



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

NEWPORT COAST CONFERENCE ROOM, BAY 2E
100 CIVIC CENTER DRIVE, NEWPORT BEACH
SEPTEMBER 16, 2015, 4:00 P.M.

FINANCE COMMITTEE MEMBERS:

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

STAFF MEMBERS:

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

I. CALL MEETING TO ORDER

II. ROLL CALL

III. PUBLIC COMMENTS

Public comments are invited on agenda and non-agenda items generally considered to be within the subject matter jurisdiction of the Finance Committee. Speakers must limit comments to three (3) minutes. Before speaking, we invite, but do not require, you to state your name for the record. The Finance Committee has the discretion to extend or shorten the speakers' time limit on agenda or non-agenda items, provided the time limit adjustment is applied equally to all speakers. As a courtesy, please turn cell phones off or set them in the silent mode.

IV. APPROVAL OF MINUTES

A. Summary:

Approval of the August 13, 2015, Finance Committee Minutes.

Recommended Action:

Approve and file.

V. CURRENT BUSINESS

A. RECOMMENDED BUDGET PRACTICES FOR THE DEVELOPMENT OF THE ANNUAL BUDGET

Summary:

This Finance Committee is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee's agenda be posted at least seventy-two (72) hours in advance of each regular meeting and that the public be allowed to comment on agenda items before the Finance Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Finance Committee may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

It is the intention of the City of Newport Beach to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or a participant at this meeting, you will need special assistance beyond what is normally provided, the City of Newport Beach will attempt to accommodate you in every reasonable manner. If requested, this agenda will be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Please contact the City Clerk's Office at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible at (949) 644-3005 or cityclerk@newportbeachca.gov.

During the August 13, 2015, Finance Committee meeting, members discussed three recommended actions for bringing greater transparency and accountability during the annual budget development process. Staff will present a proposed framework for improving budget practices. Staff will also present proposed broad community goals that can be incorporated into the Fiscal Year 2016-2017 budget.

Recommended Action:

Suggest changes to staff's presented budget practices and, if necessary, make recommendations for submission to the City Council for approval.

B. PUBLIC EMPLOYEES RETIREMENT SYSTEM AND OTHER POST-EMPLOYMENT BENEFITS PRIMER

Summary:

Staff will provide a pension and other post-employment benefits presentation that will describe the basic mechanics and challenges associated with pension and OPEB benefit funding.

Recommended Action:

Receive and file.

VI. ADJOURNMENT

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
AUGUST 13, 2015 MEETING MINUTES**

I. CALL MEETING TO ORDER

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

II. ROLL CALL

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

ABSENT: Committee Member Bill McCullough (Excused)

STAFF PRESENT: City Manager Dave Kiff; Finance Director Dan Matusiewicz; Deputy Finance Director Steve Montano; Administrative Specialist to the Finance Director Marlene Burns; Deputy City Manager/HR Director Terri Cassidy; Budget Manager Susan Giangrande; IT Manager Rob Houston; Municipal Operations Director George Murdoch; Senior Accountant Trevor Power; Municipal Operations Director Mike Pisani; Interim Assistant City Manager Carol Jacobs; General Services Operations Support Superintendent James Auger; and General Services Administrative Manager Cynthia Owens

MEMBER OF THE PUBLIC: Jim Mosher

OUTSIDE ENTITY: Jayson Schmitt, Chandler Asset Management

III. PUBLIC COMMENTS

Jim Mosher spoke on Council's upcoming review of the City's Master Fee Schedule noting that the fees are not only based on the cost of services rendered, but also multiplied by cost recovery factors. He opined that the cost recovery table is in need of a comprehensive review. He spoke about outsourcing street-light maintenance costs noting that Council recently approved a new contract with a new vendor and expressed concerns with the increased costs. He questioned whether the City can determine past costs for the same service.

Municipal Operations Director George Murdoch explained the actions taken in terms of the original contract for street-light maintenance, cost savings, and the RFP process. He added that the City provided materials under the old contract but, that in the new contract, the vendor supplies the needed materials. Additionally, the new contract includes payment of prevailing wages, which has doubled the City's costs. He added that employees' time is tracked daily, that the vendor who provided the lowest bid from the RFP process was chosen and that the City augmented the scope of work.

In response to an inquiry from Committee Member Tucker regarding prevailing wages, Municipal Operations Director Murdoch stated that the City was previously exempt from paying prevailing wages but it is no longer exempt.

IV. APPROVAL OF MINUTES

A. Summary:

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

Recommended Action:

Approve and file.

Chair Curry reported corrections to the minutes were made by Committee Members Tucker and O'Neill.

Chair Curry opened public comments.

Jim Mosher offered additional corrections to the minutes.

With no further public comments, Chair Curry closed public comments.

Committee Member Tucker moved and Council Member Petros seconded, to approve the July 21, 2015, Finance Committee Minutes, as corrected. The motion carried with 5 ayes, 1 abstention (Committee Member Warner) and 1 absent (Committee Member McCullough).

V. CURRENT BUSINESS

A. ANNUAL INVESTMENT PORTFOLIO PERFORMANCE REVIEW

Summary:

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

Recommended Action:

Receive and file.

Chair Curry introduced the item and deferred to staff for a report.

Finance Director Dan Matusiewicz reported that the City had outsourced the portfolio management function since 1992 and had a contractual relationship with as many as five investment advisors and five custody banks and added the City has now consolidated those relationships down to two investment advisors and an one custody bank in recent years.

Chair Curry provided a brief history of the City's investments and noted that the City was not materially affected by the Orange County bankruptcy.

At Mayor Pro Tem Dixon's request, Finance Director Matusiewicz addressed the selection of investment advisors and the contract terms.

Finance Director Matusiewicz continued addressing the core investment portfolio, the City's participation in the State liquidity pool, dual-approval requirements, the City's independent investment analytics software service, monitoring actions to ensure that the City stays within its risk parameters and identified that the complete monthly Treasury report can be found on the City's website.

Jayson Schmitt, Chandler Asset Management, provided a brief market overview. He addressed the likelihood of the Federal Reserve Board raising the Federal funds rate, impacts of global issues, volatility, decreases in the unemployment rate, labor participation and under-employment. He addressed retail sales, consumer credit and other market measures and economic indicators. Additionally, Mr. Schmitt reported on manufacturing, capacity utilization, Federal Reserve mandates, inflation, Consumer Price Index (CPI), revisions in the Gross Domestic Product (GDP), two-year Treasury Note rate and the three-month yield curve.

In response to Committee Member Warner's question, Mr. Schmitt commented that "core inflation" is a less volatile measure of inflation when food and energy are removed from the equation.

Mr. Schmitt reviewed the City's portfolio performance with respect to the City's investment objectives of safety, liquidity, and yield and compliance with the City's investment policy.

In reply to Council Member Petros's inquiry, Mr. Schmitt stated there have been no compliance issues within the last year.

Mr. Schmitt addressed the account profile versus benchmarks, and impacts of rising interest rates on the City's portfolio. He discussed average purchase yields, changing trends, security types owned by the City and investment issuers.

Responding to Committee Member Tucker's question, Finance Director Matusiewicz addressed investment advisor fees.

Mr. Schmitt commented on the Federal Government strengthening its balance sheet. He added that most mortgages, today, are purchased by Fannie Mae and Freddie Mac.

Brief discussion followed regarding supranationals.

Mr. Schmitt continued with his presentation addressing S&P ratings, range of distribution, investment performance, providers of fixed income indices and holdings. He summarized the City's universe of investments and provided highlights of same.

Finance Director Matusiewicz added that Newport Beach is generally more conservative than what the Government Code allows for investments.

Chair Curry opened public comments.

Jim Mosher commented on the Total Rate of Return and asked whether that number is before or after subtracting the management fee.

Mr. Schmitt reported that it is a gross number so that it is before subtracting management fees.

With no further public comments, Chair Curry closed public comments.

Council Member Petros moved, and Committee Member Warner seconded, to receive and file the report. The motion carried with 6 ayes, and 1 absent (Committee Member McCullough).

B. ANNUAL INVESTMENT POLICY REVIEW AND UPDATE

Summary:

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

Recommended Action:

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

Finance Director Matusiewicz provided details of the report addressing recommended changes.

Jayson Schmitt, Chandler Asset Management, provided details of supranationals and addressed the three organizations allowed to manage same. He explained that the organizations lend to different countries and that the loans are project-oriented in terms of social and environmental projects. He addressed the yield, AAA credit rating and support from a consortium of governments. He added that these are securities that would be beneficial to the portfolio in terms of safety, liquidity and diversification.

Brief discussion followed regarding donations and contributions to Greece.

Council Member Petros noted that Fannie Mae is backed by the U.S. Government, commented on other instruments being limited to individual institutions at 5 percent and on the uncertainty in international markets. He questioned whether investments should be made in a more conservative manner

Chair Curry noted that Fannie Mae and Freddie Mac are not guaranteed by the Government. He added that the quality of investment securities continues, at the highest level.

Mr. Schmitt added that these are not new organizations and that there has never been a default on those securities since the beginning. He addressed how the City might begin to invest in these securities and suggested a 10 percent allocation in two securities adding that the policy should reflect a broader type base to be available, moving forward.

Mr. Schmitt stated that these securities are very stable and close in quality to those of U.S. agencies. If these were risky investments, investors would demand more yield.

Mayor Pro Tem Dixon confirmed that the City will not be replacing the 26 percent in Fannie Mae and Freddie Mac but that changes will be very gradual.

In response to Committee Member Tucker regarding the yield difference, Mr. Schmitt stated it would be approximately 3 to 5 basis points above U.S. agencies. He added that focus should not be just on yield, but diversification and looking towards the future.

Committee Member O'Neill suggested setting the investment at 20 percent for three years, with the expectation that the matter would be revisited at that time.

Mr. Schmitt addressed consideration of flexibility and noted that this policy is reviewed on an annual basis.

Chair Curry opened public comments.

Jim Mosher commented on the City being more conservative in terms of investments policies versus being more liberal. He questioned whether there is other pending state legislation that may impact the City's investment policies in the coming year. He noted that the Committee can only make recommendations for Council action.

Chair Curry noted there is always pending legislation that would impact investment policy.

With no further public comments, Chair Curry closed public comments.

In response to an inquiry by Committee Member O'Neill, Mr. Schmitt stated that any changes, outside of the City's investment policies would be communicated to the City with an appropriate recommendation, almost immediately.

Committee Member O'Neill moved, and Council Member Petros seconded, to accept staff recommendations but changing the maximum portfolio allocation to supranational bond investments to 20 percent instead of 30 percent, with a review made on an annual basis and with

the ability to make changes, based on performance investment objectives. The motion carried with 6 ayes, and 1 absent (Committee Member McCullough).

Brief discussion followed regarding the City's independent advisors and independent data sources.

C. RECOMMENDATIONS FOR THE ANNUAL FINANCE COMMITTEE BUDGET REVIEW PROCESS

Summary:

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

Recommended Action:

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

Finance Director Matusiewicz provided a PowerPoint presentation addressing the Committee's desire to be more involved in the budget-review process, including communicating budget priorities and principles, discussing budget assumptions and strategies prior to the development of the budget, providing for increased transparency and greater accountability, and better communicating the value of certain job functions. He addressed documentation reviewed during the process and a timeline for review of other elements within the budget. This will be done in order for the Committee to provide guidance in terms of budget priorities. He reported that there will be a review of the City's year-end financial results as scheduled on the Finance Committee Workplan. He addressed the need for pre-budget recommendations from the Finance Committee to Council to develop funding strategies and assumptions.

Committee Member Tucker suggested focusing on big items, potential savings by outsourcing and increasing efficiency in terms of staffing and operations.

Finance Director Matusiewicz agreed and suggested those items should be considered prior to budget discussions. In addition, Finance Director Matusiewicz suggested having the Police and Fire Chief could provide a presentation on their operations for increased understanding of their respective departments.

Committee Member Tucker suggested an independent consultant look at the City's organization, as a whole to determine possible efficiencies.

