

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA ITEM INFORMATION**

Agenda Item No. IV.C
September 12, 2011

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
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SUBJECT: Finance Department Project Status

ABSTRACT:

The attached summary represents a list of recent Finance Department projects identifying their current priority, category, current status and staff assigned to each project.

DISCUSSION:

From time to time, the Finance Committee has asked for the status of various projects. In order to keep the Finance Committee abreast of current Finance Department projects, the attached summary identifies each project's current priority, category, current status and staff assigned. Items that may be of particular interest to the Finance Committee are summarized as follows:

Comprehensive Annual Financial Report (CAFR) / External Audit:

The year end closing, CAFR and audit processes consume a large portion of our small professional accounting staff this time of year. While closing is nearly complete, the final substantive audit testwork is not scheduled to occur until October and the CAFR will be issued in December. Staff resource consumption is exacerbated during new audits while auditors are freshly learning about Newport Beach systems, processes and agreements. In the early stages of audit relationships, auditors and staff negotiate work product expectations of each other to maximize audit efficiency. Audit relationships do need to be managed for this reason so that audit workload is balanced and doesn't become too burdensome on for either the auditor or the City.

The **Quarterly Financial Report (QFR)** is prepared by the Finance Department in conjunction with the City Managers Office's Quarterly Business Report (QBR). Since this

is still a relatively new report format for the City, the process utilized to analyze events in preparation for the report are still relatively unrefined, laborious and ultimately requires senior level staff to distill the most relevant information. No QFR was submitted for the quarter ended June 30, 2011 but the QFR for quarter ended September 30, 2011 will include highlights of both quarters. The next QFR is due out in November.

Multi-year trending and forecasting is recognized as an important best practice for long-term fiscal sustainability and is highly endorsed by both the Government Finance Officers Association (GFOA) and rating agencies. Multi-year forecasting tools would be very helpful in the preparation of the QFR, Budget Preparation and enhancing high level analysis capabilities. The City's current methods are labor intensive and rather limited. Sophisticated solutions are provided by higher end ERP applications but are generally an expensive venture that is likely years away from our current reality. In the interim, the Finance Department has been planning to implement a relatively low cost stop-gap alternative but unfortunately, we have not been successful in carving out staff time to embark on this project relative to other competing projects. It is estimated that it would require 160 hours of continuous senior Finance Department staff time to successfully implement a tool of this nature.

Debt Policy Development & Capital Planning Updates: Debt policies in conjunction with regular debt affordability reviews are regarded as another best practice that is reported to have a very significant impact on ratings. On June 13, 2011 we brought forward a very detailed first draft of a debt policy to Finance Committee review and feedback. While the Finance Committee provided some very helpful and poignant feedback generally recommending to remove procedural detail from the policy, staff feels there will be some additional benefit to prepare the 2nd draft of the debt policy after we have had a chance to update the Facilities Replacement Plan to include the West Newport land reuse analysis and are able to prepare some benchmark comparisons to other AAA cities. Inclusion of the West Newport land reuse analysis along with benchmark debt levels may provide additional context for the Finance Committee and Council when considering ultimate debt parameters for project financing.

At a time appropriate, Finance Department staff also endeavors to retool the Facilities Financing Plan to better illustrate the implication of financing and policy decisions without having to reprint a six foot long spreadsheet in its current format.

Other Policy Updates: At the September 13 Council meeting, other policy changes are being recommended to the Revenue Policy (F-4) and the External Financial Reporting, Disclosure and Audit Policy (F-15) to incorporate relevant concepts of the City's Fiscal Sustainability Plan as well as other best practices reported to influence credit ratings. Several other Finance related policies that were deemed procedural in nature are being recommended to be removed from the Council Policy documents and added to Administrative Procedures.

Actuarial Updates: CalPERS prepares extensive actuarial reports on the City's miscellaneous and safety plans annually while Bartel & Associates prepare the actuarial review for our retiree insurance plans(also known a OPEB plans) bi-annually. Both actuarially reviews are anticipated in November.

The Governmental Accounting Standards Board (GASB) released two exposure drafts which propose major changes to accounting and financial reporting of pensions by state and local governments. The proposals are intended to improve the consistency, comparability and transparency of pension information reported by employers. The GASB is proposing a shift from the current funding-based approach to an accounting-based approach. The most significant change that the proposal puts forward in this regard is that governments would be required to report their net pension liability in their statement of financial position. While an exposure draft is not a final pronouncement, the current proposed implementation date is currently scheduled for fiscal year 2013-14 for pension plans of our size. Further analysis of the specific implications to the City is not scheduled at this time.

