



## CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

Council Conference Room, 3300 Newport Blvd., Newport Beach  
Thursday, February 28, 2013 – 4:00 PM

### **Finance Committee Members:**

Mike Henn, Council Member, Chair  
Keith Curry, Mayor Pro Tem  
Tony Petros, Council Member

### **Staff Members:**

Dave Kiff, City Manager  
Dan Matusiewicz, Finance Director  
Steve Montano, Deputy Finance Director

---

### **1) CALL MEETING TO ORDER**

### **2) ROLL CALL**

### **3) PUBLIC COMMENTS**

*Public comments are invited on agenda and non-agenda items generally considered to be within the subject matter jurisdiction of the Finance Committee. Speakers must limit comments to 3 minutes. Before speaking, we invite, but do not require, you to state your name for the record. The Finance Committee has the discretion to extend or shorten the speakers' time limit on agenda or non-agenda items, provided the time limit adjustment is applied equally to all speakers. As a courtesy, please turn cell phones off or set them in the silent mode.*

### **4) APPROVAL OF MINUTES**

Approval of minutes of the Finance Committee meetings of June 11, 2012, and September 10, 2012.

### **5) CURRENT BUSINESS**

- A. **Audit Review:** The City's external audit firm, White Nelson Diehl Evans LLP will communicate significant matters related to the City's Audit for FY 2011-12. The Finance Committee will have an opportunity to discuss any areas of concern or ask any pertinent questions without the staff present.
- B. **Finance Committee Charter Review and Update:** The resolution authorizing the purpose and responsibilities of the Finance Committee was last updated by Resolution No. 2007-21,

This Finance Committee is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee's agenda be posted at least seventy-two (72) hours in advance of each regular meeting and that the public be allowed to comment on agenda items before the Finance Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Finance Committee may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

It is the intention of the City of Newport Beach to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or a participant at this meeting, you will need special assistance beyond what is normally provided, the City of Newport Beach will attempt to accommodate you in every reasonable manner. If requested, this agenda will be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Please contact the City Clerk's Office at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible at (949) 644-3005 or [cityclerk@newportbeachca.gov](mailto:cityclerk@newportbeachca.gov).

as adopted April 10, 2007. Proposed revisions to the Finance Committee charter will incorporate prior year recommendations.

- C. **2013 Finance Committee Work Plan:** Staff will seek approval of tentative Finance Committee agenda topics for calendar year 2013.
- D. **Review of 2013-14 Post Employment Retiree Insurance Actuarial Valuation (AKA OPEB):** Mr. John Bartel of Bartel Associates will review the required actuarial valuation for the City's Post Employment Retiree Insurance Plan.
- E. **PERS Funding Direction:** Staff recommendation to direct PERS actuaries not to phase-in the impact of most recent changes PERS actuarial assumptions (financial savings) as well as to amortize the unfunded liabilities over a fixed declining period versus the current rolling 30-year amortization methodology.

**6) FINANCE COMMITTEE ANNOUNCEMENTS OR MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)**

**7) ADJOURNMENT**

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

**1. CALL TO ORDER**

The September 10, 2012, Finance Committee meeting was called to order at 2:02 p.m. in the Council Conference Room, 3300 Newport Blvd., Newport Beach, California 92663.

**2. ROLL CALL**

Present: Mayor Pro Tem Keith Curry (Chair) and Council Member Leslie Daigle

Excused: Council Member Mike Henn

Staff present: City Manager Dave Kiff, Finance Director Dan Matusiewicz, Accounting Manager Rukshana Virany, Public Works Director Dave Webb, Assistant City Engineer Mike Sinacori, Utilities General Manager George Murdoch, Water Production Supervisor Steffen Catron, and Administrative Coordinator Tammie Frederickson

Members of the public: Jim Mosher, Dan Purcell

Outside entities: Douglas Hilts, Hilts Consulting Group; Jay Cooke and Kandarp Patel, MWH Americas, Inc.

**3. PUBLIC COMMENTS**

Mr. Mosher inquired whether the public would have an opportunity to know how the Council Discretionary funds ended the fiscal year since when the City Manager reported on the funds' status at the June 12, 2012, City Council meeting, the fiscal year had not yet ended.

Mr. Mosher noted at the August 14, 2012, City Council meeting, Council Member Henn referred to the critical facilities plan. Mayor Pro Tem Curry affirmed Mr. Mosher's question whether the critical facilities plan is another reference to the Facilities Financing Plan.

**4. APPROVAL OF MINUTES**

Mr. Mosher commented that at the June 11, 2012, Finance Committee meeting Council Member Daigle was absent and Council Member Henn recused himself on Item 5B, the Assessment District Bond Update. Mayor Pro Tem Curry noted Mr. Mosher's observation and stated no action was taken on Item 5B.

Council Member Daigle abstained from voting on approval of the June 11, 2012, minutes because she was not at the meeting. Since a majority was not present to approve the minutes for the Finance Committee meeting of June 11, 2012, the minutes will be brought back for approval at the next meeting.

All documents distributed for this meeting are available in the  
administration office of the Finance Department

## 5. CURRENT BUSINESS

### A. Big Canyon Reservoir Cover Replacement

Public Works Director Dave Webb explained the cover on Big Canyon Reservoir which was expected to have a 20-year life began to have failures after 5 years. Staff is in the process of working with a consulting team on designing a replacement cover. He noted there are two primary material options under consideration and requested direction from the Committee on the preferred material option.

Assistant City Engineer Mike Sinacori introduced Kandarp Patel and Jay Cooke who are with MWH, the consulting firm that is designing the cover, and Doug Hilts with Hilts Consulting Group, who worked on the previous cover installation and is inspecting and monitoring how much time is left in the life of the cover.

Mr. Cooke reviewed the two material replacement options, CSPE (chlorosulfonated polyethylene) and RPP (reinforced polypropylene), and discussed the advantages, disadvantages, and cost and warranty differences between the two materials. CSPE, the recommended material option, is more expensive but has a longer life span. He noted there is only manufacturer in the U.S. of CSPE and only two manufacturers of RPP. One of the RPP firms is the manufacturer of the failed RPP material currently in service. Mr. Webb commented staff would request approval for a single source manufacturer of the recommended CSPE material but there would be competitive opportunities for bidding on the cover fabrication and installation.

Mayor Pro Tem Curry stated and Council Member Daigle concurred the experience with the prior cover suggests it would be a better approach to pay for a better quality material and agreed with staff's and the consultant's recommendation to use the 45-mil CSPE material. Council Member Daigle instructed staff to cite other agencies that are using the product and where there have been failures of the current cover material when this is presented to the City Council for approval.

Mr. Purcell suggested there should be a better solution for the cover that would be a more aesthetically pleasing design and he encouraged other options be explored to make it a better property for the community.

### B. Quarterly Financial Report Through Quarter Ending 6/30/2012

Finance Director Dan Matusiewicz acknowledged and thanked Accounting Manager Rukshana Virany and Accounting Division staff for their efforts in contributing to the Quarterly Financial Report (QFR) and many of the staff reports presented to the Finance Committee.

Mr. Matusiewicz reviewed the highlights of the QFR. He stated the General Fund combined with the Facilities Financing Plan reserve is expected to close at \$106 million, a \$7.8 million increase to fund balance over the previous year. City Manager Dave Kiff clarified the \$7.8 General Fund increase was attributed to

All documents distributed for this meeting are available in the  
administration office of the Finance Department



revenues that came in higher than expected, expenditures that came in lower than expected, and some one-time capital improvement projects that were deferred until the next year.