Mayor Pro Tem Dixon asked regarding the City's key performance indicators (KPIs) and Finance Director Matusiewicz reported that in municipalities, those are hard to establish, but added that some metrics could include customer satisfaction, response time and whether the City is delivering projects in a timely fashion.

City Manager Dave Kiff commented on developing benchmarks using those of other cities and suggested bringing these to the Finance Committee for review. He commented on the possibility of an outside review of City operations noting that it is good in principle, but harder in practice and explained potential challenges.

Council Member Petros recounted concerns regarding the previous budget adoption process, provided recommendations and cautioned against making comparisons between public agencies and private entities. He addressed customer surveys and noted that responses were 90 percent for every one of the benchmarks identified.

Mayor Pro Tem Dixon commented on levels of service and questioned if the City is striving for 100 percent satisfaction or less.

Council Member Petros commented on the City's reserves and noted that criticism was made that the City was hoarding money and that residents wanted money spent on capital projects. When the City does spend, criticism is made that the City overspends and that there is no way to tell whether the City is doing something correctly as the City is at the whim of human nature in politics. He cautioned against using metrics to measure satisfaction.

Committee Member Tucker reiterated the need to look for efficiencies in terms of staffing.

Chair Curry offered that the City has already reduced its headcount and is in the process of refreshing its infrastructure while maintaining the highest reserves in the City's history. He noted that the City has a high bond rating but acknowledged there may be specific items to review that may provide further efficiencies and opportunities to do things differently for improved processes and for doing the things that people want. He commented on the importance of having an economically strong and viable plan for the future.

City Manager Kiff commented on in-house reviews by Department Heads, encouraged Committee Members to make suggestions for improvements and stated he liked the idea of looking at distinct functions for the entire City.

Discussion followed regarding location of the survey and results, upcoming surveys, the possibility of issuing shorter surveys on a more frequent and regular basis.

City Manager Kiff reported that the City's goal is issuing a survey every two years to determine residents' satisfaction with the City's performance.

Mayor Pro Tem Dixon noted the need to review each recommendation, perhaps at the next Finance Committee meeting and suggested providing suggestions for benchmarking in terms of quality of life goals and financial metrics.

Chair Curry opened public comments.

Jim Mosher commented positively on the quality of employees in the City and agreed that more thought needs to be given in terms of measuring the City's performance in the services it delivers. He added that he is skeptical of surveys.

With no further public comments, Chair Curry closed public comments.

D. WASTEWATER SERVICE IN NEWPORT BEACH

Summary:

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

Recommended Action:

Provide recommendation to the City Council considering the following options:

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

Municipal Operations Director George Murdoch provided a PowerPoint presentation addressing a detailed Wastewater Service Report, goals and objectives of the Wastewater Division, maintenance of laterals, number of structures services, pump stations, responding quickly to prevent property damage and spills, service overview, staff reductions, outsourcing and annual contributions to the General Fund. He addressed the wastewater budget, revenues, functions currently being outsourced, other outsourcing opportunities, and challenges in terms of finding a pump station operations provider. Municipal Operations Director Murdoch addressed proposals for cleaning operations and noted that it appears the City can perform this task less expensively than by outsourcing. He commented on lateral replacements, the City's hourly rates, including pensions, and other outsourcing options.

Council Member Petros pointed out that Costa Mesa Sanitary District recently raised its rates.

In response to Mayor Pro Tem Dixon's question regarding access to reclaimed water, Municipal Operations Director Murdoch reported that all of the recycled water lines in the City are owned and operated by the Orange County Water District. He added that they have agreed to expand the program beyond the recycled program, that the City does not have the appropriate infrastructure in place and commented on Proposition 84 funds.

Municipal Operations Director Murdoch addressed pros and cons.

Council Member Petros expressed appreciation to staff for the work and commented on getting a second opinion. He suggested getting a consultant to review this, holistically, to see if there are any other opportunities.

Council Member Petros departed the meeting at this juncture.

Municipal Operations Director Murdoch provided potential next steps and asked for the Committee's comments in terms of recommendations to forward on to Council.

Discussion followed regarding the time involved in hiring a consultant to review the operation, the possibility of issuing an informal RFP, obtaining guidance in terms of increasing rates, the importance of having control over the function, whether staff would be comfortable outsourcing specific functions, being able to respond to emergency situations, and budgeting.

In reply to Committee Member O'Neill's question, Municipal Operations Director Murdoch addressed using less water because of the current drought conditions.

City Manager Kiff noted that the City has an adopted Master Plan and stated there are consequences if the City decides not to fund it.

Chair Curry opened public comments.

Jim Mosher addressed sewage spills in the City of Newport Beach compared with those in the City of Costa Mesa. He commented on the Costa Mesa Sanitary District conducting a Proposition 218 rate study and suggested discussions between them and City staff, especially in terms of annexing systems as they are currently discussing plans to move their headquarter buildings. Regarding outsourcing, he stated that Orange County Sanitary District outsourced 100 miles for cleaning and that they have decided to do it in-house, once again. Additionally, they have a different service model.

With no further public comments, Chair Curry closed public comments.

Discussion followed regarding after-hour calls, videoing services and key Division functions.

Chair Curry believed there is not enough current information to make recommendations to Council to contract out the entire Department and that the Committee should direct staff to continue providing services as they have been and outsource those functions that can be outsourced for increased efficiency. He expressed concerns regarding directing more and more consultant studies.

Mayor Pro Tem Dixon suggested letting Council know that staff has reviewed the matter fully to determine functions that should and should not be outsourced.

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

Summary:

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

Recommended Action:

Provide direction to staff on the proposed changes.

Interim Assistant City Manager Carol Jacobs provided a brief report addressing proposed revisions to City Council Policy F-9. She noted wanting to expand the number of years in which the City keeps vehicles. She noted the savings of approximately \$1 million to the internal service fund.

Discussion followed regarding Police patrol vehicles.

Chair Curry opened public comments.

Jim Mosher questioned some of the changes and made suggestions for additional changes and commented on the expected service life.

With no further public comments, Chair Curry closed public comments.

Committee Member O'Neill moved and Committee Member Warner seconded, to recommend staff forward the recommendation to the City Council. The motion carried with 5 ayes, and 2 absent (Committee Member McCullough and Council Member Petros).

F. ERP UPDATE

Summary:

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

Recommended Action:

Receive and file.

Deputy Finance Director Steve Montano provided an update on the City's Enterprise Resource Planning (ERP) software. He noted phases completed and noted that the City is on schedule to implement all phases of the ERP program by October 2016.

Brief discussion followed regarding costs.

Chair Curry opened public comments.

Chair Curry closed public comments.

G. FINANCE COMMITTEE SCHEDULE UPDATE

Summary:

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

Recommended Action:

Discuss and confirm upcoming meeting dates.

Chair Curry noted a conflict with the next Finance Committee meeting of September 10, 2015, and suggested meeting either September 15 or 16.

There was consensus to direct staff to schedule the next Finance Committee on September 16, 2015, at 4:00 p.m.

VI. ADJOURNMENT

The Finance Committee adjourned at 6:30 p.m. to the next regular meeting of the Finance Committee on September 16, 2015, at 4:00 p.m.

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

The agenda for the Regular Meeting was posted on August 10, 2015, at 4:00 p.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

Keith Curry, Chair
Finance Committee Chair

Date

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Municipal Operations Director George Murdoch provided a PowerPoint presentation addressing a detailed Wastewater Service Report, goals and objectives of the Wastewater Division, maintenance of laterals, number of structures services, pump stations, responding quickly to prevent property damage and spills, service overview, staff reductions, outsourcing and annual contributions to the General Fund. He addressed the wastewater budget, revenues, functions currently being outsourced, other outsourcing opportunities, and challenges in terms of finding a pump station operations provider. Municipal Operations Director Murdoch addressed proposals for cleaning operations and noted that it appears the City can perform this task less expensively than by outsourcing. He commented on lateral replacements, the City's hourly rates, including pensions, and other outsourcing options.

Council Member Petros pointed out that Costa Mesa Sanitary District recently raised its rates.

In response to Mayor Pro Tem Dixon's question regarding access to reclaimed water, Municipal Operations Director Murdoch reported that all of the recycled water lines in the City are owned and operated by the Orange County Water District. He added that they have agreed to expand the program beyond the recycled program, that the City does not have the appropriate infrastructure in place and commented on Proposition 84 funds.

Municipal Operations Director Murdoch addressed pros and cons.

Council Member Petros expressed appreciation to staff for the work and commented on getting a second opinion. He suggested getting a consultant to review this, holistically, to see if there are any other opportunities.

Council Member Petros departed the meeting at this juncture.

Municipal Operations Director Murdoch provided potential next steps and asked for the Committee's comments in terms of recommendations to forward on to Council.

Discussion followed regarding the time involved in hiring a consultant to review the operation, the possibility of issuing an informal RFP, obtaining guidance in terms of increasing rates, the importance of having control over the function, whether staff would be comfortable outsourcing specific functions, being able to respond to emergency situations, and budgeting.

~~In reply to Committee Member O'Neill's question, Municipal Operations Director Murdoch addressed using less water because of the current drought conditions.~~

~~City Manager Kiff noted that the City has an adopted Master Plan and stated there are consequences if the City decides not to fund it.~~

Committee Member O'Neill sought clarification concerning the anticipated infrastructure spending of approximately \$1,000,000 per year. Municipal Operations Director Murdoch and City Manager Kiff addressed the City's adopted master infrastructure plan submitted to the County. City Manager Kiff noted stated that there are consequences if the City decides not to fund it.

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Chair Curry opened public comments.

Jim Mosher addressed sewage spills in the City of Newport Beach compared with those in the City of Costa Mesa. He commented on the Costa Mesa Sanitary District conducting a Proposition 218 rate study and suggested discussions between them and City staff, especially in terms of annexing systems as they are currently discussing plans to move their headquarter buildings. Regarding outsourcing, he stated that Orange County Sanitary District outsourced 100 miles for cleaning and that they have decided to do it in-house, once again. Additionally, they have a different service model.

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the ability to make changes, based on performance investment objectives. The motion carried with 6 ayes, and 1 absent (Committee Member McCullough).

Brief discussion followed regarding the City's independent advisors and independent data sources.

C. RECOMMENDATIONS FOR THE ANNUAL FINANCE COMMITTEE BUDGET REVIEW PROCESS

Summary:

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

Recommended Action:

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

Finance Director Matusiewicz provided a PowerPoint presentation addressing the Committee's desire to be more involved in the budget-review process, including communicating budget priorities and principles, discussing budget assumptions and strategies prior to the development of the budget, providing for increased transparency and greater accountability, and better communicating the value of certain job functions. He addressed documentation reviewed during the process and a timeline for review of other elements within the budget. This will be done in order for the Committee to provide guidance in terms of budget priorities. He reported that there will be a review of the City's year-end financial results as scheduled on the Finance Committee Workplan. He addressed the need for pre-budget recommendations from the Finance Committee to Council to develop funding strategies and assumptions.

Committee Member Tucker suggested focusing on big budget categories rather than just larger percentage changes in categories, potential savings by outsourcing and increasing efficiency by potentially in terms of reducing staffing levels and operations.

Finance Director Matusiewicz agreed and suggested those items should be considered prior to budget discussions. In addition, Finance Director Matusiewicz suggested having the Police and Fire Chief could provide a presentation on their operations for increased understanding of their respective departments.

Committee Member Tucker suggested that after staff takes a hard look at staffing levels, an independent consultant look at the City's organization, as a whole to determine possible staffing level reduction efficiencies while maintaining the same level of service as presently exists. He noted that every dollar saved in the operation is a dollar that can be spent on infrastructure that redounds to the benefit of the entire community.

Mayor Pro Tem Dixon asked regarding the City's key performance indicators (KPIs) and Finance Director Matusiewicz reported that in municipalities, those are hard to establish, but added that some metrics could include customer satisfaction, response time and whether the City is delivering projects in a timely fashion.

