



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

**Council Conference Room, 3300 Newport Blvd., Newport Beach
Monday, March 25, 2013 – 4:00 PM**

Finance Committee Members:

Mike Henn, Council Member, Chair
Keith Curry, Mayor
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 February 28, 2013.

5) CURRENT BUSINESS

- A. Reserve Level Funding Status: This item summarizes the funding status of key reserves and long term liabilities for the Fiscal Year ending June 30, 2012.
- B. Council Policy B-1, Park Fee Policy Revisions: Staff recommendation to revise policy to designate three additional park projects as citywide community parks and direct placement of park fees to the Facilities Financing Fund.

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.

- C. Facilities Finance Plan Update: Using three scenarios, staff has projected the timing, means of financing, and fiscal impacts associated with the funding the high-priority projects that were designated by the City Council.
- D. Draft Debt Management Policy and Proposed Changes to Facilities Replacement Plan Policy F-28: Based on prior comments received from the Committee, staff will present the second draft of the Debt Management Policy. Staff is also proposing changes to the Facilities Replacement Plan Policy F-28 necessitated, in part, by the new Debt Management Policy.
- E. Review of the Request for Proposal (RFP) Outline for the Residential Solid Waste Program:
Review the attached RFP structure for the Residential Solid Waste Program
 - Collection Method
 - Core Services
 - Optional Services
 - Contract Terms

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 June 11, 2012, Finance Committee meeting was called to order at 2:05 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 Mike Henn

Excused: Council Member Leslie Daigle

Staff present: Assistant City Manager Dana Smith, Finance Director Tracy McCraner, Deputy Finance Director Dan Matusiewicz, Accounting Manager Rukshana Virany, Budget Manager Susan Giangrande and Administrative Coordinator Tammie Frederickson

Members of the public: Jim Mosher

Outside entities: Nitin Patel and Daphne Munoz of White Nelson Diehl Evans

3. PUBLIC COMMENTS

Mr. Mosher commented it is hard to reconcile the financial structure of Business Improvement Districts (BIDs) with the Streets and Highways Code Section that calls out district boards as advisory bodies. He noted the City Council, not the BIDs, actually spends the BID levy through normal City mechanisms. He also questioned what a cash basis fund is, as referred to in a section of the Charter that puts certain limits on what can be done with capital improvement funds.

Deputy Director Matusiewicz explained the cash basis fund is old terminology and should be updated to reflect modified accrual basis accounting.

4. APPROVAL OF MINUTES

The minutes for the Finance Committee meeting of May 7, 2012, were approved with the recommendation going forward to change footer reference from Administrative Services Department to Finance Department.

5. CURRENT BUSINESS

A. Audit Entrance Conference

Finance Director McCraner introduced the outside auditors from White Nelson Diehl Evans who will conduct the Fiscal Year 2011-12 audit for the City.

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

Nitin Patel, Partner with White Nelson Diehl Evans, went over the scope of the audit and the work plan. He stated the auditor's responsibility is to express an opinion on whether the financial statements are prepared in conformity with generally accepted accounting principles. It is the responsibility of management and those in charge of governance to communicate any concerns or ask any pertinent questions. The audit is designed to give reasonable assurance that the financial statements are free of material misstatements. Any significant matters will be communicated at the conclusion of the audit.

Beginning July 16, the interim phase of fieldwork will commence for the audit of all City funds and a single audit of Federal grants using a threshold of \$500,000. Mr. Patel explained internal control procedures will be tested during the interim phase. Final fieldwork is expected to start October 29, with the completion of the audit by the end of November. The auditor opinion will be issued in December.

Mr. Patel noted during the initial planning meeting with staff, significant financial transactions that happened during the year were discussed in addition to new GASB standards that are pertinent for the current fiscal year, as well as upcoming applicable GASB standards. Mr. Patel remarked GASB Statement 68 on pension disclosure is expected to impact fiscal year ending June 30, 2015, with a required implementation for all governmental entities. He discussed further the details of Statement 68. Mayor Pro Tem Curry noted it is important keep in mind that nothing has changed other than the way the math is computed and the numbers the accounting authority has directed be used which causes a big spike in the perceived liability.