Mr. Matusiewicz went on to report assessed property values released by the Orange County Assessor's Office showed a 2.87 percent increase and Newport Beach has the second highest overall assessed valuation in Orange County. Another highlight was the AAA implied general obligation rating as well as the AA+ rating on the Civic Center Certificates of Participation (COPs) was reaffirmed by Fitch. Also reported in the QFR was the Assessment District refinancing resulted in a total of \$369,504 refunded to current property owners in the Assessment Districts.

Some of the changes noted in the General Fund Comparative Income Statement were the result of creating the Information Technology Internal Service Fund (IT ISF), increases in Community Services due to the continued high level of activity at OASIS Senior Center, and a different approach to the allocation of Tidelands Funds as a result of how the Fire Chief is attributing fire calls to the ocean beaches.

In response to a question raised by Council Member Daigle, Mr. Matusiewicz noted sales tax revenue is approximately \$1.1 million less than our pre-recession low. Transient occupancy taxes would likely be tracking similarly in the same pre-recession range if it weren't for the addition of Pelican Hill Resort in 2008.

Mr. Mosher commented it would be beneficial to the public to show how much outstanding debt the City has. Mr. Matusiewicz noted it is reported in the Comprehensive Annual Financial Report. Mayor Pro Tem Curry added the debt doesn't change quarter to quarter and wouldn't be meaningful to report quarterly.

#### C. Annual Investment Portfolio Performance Review

Finance Director Matusiewicz reported the investment portfolio shows the total portfolio increased quarter to quarter in the operating with a large increase shown in the fourth quarter related to the receipt of a property tax installment.

The Treasury Yield chart shows a continued decline in yield from June 2011 to June 2012 with an overall managed investment portfolio yield of .93%, which is higher than a comparable risk-free U.S. Treasury that would have earned only .33%. LAIF is earning about .36%. Mr. Matusiewicz added that in recent years, a higher balance is being held in our checking account because the bank is offering a higher offsetting compensating balance rate however staff is looking more closely at bank fees that offset that rate.

#### D. Annual Investment Policy Review & Update

Mr. Matusiewicz explained Council Policy F-1, Statement of Investment Policy, requires an annual review of the City's Investment Policy by Finance Department and affirmation by the City Council. He reviewed the proposed changes to the

Policy that staff is recommending which will clarify and streamline several administrative procedures contained within the current policy. One proposed recommendation delegates annual review of the Investment Policy with the Finance Committee but eliminates the requirement for the Policy to be affirmed by City Council if no substantive changes are proposed. Other proposed recommendations include allowing our investment advisors to use their own professional discretion in selecting broker/dealers consistent with the selection process described by the SEC and allows selected transaction placement based on quality based factors rather than pricing alone. Mayor Pro Tem Curry questioned the meaning of quality based factors and suggested revising the explanation of this proposed revision.

Council Member Daigle stated any changes to a Council Policy should go to the full Council for approval. Additionally, in reference to the proposed revision to how investment performance is measured gross of fees, Council Member Daigle questioned if fees are disclosed. City Manager Kiff suggested working out a way to make the fees as public as possible.

Mr. Mosher stated his concurrence with Council Member Daigle's comments and noted Section K contains some grammatical errors.

Mr. Matusiewicz concluded staff will make the suggested revisions as discussed and bring the policy to the City Council to affirm. The record will reflect that Mayor Pro Tem Curry abstained on this item.

**6. FINANCE COMMITTEE ANNOUNCEMENTS OR MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)**

Council Member Daigle inquired if it is standard practice to conduct an audit on a public project like the Civic Center. City Manager Kiff stated he would follow up with Public Works and determine what standard practice is.

**7. ADJOURNMENT**

The Finance Committee adjourned at 2:55 p.m.

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

Attest:

\_\_\_\_\_  
Keith Curry, Mayor Pro Tem  
Finance Committee Chair

\_\_\_\_\_  
Date

All documents distributed for this meeting are available in the  
administration office of the Finance Department

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

Agenda Item No. \_\_\_\_\_  
February 28, 2013

**TO:** HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Dan Matusiewicz, Finance Director  
(949) 644-3123, DanM@newportbeachca.gov

**SUBJECT: FISCAL YEAR 2011-12 AUDITOR RECOMMENDATION**

---

**SUMMARY:**

In connection with the City's financial statement audit, the auditors have certain obligations to communicate the audit results with both City Council and management. The attached letters from the City's auditors, White Nelson Diehl Evans fulfill those obligations for the required communication.

**DISCUSSION:**

The first audit letter is intended to communicate matters of particular significance that City Council should be aware of including:

- Qualitative Aspects of Accounting Practices
- Difficulties Encountered in Performing the Audit
- Corrected and Uncorrected Adjustments
- Disagreements with Management
- Management Representations
- Management Consultations with Other Independent Accountants
- Other Information in Documents Containing Audited Financial Statements
- Other Audit Findings or Issues

We are pleased to report that the auditors reported no instances of significant audit findings; difficulties encountered in connection with the performance of the audit; corrected or uncorrected adjustments; disagreements with management or other audit findings or issues.

The second letter entitled "Independent Auditors' report on Internal Control over Financial Reporting and on Compliance and Other Matters" is intended to communicate deficiencies, significant deficiencies or material weaknesses in internal control and instances of noncompliance or other matters. We are pleased to report that the auditors did not identify any deficiencies in internal control considered to be a material weakness that would result in more than a remote likelihood of a material misstatement of the

financial statements or would not otherwise be prevented by the City's internal controls. They also did not identify any instances of noncompliance or other matters that require specific communication to the governing body as promulgated by Government Auditing Standards.

The third letter identifies one recommendation for consideration. The auditors do not consider this item to be a material weakness or a significant deficiency but represents a recommendation to management that would strengthen internal controls or financial reporting accuracy.

**Receivables older than one year.**

*When the City invoices customers or grantors the corresponding receivables are tracked in the general ledger accounts based on the type of revenue. During our review of the supporting schedules for accounts receivables, we noted individual bills that have been outstanding for more than one year without a corresponding allowance for bad debts, which indicates that, although not significant, individual fund balances may be overstated.*

**Auditor Recommendation**

When the City sends the outstanding invoices older than 90 days to any collection agency, we recommend that the City record an allowance for uncollectible accounts to more accurately reflect fund balances.

**City Response**

The City concurs with the auditor's comments. Our current policy is to keep receivables on our books that are three years or younger. Finance staff reviews all receivables annually and writes off any receivables over three years old. It is a best practice to set up an allowance for uncollectible accounts and recognize a bad debt expense annually based on historical collection patterns. Staff is in the process of examining historical collection patterns by receivable type and will formalize administrative procedures to record bad debt expense on an annual basis in direct proportion to the billing activity for the year.

Prepared by:



Rukshana Virany  
Accounting Manager

Submitted by:



Dan Matusiewicz  
Finance Director

Attachments:

- A. Auditor's "Audit Committee Letter"
- B. Auditor's "Report on Internal Control over Financial Reporting and on Compliance & Other Matters"
- C. Auditor's "Management Letter"



The logo for White Nelson Diehl Evans LLP is centered at the top of the page. It features the company name in a large, serif font, with 'WHITE NELSON DIEHL EVANS LLP' in white and 'Certified Public Accountants & Consultants' in a smaller, lighter font below it. The background of the logo is a dark, textured rectangle.