City Manager Dave Kiff commented on developing benchmarks using those of other cities and suggested bringing these to the Finance Committee for review. He commented on the possibility of an outside review of City operations noting that it is good in principle, but harder in practice and explained potential challenges.

Council Member Petros recounted concerns regarding the previous budget adoption process, provided recommendations and cautioned against making comparisons between public agencies and private entities. He addressed customer surveys and noted that responses were 90 percent for every one of the benchmarks identified.

Mayor Pro Tem Dixon commented on levels of service and questioned if the City is striving for 100 percent satisfaction or less.

Council Member Petros commented on the City's reserves and noted that criticism was made that the City was hoarding money and that residents wanted money spent on capital projects. When the City does spend, criticism is made that the City overspends and that there is no way to tell whether the City is doing something correctly as the City is at the whim of human nature in politics. He cautioned against using metrics to measure satisfaction.

Committee Member Tucker reiterated the need to look for efficiencies in terms of staffing levels. He acknowledged that staffing levels may be appropriate currently but felt the Finance Committee ought to make an effort to look into this factor since personnel is the single biggest expense of the City's business.

Chair Curry offered that the City has already reduced its headcount and is in the process of refreshing its infrastructure while maintaining the highest reserves in the City's history. He noted that the City has a high bond rating but acknowledged there may be specific items to review that may provide further efficiencies and opportunities to do things differently for improved processes and for doing the things that people want. He commented on the importance of having an economically strong and viable plan for the future.

City Manager Kiff commented on in-house reviews by Department Heads, encouraged Committee Members to make suggestions for improvements and stated he liked the idea of looking at distinct functions for the entire City.

Discussion followed regarding location of the survey and results, upcoming surveys, the possibility of issuing shorter surveys on a more frequent and regular basis.

City Manager Kiff reported that the City's goal is issuing a survey every two years to determine residents' satisfaction with the City's performance.

Mayor Pro Tem Dixon noted the need to review each recommendation, perhaps at the next Finance Committee meeting and suggested providing suggestions for benchmarking in terms of quality of life goals and financial metrics.

Chair Curry opened public comments.

Jim Mosher commented positively on the quality of employees in the City and agreed that more thought needs to be given in terms of measuring the City's performance in the services it delivers. He added that he is skeptical of surveys.

With no further public comments, Chair Curry closed public comments.

D. WASTEWATER SERVICE IN NEWPORT BEACH

Summary:

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

Recommended Action:

Provide recommendation to the City Council considering the following options:

Jim Mosher addressed sewage spills in the City of Newport Beach compared with those in the City of Costa Mesa. He commented on the Costa Mesa Sanitary District conducting a Proposition 218 rate study and suggested discussions between them and City staff, especially in terms of annexing systems as they are currently discussing plans to move their headquarter buildings. Regarding outsourcing, he stated that Orange County Sanitary District outsourced 100 miles for cleaning and that they have decided to do it in-house, once again. Additionally, they have a different service model.

With no further public comments, Chair Curry closed public comments.

Discussion followed regarding after-hour calls, videoing services and key Division functions.

Chair Curry believed there is not enough current information to make recommendations to Council to contract out the entire Department and that the Committee should direct staff to continue providing services as they have been and outsource those functions that can be outsourced for increased efficiency. He expressed concerns regarding directing more and more consultant studies.

Committee Member Tucker summarized that three important considerations came out of the discussion: (i) Outsourcing all functions would mean that the City would have to rely on a third party which may not be positioned locally to respond to emergency spills, rather than City staff performing that critical function; (ii) Merger with another entity would mean the City Council would no longer control the rate charged to rate payers; and (iii) If the City determined to not raise rates, it may not be able to implement the adopted Master Plan, unless it identified other sources of funds or alternatively, amended the Master Plan to a plan that could be implemented with finances available. Committee Member Tucker suggested the Council should weigh in on the policy issues described before the Finance Committee could make a recommendation.

Mayor Pro Tem Dixon suggested letting Council know that staff has reviewed the matter fully to determine functions that should and should not be outsourced.

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

Summary:

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

Recommended Action:

Provide direction to staff on the proposed changes.

Interim Assistant City Manager Carol Jacobs provided a brief report addressing proposed revisions to City Council Policy F-9. She noted wanting to expand the number of years in which the City keeps vehicles. She noted the savings of approximately \$1 million to the internal service fund.

Discussion followed regarding Police patrol vehicles.

Chair Curry opened public comments.

Jim Mosher questioned some of the changes and made suggestions for additional changes and commented on the expected service life.

With no further public comments, Chair Curry closed public comments.

Finance Committee Meeting Minutes
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Municipal Operations Director George Murdoch provided a PowerPoint presentation addressing a detailed Wastewater Service Report, goals and objectives of the Wastewater Division, maintenance of laterals, number of structures services, pump stations, responding quickly to prevent property damage and spills, service overview, staff reductions, outsourcing and annual contributions to the General Fund. He addressed the wastewater budget, revenues, functions currently being outsourced, other outsourcing opportunities, and challenges in terms of finding a pump station operations provider. Municipal Operations Director Murdoch addressed proposals for cleaning operations and noted that it appears the City can perform this task less expensively than by outsourcing. He commented on lateral replacements, the City's hourly rates, including pensions, and other outsourcing options.

Council Member Petros pointed out that Costa Mesa Sanitary District recently raised its rates.

In response to Mayor Pro Tem Dixon's question regarding access to reclaimed water, Municipal Operations Director Murdoch reported that all of the recycled water lines in the City are owned and operated by the Orange County Water District. He added that they have agreed to expand the program beyond the recycled program, that the City does not have the appropriate infrastructure in place and commented on Proposition 84 funds.

Municipal Operations Director Murdoch addressed pros and cons.

Council Member Petros expressed appreciation to staff for the work and commented on getting a second opinion. He suggested getting a consultant to review this, holistically, to see if there are any other opportunities.

Council Member Petros departed the meeting at this juncture.

Municipal Operations Director Murdoch provided potential next steps and asked for the Committee's comments in terms of recommendations to forward on to Council.

Discussion followed regarding the time involved in hiring a consultant to review the operation, the possibility of issuing an informal RFP, obtaining guidance in terms of increasing rates, the importance of having control over the function, whether staff would be comfortable outsourcing specific functions, being able to respond to emergency situations, and budgeting.

~~In reply to Committee Member O'Neill's question, Municipal Operations Director Murdoch addressed using less water because of the current drought conditions.~~

~~City Manager Kiff noted that the City has an adopted Master Plan and stated there are consequences if the City decides not to fund it.~~

Committee Member O'Neill sought clarification concerning the anticipated infrastructure spending of approximately \$1,000,000 per year. Municipal Operations Director Murdoch and City Manager Kiff addressed the City's adopted master infrastructure plan submitted to the County. City Manager Kiff noted stated that there are consequences if the City decides not to fund it.

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Chair Curry opened public comments.

Jim Mosher addressed sewage spills in the City of Newport Beach compared with those in the City of Costa Mesa. He commented on the Costa Mesa Sanitary District conducting a Proposition 218 rate study and suggested discussions between them and City staff, especially in terms of annexing systems as they are currently discussing plans to move their headquarter buildings. Regarding outsourcing, he stated that Orange County Sanitary District outsourced 100 miles for cleaning and that they have decided to do it in-house, once again. Additionally, they have a different service model.

Finance Committee Meeting Minutes
August 13, 2015

the ability to make changes, based on performance investment objectives. The motion carried with 6 ayes, and 1 absent (Committee Member McCullough).

Brief discussion followed regarding the City's independent advisors and independent data sources.

C. RECOMMENDATIONS FOR THE ANNUAL FINANCE COMMITTEE BUDGET REVIEW PROCESS

Summary:

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

Recommended Action:

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

Finance Director Matusiewicz provided a PowerPoint presentation addressing the Committee's desire to be more involved in the budget-review process, including communicating budget priorities and principles, discussing budget assumptions and strategies prior to the development of the budget, providing for increased transparency and greater accountability, and better communicating the value of certain job functions. He addressed documentation reviewed during the process and a timeline for review of other elements within the budget. This will be done in order for the Committee to provide guidance in terms of budget priorities. He reported that there will be a review of the City's year-end financial results as scheduled on the Finance Committee Workplan. He addressed the need for pre-budget recommendations from the Finance Committee to Council to develop funding strategies and assumptions.

Committee Member Tucker suggested focusing on big budget categories rather than just larger percentage changes in categories, potential savings by outsourcing and increasing efficiency by potentially in terms of reducing staffing levels and operations.

Finance Director Matusiewicz agreed and suggested those items should be considered prior to budget discussions. In addition, Finance Director Matusiewicz suggested having the Police and Fire Chief could provide a presentation on their operations for increased understanding of their respective departments.

Committee Member Tucker suggested that after staff takes a hard look at staffing levels, an independent consultant look at the City's organization, as a whole to determine possible staffing level reduction efficiencies while maintaining the same level of service as presently exists. He noted that every dollar saved in the operation is a dollar that can be spent on infrastructure that redounds to the benefit of the entire community.

Mayor Pro Tem Dixon asked regarding the City's key performance indicators (KPIs) and Finance Director Matusiewicz reported that in municipalities, those are hard to establish, but added that some metrics could include customer satisfaction, response time and whether the City is delivering projects in a timely fashion.

City Manager Dave Kiff commented on developing benchmarks using those of other cities and suggested bringing these to the Finance Committee for review. He commented on the possibility of an outside review of City operations noting that it is good in principle, but harder in practice and explained potential challenges.

Council Member Petros recounted concerns regarding the previous budget adoption process, provided recommendations and cautioned against making comparisons between public agencies and private entities. He addressed customer surveys and noted that responses were 90 percent for every one of the benchmarks identified.

Mayor Pro Tem Dixon commented on levels of service and questioned if the City is striving for 100 percent satisfaction or less.

Council Member Petros commented on the City's reserves and noted that criticism was made that the City was hoarding money and that residents wanted money spent on capital projects. When the City does spend, criticism is made that the City overspends and that there is no way to tell whether the City is doing something correctly as the City is at the whim of human nature in politics. He cautioned against using metrics to measure satisfaction.

Committee Member Tucker reiterated the need to look for efficiencies in terms of staffing levels. He acknowledged that staffing levels may be appropriate currently but felt the Finance Committee ought to make an effort to look into this factor since personnel is the single biggest expense of the City's business.

Chair Curry offered that the City has already reduced its headcount and is in the process of refreshing its infrastructure while maintaining the highest reserves in the City's history. He noted that the City has a high bond rating but acknowledged there may be specific items to review that may provide further efficiencies and opportunities to do things differently for improved processes and for doing the things that people want. He commented on the importance of having an economically strong and viable plan for the future.

City Manager Kiff commented on in-house reviews by Department Heads, encouraged Committee Members to make suggestions for improvements and stated he liked the idea of looking at distinct functions for the entire City.

Discussion followed regarding location of the survey and results, upcoming surveys, the possibility of issuing shorter surveys on a more frequent and regular basis.

City Manager Kiff reported that the City's goal is issuing a survey every two years to determine residents' satisfaction with the City's performance.

Mayor Pro Tem Dixon noted the need to review each recommendation, perhaps at the next Finance Committee meeting and suggested providing suggestions for benchmarking in terms of quality of life goals and financial metrics.

Chair Curry opened public comments.

Jim Mosher commented positively on the quality of employees in the City and agreed that more thought needs to be given in terms of measuring the City's performance in the services it delivers. He added that he is skeptical of surveys.

With no further public comments, Chair Curry closed public comments.

D. WASTEWATER SERVICE IN NEWPORT BEACH

Summary:

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

Recommended Action:

Provide recommendation to the City Council considering the following options:

Jim Mosher addressed sewage spills in the City of Newport Beach compared with those in the City of Costa Mesa. He commented on the Costa Mesa Sanitary District conducting a Proposition 218 rate study and suggested discussions between them and City staff, especially in terms of annexing systems as they are currently discussing plans to move their headquarter buildings. Regarding outsourcing, he stated that Orange County Sanitary District outsourced 100 miles for cleaning and that they have decided to do it in-house, once again. Additionally, they have a different service model.

