guide](#) to the May 24th joint meeting with the City Council – that the City's unfunded pension liability "***is completely akin to debt - borrowed at 7.5%.***"

Although I understand that recent GASB rules may require recording the unfunded pension liability as "debt," I find the idea that we effectively have a loan with CalPERS on which we are paying 7.5% *interest* deeply puzzling.

I'm not sure if the term of this hypothetical equivalent loan is 15, 30 or some other number of years, but whatever the hypothetical term, if this picture is correct, that we have a \$299 million loan with CalPERS on which we are paying 7.5% interest, then it would clearly be in the City's best interest to pay off the CalPERS loan with the proceeds from a different loan, say at 7%, on which the City would (for \$299 million) be paying something like \$21 million per year interest, perhaps in perpetuity (if it made no progress on the principal).

But that makes little sense to me, since I wasn't aware the City was paying CalPERS interest on the unfunded pension liability.

Does the City actually receive an annual bill from CalPERS demanding 7.5% interest on what the public is told is the dollar amount of the unfunded liability, independent of how well CalPERS did that year?

On the contrary, I had a vague notion that instead of having taken out a loan, the City has reserves *on deposit* with CalPERS which are *earning* money, and the "unfunded liability" is an *actuarial statement* regarding the shortfall between the actual reserve and the reserve that would be necessary to fund future pension obligations if CalPERS were, in the future, to achieve a steady 7.5% return on the deposits it holds. If CalPERS were to achieve better than 7.5%, the current reserve would be closer to sufficient, and the unfunded part would go down – as it seems to have done, according to the City's May 24th presentation, in 2011, for example (see [Slide 26](#) of the "*Budget Overview Handout*"). At least that was my understanding.

Something the principal of which goes down or up depending on whether attainable market rates are above or below 7.5% does not sound to me equivalent to a loan at 7.5%; but perhaps someone can disabuse me of my faulty understanding.

Based on my possibly faulty understanding I wonder if in addition to concern about growing unfunded pension liability, what the City also needs is a more thoughtful policy regarding what to do in years when CalPERS is doing well and the reserve is *more than adequate* to meet needs (that is, in years of *negative* unfunded liability). The past decision to respond to negative unfunded liability by increasing benefits and eliminating employee contributions doesn't seem, in retrospect, to have been a wise one, although I assume a positive unfunded liability could have appeared in bad years anyway.

Item IV.A. MINUTES OF APRIL 28, 2016

The content of these draft minutes is difficult to follow, in part due to awkward, and in some cases (probably unintentionally) misleading or inscrutable phrasing. I would again suggest the Committee consider preserving the digital audio recordings along with the minutes. Short of a complete rewrite, and in addition to the [corrections](#) suggested by Committee member Tucker, I might point out the following, which seem obvious errors:

Page 1, misnumbered item heading: “~~I. III.~~ III. PUBLIC COMMENTS”

Page 1, paragraph 3 from end: “Mr. Jim Mosher ..., asked **if how** the Finance Committee would **coming back for be handling the** future discussion items mentioned in Item No. **6 VI** (Announcement-Future Agenda), ...”

Page 1, paragraph 2 from end: “Committee Member O’Neill stated that his understanding was that **Item No. 6 Policy A-6** applies only to Council, not the Committee, ...”

Page 2, misnumbered item heading: “~~II. IV.~~ IV. CONSENT CALENDAR”

Page 2, Item “II.A”, last line: “Seeing no one wishing to address the Finance Committee, Chair **Gurry Petros** closed public comments.”

Page 2, misnumbered item heading: “~~III. V.~~ V. CURRENT BUSINESS”

Page 2, paragraph 3 from end: “City Manager Kiff continued with the presentation by reporting that overall **salary salaries** increased by four percent.”

Page 2, last paragraph: “City Manager Kiff reported on Capital Improvement and stated that capital improvement budget are one-time expenses, not recurring expenses and **half of the funds go toward meeting debt obligations.**” [half the Capital Improvement budget goes to debt service? This doesn’t sound right.]

Page 3, paragraph 4: “City Manager Kiff concluded the presentation by stating that the information provided is new and appreciates the discussion and asked if there is a **design desire** from the committee to possibly schedule additional meetings to review the proposed budget in further detail.” [?]

Page 3, paragraph 6: “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 **reach reached.**”

Page 3, paragraph 2 before Item B: “... and thinks that the people using the **sewage sewer system** should be the ones paying for it.”

Page 4, misnumbered item heading: “~~IV. VI.~~ VI. FINANCE COMMITTEE ANNOUNCEMENTS ...”

Page 5, paragraph 3: “Mayor Dixon stated that her understanding was that **a** Section 115 **trust**, as noted, was approved unanimously by Council in 2008.” [? – this entire section is similarly garbled]

Page 5, paragraph 3: “Committee Member O’Neill is unsure ~~on~~ how Certificates of Participation (COP) ~~works work~~ and requested clarification as to how COP applies to debt issuance. City Manager Kiff will add this topic to the May 26 agenda for further discussion.”