Council Member Henn commented on the practice of producing a financial statement five months after the close of the fiscal year and questioned whether it is standard timing in other cities for production of an audit. Mr. Patel replied it is standard in the municipal environment to complete the audit and financial statements by the end of December. Ms. McCraner added that tax revenues are not known or received until the end of August.

In response to a question raised by Mr. Mosher, Mr. Patel indicated the auditors do not express an opinion about adequate bonding of City officers.

Having no further discussion on this agenda item, Mayor Pro Tem Curry stated the Finance Committee would meet with the auditors at the conclusion of the audit without staff present.

B. Assessment District Bond Issuance Update

Council Member Henn recused himself on discussion of this item since it involves a financial impact on Assessment District 100 of which he is a participant. Prior to leaving the room, he requested staff provide a district-by-district impact of the proposal.

Deputy Director Matusiewicz stated requests for bids were sent to 11 different banks and the most favorable bid received which included a financing rate of

2.26% was from BBVA Compass. The low financing rate makes it financially feasible to include all 14 outstanding assessment districts into one reassessment district. He noted with this rate a net present value (PV) savings of \$1.1 million will be achieved. Mr. Matusiewicz added that including all of the districts with this current refunding represents a cash flow savings to the customers. Mayor Pro Tem Curry confirmed that because the cost of issuance is shared and the market is at a low, it is a good time to proceed.

Mr. Matusiewicz outlined the closing scheduled for July 2, 2012, is pending City Council approval on June 26, 2012.

Mr. Mosher inquired how much the savings would be if the districts were refinanced separately. Mr. Matusiewicz explained there would not be any additional savings and the benefit of consolidating to one district spreads the loan origination fees across all the districts. Mayor Pro Tem Curry added that it is an improvement because the districts' credit quality is enhanced by a higher number of people who make up the reassessment district.

With the discussion of this item concluded, Council Member Henn returned to the meeting.

C. Proposed FY 2012-13 Budget

Ms. McCraner reviewed the details of the budget checklist and provided explanation on any items that changed since the City Council budget discussion at the May 22, 2012, meeting. She summarized the checklist recommendations total an increase of \$2.4 million to the operating and CIP budget. Additionally, the checklist recommendations were funded by reprioritization or by using restricted reserves, as in the purchase of the fire trucks. The increases did not affect any General Fund reserves.

In response to a question raised by Mr. Mosher, Ms. McCraner explained relinquishment funds received from the State are dedicated to a certain area and Public Works will verify the area qualifies as an eligible use for that revenue.

D. Facilities Financing Plan (FFP) Update

Mr. Matusiewicz explained the Facilities Financing Plan (FFP) developed several years ago needs certain improvements to make it a more usable document for the public. He noted one of the improvements includes separating the FFP balance from the project balance to show the amount in reserves versus the funds dedicated for a specific project. Other improvements include the addition of some visual aids to better show the solvency of the Plan, enhanced analytical tools, and modernization to enable easier updates. Mr. Matusiewicz requested Finance Committee guidance on further improvements to incorporate in the FFP.

Without something specific to review at this time, Mayor Pro Tem Curry and Council Member Henn determined their comments would be offered when the

next draft of the FFP is presented. Council Member Henn also offered assistance on discussing concepts.

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

No future agenda items were discussed.

7. ADJOURNMENT

The Finance Committee adjourned at 2:45 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

DRAFT

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

1. CALL TO ORDER

The February 28, 2013, Finance Committee meeting was called to order at 4:14 p.m. in the Council Conference Room, 3300 Newport Blvd., Newport Beach, California 92663.

2. ROLL CALL

Present: Council Member Mike Henn (Chair), Mayor Pro Tem Keith Curry and Council Member Tony Petros

Staff present: City Manager Dave Kiff, Deputy City Manager/HR Director Terri Cassidy, Finance Director Dan Matusiewicz, Deputy Finance Director Steve Montano, and Accounting Manager Rukshana Virany,

Members of the public: Jim Mosher

Outside entities: Nitin Patel and Kassie Radermacher of White Nelson Diehl Evans; John Bartel of Bartel Associates

3. PUBLIC COMMENTS

Mr. Mosher suggested in the interest of transparency, the check register of all payments made by the City should be presented at each Council meeting. He also believed the Council needs to have an ordinance since the recent Charter revision states the payment of demands should be filed as prescribed by ordinance. He commented on the proposal to change beach parking lots enforcement and thinks the proposal violates the Charter.