With no further public comments, Chair Curry closed public comments.

Discussion followed regarding after-hour calls, videoing services and key Division functions.

Chair Curry believed there is not enough current information to make recommendations to Council to contract out the entire Department and that the Committee should direct staff to continue providing services as they have been and outsource those functions that can be outsourced for increased efficiency. He expressed concerns regarding directing more and more consultant studies.

Committee Member Tucker summarized that three important considerations came out of the discussion: (i) Outsourcing all functions would mean that the City would have to rely on a third party which may not be positioned locally to respond to emergency spills, rather than City staff performing that critical function; (ii) Merger with another entity would mean the City Council would no longer control the rate charged to rate payers; and (iii) If the City determined to not raise rates, it may not be able to implement the adopted Master Plan, unless it identified other sources of funds or alternatively, amended the Master Plan to a plan that could be implemented with finances available. Committee Member Tucker suggested the Council should weigh in on the policy issues described before the Finance Committee could make a recommendation.

Mayor Pro Tem Dixon suggested letting Council know that staff has reviewed the matter fully to determine functions that should and should not be outsourced.

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

Summary:

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

Recommended Action:

Provide direction to staff on the proposed changes.

Interim Assistant City Manager Carol Jacobs provided a brief report addressing proposed revisions to City Council Policy F-9. She noted wanting to expand the number of years in which the City keeps vehicles. She noted the savings of approximately \$1 million to the internal service fund.

Discussion followed regarding Police patrol vehicles.

Chair Curry opened public comments.

Jim Mosher questioned some of the changes and made suggestions for additional changes and commented on the expected service life.

With no further public comments, Chair Curry closed public comments.



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

Agenda Item No. 5A
September 16, 2015

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: Proposed Budget Preparation Framework

SUMMARY:

During the August 13, 2015, Finance Committee meeting, members discussed three recommended actions for bringing greater transparency and accountability during the annual budget development process. Staff believes that following a proposed budget preparation framework consisting of budget principles, and associated strategies and tactics can be a reliable vehicle for improving the City's budget process.

RECOMMENDED ACTION:

Review and provide comment to staff's proposed Budget Preparation Framework, attached as Appendix A, and Broad Financial Goals attached as Appendices B.1 and B.2.

DISCUSSION:

The Finance Committee expressed an interest in having greater involvement in the review of the proposed budget prior to its adoption by the City Council. During the August 13, 2015, Finance Committee meeting, members discussed and generally agreed to pursue the following for bringing greater transparency and accountability during the annual budget development process:

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

- Prior to Budget Development, provide Finance Committee and other stakeholders the ability to assess services, programs, and resource utilization. If needed, involve the participation of department directors and their key staff to describe program purposes, beneficiaries, and needs served.
- City Manager's Office can facilitate a Finance Committee review of selected City programs or functions that have the potential to operate more efficiently or at lower cost if outsourced in whole or in part.

To this end, staff believes that following the proposed Budget Preparation Framework that consists of goals, strategies and associated tactics is an ideal means of establishing priorities, guiding program activities, and allocating resources (see Appendix A). Goals or "budget principles" represent statements that identify the broad goals that provide overall direction for the City and serve as a basis for decision making. Strategic objectives are major accomplishments that the City seeks to achieve over a specified period of time to achieve its long term goals. Tactics identify what should be done, that is, outline the specific tasks that must be accomplished to achieve the strategic objectives.

Staff recommends that the Finance Committee review and provide comment to staff's proposed Budget Preparation Framework (Appendix A) and Broad Financial Goals (Appendix B.1). The Broad Financial Goals are articulated in various Council Financial Policies and Appendix B.1 provides some examples of quantifiable goals that are pursued annually. Staff also welcomes the Finance Committee to review the Fiscal Year 2015-2016 budget to assess current services, programs, and resource utilization. This will provide members with the context and understanding of the City's programs in advance of the Fiscal Year 2016-2017 budget process and reinforce an environment of continual process improvement.

Prepared and Submitted by:

/s/ Dan Matusiewicz

Dan Matusiewicz
Finance Director

Appendices:

- A Proposed Budget Preparation Framework for Newport Beach
- B.1 Broad Financial Goals
- B.2 Broad Financial Goals - Fiscal Sustainability Plan

APPENDIX A

Proposed Budget Preparation Framework for Newport Beach

Appendix A

Proposed Budget Preparation Framework for Newport Beach

GOALS- Our Stated Budget Principles:

- Follow the Fiscal Sustainability Plan (FSP)
- Five key budget principles of our “Shining City by the Bay”:
 - G.1 Keeping the community safe.
 - G.2 Providing the quality of and mix of services that Newport Beach residents expect in a cost effective manner.
 - G.3 Keeping Newport Beach looking great.
 - G.4 Maintain a fiscally stable and sustainable city government (as articulated in our broad financial goals and the FSP).
 - G.5 Providing Government Transparency to our citizenry¹

STRATEGIC OBJECTIVES - We want to:

- S.1** Attract and retain quality employees within our marketplace. (in furtherance of G.2)
- S.2** Be as efficient as possible, while still providing strong customer service. (G.2)
- S.3** Seek outsourced service provision where it makes good sense and saves resources (acknowledging that prevailing wage law changes and legacy unfunded liability costs factor in here, too). (G.2)
 - S.3.1 Review these concepts with the Finance Committee
 - S.3.2 Use outside consultants to review this for us to avoid bias
 - S.3.3 No sacred cows, at least for discussion purposes.
- S.4** Use technology to improve customer service and reduce costs, but still have real persons for our residents to connect with. (G.2)
- S.5** Avoid the “crowd-out” – where pension and OPEB costs cause us to under-invest in roads, buildings, parks, community safety, and other community amenities. (G.3 and G.4)
- S.6** Invest as much resources as we can in capital projects that enhance and protect community value – such as sea walls, park upgrades, transportation systems (signals, roads, bike lanes), water quality, and more. This can involve trying to reduce staffing costs to provide enough funding for capital obligations. (G.3)

¹ Via the City Charter, it’s still the City Manager’s role to prepare and present the budget to the City Council for consideration. Other input is always welcomed, but a path that does not have the City Manager directly presenting the Budget to the Council is not one any city manager would ever accept.

Appendix A

Proposed Budget Preparation Framework for Newport Beach

- S.7** Maintain low or no levels of debt, and stay current on all debt obligations. (G.4)
- S.8** Be aggressive in addressing our pension obligations – in the short- and long-term. (G.4)
- S.9** Manage income properties so that they recover fair market value (FMV) and/or reflect a purposeful community benefit as an offset to FMV. (G.4)
- S.10** Provide a safe and healthy environment for all community members and visitors by maintaining adequate funding for programs that in Police, Fire, Lifeguard and Building Safety. (G.1)

TACTICS - Preparing the Budget:

- T.1** Our budget will be balanced. (G.4)
- T.2** We will follow the Council's reserve policies, the Fiscal Sustainability Plan, our Master Plans, and the Facilities Financing Plan. (G.3 and G.4)
- T.3** We will be conservative but practical in our revenue estimates. (G.4)
- T.4** Will be conservative with an eye towards past performance in our expenditure estimates. (G.4)
- T.5** As a staff, we will be protective of all known sources of revenue – existing and potential. (G.4)
- T.6** Our budget will maximize, to the extent practical, our community's capital needs. (G.3)
- T.7** Our budget and our budget process will be clear, transparent, and as available to the public as possible. (G.5)
- T.8** We welcome anyone's questions about any aspect of the budget or the budget process. We are here to educate, answer questions, consider new ideas, listen and course-correct if need be. (G.5)
- T.9** Our longer-term goal is to provide budget information on a program-by-program basis, with good metrics that allow performance measurement of these programs. This requires the new ERP to be more fully implemented.
 - Why not use zero-based budgeting? It's not a crazy approach, but it can be an exercise with minimal value compared with the time it takes to do it. I.e., would you really do this with fire suppression or the traffic control program in the PD? MOUs and labor laws complicate implementation, too.
- T.10** Ways to Better Involve the Public and/or the Finance Committee (G.5):

Appendix A

Proposed Budget Preparation Framework for Newport Beach

T.10.1 Staff would take the Finance Committee (FC) through a series of three to four “deep dives” into specific budget divisions or programs, with explanations about the Budget Detail and salaries, benefits, contract service accounts, and more. Set aside enough time to do this without anyone feeling rushed.

- Have each member of the FC identify 2-3 areas of interest – or questions they want answered before they have a final discussion about the budget – and complete these to general satisfaction prior to having the Council’s spring 2016 budget sessions for FY 16-17.

T.10.2 Provide an open public informal workshop on reading and understanding the budget documents as well as the budget preparation process (especially revenue assumptions, how new programs are analyzed). Take one program to have a “deep dive” into as an example. Cover key interest areas – PERS/OPEB, reserves, salaries and MOUs, Master Plans, more. Encourage folks to become more expert in budget issues by answering any and all questions.

T.10.3 Schedule the aforementioned 3-4 outsourcing reviews each year by the FC.

APPENDIX B.1

Broad Financial Goals

Appendix B.1 Broad Financial Goals

The City's broad Financial Goals are articulated in Council Financial Policies and the Fiscal Sustainability Plan. Examples include but are not limited to the following:

- A. Credit Ratings** - The City will consider published ratings agency guidelines regarding best financial practices and guidelines for structuring its capital funding and debt strategies to maintain the highest possible credit ratings consistent with its current operating and capital needs. *Council Policy F-29*

- B. General Fund Bonded Debt** – Debt service shall not exceed 8 percent of General Fund Revenues. *Council Policy F-6*

- C. Capital Savings** – General Fund Contributions to the Facilities Financial Planning fund shall not be less than 3 percent of General Fund Revenues. *Council Policy F-28*

- D. Contingency Reserves** – General Fund Contingency reserves shall not be less than 25 percent of the General Fund operating budget. *Council Policy F-2*

- E. Water & Wastewater Contingency Reserves** – The target level of this reserve is 50 percent of the annual operating budget. *Council Policy F-2*

- F. Insurance Reserve Levels** – The target reserve level is 100 percent of the expected liability plus a margin to allow for a 75 percent statistical confidence level. *Council Policy F-2*

- G. Pension Funding** – Annual Funding shall be 100 percent of the Annual Required Contribution (ARC)

- H. Revenues** – Various see *Council Policy F-4*.

APPENDIX B.2

Broad Financial Goals – Fiscal Sustainability Plan

Appendix B.2 Broad Financial Goals – Fiscal Sustainability Plan

Resolution 2015-47, adopted on June 10, 2015, by the Newport Beach City Council set forth the below:

ELEMENTS OF THE CITY'S FISCAL SUSTAINABILITY PLAN

1. The City will proactively seek to protect and expand its tax base by encouraging a healthy underlying local economy.
2. The City will work to enhance and protect the property values of all Newport Beach residents and property owners.
3. The City will work to enhance and protect the City's quality of life through strategic and sustained investment in quality capital infrastructure improvements that are both long lasting and fiscally responsible.
4. The City will encourage shopping, dining, and visiting at Newport Beach stores, restaurants, and hotels.
5. The City will establish and maintain appropriate cash reserves.
6. The City will manage its Facilities Financial Planning Reserve so that General Fund contributions to the reserve shall not be less than three percent (3%) of the total General Fund Revenue Budget.
7. City revenue performance will be reviewed no less than quarterly and appropriate budget adjustments will be made in advance of the end of a budget year if revenue performance is not meeting projections.
8. The City will initiate a "results-based budgeting" approach that allows the public and the City Council to prioritize City expenditures strategically rather than simply adjusting legacy expenditures to reflect inflation.
9. The City will implement a Performance Measurement/Management Strategy as part of an ongoing effort to ensure high-quality and efficient performance.
10. The City will consider competitive contracting of services and equipment when appropriate and where clear, cost-effective alternatives exist.
11. The City will make it a priority to be energy efficient in its provision of public services.
12. The City will establish appropriate cost-recovery targets for its fee structure and will annually adjust its fee structure to ensure that the fees continue to meet cost recovery targets.
13. The City will oppose efforts of the State and County governments to divert revenues from the City or to increase the unfunded service mandate of City taxpayers.
14. The City will work in partnership with its employees to ensure fair compensation and that costs related to pension and other benefits are appropriately allocated between employer and employees.
15. The City will vigorously defend itself and its taxpayers against frivolous lawsuits.
16. The City will seek additional intergovernmental funding and grants, with a priority on funding one-time capital projects. Grant-funded projects that require multi-year support will be reviewed by the Finance Committee.

