

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

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

**I. ROLL CALL**

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

Absent: Council Member Leslie Daigle (excused)

Staff present: City Manager Dave Kiff, Finance Director Tracy McCraner, Deputy Finance Director Dan Matusiewicz, and Administrative Coordinator Tammie Frederickson

Members of the Public: Jim Mosher, Charles Barfield

**II. APPROVAL OF MINUTES**

The minutes for the Finance Committee meeting of July 12, 2011, were approved as submitted.

**III. PUBLIC COMMENTS**

Mr. Mosher asked Council Member Curry if he would share his insights on how municipal financing might be affected by the recent Standard and Poor's US Treasury bond rating downgrade. He commented on the improved oversight needed on the City-provided funding to Visit Newport Beach and noted the lack of budget information included in their presentation made to the City Council at the July 12<sup>th</sup> Study Session. He asked whether staff has completed the City's purchasing policies and the availability of the policies for public inspection and comment. He mentioned that he doesn't think he received a satisfactory explanation for how the City Council can be legally paid anything other than basic monthly out-of-pocket expense reimbursement as specified in Section 402-B of the Charter and he did not understand or find convincing the City Attorney's analysis of how that provision is overridden by other obligations.

Council Member Curry explained the municipal bonds that were downgraded by Standard and Poor's were mostly bonds that had been pre-refunded involving government agency securities that were in escrow and used to pay off the bonds when they mature. He said it has no material effect on the municipal market. He stated the municipal market has rallied significantly and interest rates

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have gone down, particularly Treasury rates, since the downgrade. He noted Newport Beach does not have rated AAA bonds; we have an underlying rating for the community.

Council Member Curry said the matter of Council benefits was thoroughly reviewed by the City Attorney and by outside counsel to determine eligibility and appropriate action was taken.

### III. DISCUSSION/ACTION ITEMS

#### A. Assessed Valuation Growth

Finance Director McCraner reported the City experienced positive AV growth over last year. She noted that the City has consistently increased in assessed valuation for more than ten years, even during the economic recession of the past few years. Ms. McCraner said the AV growth is for secured and unsecured taxes. She said the growth rate used in the FY 2011-12 budget was +1.5% which she believes is still a very good, conservative estimate. She pointed out that looking back at the most recent five years, the City has exceeded budget estimates by 0.5% to 5.5% in property tax revenues.

Ms. McCraner said the budget estimate in the unsecured category, which includes boats, equipment and other non real estate taxes, was decreased in anticipation of a continued sell-off due to the recession.

In looking at historical trends between budget and actual, Ms. McCraner said we should be on track with property tax projections. Although, she cautioned, it is very early in the fiscal year.

Council Member Curry commented that as of a couple of years ago, Newport Beach was one of only four Orange County cities with positive AV growth. He clarified for Mr. Mosher that after Proposition 13 taxes are collected at 1% valuation adjusted for inflation and local government no longer sets a millage rate; taxes are collected by the County Tax Assessor and remitted to cities from the Assessor.

#### B. Investment Performance Review

Deputy Finance Director Matusiewicz reviewed the portfolio performance with respect to the investment objectives of safety, liquidity and yield. He said safety was achieved by maintaining a well diversified portfolio of high quality investments. He noted there were no security downgrades that materially impacted the overall credit quality of the portfolio or were below acceptability per the City's investment guidelines. Mr. Matusiewicz said liquidity was maintained to meet cash flow needs. He commented that in the current market, yield is difficult with rates continuing to compress and the portfolio managers

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have taken a shorter term duration bias than the Merrill 1-3 index benchmark. He reviewed the total return of each investment advisor against the benchmark and noted that Cutwater total return came in lower than the other two advisors because they are more conservative in duration and sectors in which investments are made. He said they were weighted more in agencies with very little corporate exposure relative to the other two investment advisors. In addition the Cutwater portfolio was used to draw down for liquidity to help pay cash flow demands with OASIS and the Civic Center prior to the bond issuance.

In response to a question raised by Mr. Mosher, Mr. Matusiewicz explained as a result of consolidating the number of investment managers from five to three, he is working with the investment managers and the City Attorney's office to have one unified contract which is tentatively scheduled to go to the City Council for ratification in September.

#### C. Internal Service Fund Reserve Level Status & Recommendations

Ms. McCraner stated this is the annual review of the Internal Service Fund Reserve status as of June 30, 2011. She noted two new actuarial reports were received for general liability and workers' compensation liability. She pointed out 2011 continues to be overfunded in general liability and workers' compensation is underfunded below the target level of 75% confidence. The primary reason stated by the actuary for the underfunding is due to recent health care legislation that went into effect and changes in workers' compensation law. Other significant factors include a reduction in earnings assumption from 5% to 3% and a rise in claims costs of almost 45% over a ten-year period.

Ms. McCraner recommended moving some of the funding from general liability to workers' compensation to resolve the underfunding for 2011. She also commented that in the longer term she recommends working with the Human Resources Department and the actuary to adjust future rates for general liability and workers' compensation.

The third fund Ms. McCraner addressed was compensated absences which fell below minimum funding level for 2011. She explained the drop in funding was primarily due to the impact of the Early Retirement Plan (ERIP). Ms. McCraner suggested a one-time infusion could be accomplished by the City Manager making an assignment of excess fund balance which would have to be approved by Council or an additional \$1.2 million could be taken from general liability.

Mayor Henn commented that this agenda item and the previous agenda item are excellent examples of the superior transparency of this City in terms of looking at fundamental and important aspects of city government. He said he is in favor of using the excess general liability funds to bring the workers' compensation fund into balance. Council Member Curry expressed his

agreement and he was also supportive of using general liability funds to reduce the compensated absences liability.

Ms. McCraner confirmed the Committee was in favor of using general liability as long as it remains in overfunded status.

Mr. Mosher questioned how much money goes in and out of these funds each year and what the costs cover. Ms. McCraner explained even though we are insured the claims costs have to be paid and the liabilities are calculated by an actuary for claims that have been filed as well as incurred but not reported claims. She said the expenditures from these funds are shown in the budget. Mayor Henn further explained that the actuarial analysis is an analysis of the City's exposure to claims loss within its self-insured retention or deductibles.

Mr. Barfield commented that he agreed with Mayor Henn's statement about transparency and financial prudence. He asked what the City's policy is in terms of the operating general fund reserves and what the year-end level is in Fiscal Year 2010-11. Ms. McCraner responded that early reports show the level will be \$87 million total general fund reserves which includes designations to reserves for specific projects such as the facilities replacement plan. She said Council Policy F-2 policy sets a contingency reserve of 15% and other specific levels of reserves. Council Member Curry noted capital reserves will be used for the Civic Center.

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

Council Member Curry requested a recap on reserves; the OPEB update and confirmed it will be on a future agenda; a briefing on the impact of new GASB rules on disclosure and pension liability characterizations; and an update on moving to a performance based budget.

**V. ADJOURNMENT**

The Finance Committee adjourned at 2:50 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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