Page 5, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

Item IV.B. MINUTES OF MAY 4, 2016

As with Item IV.A, above, one would have to have been present, or to have listened to the audio recording, or both, to understand much of what is reported in these draft minutes. In addition to the corrections [suggested](#) by Committee member Tucker, I offer the following:

Page 1, Item III, paragraph 2: “Mr. Jim Mosher commented on how items are placed on the agenda and mentioned procedures other ~~committee members committees~~ follow regarding agenda items. Mr. Mosher suggested ~~for~~ the Committee ~~to can~~ hold an unscheduled vote ~~after at~~ each meeting to discuss items to be included on following meeting agendas.”

Page 2, Item III, paragraph 2 of body: “City Manager Dave Kiff provided an overview of the proposed budget that touched on salary, cost of cafeteria plan ~~purge~~ rates, miscellaneous, and safety and employee.” [Seems a strange word. I recall the City Manager mentioning, on several occasions, that cafeteria plan benefits are not “PERSable.” Without benefit of listening to the recording, could this have something to do with that?]

Page 2, paragraph 4 from end: “City Manager Kiff and Budget Manager ~~Ms.~~ Giangrande continued with the presentation by discussing the cafeteria allowance. City Manager Kiff ~~explains explained~~ that the cafeteria allowance is medical, health and dental employee insurance bought by the City.”

Page 3, paragraph 1: “Mr. Mosher stated that compared to the last year’s budget, the ~~lines line~~ items ~~and line item identification numbers~~ for this budget have changed. Mr. Mosher also stated that the proposed budget ~~consists-of contains~~ abbreviations that the public will not know what they stand for.”

Page 3, paragraph 4: “~~Council Committee~~ Member Warner left the meeting at 5:28 p.m.”

Page 3, Item 3, paragraph 3: “Mr. Mosher commented that it would be a good idea for the public and members of the ~~community Committee to~~ be told which ideas were not included, to which ~~a response was received~~ ~~Committee Member Tucker responded~~, stating that no ideas were excluded, just phrases or words needed to be revised for better understanding.”

Page 4, signature lines: “Tony Petros, ~~Chair~~ ... Finance Committee Chair”

Item V.A. AUDITOR RECOMMENDATION

This item seems to me to be a complete cop-out.

First, whether it conforms to modern practice or not, City Charter [Section 1116](#) appears to say the auditor for a particular year is supposed to be selected at “*the beginning of each fiscal year,*” not at its end.

Second, several years ago, in the wake of the City of Bell scandal and the embarrassing revelation that Newport Beach was among the cities that had retained the same (apparently ineffective) auditor for many years, the City Council adopted a policy of changing auditors.

My recollection is that White Nelson was already overdue for replacement last year, but City staff decided, without quite seeking Council approval until after the fact, because of disruptions created by the implementation of the Enterprise Resource Planning software.

Now, White Nelson is being recommended once more, for less obvious reasons, for yet another five years with little indication anyone feels there is any need to ever change auditors again.

It least in my view, this will lead to the public perception of a too cozy relationship between the auditor and the audited.

My other comment is to wonder how many people it takes to audit a city the size of Newport Beach. I have the impression the other firm City staff considered – Davis Farr – is a two person operation (Marc Davis serves as Treasurer to the Costa Mesa Sanitary District, and his wife Wendy [not part of Davis Farr] as Finance Director).

Item V.B. SUBCOMMITTEE RECOMMENDATIONS

The Subcommittee’s recommendations seem generally sound to me, but I have these comments:

1. Statements such as that at the end of the first full paragraph on page 2, that the Subcommittee “*has approached its review as if the operation of the City were a private sector business*” are troubling to many in the community. Governments, including city governments, are, to them, fundamentally different from private sector businesses.
2. It is not entirely clear to me how the “*all other things being equal*” in Recommendation A.4 is intended to be read. All other things are never exactly equal, so what importance are financial considerations proposed to be given in some practical situation?
3. I do *not* agree with Recommendation B.4, that the City should outsource even when doing so has little-to-no cost savings. Outsourcing is no panacea, and its purported financial benefits need to be weighed against its effects on employee morale and the public perception that their city services are being performed by dedicated public employees with “pride of ownership” and over whom their elected and appointed officials have complete control. And outsourcing arrangements can and do go sour. In addition to looking for *new* opportunities to outsource, I think the City needs to spend equal time evaluating whether *existing* outsourcing options continue to make sense, both in cost and performance.

4. Regarding Recommendation C.1, I'm not sure why the Subcommittee would view itself as non-political and averse to making policy recommendations. Policy has to come from somewhere, and Section E suggests the present document is in fact a policy recommendation, as I think it should be. As to politics, the decision to view the City as a business is already a political decision unpalatable to many.
5. Recommendation C.3 reminds one of what the status of the Civic Center Audit being overseen by the City Attorney is? Like many things, it seems to have fallen off the radar screen. The implication of Recommendation C.3 seems to be that the Police and Municipal Operations administrative functions could be brought to the City Hall, which I think is an idea worth exploring.