Proposed FY 2016-17 Budget Preparation Framework for the City of Newport Beach

City of Newport Beach
Finance Committee Meeting
September 16, 2015



2

Reasons for Considering the Adoption of a Budget Preparation Framework

- Provide the Finance Committee with greater involvement in the review of the proposed budget prior to its adoption by the City Council.
- Provide greater transparency into the City's annual budget process for all stakeholders.
- Increase confidence in the budget development process and secure unanimous City Council adoption.

3

Purpose of a Budget Framework

- Captures the fundamental purposes for which the City serves its citizens through broad goals that provide overall direction and serve as the basis for resource allocation (Budget Principles).
- Identifies major accomplishments the City seeks to achieve (Strategic Objectives).
- Identifies what should be done – the specific tasks that are needed in order to achieve the strategic objectives (Tactics).

4

REVIEW OF THE BUDGET PREPARATION FRAMEWORK

Recommendation

Review and provide comment to Staff's proposed Budget Preparation Framework and Broad Financial Goals.

Related Action Items

Description	Assigned To	Timeframe
Review and provide input on Budget Principles, Strategies, Tactics, and Broad Financial Goals	FC	Sep – Oct 2015
Review and provide input on Budget Principles, Strategies, Tactics, and Broad Financial Goals	CC	Oct or Nov 2015
Participate in budget “deep dives” into specific budget divisions or programs	FC and staff	Oct 2015 – February 2016
Each FC member to identify 2-3 areas of interest or budget questions	FC	Oct 2015 – April 2016
Schedule 3-4 outsourcing reviews every year	FC and staff	Wastewater completed 8-13-15 Next planned for Nov 2015

Questions & Comments



30 Year Amortization Applicable to Experience Gains & Losses

(Consider combining select amortization bases to less than or equal to 20 Yr. period.)

Amort Schedule & Cash Flow		Interest		Salary		Ramp	
		7.50%		3.00%		5	
				26		4.59855	
				15.46101			
A		B					
Sample 30 year		30 Year Sample		Annual		Pmt Diff	
Fixed Amort - Level % of Pay		Fixed Amort with 5 Yr. Ramps					
Balance	Period	Payment	Balance	Period	Payment		
2013							
2014							
1 2016	\$ 10,000,000	30	\$ 600,505	\$ 10,000,000	30	\$ 140,650	\$ 459,855
2 2017	\$ 10,127,383	29	\$ 618,520	\$ 10,604,171	29	\$ 289,740	\$ 328,781
3 2018	\$ 10,245,641	28	\$ 637,076	\$ 11,099,075	28	\$ 447,648	\$ 189,428
4 2019	\$ 10,353,530	27	\$ 656,188	\$ 11,467,374	27	\$ 614,770	\$ 41,419
5 2020	\$ 10,449,694	26	\$ 675,874	\$ 11,690,021	26	\$ 791,516	\$ (115,642)
6 2021	\$ 10,532,660	25	\$ 696,150	\$ 11,746,111	25	\$ 815,262	\$ (119,111)
7 2022	\$ 10,600,825	24	\$ 717,035	\$ 11,781,788	24	\$ 839,719	\$ (122,685)
8 2023	\$ 10,652,450	23	\$ 738,546	\$ 11,794,783	23	\$ 864,911	\$ (126,365)
9 2024	\$ 10,685,643	22	\$ 760,702	\$ 11,782,632	22	\$ 890,858	\$ (130,156)
10 2025	\$ 10,698,353	21	\$ 783,523	\$ 11,742,668	21	\$ 917,584	\$ (134,061)
11 2026	\$ 10,688,356	20	\$ 807,229	\$ 11,671,997	20	\$ 945,112	\$ (138,083)
12 2027	\$ 10,653,237	19	\$ 831,240	\$ 11,567,484	19	\$ 973,465	\$ (142,225)
13 2028	\$ 10,590,382	18	\$ 856,177	\$ 11,425,736	18	\$ 1,002,669	\$ (146,292)
14 2029	\$ 10,496,958	17	\$ 881,862	\$ 11,243,077	17	\$ 1,032,749	\$ (150,887)
15 2030	\$ 10,369,895	16	\$ 908,318	\$ 11,015,531	16	\$ 1,063,731	\$ (155,413)
16 2031	\$ 10,205,873	15	\$ 935,568	\$ 10,738,795	15	\$ 1,095,643	\$ (160,076)
17 2032	\$ 10,001,297	14	\$ 963,635	\$ 10,408,218	14	\$ 1,128,513	\$ (164,878)
18 2033	\$ 9,752,276	13	\$ 992,544	\$ 10,018,768	13	\$ 1,162,368	\$ (169,824)
19 2034	\$ 9,454,606	12	\$ 1,022,320	\$ 9,565,006	12	\$ 1,197,239	\$ (174,919)
20 2035	\$ 9,103,737	11	\$ 1,052,990	\$ 9,041,058	11	\$ 1,233,156	\$ (180,167)
21 2036	\$ 8,694,754	10	\$ 1,084,579	\$ 8,440,574	10	\$ 1,270,151	\$ (185,572)
22 2037	\$ 8,222,345	9	\$ 1,117,117	\$ 7,756,696	9	\$ 1,308,255	\$ (191,139)
23 2038	\$ 7,680,770	8	\$ 1,150,630	\$ 6,982,020	8	\$ 1,347,503	\$ (196,873)
24 2039	\$ 7,063,829	7	\$ 1,185,149	\$ 6,108,551	7	\$ 1,387,928	\$ (202,779)
25 2040	\$ 6,364,827	6	\$ 1,220,704	\$ 5,127,658	6	\$ 1,429,566	\$ (208,862)
26 2041	\$ 5,576,537	5	\$ 1,257,325	\$ 4,030,027	5	\$ 1,472,453	\$ (215,128)
27 2042	\$ 4,691,155	4	\$ 1,295,044	\$ 2,805,607	4	\$ 1,213,301	\$ 81,743
28 2043	\$ 3,700,261	3	\$ 1,333,896	\$ 1,758,050	3	\$ 937,275	\$ 396,621
29 2044	\$ 2,594,768	2	\$ 1,373,913	\$ 918,116	2	\$ 643,596	\$ 730,317
30 2045	\$ 1,364,873	1	\$ 1,415,130	\$ 319,680	1	\$ 331,452	\$ 1,083,678

20 Year Amortization Applicable to Actuarial Assumption Changes

(Consider "Fresh Start" to avoid Negative Amortization inherent in 5Yr Ramp)

Amort Schedule & Cash Flow		Interest		Salary		Ramp	
		7.50%		3.00%		5	
				26		4.59855	
				11.41659			
C		D		B-C			
Sample 20 year		20 Year Sample		Annual		Pmt Diff	
Fixed Amort - Level % of Pay		Fixed Amort with 5 Yr. Ramps					
Balance	Period	Payment	Balance	Period	Payment		
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2014							
1 2016	\$ 10,000,000	20	\$ 755,054	\$ 10,000,000	20	\$ 190,477	\$ 564,577
2 2017	\$ 9,967,143	19	\$ 777,706	\$ 10,552,509	19	\$ 392,382	\$ 385,324
3 2018	\$ 9,908,336	18	\$ 801,037	\$ 10,937,117	18	\$ 606,231	\$ 194,806
4 2019	\$ 9,820,928	17	\$ 825,068	\$ 11,128,847	17	\$ 832,557	\$ (7,489)
5 2020	\$ 9,702,049	16	\$ 849,820	\$ 11,100,297	16	\$ 1,071,917	\$ (222,097)
6 2021	\$ 9,548,590	15	\$ 875,315	\$ 10,821,433	15	\$ 1,104,074	\$ (228,760)
7 2022	\$ 9,357,189	14	\$ 901,574	\$ 10,488,311	14	\$ 1,137,197	\$ (235,622)
8 2023	\$ 9,124,206	13	\$ 928,622	\$ 10,095,864	13	\$ 1,171,313	\$ (242,691)
9 2024	\$ 8,845,706	12	\$ 956,480	\$ 9,638,611	12	\$ 1,206,452	\$ (249,972)
10 2025	\$ 8,517,434	11	\$ 985,175	\$ 9,110,631	11	\$ 1,242,646	\$ (257,471)
11 2026	\$ 8,134,791	10	\$ 1,014,730	\$ 8,505,526	10	\$ 1,279,925	\$ (265,195)
12 2027	\$ 7,692,806	9	\$ 1,045,172	\$ 7,816,386	9	\$ 1,318,323	\$ (273,151)
13 2028	\$ 7,186,110	8	\$ 1,076,527	\$ 7,035,748	8	\$ 1,357,872	\$ (281,346)
14 2029	\$ 6,608,901	7	\$ 1,108,823	\$ 6,155,558	7	\$ 1,398,609	\$ (289,786)
15 2030	\$ 5,954,917	6	\$ 1,142,087	\$ 5,167,116	6	\$ 1,440,567	\$ (298,479)
16 2031	\$ 5,217,394	5	\$ 1,176,350	\$ 4,061,038	5	\$ 1,483,784	\$ (307,434)
17 2032	\$ 4,389,033	4	\$ 1,211,640	\$ 2,827,197	4	\$ 1,222,638	\$ (10,997)
18 2033	\$ 3,461,955	3	\$ 1,247,990	\$ 1,771,578	3	\$ 944,488	\$ 303,502
19 2034	\$ 2,427,659	2	\$ 1,285,429	\$ 925,181	2	\$ 648,548	\$ 636,881
20 2035	\$ 1,276,972	1	\$ 1,323,992	\$ 322,140	1	\$ 334,002	\$ 989,990
21 2036	\$ -			\$ (0)		\$ -	\$ -

Sum of Payments	\$28,569,288	\$28,788,783	Sum of Payments	\$20,288,591	\$20,384,001
NPV @ 3%	\$17,490,445	\$17,751,986	NPV @ 3%	\$14,661,248	\$14,794,320
Sum Difference		\$219,495	Sum Difference		\$95,409
NPV Difference @ 3%		\$261,541	NPV Difference @ 3%		\$133,072

IRR 7.5%

Total Savings over 30 Years	\$8,500,192
NPV Savings Over 30 Year Plan	\$2,829,197

Total Savings over 30 Years	\$8,404,782
NPV Savings Over 30 Year Plan	\$2,957,666

PV Savings between 30 Yr. Schedule with 5 Year Ramps and 20 Yr. Schedule on a Level % of Pay	\$3,090,738
PV Savings Metric	30.9%
Internal Rate of Return (IRR)	7.50%

NOTES:

- Principal balance growing (Negative Amortization)
- Balance declining but outstanding balance still exceeds original principal balance
- Balance declining and outstanding balance is less than original principal balance
- * Internal Rate of Return (IRR) is the more precise computation of Return on Investment (ROI).

