

**CITY OF NEWPORT BEACH  
CITY COUNCIL FINANCE COMMITTEE  
MINUTES**

The Finance Committee met at 2:00 p.m. on Monday, April 11, 2011, in the Council Conference Room, 3300 Newport Blvd., Newport Beach, California 92663.

**I. ROLL CALL**

Present: Council Member Keith Curry (Chair), Council Member Leslie Daigle and Mayor Mike Henn

Staff present: City Manager Dave Kiff, Assistant City Manager Dana Smith, Administrative Services Director Tracy McCraner, Deputy Administrative Services Director Dan Matusiewicz, Accounting Manager Rukshana Virany, Revenue Manager Evelyn Tseng, Public Works Director Steve Badum, Deputy Public Works Director Dave Webb and Administrative Coordinator Tammie Frederickson

Outside consultants: Cindy Nelson, Economic Development Consultant; Jayson Schmitt, CFA and Mia Corral, Chandler Asset Management

Members of the Public: Jim Mosher; Amber Gonzales, Daily Pilot

**II. APPROVAL OF MINUTES**

In response to a comment by Mr. Mosher, Council Member Curry said the closed executive session with the auditors from Mayer Hoffman McCann during the Finance Committee meeting of March 7, 2011, was open to the public but closed to staff. Council Member Curry said the auditors were asked if there were any issues the Finance Committee should be aware of that the auditors did not feel comfortable discussing in the presence of staff and the auditors replied there weren't any. With the direction to revise the minutes to reflect the closed executive discussion with the auditors, the meeting minutes of March 7, 2011, were approved unanimously.

**III. PUBLIC COMMENTS**

Mr. Mosher reiterated his concerns about the new contracting policies, F-5 and F-14, which were adopted by the City Council on January 25, 2011. He said he believes the policies are not good public policy nor consistent with the City Charter. He said the policies give approval authority levels to individuals who do not have authority to award contracts under the City Charter and he was especially concerned about the City Attorney authority to write, award and approve contracts without any practical outer limit.

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administration office of the Administrative Services Department**

#### IV. DISCUSSION/ACTION ITEMS

##### A. Introduction of Cindy Nelson, Economic Development Consultant

City Manager Dave Kiff said using her knowledge and background, Cindy Nelson will be taking a fresh look at the Economic Development function and proposing potential changes.

Ms. Nelson gave a brief summary on her background and qualifications. She said she is hoping to offer a different perspective and new thoughts on areas for improvement in addition to building on what is working well in the City's relationship with the business community.

Council Member Curry summarized Ms. Nelson's role will be to develop a strategic game plan with focus on economic development in the city in the most efficient and effective way that is unique to Newport Beach.

Mayor Henn spoke about the various activities of the Chambers of Commerce, Convention and Visitors Bureau, and other organizations such as the Film Festival and Restaurant Association. He said he is interested in seeing and understanding other models and unique approaches used by cities to promote a broad spectrum of economic success and vitality.

Council Member Daigle said she is interested in providing resources and ways to make it easier for small businesses to interact with government. She also questioned who at the City will manage relationships with businesses now that the Economic Development staff is gone.

##### B. Investment Portfolio Review Chandler Asset Management

Administrative Services Director Tracy McCraner introduced Jayson Schmitt, Portfolio Manager with Chandler Asset Management. She noted that Chandler has been one of the City's investment managers since the early 1990s and as a result of the recent competitive bid process for investment management services, Chandler they will continue that role as one of three investment managers managing the City's portfolio.

Mr. Schmitt gave a brief overview for the period ending March 31, 2011. He spoke about the economic environment and key points including high unemployment, rising gas prices and stressed supply chains due to the problems in Japan. He noted the Federal Reserve kept interest rates at zero and the yield curve remains steep. He pointed out the GDP shows economic growth with six consecutive positive quarters and the next quarter also forecasted to be positive. He went on to speak about interest rates and pointed out the yield on two-year notes has been rising since October 2010.

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He presented the account profile and investment objectives of safety of principal, liquidity and commensurate rate of return. He said the benchmark is 1-3 year treasury notes and accomplished by purchasing high quality money market short-term instruments, corporate notes, and treasury and agency securities. He noted the portfolio is in compliance with the investment policy. Mr. Schmitt explained the portfolio characteristics and pointed out the duration which is the portfolio's sensitivity to interest rates is 1.62 versus the benchmark of 1.78; average book yield is 1.66%; market yield of .84%; AAA rated with a total market value of about \$57 million. He said over the last three months the portfolio earned .13% versus the benchmark of .03% and over the last 12 months it earned 2.28% versus the benchmark of 1.67%.

In response to a question raised by Mr. Mosher, Mr. Schmitt explained the total return takes into account not only the income of the portfolio but also the realized and unrealized gains and losses. Deputy Administrative Services Director Dan Matusiewicz further explained that unrealized gains would only be realized if the holdings were liquidated.