WHITE NELSON DIEHL EVANS LLP  
Certified Public Accountants & Consultants

To the Honorable Mayor and  
Members of the City Council  
of the City of Newport Beach  
Newport Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach (the City) for the year ended June 30, 2012. Professional standards require that we provide you with information about our responsibilities under generally accepted auditing standards and Government Auditing Standards, as well as certain information related to the planned scope and timing of our audit. We have communicated such information in our contract dated May 10, 2011 and our meeting on planning matters with the finance committee on June 11, 2012. Professional standards also require that we communicate to you the following information related to our audit.

#### Significant Audit Findings

##### *Qualitative Aspects of Accounting Practices*

Management is responsible for the selection and use of appropriate accounting policies. The significant accounting policies used by the City are described in Note 1 to the financial statements. No new accounting procedures were adopted and the application of other existing policies was not changed during the year ended June 30, 2012. We noted no transactions entered into by the City during the year for which there is a lack of authoritative guidance or consensus. All significant transactions have been recognized in the financial statements in the proper period.

Accounting estimates are an integral part of the financial statements prepared by management and are based on management's knowledge and experience about past and current events and assumptions about future events. Certain accounting estimates are particularly sensitive because of their significance to the financial statements and because of the possibility that future events affecting them may differ significantly from those expected.

The most sensitive estimates affecting the City's financial statements are as follows:

- a. Management's estimate of the fair market value of investments, which is based on market values provided by outside sources.
- b. Management's estimate of the value of capital assets (infrastructure assets) is based on industry standards.

Significant Audit Findings (Continued)*Qualitative Aspects of Accounting Practices (Continued)*

## Sensitive Estimates (Continued):

- c. The estimated useful lives of capital assets for depreciation purposes are based on industry standards.
- d. The funded status and funding progress of the public defined benefit plans with CalPERS are based on actuarial valuations.
- e. The annual required contribution and actuarial accrued liability for the City's Other Post-Employment Benefit Plan is based on certain actuarial assumptions and methods prepared by an outside consultant.
- f. The total estimated cost to fund the Early Retirement Incentive Program is based on amounts provided by the third-party administrator.
- g. Management's estimate of the claims payable liabilities related to general liability and worker's compensation claims are based on actuarial valuations.

We evaluated the key factors and assumptions used to develop these estimates in determining that they were reasonable in relation to the financial statements taken as a whole.

Certain financial statement disclosures are particularly sensitive because of their significance to financial statement users. The most sensitive disclosures affecting the financial statements were reported in Note 8 regarding claims payable, Note 10 regarding the CalPERS defined benefit plans, Note 11 regarding the City's Early Retirement Incentive Program (ERIP), and Note 12 regarding the City's Other Post-Employment Benefit Plan.

The financial statement disclosures are neutral, consistent, and clear.

*Difficulties Encountered in Performing the Audit*

We encountered no significant difficulties in dealing with management in performing and completing our audit.

*Corrected and Uncorrected Misstatements*

Professional standards require us to accumulate all known and likely misstatements identified during the audit, other than those that are trivial, and communicate them to the appropriate level of management. Management has corrected all such misstatements. In addition, none of the misstatements detected as a result of audit procedures and corrected by management were material, either individually or in the aggregate, to each opinion unit's financial statements taken as a whole.



*Disagreements with Management*

For purposes of this letter, professional standards define a disagreement with management as a financial accounting, reporting, or auditing matter, whether or not resolved to our satisfaction, that could be significant to the financial statements or the auditor's report. We are pleased to report that no such disagreements arose during the course of our audit.

*Management Representations*

We have requested certain representations from management that are included in the management representation letter dated December 27, 2012.

*Management Consultations with Other Independent Accountants*

In some cases, management may decide to consult with other accountants about auditing and accounting matters, similar to obtaining a "second opinion" on certain situations. If a consultation involves application of an accounting principle to the City's financial statements or a determination of the type of auditor's opinion that may be expressed on those statements, our professional standards require the consulting accountant to check with us to determine that the consultant has all the relevant facts. To our knowledge, there were no such consultations with other accountants.

*Other Information in Documents Containing Audited Financial Statements*

With respect to the supplementary information accompanying the financial statements, we made certain inquiries of management and evaluated the form, content, and methods of preparing the information to determine that the information complies with accounting principles generally accepted in the United States of America, the method of preparing it has not changed from the prior period, and the information is appropriate and complete in relation to our audit of the financial statements. We compared and reconciled the supplementary information to the underlying accounting records used to prepare the financial statements or to the financial statements themselves.

*Other Audit Findings or Issues*

We generally discuss a variety of matters, including the application of accounting principles and auditing standards, with management each year prior to retention as the City's auditors. However, these discussions occurred in the normal course of our professional relationship and our responses were not a condition to our retention.

This information is intended solely for the use of management, the City Council and others within the City and is not intended to be and should not be used by anyone other than these specified parties.

*White Nelson Dick Evans LLP*

Irvine, California  
December 27, 2012

The logo for White Nelson Diehl Evans LLP is centered at the top of the page. It features the company name in a large, serif font, with 'WHITE NELSON DIEHL EVANS LLP' in white and 'Certified Public Accountants & Consultants' in a smaller, lighter font below it. The background of the logo is a dark, textured rectangle.

WHITE NELSON DIEHL EVANS LLP  
Certified Public Accountants & Consultants

INDEPENDENT AUDITORS' REPORT ON INTERNAL CONTROL OVER  
FINANCIAL REPORTING AND ON COMPLIANCE AND OTHER MATTERS  
BASED ON AN AUDIT OF FINANCIAL STATEMENTS PERFORMED  
IN ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS

The Honorable Mayor and  
Members of City Council  
City of Newport Beach  
Newport Beach, California

We have audited the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach (the City), as of and for the year ended June 30, 2012, which collectively comprise the City's basic financial statements and have issued our report thereon dated December 27, 2012. We conducted our audit in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in Government Auditing Standards, issued by the Comptroller General of the United States.

Internal Control Over Financial Reporting

Management of the City is responsible for establishing and maintaining effective internal control over financial reporting. In planning and performing our audit, we considered the City's internal control over financial reporting as a basis for designing our auditing procedures for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control over financial reporting. Accordingly, we do not express an opinion on the effectiveness of the City's internal control over financial reporting.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control such that there is a reasonable possibility that a material misstatement of the City's financial statements will not be prevented, or detected and corrected on a timely basis.

Internal Control Over Financial Reporting (Continued)

Our consideration of internal control over financial reporting was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control over financial reporting that might be deficiencies, significant deficiencies or material weaknesses. We did not identify any deficiencies in internal control over financial reporting that we consider to be material weaknesses, as defined above.

Compliance and Other Matters

As part of obtaining reasonable assurance about whether the City's financial statements are free of material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under Government Auditing Standards.

We noted a certain other matter that we have reported to management and the City Council in a separate letter dated December 27, 2012.

This report is intended solely for the information and use of the management, City Council and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*White Nelson Dick Evans LLP*

Irvine, California  
December 27, 2012

The logo for White Nelson Diehl Evans LLP is centered at the top of the page. It features the company name in a large, serif font, with 'WHITE NELSON DIEHL EVANS LLP' in white and 'Certified Public Accountants & Consultants' in a smaller, lighter font below it. The background of the logo is a dark, textured rectangle.