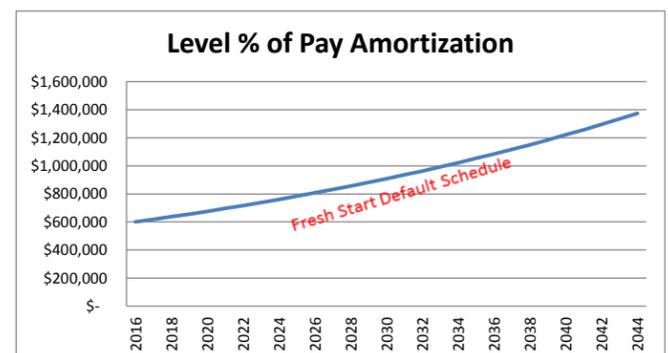
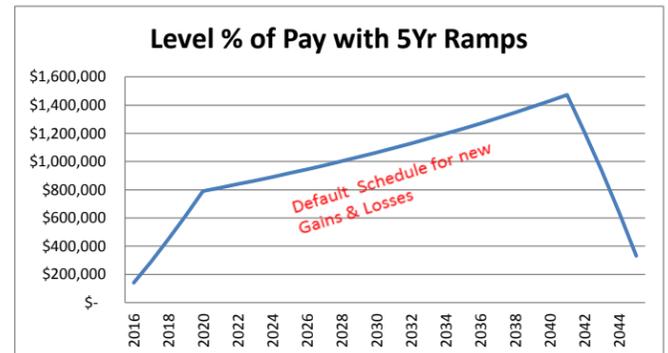
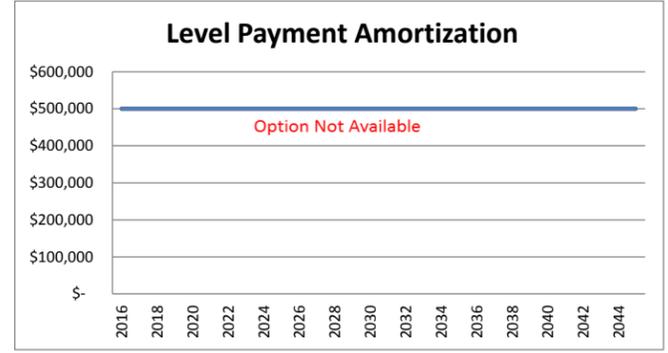
Item No. 5B1

Public Employees Retirement System and Other Post-Employment Benefits Primer

Additional Materials Received

September 16, 2015

SAMPLE AMORTIZATION SCHEDULES



Observations:

- An amortization "base" is constituted at the end of any year where actual experience differs from actuarial assumptions or when the assumption itself is changed.
- Amortization Schedule B is the default option when there is an experience Gain/Loss.
- Amortization Schedule D is the default option when there is change in actuarial assumption.
- In all cases, A, B & D schedules negatively amortize for a significant period of time.
- The red highlights denote the period of time the outstanding balance is growing (negatively amortizing). The yellow highlights denote the time the outstanding balance is larger than the original principal.
- Amortization Schedules A & B take between 18-19 Years before the outstanding balance is less than the original principal.
- Amortization Schedule D takes 9 years before the outstanding balance is less than the original principal.
- Amortization Schedule C (20 Year Level Percent of Pay) starts paying down principal right from the start.

Why is this important?

- As result of the 2014 Valuation, we will have two new bases in addition to our Fresh Start Base in which we can choose to amortize differently than the default. These bases are in addition to our 2015 "Fresh-Start" Base, amortizing over 19 years on level percent of pay basis. One base is negative, associated with the extended life expectancy assumption. The other is positive, associated with the 18.5% return realized FYE 6/30/2014.
- We can shorten the amortization period and utilize the level percent of pay schedule when we choose to combine or "Fresh Start" two or more amortization bases.
- The IRR* of 7.5% obtained by accelerating any of these schedules is significant and result in substantial savings over time.
- The funded status of the plans improves more rapidly when we are selective about the amortization shedule we choose.

Analysis of Unfunded Pension Liability and Payment Options
6/30/13 Actuarial Valuation
Prepared October 2014

SAFETY PLAN - AMORTIZATION BASES

CALPERS ACTUARIAL VALUATION - June 30, 2013
SAFETY PLAN OF THE CITY OF NEWPORT BEACH
CalPERS ID: 1545983430**Schedule of Amortization Bases**

There is a two-year lag between the Valuation Date and the Contribution Fiscal Year.

- The assets, liabilities and funded status of the plan are measured as of the valuation date; June 30, 2013.
- The employer contribution rate determined by the valuation is for the fiscal year beginning two years after the valuation date; fiscal year 2015-16.

This two-year lag is necessary due to the amount of time needed to extract and test the membership and financial data, and due to the need to provide public agencies with their employer contribution rates well in advance of the start of the fiscal year.

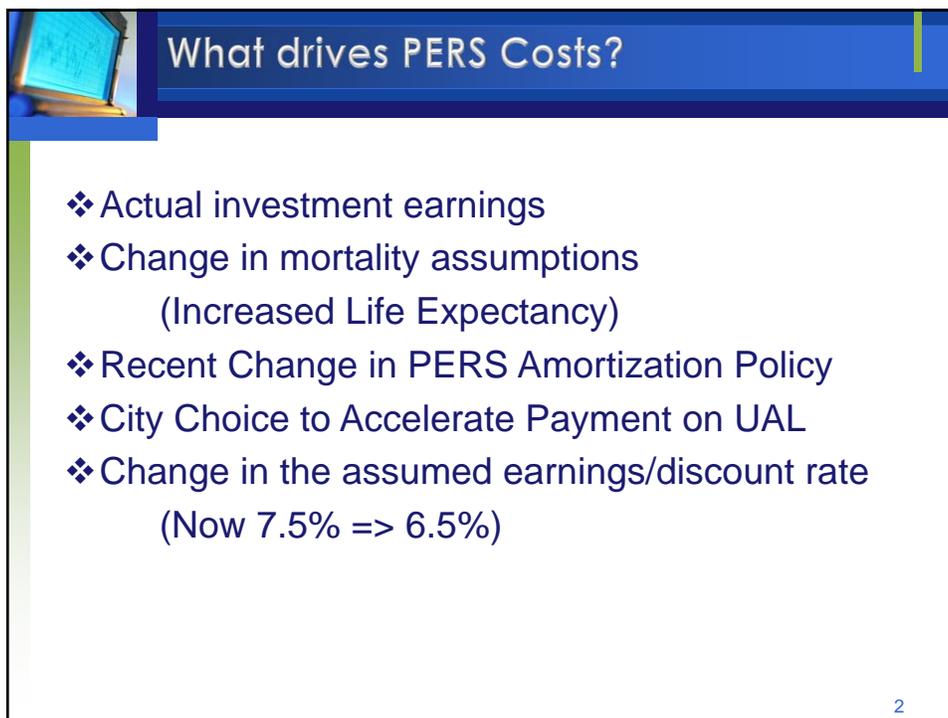
The Unfunded Liability is used to determine the employer contribution and therefore must be rolled forward two years from the valuation date to the first day of the fiscal year for which the contribution is being determined. The Unfunded Liability is rolled forward each year by subtracting the expected Payment on the Unfunded Liability for the fiscal year and adjusting for interest. The Expected Payment on the Unfunded Liability for a fiscal year is equal to the Expected Employer Contribution for the fiscal year minus the Expected Normal Cost for the year. The Employer Contribution Rate for the first fiscal year is determined by the actuarial valuation two years ago and the rate for the second year is from the actuarial valuation one year ago. The Normal Cost Rate for each of the two fiscal years is assumed to be the same as the rate determined by the current valuation. All expected dollar amounts are determined by multiplying the rate by the expected payroll for the applicable fiscal year, based on payroll as of the valuation date.

Reason for Base	Date Established	Amortization Period	Amounts for Fiscal 2015-16						
			Balance 6/30/13	Expected Payment 2013-14	Balance 6/30/14	Expected Payment 2014-15	Balance 6/30/15	Scheduled Payment for 2015-16	Payment as Percentage of Payroll
FORCED FS OLD METHOD	06/30/11	24	\$115,986,951	\$7,501,900	\$116,907,836	\$7,726,957	\$117,664,444	\$7,958,766	25.325%
PAYMENT (GAIN)/LOSS	06/30/12	29	\$437,717	\$(497,509)	\$986,374	\$59,232	\$998,939	\$61,009	0.194%
(GAIN)/LOSS	06/30/12	29	\$9,655,596	\$0	\$10,379,766	\$623,310	\$10,511,986	\$642,010	2.043%
(GAIN)/LOSS	06/30/13	30	\$37,123,188	\$(113,688)	\$40,025,301	\$(138,934)	\$43,171,248	\$607,205	1.932%
TOTAL			\$163,203,452	\$6,890,703	\$168,299,277	\$8,270,565	\$172,346,617	\$9,268,990	29.495%

Using the "Schedule of Amortization Bases" (Page 19 of the 6/30/13 Val) enter the individual amortization base(s) into the Current Schedule for each plan noting the amortization period. Also note that effective 6/30/13 and later new bases utilize a 5 year ramp on the front and back end of the amortization schedule.



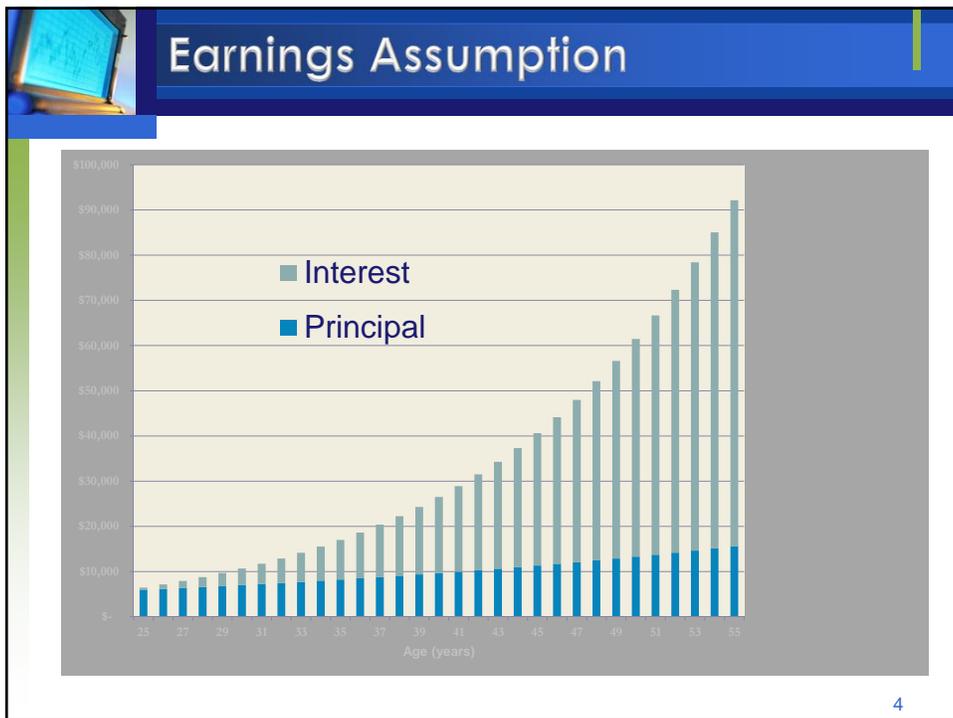
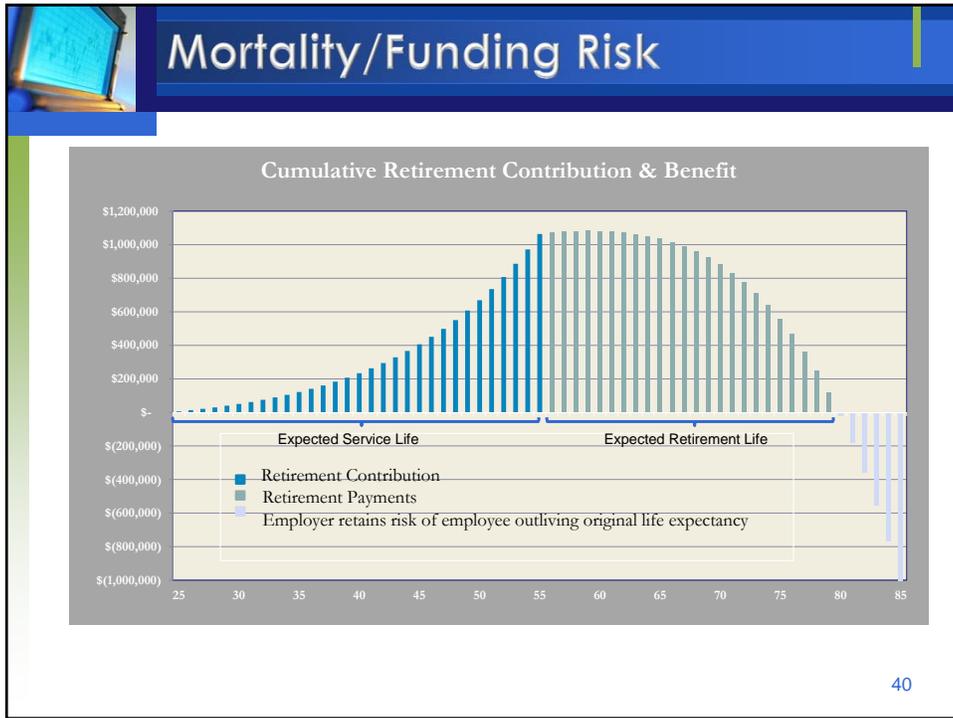
FINANCE COMMITTEE
PERS/OPEB PRIMER
September 16, 2015