4. APPROVAL OF MINUTES

Council Member Henn noted the minutes for the meeting of June 11, 2012, were not included in the Finance Committee packet and he instructed the minutes be brought for approval to the next Finance Committee meeting.

Council Member Henn also directed a revision be made to the September 10, 2012, minutes on Item 5B, page 3, where a statement refers to sales tax being \$1.1 million less than pre-recession "low" but should read pre-recession "high." With Council Member Petros abstaining, a motion was made by Mayor Curry, seconded by Council Member Henn to approve the minutes as amended.

5. CURRENT BUSINESS

A. Audit Review

Nitin Patel, partner with White Nelson Diehl Evans reviewed the three audit letters intended to fulfill required communication obligations with the government body. Mr. Patel stated the aspects evaluated during the audit were determined to be reasonable in relation to the financial statements; there were no difficulties in performing the audit; no significant adjustments were made as a result of the audit procedure; and there were no significant misstatements or material weaknesses in internal control or compliance issues reported. Mr. Patel commented that one recommendation for improvement was made on receivables older than one year. To more accurately reflect fund balances, an allowance for uncollectible accounts should be recorded when the City sends outstanding invoices older than 90 days to any collection agency. Council Member Henn requested to know the dollar amount of these receivables accounts.

Council Member Henn expressed appreciation for the format of the information presented.

Staff then stepped out of the room for an executive session with the auditors.

B. Finance Committee Charter Review and Update

Deputy Finance Director Steve Montano explained the proposed revisions to the Finance Committee Charter add the responsibility to review the structure and documentation of any proposed debt financing and the purview to conduct audit conferences with auditors in the absence of staff.

Council Member Henn discussed identifying an additional responsibility for review and recommendations associated the City's Facilities Financing Plan (FFP).

Mr. Mosher commented on the addition of item G under responsibilities, it isn't clear what kind of risk is being assessed associated with debt usage. He also questioned the intent of item H regarding discussion with auditors in the absence of staff since the meeting is recorded and members of the public are present. City Manager Kiff remarked he is comfortable knowing Council can get the straight scoop from the auditors without staff present.

Council Member Petros motioned, Mayor Curry seconded to direct staff to bring the revised Finance Committee Charter as amended to the full City Council for approval.

C. 2013 Finance Committee Work Plan

Deputy Director Montano reviewed the proposed 2013 work plan. The work plan includes topics historically brought before the Finance Committee, topics

Committee Members asked be placed on future agendas and scheduled topics based on milestones during the year such as budget and audit calendars.

Mayor Curry noticed the review the Quarterly Financial Report is missing from the work plan. It should go to the Finance Committee before it goes to the City Council.

Council Member Petros questioned if there is enough time between the April 22 agenda topic of revenue modeling and sensitivity analysis and the May 13 budget review topic. Mr. Montano explained the revenue modeling and sensitivity analysis is a new tool that will be used to inform Council's deliberations and discussions of the upcoming budget and long-range forecasting. Council Member Henn recognized that this may not have much have impact on the upcoming budget year deliberations but he is glad to start engaging with long-range thinking and he looks forward to a more robust discussion. Council Member Petros suggested that in the future the topic be moved forward on the calendar to allow adequate time to better use the information.

Council Member Henn directed the addition of an agenda item on the September agenda regarding review of principal proposed key budget assumptions to set the template before the budget process begins in December.

In response to a comment from Council Member Henn, Mr. Matusiewicz stated review of the fire fee schedule is targeted for the March 25 Finance Committee meeting but it will be brought to the City Council for consideration on an agenda in April. Mayor Curry advised the fee review should remove fees that are no longer applicable.

Council Member Henn instructed the removal of the audit entrance conference shown in June on the work plan and replaced with a requirement that the auditors contact Finance Committee members individually to solicit views.