WHITE NELSON DIEHL EVANS LLP  
Certified Public Accountants & Consultants

The Honorable Mayor and  
Members of City Council  
City of Newport Beach  
Newport Beach, California

In planning and performing our audit of the financial statements of the governmental activities, the business-type activities, each major fund, and the aggregate remaining fund information of the City of Newport Beach (the City) as of the year ended June 30, 2012, in accordance with auditing standards generally accepted in the United States of America, we considered the City's internal control over financial reporting (internal control) as a basis for designing audit procedures that are appropriate in the circumstances for the purpose of expressing our opinions on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of the City's internal control. Accordingly, we do not express an opinion on the effectiveness of the City's internal control.

A deficiency in internal control exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. A material weakness is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected, on a timely basis.

Our consideration of internal control was for the limited purpose described in the preceding paragraph and was not designed to identify all deficiencies in internal control that might be material weaknesses. Given these limitations during our audit, we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified. As discussed below, we identified a certain matter involving the internal control and other operational matters that is presented for your consideration. This letter does not affect our report dated December 27, 2012 on the financial statements of the City. Our comment and recommendation are intended to improve the internal control or result in other operating efficiencies. Our comment with our recommendation for improvement is summarized as follows:

**Receivables Older than One Year**

When the City invoices customers or grantors the corresponding receivables are tracked in the general ledger accounts based on the type of revenue. During our review of the supporting schedules for accounts receivable, we noted individual bills that have been outstanding for more than one year without a corresponding allowance for bad debts, which indicates that, although not significant, individual fund balances may be overstated. When the City sends the outstanding invoices older than 90 days to any collection agency, we recommend that the City record an allowance for uncollectible accounts to more accurately reflect fund balances.

This communication is intended solely for the information and use of management, the City Council, and others within the City, and is not intended to be, and should not be, used by anyone other than these specified parties.

*White Nelson Dick Evans LLP*

December 27, 2012  
Irvine, California

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

Agenda Item No. \_\_\_\_\_  
February 28, 2013

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Steve Montano, Deputy Finance Director  
(949) 644-3240 or [Smontano@NewportBeachCA.gov](mailto:Smontano@NewportBeachCA.gov)

**SUBJECT: Finance Committee Charter Review and Update**

---

**SUMMARY**

The resolution authorizing the purpose and responsibilities of the Finance Committee was last updated by Resolution No. 2007-21, as adopted April 10, 2007. Proposed revisions to the Finance Committee Charter will incorporate prior year recommendations by Finance Committee members. These recommendations will expand the Finance Committee's purview to review debt financings to assess the risk associated with debt usage and to conduct audit conferences with auditors in the absence of staff.

Prepared and Submitted by:



Steve Montano  
Deputy Finance Director

Attachment: Revised Finance Committee Charter



## FINANCE COMMITTEE

**AUTHORIZATION:** Established by Resolution No. 94-110 adopted on December 12, 1994. Modified by Resolution No. 96-100 adopted on December 9, 1996. Disbanded by Resolution No. 98-32 adopted on May 11, 1998. Re-established by Resolution No. 2000-103 adopted on December 12, 2000. Duties and membership amended by Resolution No. 2007-21 adopted on April 10, 2007.

**MEMBERSHIP:** Three (3) Council Members, one of whom shall be appointed chairperson. Appointment shall be made by the Mayor and confirmed by the full City Council.

Staff support shall be provided primarily by the City Manager and the Finance Director and by other staff as necessary.

Meetings shall be called by the Chairperson or Mayor as needed.

**TERM:** Indefinite pending City Council action.

**PURPOSE & RESPONSIBILITIES:**

- A. Review and monitor events and issues which may affect the financial status of the City;
- B. Make recommendations to the City Council regarding amendments to financial and budgetary policies and processes;
- C. Review the activities of staff regarding the preparation of the City's budget and other fiscal matters consistent with City Council policy;
- D. Recommend for Council approval, and manage an on-going process for measuring and setting goals designed to maximize the City's revenues consistent with existing taxation structures and inter-governmental funding opportunities, fee generation consistent with market rate charges for city provided services and market rate fees for utilization of City

owned assets. Recommend to Council major initiatives to accomplish identified goals;

- E. Recommend for Council approval, and manage an on-going process for measuring and setting goals designed to minimize the City's cost to provide core services and required activities, consistent with the desired service level for residents and other internal and external customers. Recommend to Council major initiatives to accomplish identified goals; and
- F. Identify, review and recommend to Council the most advantageous methods to fund the City's major capital needs and the City's long term compensation and benefit program liabilities. Review and recommend to Council policies related to the setting of funding goals for major discretionary reserves, and review on-going progress related thereto.
- G. Review the structure and documentation of any proposed debt financing to assess the risk associated with debt usage.
- H. Conduct audit conference meeting(s) with the auditors to provide independent review and oversight of the City of Newport Beach's financial reporting processes, framework of internal control, and to provide a forum in which auditors can candidly discuss concerns in the absence of staff.

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

Agenda Item No. \_\_\_\_\_  
February 28, 2013

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Steve Montano, Deputy Finance Director  
(949) 644-3240 or [Smontano@NewportBeachCA.gov](mailto:Smontano@NewportBeachCA.gov)

**SUBJECT:** Finance Committee 2013 Work Plan

---

**SUMMARY**

Staff will present and seek approval of tentative Finance Committee agenda topics scheduled for the year.

Prepared and Submitted by:



Steve Montano  
Deputy Finance Director

Attachment: 2013 Finance Committee Work Plan

# City of Newport Beach Finance Committee 2013 Work plan

Scheduled Date	Agenda Title	Agenda Description
<b>February 2013</b>		
2/28/2013	Charter Review and Update	The resolution authorizing the purpose and responsibilities of the Finance Committee was last updated by Resolution No. 2007-21, as adopted April 10, 2007. Proposed revisions to the Finance Committee charter will incorporate prior year recommendations.
	2013 Work Plan Overview	Staff will present and seek approval of tentative Finance Committee agenda topics scheduled for the year.
	Audit Review (with Auditor)	The City's external audit firm, White Nelson Diehl Evans LLP will meet with the Finance Committee to discuss the audit findings for the fiscal year ending 6/30/2012. The committee will have an opportunity to discuss any potential areas of concern and the auditors can discuss any changes in accounting standards or disclosures that were relevant for the audit year.
	Staff Recommendation to Direct PERS Actuaries to Not Phase-in Impact of PERS Actuarial Assumptions (Financial Savings) and to Amortize the Unfunded Liability Over a Fixed Declining Period	The City has an option to pay up-front or phase-in the Public Employee Retirement System (PERS) retirement costs resulting from the latest actuarial assumptions. This agenda topic will describe the economic costs and benefits of both options.
	Review of 2013-14 Post Employment Retiree Insurance Actuarial Valuation (AKA OPEB)	The City's OPEB actuary John Bartel will review the City's latest OPEB valuation and liability.
<b>March 2013</b>		
3/25/2013	Facilities Financing Plan (FFP) Review	Staff will provide an overview of the current projects in the FFP, present the funding status, and receive input from the Finance Committee.
	Reserve Level Status and Policy Review	Staff will present the status of City reserve levels and propose changes to the existing reserve policy.
	Debt Service Policy	Staff will propose a new comprehensive policy containing guidelines affecting the amount, issuance, process, and type of governmental debt issued by the City of Newport Beach.
	Fire Fee Schedule	The purpose of this meeting is to review staff's recommendation to revise the Master Fee Schedule according to CPI and to review the specific changes recommended for Fire Department related fees based on a recent review of Fire Department services. The City Council will consider all Master Fee Schedule changes on March 26th.
<b>April 2013</b>		
4/22/2013	Revenue Modeling and Sensitivity Analysis	Staff will present a long-range fiscal forecast of the General Fund incorporating several variables that impact both revenues and expenditures.
	Performance Budgeting Roadmap	Staff will present options for incorporating a performance management system into the City budget and budgeting process. The overall goal of Performance Based Budgeting (PBB) is to link day-to-day program activities with the long-term goals of the City and to demonstrate transparency and accountability for dollars spent.
	Budget Development Update	Staff will provide a brief overview of the 2013-14 Proposed Budget.
	Revenue Update	Staff will review the closing results and other financial news reported in the Third Quarterly Financial Report of FY 2012-13.