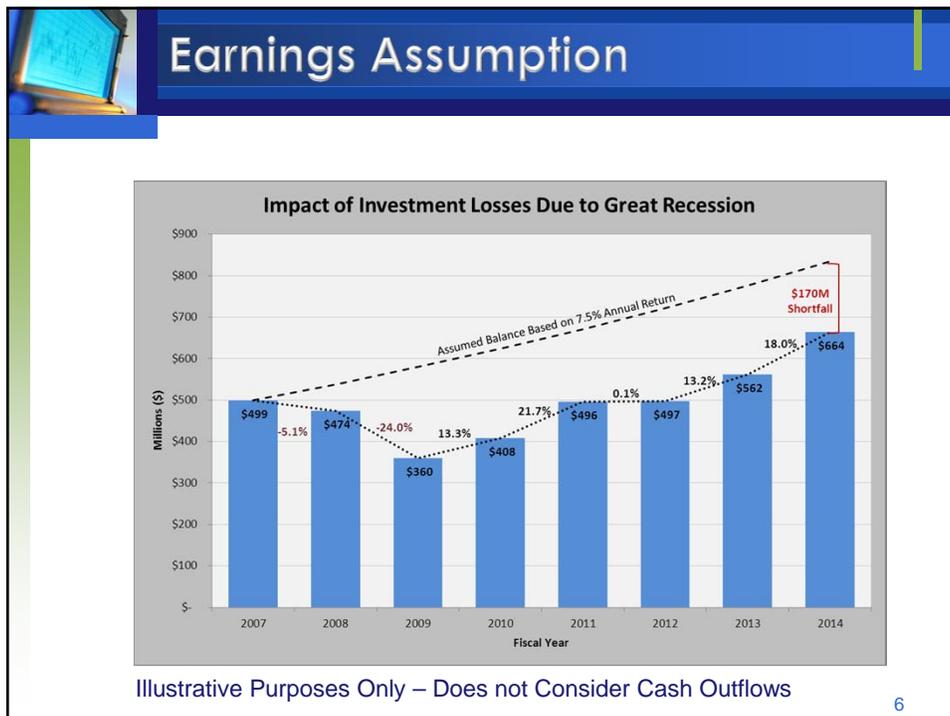
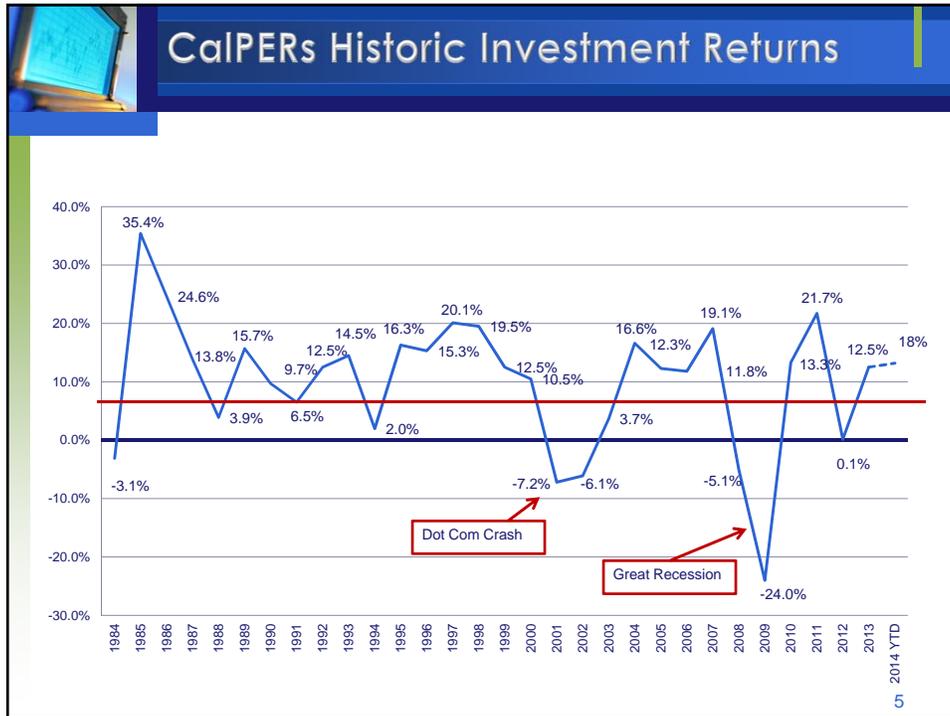


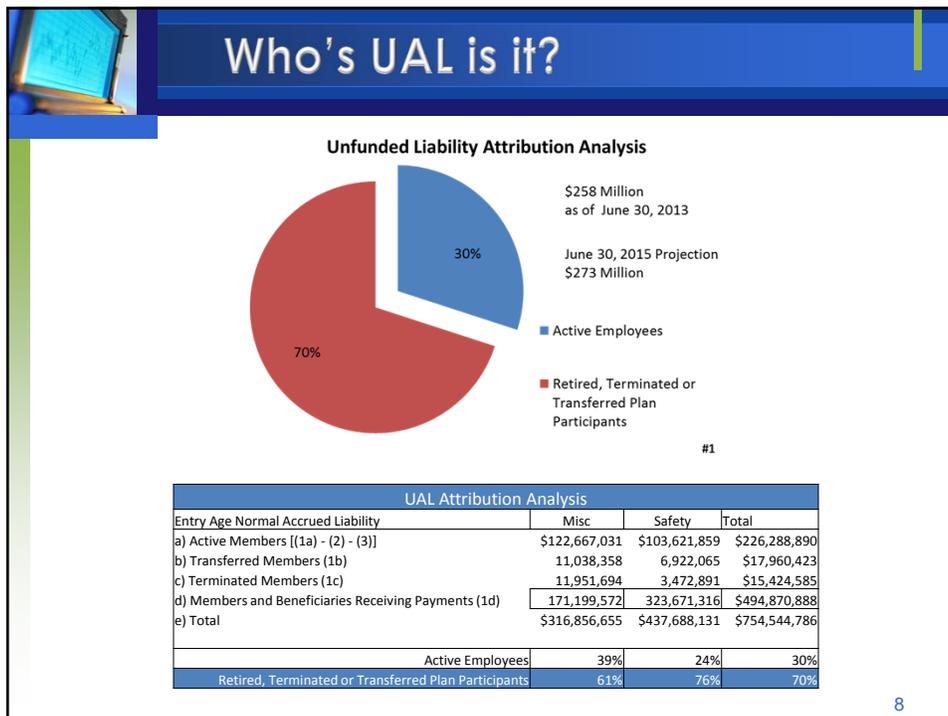
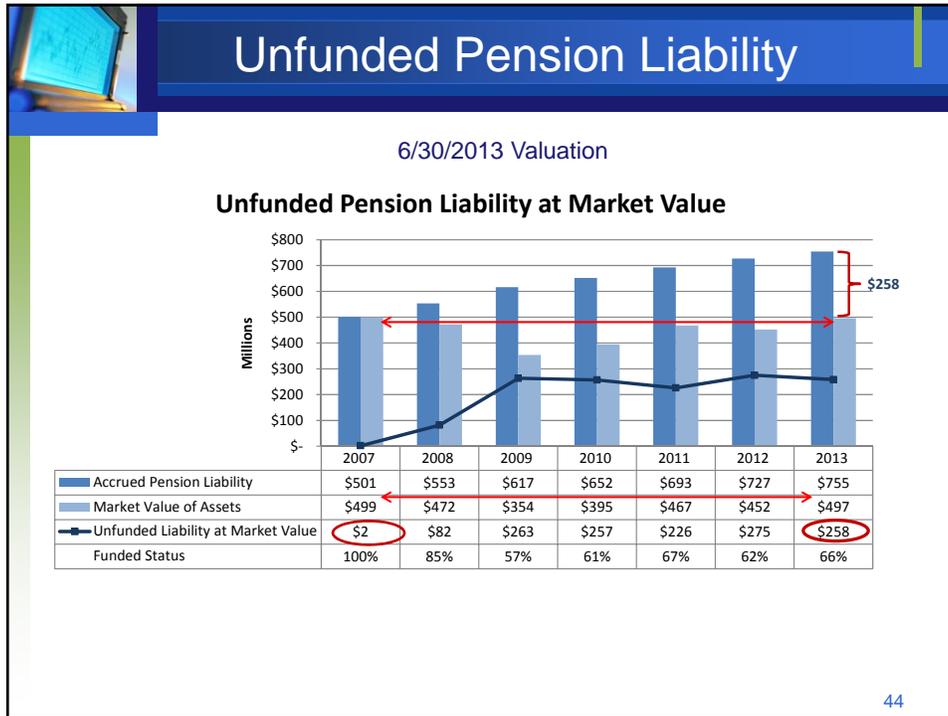
What drives PERS Costs?

- ❖ Actual investment earnings
- ❖ Change in mortality assumptions
(Increased Life Expectancy)
- ❖ Recent Change in PERS Amortization Policy
- ❖ City Choice to Accelerate Payment on UAL
- ❖ Change in the assumed earnings/discount rate
(Now 7.5% => 6.5%)

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What has the City done to mitigate rising pension costs?

- ❖ Staff reduction from 833 full-time positions to 730 thus reducing liabilities. (\$8-9 million reduction in salary and benefits)
- ❖ Increase of employee contributions to pension payments, including having employees pay a portion of what is traditionally the “employer’s share” of the cost. (\$8.5 million est. in FY 2015-16)
- ❖ Establishment of 2nd and 3rd Tiers for new hires and transfers, with less-generous pension benefits, later retirement ages, and additional employee contributions. (Savings expected gradually)
- ❖ Fresh Starts - Accelerating payment on UAL avoids significant interest accumulation

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Employees Paying Greater Share

Employee/Employer Share of Normal Pension Cost

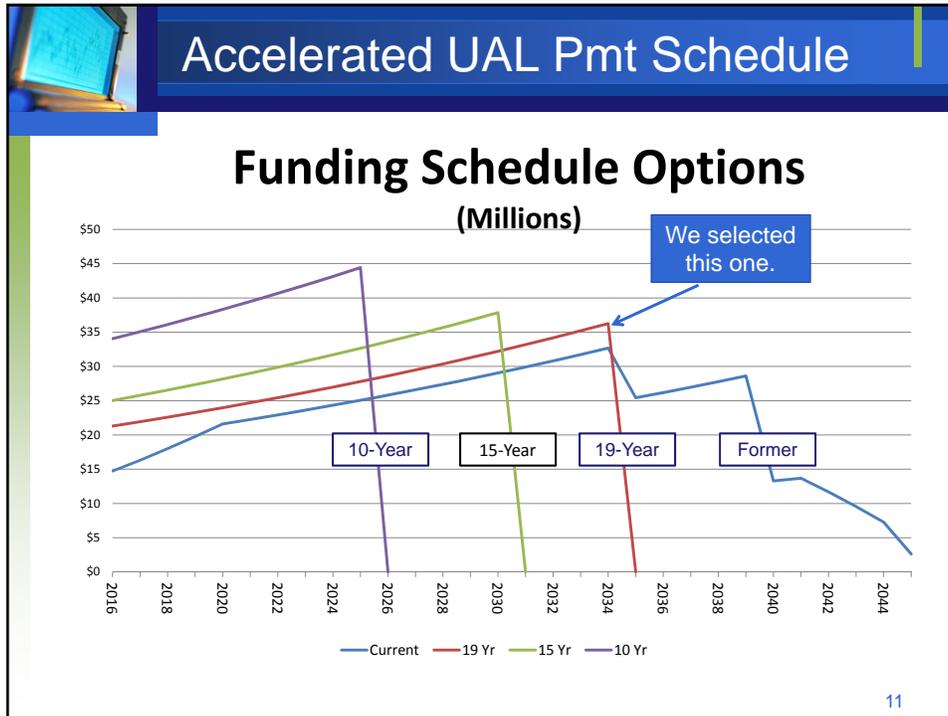
Year	Employee Share (%)	Employer Share (%)
FY 15 Amended	51%	49%
FY 16 Estimated	58%	42%