Performance Budgeting: With the completion of the FY 2011-12 budget we have begun the transition to a performance plan (previously the RAP) with a focus more on programs goals and reconciling those goals to the Council goals established each new year. This was also a second phase in improving our performance management focus which is a systemic approach to improving performance through results-based decision making and a focus on accountability and transparency. The FY 2011-12 performance plan included performance measures, as in the previous year, but also focused departments on program goals and objectives. The Finance department was the first department to transition while all other departments were asked to change format and style.

Finance staff is currently preparing departmental templates and trainings which will be conducted in September and October of 2011. These templates and trainings will assist the departments to think "programmatically" and also to work on reconciling departmental goals with the organizational and Council goals. The FY 2012-13 budget should be a more robust performance-based budget but it is but one phase in an iterative process. Governments who use performance management should continually evaluate and look for opportunities to improve their services and continue to gain experience using performance data. However, we cannot yet gather much of the data needed in a format necessary to report on program costs until we improve our existing information technology systems. We can begin, it is a laborious task but it is possible, a new system or software application will assist greatly in this endeavor.

A more comprehensive list of projects with their relative priorities are listed on the following attachment.

Prepared by:

Submitted by:

/s/ Dan Matusiewicz
Dan Matusiewicz
Deputy Finance Director

/s/Tracy McCraner
Tracy McCraner
Finance Director

Attachment: Financing Department Projects

Finance Department Project Status

Seasonal Updates	Priority	Category	Status	Assigned Staff
Year End Estimates/CAFR/Audit	High	Mandate - City Policy	40% Complete	Rukshana/Accounting/Tracy/Dan
Quarterly Financial Report	High	Mandate - City Policy	ETA Oct 0% complete	Tracy/Dan
Fee Schedule Update	High	Mandate - City Policy	80% Complete	Evelyn
Facilities Financing Plan Updates	Medium	Mandate - City Policy	Deferred	Tracy/Dan
2011-12 Final Budget Documentation	Medium	Required	98% Complete	Susan /Katherine
2012-13 Budget Prep	Medium	Required	0% Complete	Tracy/Susan
Annual Investment Performance Review	Medium	Best Practice	Complete	Dan
Quarterly Revenue Update	Medium	Best Practice	Complete	Tracy/Rukshana

Actuarial Updates	Priority	Category	Status	Assigned Staff
OPEB	High	Required	ETA Nov	Susan /Bartel & Associates
PERS	High	Required	ETA Nov	PERS
Workers Compensation	Medium	Required	Done	Risk Mgmt/Accounting
General Liability	Medium	Required	Done	Risk Mgmt/Accounting

Special Projects	Priority	Category	Status	Assigned Staff
Negotiation Costing	High	Important	Ongoing	Susan & Tracy
Central Parking Transition & Contract Admin	High	Reorganization	Complete w/ Ongoing Admin	Tracy/Evelyn/Dan/Accounting
Assessment District Refunds	High	Mandate - Fiduciary	98% Complete	Dan & Accounting
My CalPERS Implementation	High	Required	75% Complete	Susan / IT
West Newport Land Re-Use Planning	High	Reorganization	25% Complete	CMO/Pub Works/Finance
Internal Compliance Audits	High	Best Practice	Ongoing	Hortensia/Evelyn/Tracy
Multi Year Financial Forecasting Model	Medium	Best Practice	Deferred Since Dec 2010	Dan /Susan/Rukshana
Facility Financing Plan Retooling	Medium	Needed Improvement	Deferred	Tracy/Dan
Tidelands Master Plan Development	Medium	Needed Improvement	5% Complete	Chris Miller/Rob Houston/Dan
Investment Advisor Contract Standardization	Medium	Best Practice	98% Complete	Dan /Michael Torres
Performance Budget Improvements	Medium	Best Practice	Ongoing	Tracy/Susan G.
Large & Unruly Gathering Ordinance (LUGO)	Medium	Mandate - City Policy	Ongoing	Evelyn/Revenue
Implications of GASB Pension Exposure Draft	Low	Required	Deferred to FY 2013-14	Tracy/Dan/Rukshana

Policy Updates	Priority	Category	Status	Assigned Staff
Reserve Policy Update	High	Mandate - City Policy	Complete	Dan /Rukshana
Investment Policy Reaffirmation	High	Mandate - City Policy	Complete	Dan
Purchasing and Contracting	High	Best Practice	Complete	Tracy/Susan
Debt Policy	Medium	Best Practice	2nd Draft Deferred	Dan
Capital Planning / Facilities Replacement Plan	Medium	Best Practice	Deferred	Dan
External Financial Reporting, Disclosure & Audit	Low	Best Practice	Complete	Dan/Rukshana
Revenue Measures	Low	Best Practice	Complete	Dan/Evelyn