Scheduled Date	Agenda Title	Agenda Description
<b>May 2013</b>		
5/13/2013	Budget Review	Staff will provide a comprehensive overview of the 2013-14 Proposed Budget.
<b>June 2013</b>		
6/24/2013	Audit Entrance Conference (Optional)	The City's external audit firm, White Nelson Diehl Evans LLP will meet with the Finance Committee to discuss the work plan for the fiscal year ending 6/30/2013 CAFR audit. The committee will have an opportunity to discuss any potential areas of concern they wish the auditors to review and the auditors can discuss any changes in accounting standards or disclosures that may be relevant for the audit year.
<b>July 2013</b>		
7/22/2013	Investment Policy Review	Staff will present its annual review of the City's investment policy and seek approval and guidance from the Finance Committee regarding the scope, objectives, and standards that govern the City's investment portfolio.
	Investment Performance Review	Staff and/or one or more investment advisors will describe the performance of the City's investment portfolio.
<b>September 2013</b>		
9/23/2013	2012-13 Preliminary Year-End Results 2014-15 Budget Improvement Strategy	Staff will present the preliminary year-end closing results for FY 2012-13. Staff will seek guidance from the Committee regarding potential areas of improvement prior to the preparation of the 2014-15 annual budget.
<b>November 2013</b>		
11/14/2013	Review of Public Employees Retirement System (PERS) Valuation	Staff will present the latest actuarial valuation changes to actuarial assumptions, a review of investment returns, the potential impact of future rates, and the results of employee cost sharing.

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

Agenda Item No. \_\_\_\_\_  
February 28, 2013

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Dan Matusiewicz, Finance Director  
(949) 644-3123 or [DanM@NewportBeachCA.gov](mailto:DanM@NewportBeachCA.gov)

**SUBJECT: Other Post Employment Benefits Actuarial Valuation Results**

---

**SUMMARY**

The City is required to have an actuarial valuation prepared every two years for the City's Other Post Employment Benefits (OPEB) Fund. We are in receipt of the latest actuarial valuation prepared by Bartel Associates for valuation date ending June 30, 2011 setting annual contribution rates for fiscal years 2013-14 and 2014-15. This report summarizes the results of the actuarial valuation, including the City's annual required contribution (ARC) and long-term funding progress.

**DISCUSSION:**

In 2008, the City Council authorized the City's participation in the California Employers' Retiree Benefit Trust (CERBT) Fund, which is an investment vehicle that can be used by all California public employers to prefund future retiree health and OPEB costs. The total value of our CERBT account is currently \$9.2 million and we are currently invested in the CERBT Strategy 1 portfolio, details of which are provided in Attachment A. The City is required to have an actuarial valuation prepared every two years and the last valuation covered the period ending June 30, 2010. CERBT recently requested that all agencies move to odd year valuations.

Our current actuary, Bartel Associates, LLC., specializes in providing public sector clients with actuarial consulting services including retiree medical and pension. They currently have 300+ clients ranging from special districts, to small and large cities, to state governments. In 2010, Finance staff participated in a joint procurement process for OPEB actuarial valuations with the Southern California Association of Governments (SCAG). The process was administered by SCAG and resulted in the City entering into a three-year agreement for OPEB actuarial valuation services with Bartel Associates.

An actuarial valuation can be thought of as a financial check-up for a pension or retiree medical plan. It measures current costs and contribution requirements to determine



appropriate funding levels based on various economic and demographic assumptions. It also measures plan assets and liabilities to determine current funding progress. This includes comparing recent plan experience with assumptions made in the previous valuation.

### Contribution Requirements

Contribution requirements indicate the appropriate contribution amounts necessary for future years. An important component of the OPEB actuarial valuation is the calculation of the Annual OPEB Cost. The Annual OPEB Cost is the employer's periodic required contribution and it is the sum of two parts: (1) the normal cost, which is the cost for OPEB benefits attributable to the current year of service, and (2) an amortization payment, which is a catch-up payment for past service costs to fund the Unfunded Actuarial Accrued Liability (UAAL) over the next 30 years. The City's Annual OPEB Cost for FY 2012-13 is \$3,051,000 and will increase to \$3,381,000 in FY 2013-14.

### Estimated Net OPEB Obligation (NOO)

(Amounts in 000's)

	CAFR 2011/12	Est. 2012/13	Est. 2013/14	Est. 2014/15
■ <b>NOO at BOY</b>	\$ -	\$ - <sup>21</sup>	\$ -	\$ -
■ <b>Annual OPEB Cost</b>				
• Employer ARC	2,614	2,806	3,145	3,286
• Employee Normal Cost	256	245	236	205
• Interest on NOO	-	-	-	-
• Amortization of NOO	-	-	-	-
• Annual OPEB Cost	2,871	3,051	3,381	3,491
■ <b>Contributions</b>				
• Benefit Payments <sup>22</sup>	2,564	2,588	2,683	2,779
• Employee Contributions	256	245	236	205
• Addl. Pre-Funding	51	218	462	507
• Total Contribution <sup>23</sup>	2,871	3,051	3,381	3,491
■ <b>Estimated NOO at EOY</b>	-	-	-	-

<sup>21</sup> Changed from prior estimates. Assumes full ARC contributed.

<sup>22</sup> Estimated benefit payments used beginning 2012/13. Actual benefit payments should be used to calculate NOO.

<sup>23</sup> Full ARC contributed to CERBT, then benefit payments paid from the CERBT.



February 6, 2013

The Government Accounting Standards Board (GASB) requires agencies to disclose a plan liability associated with the active employee subsidy of retiree insurance premiums (Implied Subsidy) but currently, the accounting standard only applies to non-community rated health plans. Driven by a change in actuarial standards, GASB is currently considering a change to the OPEB accounting standard to also include community rated plans. CalPERS is a community rated health plan, so this potential change could

have a substantial effect on the City's OPEB plan liability. If the proposed changes are mandated, as is expected, the City's unfunded actuarial accrued liability (UAAL) would increase from \$28.0 million to \$72.4 million and the ARC would increase from \$3.1 million per year to \$8.5 million annually. While the accounting standard does not mandate funding policies, it would be prudent to start prefunding the Implied Subsidy at some level as soon as possible, consistent with our actuary's recommendation. A final decision regarding the contemplated change in the accounting standard is expected from GASB by the end of this calendar year.

