

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

The Finance Committee met at 2:00 p.m. on Monday, June 13, 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 and Accounting Manager Rukshana Virany

Outside Entities: Nitin Patel and Daphnie Munoz with Diehl Evans

Members of the Public: Jim Mosher

II. APPROVAL OF MINUTES

The minutes for the Finance Committee meetings of April 11, 2011, and May 9, 2011, were approved as submitted.

III. PUBLIC COMMENTS

Mr. Mosher suggested it would make it easier for the public if the proposed budget displayed more details under the broad budget categories. He added during the year there should be an easy way for the public to track what account expenses are charged against in the approved budget.

III. DISCUSSION/ACTION ITEMS

A. Audit Entrance Conference

Administrative Services Director McCraner introduced Engagement Partner Nitin Patel and Audit Manager Daphnie Munoz with Diehl Evans who will be conducting the City's audit for fiscal year ending June 30, 2011.

Mr. Patel gave a brief overview on Diehl Evans & Company and spoke about the experience levels of the engagement team who will do the work for the firm. He said the scope of services includes a financial audit of the City of Newport

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Beach, a single audit of Federal grants and a test of the agreed upon procedure used to compute the City's Gann Limit. A management letter will be issued at the conclusion of the audit.

Mr. Patel explained it is the auditor's responsibility to express an opinion whether financial statements are fairly presented in accordance with generally accepted accounting principles. He said the audit is designed to give reasonable assurance whether the financial statements are free of material misstatement and includes a review of internal control procedures.

The Finance Committee Members agreed there was no need to have a private conference with the auditors without staff present until the audit results are available.

B. Annual Review of Council Policy F-1, Statement of Investment Policy

Deputy Administrative Services Director Matusiewicz said there were no significant changes to the Investment Policy since the extensive revisions that were made last year to reflect changes in the California Government Code. He noted the Policy has a requirement for an annual staff review and reaffirming by the Finance Committee and City Council to ensure the objectives of the Policy reflect Council's direction to staff. He explained the primary objective of the Policy is preservation of capital; the second emphasis is liquidity to ensure funds are available to meet operating demands; and the third objective is to obtain a benchmark rate of return commensurate with the investment objectives, constraints and liquidity characteristics.

Mr. Matusiewicz said the Investment Policy will be brought to the City Council meeting of June 28, 2011, for Council to reaffirm unless the City Attorney determines that Council approval is not required since there were no changes to the Policy.

C. Draft Debt Management Policy

Mr. Matusiewicz stated that during the recent credit review the rating agencies commented on the lack of a formal debt management policy and noted the existing finance policies were perhaps not fully comprehensive. He said staff will make a concerted effort to begin a review of all finance policies to make the policies comprehensive in nature to the extent that policies need to be integrated with each other and the fiscal sustainability plan.

Mr. Matusiewicz drafted the Debt Management Policy using elements of policies by other agencies, best practices recommended by GFOA and recommendations from the rating agencies. He outlined his plan to further refine the policy based on Finance Committee input, review of the policy by financial advisors and opinions from underwriters, as well as comparisons that establish how the City stands up to a peer group of other California AAA cities. The draft policy

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describes the guidelines for issuing debt, restrictions, the types of debt that are allowable and those that are prohibited, the issuance process and the ongoing management of the debt.

Council Member Curry commented it is appropriate to include financing of operating costs with a limit of one year. He questioned why the policy prohibits the issuance of variable rate debt. Mr. Matusiewicz responded that if it is Council's desire to permit variable rate debt obligations the policy would need to include some restrictions on their use.

Mayor Henn suggested that all of the debt instruments listed as prohibited could be good tools in the right market conditions and should be permitted. He directed the use of better phrasing in some instances. He said the policy should be shorter and should not include philosophical discussion or how-to mechanics.

Following more discussion on suggested revisions for clarification of the thresholds in General Fund-Supported Debt, Council Member Curry instructed the draft policy should be further refined and brought back to the Finance Committee on a future agenda.

D. Review of Budget Checklist

Ms. McCraner opened discussion on the review of the budget checklist that will be brought to the June 14, 2011, Council Study Session and City Manager Kiff explained the purpose of some items on the proposed checklist. Council Member Daigle asked for consideration of funding to start planning for landscaping related to Bristol Street South revitalization. In response to a question by Mayor Henn regarding revitalization funding, Mr. Kiff said an assignment of fund balance from the current year is proposed.

Ms. McCraner stated that she would provide answers to the full Council in advance of the Study Session to specific questions that were raised by Finance Committee members during the discussion

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

Council Member Curry confirmed the debt policy will come back on a future agenda and he also requested a discussion on OPEB costs.

V. ADJOURNMENT

The Finance Committee adjourned at 3:12 p.m.

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

Attest:

Tracy M. McCraner
Administrative Services Director

Date

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