#### C. Review New Format of Treasury Report

Mr. Matusiewicz said the new Treasury Report format is replacing a previous one-page summary of the entire portfolio. The new format takes advantage of technology to show the portfolio in aggregates and drills down to portions managed by each investment manager. In addition it shows concentration risks by security type for the portfolio in total. Mr. Matusiewicz noted the returns are also broken down by income and price returns. Mayor Henn commented the new format provides a vastly superior presentation of the investment portfolio and provides a very handy way to see compliance with the investment policy.

#### D. Pay Off of BYB Marina Loan

Mr. Matusiewicz said this loan which was entered into in the early 1980s and costs 4.5% will mature in the next three years. He proposed paying off the loan on the August 1<sup>st</sup> payment date to avoid paying about \$45,000 worth of interest costs in future years, a net present value savings of about \$30,000. Mr. Matusiewicz said the recommendation would be made as part of the budget process, if the Finance Committee concurs.

The Finance Committee members expressed agreement with the proposal and instructed staff to continue to seek similar opportunities.

#### E. Facilities Financing Plan Update/Status

Ms. McCraner explained this is the annual review of the Facilities Financing Plan and it includes the final costs for the construction and financing of the Civic Center. She noted the Public Works Department updated the total construction costs shown for all facilities per current market conditions and with the newly

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revised costs the total amount of construction estimates was reduced by almost \$50 million. She pointed out the plan has also built in the possibility of future, potential revenue stream for existing facilities on City owned property including the Police Headquarters building, West Newport Community Center and the existing City Hall as these sites may become available and reused in the future. Council Member Curry commented that the future reuse and disposition of those sites would have an impact by possibly eliminating or reducing future financing needs on other facilities.

Council Member Curry stated the FFP is a measurement tool used to show the affordability to do the projects for the amount of the estimated construction costs in the prescribed timeline. Mayor Henn agreed the FFP helps with planning when and the order for facilities replacement and how the financing can be handled. He said a similar plan needs to be developed for managing the tidelands improvements.

In response to a question by Mr. Mosher, Council Member Curry said the FFP spreadsheet is used as a planning tool and does not constitute approval of any of the projects therefore it would not be appropriate to post the spreadsheet on the City's website.

#### F. Audit Contract Award Recommendation

Mr. Matusiewicz stated that staff is recommending Diehl Evans as the City Auditor starting with the fiscal year ending June 30, 2011, with the option to renew for an additional three years. The firm was selected after a competitive bid process for audit services as required by Council Policy F-15, Annual Audit. Diehl Evans specializes in governmental accounting, received glowing reviews in reference checks and presented a very seasoned team of staff as engagement partners.

Council Member Daigle expressed agreement with the selection based on the background recommendations and she said having a fresh set of eyes is best practice since the previous auditors had serve as the City Auditor for 10 years.

Members of the Finance Committee unanimously concurred with the selection and Mr. Matusiewicz said the recommendation will be brought to the City Council for approval of the contract with Diehl Evans after the contract is reviewed and approved by the Office of the City Attorney.

#### G. 2011 "Top 3" Revenue Projections Update

Ms. McCraner said the "top 3" revenues are doing well with property tax coming in about 1% higher than projected in the budget, sales tax is at about \$600,000 but may go higher and TOT is 15% over budget. She added that new car sales and restaurants are doing really well which make up about half of the sales tax. Community development revenues and business licenses were also highlighted as doing well.

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H. Discuss CalPERS Pre-payment Option

Mr. Matusiewicz discussed options for prepaying the CalPERS employer rate which are to pay biweekly or a lump sum payment. He said the lump sum payment is discounted by 7.75% however there are some downsides including market timing and opportunity costs of that cash flow. He explained that the prepayment employer rate is based on an estimated payroll that is 3 years old and there is the potential of underpayment. He added that by underpaying, the amount becomes part of the unfunded liability, gets added to the employer rate and accrues at 7.75%. Mr. Matusiewicz recommended it is better for the City to consistently pay based on the actual payroll. Ms. McCraner added her recommendation is to have consistency in the payment method instead of determining prepayment or the biweekly payment from year to year.

Council Member Curry said because of the current flux of payroll, he agreed the biweekly payment is the better option right now. He said there should be a policy to review the prepayment option every 3-5 years and determine what is the best method at that point in time.

**V. MATTERS WHICH A COMMITTEE MEMBER MAY WISH TO PLACE ON A FUTURE AGENDA**

Council Member Daigle requested that a future agenda include a discussion on the total comprehensive insurance cost for the Civic Center.

The next meeting will be May 9, 2011.

**VI. ADJOURNMENT**

The Finance Committee adjourned at 3:40 p.m.

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

Attest:

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Tracy M. McCraner  
Administrative Services Director

\_\_\_\_\_  
Date

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