Item V.C. FINANCE COMMITTEE FISCAL YEAR 2016-2017 BUDGET RECOMMENDATIONS

Since most, if not all, of the City's outside expenses are by contract, my perennial comment about the budget has to do with how the line items relate to City Charter [Section 421](#), which gives the City Manager authority to contract for those items approved by the Council in the budget, and only those (so that all expenses are ultimately approved publicly, by the Council, either in the budget or as a separate request).

That sounds simple enough in concept, but aside from the Capital Improvements Program and possibly salaries, this resident is totally in the dark as to what the Council is being asked to approve in the line items. Rather than being a budget specifying exactly what goods and services we need to set money aside to purchase in the coming year (pursuant to Charter Section 421), the Newport Beach budget seems more a statement that we expect to have enough funds on hand to spend the same amounts we did in the prior year in certain broad categories that are oddly the same for all departments.

Yet, at times I have heard Newport Beach department heads say that funds for a particular item are "in the budget" or "not in the budget," which made me naively believe that before the budget's adoption there was a list, somewhere, of the anticipated expenses that would total that department's requested amount for, say, "professional services" or "supplies." Possibly all they meant was that if the expense asked about (along with a list of past expenses and other anticipated future expenses they keep in their head) was assigned to the category to which it belongs, it would put them over their spending limit in that category (or not).

At the May 24th Joint Meeting I used the example of airport consulting services, because I know the City has a recently renewed contract ([C-7071-1](#)) for \$70,000 per year for Airport Policy Implementation Services with former Council member and Mayor Tom Edwards, but at the same time the Budget Checklist requests eliminating the \$241,000 page titled "City Council Airport Issues" (page 3 of the City Council budget in the FY2016-17 [Budget Detail](#)).

The response was that the line item designation for the \$241,000 is "01005001 811008 SVCS PROF" and it isn't needed because there is \$240,000 with almost the same line item designation ("01005005 811008 SVCS PROF") on page 2 of the City Council budget, and another \$300,000 with line item designation "01020005 811008 SVCS PROF" on page 17 of the City Manager budget. Hence, it should be obvious to all that Tom Edwards' contract will be

expensed to one or the other, or some combination, of these, and there will still be nearly \$500,000 left for airport consulting.

The problem with this is that if we truly have a list of anticipated expenses justifying the budget requests in compliance with Charter Section 421, then there must be other expected needs for specific professional services – likely totally unrelated to the airport – contributing to and justifying the \$240,000 and \$300,000 line items. But if there are, then we have no idea how much is planned or left for airport consulting beyond the Tom Edwards contract. Indeed, it could be nothing at all, or given the looseness of the “budgeting,” it could be that airport expenses are anticipated in other requests, or could be expensed to them – for instance a Community Services line item. I have been chastised for suggesting there will be no clear answer, but my guess is we have *budgeted* (in the sense of identifying a definite expected need) *nothing* and just assume there will be money available if we haven’t spent it on something else.

Again, this does not seem to me to be a budget in the sense of Charter Section 421, but simply a statement we expect to have enough revenue to be able to spend similar amounts to what we did in the prior year in broad categories – with no details of what we actually anticipate spending those dollars on.

My other budget question is: has the FY2016-17 *Performance Plan* been presented to the City Council?

City Charter [Section 1102](#) requires the budget (and one assumes the *whole* budget) to be submitted for review at least 35 days prior to July 1. If the *Performance Plan* is part of the budget, it seems overdue and I would think the Committee would want to see it before making a recommendation.

Expenditure Budget Comparison					
For the Fiscal Year Ended June 30, 2015					
General Fund Activities	FY 15 Revised Budget	FY 15 Actual	FY 15 Actuals + Encumbrances	Year End Balance	% Unspent
General Government	15,900,082	13,649,001	13,791,702	2,108,380	13.3%
Public Safety	95,167,536	93,289,539	93,605,625	1,561,911	1.6%
Community Development	11,960,796	9,729,869	10,067,665	1,893,131	15.8%
Public Works	34,484,622	32,441,429	32,774,621	1,710,001	5.0%
Community Services	20,149,996	18,780,350	18,821,743	1,328,253	6.6%
Subtotal GF Operating	177,663,032	167,890,188	169,061,356	8,601,676	4.8%

Enterprise/Other Activities	FY 15 Revised Budget	FY 15 Actual	FY 15 Actuals + Encumbrances	Year End Balance	% Unspent
Water Operations	20,846,450	18,706,565	18,713,034	2,133,416	10.2%
Sewer Operations	3,245,097	2,783,801	2,783,801	461,296	14.2%
Tidelands Operations	3,254,256	2,533,279	2,868,721	385,535	11.8%
Other Operations excluding debt service	36,816,531	31,819,282	31,820,717	4,995,814	13.6%
Debt Service	10,591,217	10,551,858	10,551,858	39,359	0.4%
Internal Service Funds	34,698,456	28,501,023	28,516,395	6,182,061	17.8%
Subtotal Other Operating	109,452,007	94,895,808	95,254,526	14,197,481	13.0%

Total Operating	287,115,039	234,284,973	235,814,859	51,300,180	17.9%
Capital Improvements	69,968,969	48,636,654	70,257,798	(288,829)	-0.4%
Total Budget	357,084,008	282,921,627	306,072,657	51,011,351	14.3%