Employee/Employer Share of Total Pension Cost

Year	Employee Share (%)	Employer Share (%)
FY 15 Amended	21%	79%
FY 16 Estimated	23%	77%

■ Employer Share ↓
■ Employee Share ↑

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Incremental Cost/Savings

Total (Millions)

Years	Full UAL Payment				Incremental Cost			
	Current	19 Yr	15 Yr	10 Yr	Current	19 Yr	15 Yr	10 Yr
Yrs 1-5	90	113	133	181	-	23	42	90
Yrs 6-10	118	131	154	210	-	13	36	91
Yrs 11-15	137	152	179	-	-	15	42	(137)
Yrs 16-20	151	139	-	-	-	(12)	(151)	(151)
Yrs 21-30	168	-	-	-	-	(168)	(168)	(168)
Sum	664	535	465	390	Sum	(129)	(198)	(274)
NPV@3 %	440	393	364	331	NPV@3 %	(47)	(76)	(109)

Estimated 15-16 PERS Costs

	FY 2015 Adopted	Fresh Start	FY 2015 Amended*	FY 2016 Estimated**	Estimated Cumulative Increase
Normal Cost	14,627,830	-	14,627,830	14,994,281	366,451
Amortized Cost of Unfunded Liability*	12,783,847	7,600,000	20,383,847	21,431,469	8,647,622
Total Annual PERS Cost	27,411,677	7,600,000	35,011,677	38,881,492	11,469,815
Employee Contributions	7,429,842	-	7,429,842	8,473,437	1,043,595
Net Employer Cost*	19,981,835	7,600,000	27,581,835	27,952,313	7,970,478
Total Annual PERS Cost	27,411,677	7,600,000	35,011,677	38,881,492	11,469,815

*FY 2015 Amended includes Fresh Start amount of \$6.6M plus \$1M previously authorized.

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- ### Amortization Policy Options
- Fresh Start - Level % of Pay 1-30 yrs.
 - ❖ Negative Amortization for 1st 10 of 30 yrs.
 - Experience Gain/Loss – 30 yrs., 5Yr Phase-in
 - ❖ Negative Amortization for 8 yrs.
 - ❖ Outstanding balance exceeds original for 18 yrs.
 - Assumption Change – 20 yrs., 5Yr Phase-in
 - ❖ Negative Amortization for 4 yrs.
 - ❖ Outstanding balance exceeds original for 8 yrs.
- (Refer to Hand-out)
- 14

What do we expect in the 2014 Val?

Actuarial Valuation Date	Impacts Contribution Rates	Years Remaining	Amortization Bases	6/30/2014 Estimated (Millions)	Default Amortization Method
6/30/2014	2016-17	18	Fresh Start Base	\$ (266.1)	Level Percent of Pay *
6/30/2014	2016-17	20	Extended Life Expectancy - Mortality Assumption	\$ (44.6)	5 Yr Ramp *
6/30/2014	2016-17	30	18.4% Investment Return (+10.9%)	<u>\$ 56.6</u>	5 Yr Ramp **
				\$ (254.1)	

*Consider combining under a new 18 Year Fresh Start Base, Level Percent of Pay. Would cost ~\$3M more during first year.
 **Consider letting this credit ride. Accrues at 7.5% and serves as a buffer against future events.

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What is in sight on the horizon?

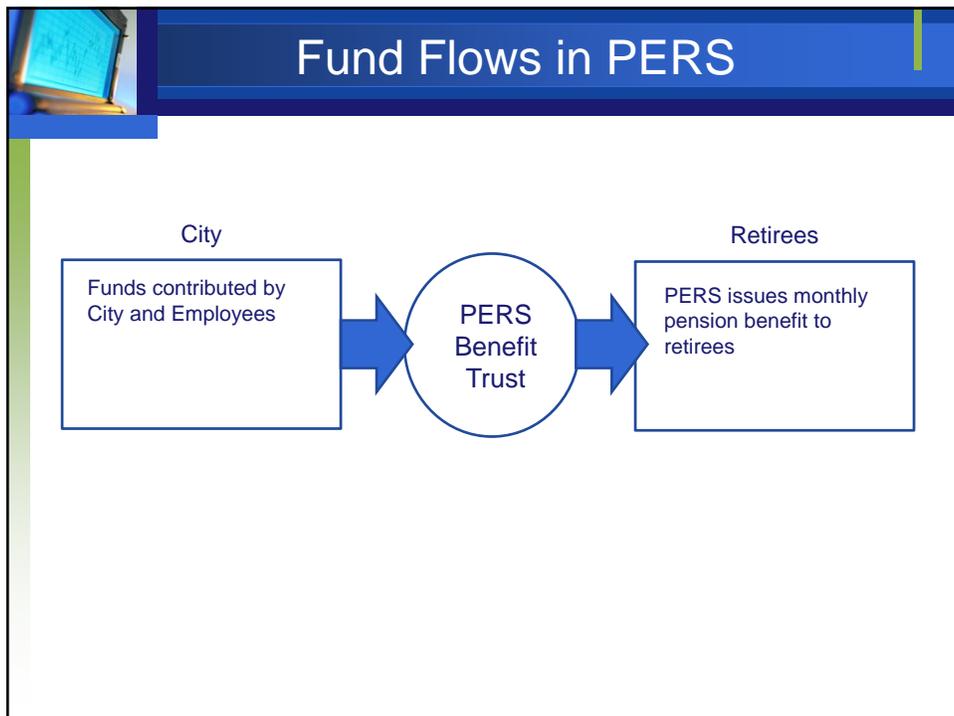
Valuation Date	Impacts Contribution Rates	Years Remaining	Amortization Bases	6/30/2014 Estimated (Millions)	Default Amortization Method
6/30/2015	2017-18	30	2.4% Investment Return (-5.1%)	\$ (31.5)	5 Yr Ramp
Unknown	Unknown	Unknown	Discount Rate Change to 6.5%	\$ (100.0)	Unknown

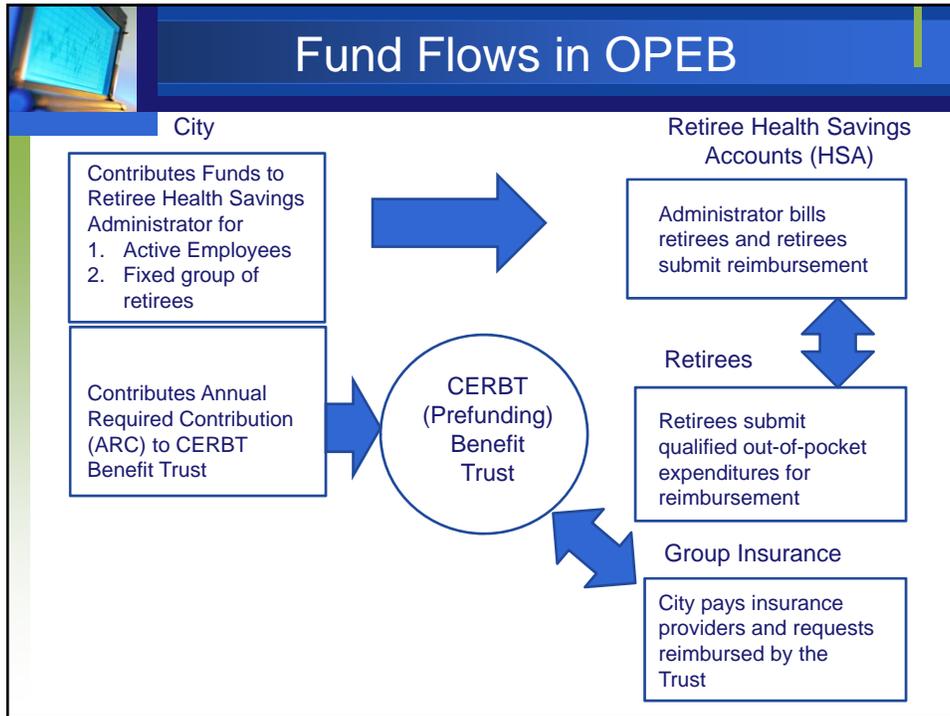
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OTHER POST EMPLOYMENT BENEFITS (OPEB)

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Valuation summary

Valuation dated June 30, 2013 – Marilyn Jones, Nyhart Epler

Actuarial Accrued Liability (AAL)*	\$35,563,794
Actuarial Value of Assets (AVA)	\$12,903,266
Unfunded Actuarial Liability (UAL)	\$(22,885,895)
2014-15 Annual Required Contribution (ARC)**	\$2,763,005
Normal Cost**	\$383,836
Amortization of Unfunded Actuarial Accrued Liability**	\$2,379,169
Implicit Rate Subsidy Cash Flow	\$709,740
Total Covered Lives (Active & Retiree)*	1,274
Asset Allocation Strategy Selection	Strategy 1
Discount Rate	7.25%

Funded status comparison

Fiscal Year Ending	Estimated AAL*	Market Value of Assets	Funded Ratio
6/30/2014	\$35,097,051	\$14,909,052	42.48%
6/30/2015	\$34,600,333	\$15,536,514	44.90%

* Estimated AAL represents roll forward projections of AAL to fiscal year end

Looking Ahead

Actuarial Standards of Practice (ASOP) No. 6

- ❖ **Implicit Subsidy may be recognized by employers due to recent changes in the Actuarial Standards of Practice**
 - Effective for actuarial work after March 31, 2015
 - Provides additional guidance concerning OPEB programs participating in a pooled health plan (Community Rated Plans)
 - May result in an increase in OPEB Liability; significant increase for some employers

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Sensitivity Analysis

	Explicit Contribution	Sensitivity Analysis	
		Implied Subsidy	.5% Lower Discount Rate
<i>Projected to June 30, 2014</i>			
Actuarial Accrued Liability (AAL)	\$ 35,789,244	\$ 10,813,475	\$ 1,850,763
Actuarial Value of Assets (AVA)	(12,903,266)	-	-
Unfunded AAL (UAAL)	<u>\$ 22,885,978</u>	<u>\$ 10,813,475</u>	<u>\$ 1,850,763</u>
<i>2015/2016</i>			
Annual Required Contribution (ARC)	\$ 2,845,895	\$ 1,368,981	\$ 160,714

Source: Nyhart Actuarial Valuation Dated June 30, 2013

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Looking ahead

GASB 75 overview:

- ❖ Follow up to new New Pension Standard (GASB 68) for OPEB Liabilities
- ❖ Employers will report the Net OPEB Liability on their financials
- ❖ The ARC is no longer relevant for accounting purposes
- ❖ Annual expenses will be based on the change in Net Liability between Measurement Dates



Looking ahead

GASB 75 overview:

- ❖ Amortization periods likely to be substantially shorter
 - More volatile in expenses
- ❖ Significant increase in Note Disclosures and Required Supplementary Information
 - Ultimately 10 years of historical reportin
- ❖ Effective June 30, 2018



Questions

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