The valuation also includes information that compares the City's ARC and the City's actuarial accrued liability (AAL) amounts with that of their other 300+ clients. The City's miscellaneous ARC is in the 28<sup>th</sup> percentile compared to other Bartel Associates' clients and the City's safety ARC is in the 23<sup>rd</sup> percentile. As a percentage of pay, the City's current ARC is approximately 4.35% of the City's total payroll.

When comparing the City's AAL with that of other Bartel Associates' clients, the City's miscellaneous plan is in the 39<sup>th</sup> percentile and the safety plan is in the 36<sup>th</sup> percentile. While those comparisons don't affect the City's ARC or AAL amounts, they do indicate that the City Council has been strategic in its efforts at mitigating the City's OPEB liability.

Funding Progress

The second key purpose of a valuation is to determine the plan's funding progress by examining how the plan's assets compare with its liabilities. The funding progress can be described as a funded ratio (assets divided by liabilities) or as the funded status, which is the amount of over-funding or under-funding (assets minus liabilities).

The table below shows the actuarial value of assets, the actuarial accrued liability, funded status, and the relationship of the UAAL to payroll as the of the most recent valuation date (June 30, 2011). As indicated below, the City has a funded ratio of 22% and the UAAL is valued at \$28 million or 39.9% of covered payroll.

**Schedule of Funding Progress**

(Amounts in 000's)

<b>Actuarial Valuation Date</b>	<b>Actuarial Value of Assets (a)</b>	<b>Entry Age Actuarial Accrued Liability (b)</b>	<b>Unfunded Actuarial Accrued Liability (b-a)</b>	<b>Funded Ratio (a/b)</b>	<b>Covered Payroll (c)</b>	<b>UAAL as Percentage of Covered Payroll ((b-a)/c)</b>
6/30/2007 <sup>13</sup>	\$ 0	\$ 56,048	\$ 56,048	0.0%	\$ 54,748	102.4%
6/30/2008	8,785	49,015	40,230	17.9% <sup>14</sup>	56,527	71.2%
6/30/2010	7,476	34,707	27,231	21.5%	68,112	40.0%

6/30/2011	7,889	35,922	28,033	22.0%	70,326 <sup>15</sup>	39.9%
-----------	-------	--------	--------	-------	----------------------	-------

<sup>13</sup> Projected 6/30/07 results are shown in City's CAFR.

<sup>14</sup> City reported 0.0% in 2011/12 CAFR.

<sup>15</sup> 6/30/10 data used for 6/30/11 valuation. Projected from prior year with assumed 3.25% payroll increase.



February 6, 2013

### Other Changes

A significant change in the last OPEB valuation (for the period ending June 30, 2010) was the removal of the implied subsidy amount related to the City's standalone health plan offered through Blue Cross. The premiums associated with the City's Blue Cross plan were considered to be subsidized by active employees since active and retirees were considered one group under the plan and a small group at that. For calendar year 2013, the City ended the standalone Blue Cross plan and offered employees the opportunity to participate in CalPERS healthcare plans only. The CalPERS healthcare plans are considered community rated and therefore, as a relatively small participant in the CalPERS group as a whole, the City has no implied subsidy. However, this good news may be short-lived if, as previously mentioned, GASB requires a subsidy disclosure related to community rated health plans.

Mr. Bartel will be in attendance at the Finance Committee meeting should the members have any questions.

Prepared by:

Submitted by:

Susan Giangrande  
Budget Manager

Dan Matusiewicz  
Finance Director

Attachment: CERBT Strategy 1



# CERBT Strategy 1

California Employers' Retiree Benefit Trust (CERBT)

January 31, 2013



## Objective

The objective of the CERBT Strategy 1 portfolio is to seek favorable returns that reflect the broad investment performance of the financial markets through capital appreciation and through investment income. There is no guarantee that the portfolio will achieve its investment objectives.

## Strategy

The CERBT Strategy 1 portfolio is invested in various asset classes in percentages approved by the CalPERS Board. The specific percentages of portfolio assets allocated to each asset class are shown under "Composition". Generally, equities are intended to help build the value of the employer's portfolio over the long term while bonds are intended to help provide income and stability of principal. Also, strategies invested in a higher percentage of equities seek higher investment returns (but assume more risk) compared with strategies invested in a higher percentage of bonds.

Compared with other asset allocation strategies, this portfolio consists of a higher percentage of equities to bonds and other assets. Historically, equities have displayed greater price volatility and therefore this portfolio may experience greater fluctuation of value. Employers that seek higher investment returns, and are able to accept greater risk and tolerate more fluctuation in returns, may wish to consider this portfolio.

## Information Provided in Lieu of Prospectus

The CERBT Strategy 1 portfolio consists of assets managed internally by CalPERS. Because it is not a mutual fund, a prospectus is not available. This summary is designed to provide descriptive information.

## Assets Under Management

As of January 31, 2013, the aggregate total of assets under management for all CERBT Strategies was **\$2,497,966,711**.

## Composition

### Asset Class Allocations and Benchmarks

The CERBT Strategy 1 portfolio may consist of the following asset class target allocations and corresponding benchmarks:

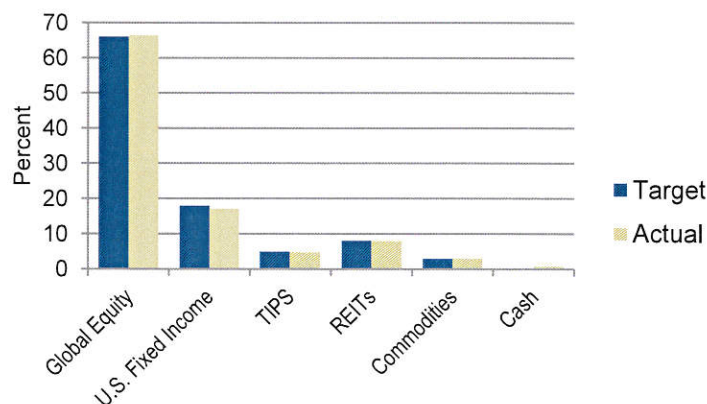
Asset Class	Benchmark
Global Equity	MSCI All Country World Index IMI
U.S. Fixed Income	CalPERS Custom Long Liability
Treasury Inflation-Protected Securities (TIPS)	CalPERS TIPS
Real Estate Investment Trusts (REITs)	FTSE EPRA/NAREIT Developed Liquid Index
Commodities	S&P GSCI Total Return Index

## Portfolio Benchmark

The CERBT Strategy 1 benchmark is a composite of underlying asset class market indexes, each assigned the target weight for the asset class it represents.

## Target vs. Actual Asset Class Allocations

The following chart shows policy target allocations compared with actual asset allocations as of January 31, 2013. CalPERS may overweight or underweight an allocation to a particular asset class based on market, economic, or CalPERS policy considerations.



## CERBT Strategy 1 Performance as of January 31, 2013

	1 Month	3 Months	Fiscal YTD	1 Year	3 Years*	5 Years*	Since Inception* (June 1, 2007)
Returns before expenses <sup>1</sup> (%)	3.17	5.94	11.96	13.83	11.21	4.04	2.95
CERBT Strategy 1 Benchmark	3.15	5.97	11.91	13.78	11.31	4.12	2.47

\*Returns for periods greater than one year are annualized.

<sup>1</sup>See the "Expenses" section of this document.

