

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

The Finance Committee met at 2:00 p.m. on Monday, December 12, 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, Finance Director Tracy McCraner, Deputy Finance Director Dan Matusiewicz, and Administrative Coordinator Tammie Frederickson

Members of the Public: Jim Mosher,

**II. APPROVAL OF MINUTES**

The minutes for the Finance Committee meeting of November 7, 2011, were approved as submitted.

**III. PUBLIC COMMENTS**

Mr. Mosher thanked Council Member Daigle for coordinating the online posting of contracts approved within the last 30 days and he suggested it would be helpful to include Council approved contracts along with staff approved contracts. He added that in the interest of accountability, it would further be helpful to indicate the authority by which a contract was approved.

**IV. DISCUSSION/ACTION ITEMS**

**A. PERS – Part II**

Finance Director McCraner commented that at the December Finance Committee meeting questions were raised by the Committee during the review of the PERS 6/30/11 actuarial valuations. She noted this item addresses more specifics with regard to how previous City Council approved actions in the direction of pension reform impacted the PERS valuation.

She noted the City has always paid the PERS calculated Annually Required Contribution (ARC) and even then there is an unfunded liability of \$256 million on a market value basis which is about a 60% funded status for pensions. Ms.

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administration office of the Administrative Services Department**

McCraner confirmed that new GASB rules under consideration will require the unfunded liability to be valued at a lower discount rate in financial reporting. Council Member Curry clarified that the new rules affect the representation of the liability amount but it is not a change in terms of a financial liability to the City. He added that GASB has determined to use a different way than was previously used of calculating future returns for financial reporting.

The Committee discussed estimated pension costs based on the latest valuation. Ms. McCraner pointed out the chart in the staff report reflects the most conservative view with only six months of employee paid contribution in 2012 and no contribution in 2013 and 2014 for public safety members because the public safety 3.5% contribution of base pay is set to expire 12/31/2011. Further ideas were discussed for revisions to the chart for clarity and accuracy. Mayor Henn suggested using a run rate concept as of a given date with annualized information. Council Member Curry pointed out the purpose of this discussion is to show how much progress has been made in cutting pension costs. Mayor Henn and Council Member Curry said the information should be presented in an easy to understand manner with certainty that it accurately reflects the current situation.

Ms. McCraner stated the primary factors for why the costs and unfunded liability are going up are attributed to enhanced benefits without cost sharing and the market losses in 2008-09. She added the impact of the Early Retirement Incentive Program was significant cash savings of \$3 million to the City but also a correlated increase to the rates and liability as the result of 51 people retiring early.

It was noted that in January the miscellaneous employees, excluding miscellaneous employees in public safety, will be paying 8% cost sharing. City Manager Kiff explained the miscellaneous employees cost sharing and discussed where future negotiations may result in further cost sharing.

Mr. Mosher agreed that the information on the charts is hard to understand and confusing. He suggested revisions to the chart to show taxpayer burden.

Council Member Curry concluded the information is important and necessary to make informed negotiations policy decisions so it must be presented accurately.

B. "Top 3" Revenue Forecast through mid-December

Ms. McCraner shared information on the Top 3 revenue categories with a notation that the December apportionment and County estimates are not available yet. She said the trend analysis of property taxes looks that it will come in at budget. Deputy Finance Director Matusiewicz said the property tax role total increase was 1.13% assessed valuation.

Ms. McCraner said a review of sales taxes shows us trending slightly under budget but she added that our consultant however projects sales tax to come in about \$1 million over budget. She commented that restaurants are the top sales tax earner, beating out auto sales. In response to a question raised by Council Member Curry, Ms. McCraner said the year over year increase is budgeted to be 6%.

Hotel taxes (TOT) are trending high and exceeding pre-recession levels due to the opening of the Pelican Hill Resort. She noted that Pelican Hill is the top hotel operator. She projected TOT will come in about \$1 million over budget.

#### C. Administrative Procedure on Fraud/Ethics

Deputy Finance Director Matusiewicz said this policy was drafted in response to an audit comment that the organization should have a formal policy against fraud and unethical behavior. It is an effective internal control procedure to have and is proposed as an administrative policy.

Mayor Henn questioned what is the cost of having a fraud hotline administered by an outside, independent entity. Mr. Matusiewicz replied quotes came in for \$1,500 to \$3,000 annually but there would be additional cost of a City resource as the principal entity, such as Human Resources, to follow up on reported fraud. Mayor Henn suggested and Council Member Curry agreed it would be better handled by the legal department.

Council Member Daigle commented that employees in fear of retribution might be more inclined to report suspected fraud anonymously on an independent entity hotline versus going to their supervisor. Mayor Henn agreed and said there should be a materiality threshold. He added the policy should also cover theft of information.

After further discussion it was agreed to further work through a proposal with the City Attorney and return to the Finance Committee on a future agenda.

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

Council Member requested an update on performance measurement and performance based budgeting, and a follow up on the IT plan.

#### **V. ADJOURNMENT**

The Finance Committee adjourned at 3:26 p.m.

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

Attest:

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Tracy M. McCraner  
Finance Director

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Date

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administration office of the Administrative Services Department