Performance data shown represents past investment performance and is no guarantee of future results. The investment return and principal value of the portfolio will fluctuate so that an employers' account balance in the portfolio may be worth more or less than the amount invested. Current performance may be lower or higher than the performance data shown above.



# CERBT Strategy 1



California Employers' Retiree Benefit Trust (CERBT)

January 31, 2013

## General Information

### What Employers Own

Each employer owns a percentage of the CERBT Strategy 1 portfolio, which invests in pooled asset classes managed by CalPERS. Employers do not have direct ownership of the securities in the portfolio.

### Information Accessibility

Since the portfolio is not a mutual fund, information is not available from a newspaper source. Instead, CalPERS provides a quarterly statement of the employer's account. For current performance information, including performance to the most recent month-end, investment policy, and detailed asset allocation, please visit our website at: [www.calpers.ca.gov](http://www.calpers.ca.gov).

### Price

The value of the portfolio changes daily, based upon the market value of the underlying securities. Just as prices of individual securities fluctuate, the portfolio's value changes with market conditions.

### Expenses

CERBT is a self-funded trust in which participating employers pay for all administrative and investment expenses. Expenses reduce the gross investment return by the fee amount. The larger the fee, the greater the reduction of investment return. Currently, CERBT expenses are accrued at an annual rate of 0.15% and charged daily to employer accounts. CERBT's actual expenses may differ from the amount currently being accrued due to factors such as changes in average fund assets or actual expenses. The expense accrual rate may change without notice in order to reflect changes in average portfolio assets or in expense amounts. The CalPERS Board annually reviews the operating expenses and changes may be made as appropriate. Even if the portfolio loses money during a period, the fee is still charged.

### Portfolio Manager Information

The portfolio is managed by CalPERS Investment Office staff as directed by the CalPERS Investment Committee and Board of Administration.

## Principal Risks of the Portfolio

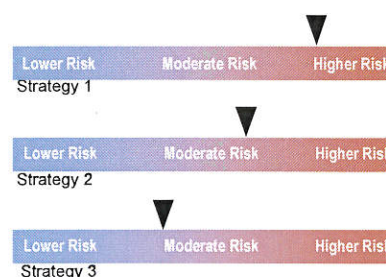
An investment in the portfolio is not a bank deposit, and it is not insured nor guaranteed by the Federal Deposit Insurance Corporation (FDIC) or any other government agency. It is possible to lose money by investing in this portfolio. The portfolio's risk depends in part on the portfolio's asset class allocations and the selection, weighting and risks of the underlying investments. Some major risks associated with investing in equities, fixed income and other assets include:

- **Allocation Risk:** The portfolio's ability to achieve its investment objectives depends in part on the managers' skill in determining the portfolios' sector allocations and in selecting and weighting the underlying investments. The managers' evaluations and assumptions regarding asset classes and underlying investments may differ from actual market conditions.
- **Market Risk:** The value of the portfolio will go up and down based on the performance of the underlying investments in which it invests. The value of the underlying investments will, in turn, fluctuate based on the performance of the securities owned and other factors generally affecting the securities market.
- **Interest Rate Risk:** Generally, when interest rates rise, the value of an underlying investment's fixed income securities will decline. The opposite is true when interest rates decline.
- **Credit Risk:** The value of an underlying investment's fixed income securities will be adversely affected by any erosion in the ability of issuers of these securities to make timely interest and principal payments.
- **Foreign Risk:** Some of the underlying investments are in foreign securities, which are generally riskier than U.S. securities. As a result, the portfolio is subject to foreign risk, meaning that political events (such as civil unrest, national elections, and imposition of exchange controls), social and economic events (such as labor strikes and rising inflation), and natural disasters occurring in a country where the portfolio invests could cause the portfolio's investments in that country to experience losses.
- **Principal Loss:** Employers own a percentage of the CERBT Strategy 1 portfolio (expressed as "units"). At any given time, the value of an employer's units may be worth less than the price paid for them.

## CERBT Strategy Risk Levels

CalPERS offers employers the choice of one of three investment strategies. Risk levels among strategies vary, depending upon the target asset class allocations. Generally, equities carry more risk than fixed income securities.

Asset Class Target Allocations	Strategy 1	Strategy 2	Strategy 3
Global Equity	66%	50%	32%
U.S Fixed Income	18%	24%	42%
TIPS	5%	15%	15%
REITs	8%	8%	8%
Commodities	3%	3%	3%



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

Agenda Item No. \_\_\_\_\_  
February 28, 2013

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Dan Matusiewicz, Finance Director  
(949) 644-3123 or [DanM@NewportBeachCA.gov](mailto:DanM@NewportBeachCA.gov)

**SUBJECT: PERS Rate Adjustment Election & Fixed Declining Amortization Period**

---

**SUMMARY**

CalPERS is providing agencies with the opportunity to phase-in contribution rate increases related to the recent CalPERS changes in actuarial assumptions. Staff recommends that the City implement the new rates without the phase-in option in order to realize long-term savings in interest expense.

Additionally, staff is recommending that the City begin amortizing its unfunded pension liability over fixed declining amortization period versus the current 30-year rolling amortization methodology where the Unfunded Actuarial Accrued Liability (UAAL) would continue to grow each year even if all actuarial assumptions were exactly met.

**DISCUSSION:**

City employee pensions are funded through employee and employer contributions. The employee contributions are based on a fixed percentage while the employer contribution rate is adjusted annually based on actuarial determined assumptions that include future salary increases, employees' age at retirement, retiree life expectancy, and investment rate of return.

CalPERS changed several assumptions last year including:

- Inflation assumption lowered from 3.00% to 2.75%
- Payroll growth assumption lowered from 3.25% to 3.00%
- Discount rate (investment rate of return) lowered from 7.75% to 7.5%

The net effect of the assumption changes increased the City's Actuarial Accrued Liability (AAL) approximately \$12.6 million and is expected to increase the City's



employer rates by 1%-2% (\$460,000 – \$920,000) for miscellaneous plans and 2%-3% (\$630,000 - \$945,000) for safety plans. CalPERS is offering employers the opportunity to phase-in the effect of the rate increases related to the new assumptions over a two-year period. The deadline for notifying PERS of the City's decision on whether to phase-in the rate adjustments is by May 1, 2013.

Finance staff contacted the City's CalPERS actuary to review how the phase-in option would affect the City's employer contributions. The attached amortization schedule (Attachment A) shows the difference in contribution rates. If the City does not phase-in the rate adjustments, the annual contribution will increase approximately \$765,000 further in year one but would be \$82,000 lower on average for each of the next 19 years and the interest expense will be almost \$800,000 less over the 20-year amortization period.

Another action the City can take to reduce the City's unfunded liabilities is to accelerate the amortization period of remaining unfunded pension liabilities. The unfunded pension liability at the market value basis for the miscellaneous plan is \$82.6 million and for the safety plan is \$142.9 million. Currently, the unfunded liabilities are amortized over multiple amortization bases. Some bases are being amortized over a rolling 30-year amortization which results in a negative amortization (ascending balance). The City can direct the PERS actuary to collapse the various bases into a single or "fresh start" base and select a declining amortization schedule. Finance staff asked the City's actuary to develop a fresh start calculation for both the miscellaneous and safety plans. The new funding period for the miscellaneous plan is recommended to be 21 years and for the safety plan, 27 years. The funding period was calculated to maintain rates that are close to the current amounts, but more importantly to amortize the unfunded liabilities over a fixed declining period versus the current rolling 30-year amortization methodology. While rates will increase under the fresh start methodology, they will do so gradually during the initial years (see Attachment B). The methodology will also provide a payment roadmap for the City to pay-off its current unfunded pension liability over a fixed period of time.

Council's recent actions to decrease pension costs include reducing the size of our workforce, establishing partnerships with employees to pay more of the City's pension costs, and the adoption of lower pension benefits for new hires. Those significant efforts can be furthered by accelerating the City's unfunded liabilities payment schedule thereby further mitigating pension costs for future generations. If the Finance Committee concurs, the Finance Director will direct the PERS actuary to:

- 1) Not phase-in the impact of the most recent changes in actuarial assumptions.
- 2) Implement a fresh start for both Miscellaneous and Safety plans amortizing the Miscellaneous plan UAAL over 21 years and the Safety plan over 27 years.

Alternatively, the Finance Director can take no further action on this matter and amortize the unfunded liabilities under the current PERS rate smoothing methodology.

Prepared by:

Submitted by:



Susan Giangrande  
Budget Manager



Dan Matusiewicz  
Finance Director

Attachments:

- A. Combined Miscellaneous and Safety Plan Phase-in Calculations
- B. Combined Miscellaneous and Safety Plan Fresh Start

## Attachment A – Combined Miscellaneous and Safety Plan Phase-in Calculations

Combined Change in Assumption Analysis  
Includes Safety and Miscellaneous

Years	Date	Total Payroll	Change in assumption Amortization Schedule With Phase-in Valuation at 6/30/2011		Change in assumption Amortization Schedule Without Phase-in Valuation at 6/30/2011		Total Cost/Savings
			Balance	Payment	Balance	Payment	
	06/30/2011	71,695,044	12,612,138	288,615	12,612,138	288,615	
	06/30/2012	73,845,895	13,857,291	297,273	13,857,291	297,273	
20	06/30/2013	76,061,272	15,204,807	(382,682)	15,204,807	(1,148,045)	765,364
19	06/30/2014	78,343,111	15,948,395	(1,244,405)	15,154,849	(1,182,487)	(61,918)
18	06/30/2015	80,693,404	15,854,298	(1,281,737)	15,065,434	(1,217,961)	(63,776)
17	06/30/2016	83,114,206	15,714,437	(1,320,189)	14,932,532	(1,254,500)	(65,689)
16	06/30/2017	85,607,632	15,524,219	(1,359,795)	14,751,779	(1,292,135)	(67,659)
15	06/30/2018	88,175,861	15,278,670	(1,400,589)	14,518,448	(1,330,899)	(69,689)
14	06/30/2019	90,821,137	14,972,409	(1,442,606)	14,227,425	(1,370,826)	(71,780)
13	06/30/2020	93,545,771	14,599,614	(1,485,884)	13,873,179	(1,411,951)	(73,933)
12	06/30/2021	96,352,144	14,153,987	(1,530,461)	13,449,726	(1,454,310)	(76,151)
11	06/30/2022	99,242,709	13,628,720	(1,576,375)	12,950,595	(1,497,939)	(78,436)
10	06/30/2023	102,219,990	13,016,454	(1,623,666)	12,368,793	(1,542,877)	(80,789)
9	06/30/2024	105,286,589	12,309,236	(1,672,376)	11,696,764	(1,589,163)	(83,213)
8	06/30/2025	108,445,187	11,498,472	(1,722,547)	10,926,341	(1,636,838)	(85,709)
7	06/30/2026	111,698,543	10,574,882	(1,774,224)	10,048,707	(1,685,943)	(88,280)
6	06/30/2027	115,049,499	9,528,444	(1,827,450)	9,054,336	(1,736,522)	(90,929)
5	06/30/2028	118,500,984	8,348,337	(1,882,274)	7,932,948	(1,788,617)	(93,656)
4	06/30/2029	122,056,014	7,022,879	(1,938,742)	6,673,441	(1,842,276)	(96,466)
3	06/30/2030	125,717,694	5,539,464	(1,996,904)	5,263,836	(1,897,544)	(99,360)
2	06/30/2031	129,489,225	3,884,489	(2,056,812)	3,691,208	(1,954,471)	(102,341)
1	06/30/2032	133,373,901	2,043,278	(2,118,516)	1,941,611	(2,013,105)	(105,411)
0	06/30/2032	137,375,119	(0)	-	(0)	-	-
<b>Total Interest Savings</b>				<b>(19,026,096)</b>		<b>(18,236,274)</b>	<b>789,822</b>

### Attachment B – Combined Miscellaneous and Safety Plan Fresh Start

City of Newport Beach Comined Safety and Miscellaneous - Total Employer Rate  
Fresh Start over 21 years

Year	Fiscal Year End	Payroll	Current Policy (Multiple Bases)	Fresh Start (Single Base)	Variance
	2011-12	73,845,896			
	2012-13	76,061,273			
1	2013-14	78,343,111			
2	2014-15	80,693,405	22,456,785	22,357,710	(99,075)
3	2015-16	83,114,207	23,482,524	23,484,366	1,842
4	2016-17	85,607,633	24,531,337	24,646,319	114,981
5	2017-18	88,175,862	25,603,786	25,844,637	240,851
6	2018-19	90,821,138	26,700,443	27,080,421	379,978
7	2019-20	93,545,772	27,821,896	28,354,804	532,908
8	2020-21	96,352,145	28,968,748	29,668,952	700,204
9	2021-22	99,242,710	30,141,620	31,024,068	882,448
10	2022-23	102,219,991	31,341,148	32,421,390	1,080,242
11	2023-24	105,286,591	32,567,985	33,862,194	1,294,209
12	2024-25	108,445,188	33,822,802	35,347,793	1,524,991
13	2025-26	111,698,544	35,106,288	36,879,542	1,773,254
14	2026-27	115,049,500	36,419,151	38,458,836	2,039,684
15	2027-28	118,500,985	36,004,103	40,087,110	4,083,006
16	2028-29	122,056,015	37,325,181	41,765,845	4,440,663
17	2029-30	125,717,695	38,537,361	43,496,564	4,959,204
18	2030-31	129,489,226	39,915,078	45,280,841	5,365,762
19	2031-32	133,373,903	37,391,593	47,120,290	9,728,698
20	2032-33	137,375,120	38,714,919	49,016,580	10,301,661
21	2033-34	141,496,374	37,820,152	50,971,426	13,151,275
22	2034-35	145,741,265	39,135,634	44,491,613	5,355,979
23	2035-36	150,113,503	40,479,966	46,314,082	5,834,115
24	2036-37	154,616,908	41,853,833	48,192,929	6,339,096
25	2037-38	159,255,415	43,454,399	50,129,832	6,675,433
26	2038-39	164,033,078	44,895,373	52,126,544	7,231,170
27	2039-40	168,954,070	46,368,243	54,184,871	7,816,628
28	2040-41	174,022,692	47,873,780	39,488,011	(8,385,769)
29	2041-42	179,243,373	46,489,408	41,170,649	(5,318,759)
30	2042-43	184,620,674	46,299,532	42,905,518	(3,394,014)
31	2043-44	190,159,294	47,233,924	44,694,146	(2,539,778)
<b>Total</b>			<b>1,088,756,993</b>	<b>1,170,867,881</b>	<b>82,110,888</b>