Mr. Mosher noted in addition to the quarterly financial report, there is a monthly financial report filed by the Finance Director that is posted online and the link is provided in the City Manager's Newsletter. He observed the work plan for the June meeting shows an audit entrance conference and the Charter specifies the auditors work forward rather than backwards in looking at what the City did the year before. He commented an opportunity was missed when the Charter was amended in November to synchronize the Charter with what is actually done.

Council Member Henn confirmed a revised work plan will be brought back to a future meeting to receive and file.

D. Review of 2013-14 Post Employment Retiree Insurance Actuarial Valuation (AKA OPEB)

Mr. Matusiewicz reviewed the highlights of the OPEB actuarial valuation noting funds are set aside to prefund the liability which is largely made up of our legacy plan that has a defined benefit component. The accrued liability is currently \$34 million and the unfunded component is \$27 million. As the actuarial and

accounting professions are considering a change to the valuation of community and non-community related health plans, a liability would be recorded that is associated with active employees subsidizing retiree premiums. Mr. Bartel of Bartel Associates has performed a sensitivity analysis of the unfunded liability which would rise substantially to \$72 million.

Mr. Bartel explained the increase in liability has to do with the difference between the claims for retirees versus claims for active employees. The difference results in a liability referred to as an "implied subsidy." He noted the proposed change is an exposure draft but it is likely to become mandatory. Mayor Curry commented that nothing is changing except the way the numbers are calculated. Council Member Henn confirmed it has no impact on fulfilling the obligation in the budget. In response to a question by Council Member Petros, Mr. Bartel explained as the exposure draft is currently written the way the liability is calculated is based on the demographics of the entire risk pool.

Mr. Matusiewicz commented the amount contributed in the budget on an annual basis will increase from \$3 million to \$3.4 million in fiscal year 2013-14 and the increase would continue for a number of years before leveling off. The liability is amortized over a 15-20 year period which is shorter than most agencies. The portion of the annual required contribution funded by the City does not include the implied subsidy.

As this item is presented to the Committee to receive and file, there is no action recommended at this time. Council Member Petros remarked it would be beneficial to understand the timing of when the additional contributions will be addressed.

E. PERS Funding Direction

Mr. Matusiewicz explained PERS is reviewing many of their actuarial assumptions and it is anticipated the amount of employer contributions will increase. Mayor Curry remarked these assumptions result in an increase liability though the City has done nothing differently. Mr. Matusiewicz reviewed the option given by PERS for clients to phase-in increased contribution rates and defer the phase-in using a 30-year rolling amortization methodology. He stated the City can elect not to defer the phase-in and save approximately \$789,000 of interest by paying more of it now.

Mr. Bartel discussed the methodology used by PERS and noted the calculations as presented in the staff report will achieve approximately a 7.5 percent discount. Council Member Henn noticed the upfront cost is shown as \$765,000 and he questioned whether to use the PERS reserve to pay the upfront cost. Mr. Matusiewicz cautioned there will be a lot of PERS rate volatility in the coming years and showing a fairly substantial cushion to absorb the expected volatility on the balance sheet would be a good thing for the rating agencies. Council Member Henn remarked the PERS reserve is intended for this purpose.

Mr. Matusiewicz continued the discussion regarding the unfunded liability and proposed accelerating the amortization period of the remaining unfunded

pension liabilities by using a fixed declining amortization period. Mr. Bartel expressed a favorable opinion that it is fiscally prudent to do whatever is under the City's control to not have the unfunded liability grow.

The Committee concurred with staff's recommendations to implement the new rates without the phase-in option and begin amortizing the unfunded pension liability over a fixed declining amortization period.

Mr. Mosher requested clarification on Attachment B. City Manager Kiff explained the total amount paid includes employees' contributions, the more employees pay, the less the City pays on the total.

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

No future agenda items were discussed.

7. ADJOURNMENT

The Finance Committee adjourned at 5:55 p.m.

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

Attest:

Mike Henn, Chair
Finance Committee Chair

Date

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

Agenda Item No. A
March 25, 2013

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

Steven Montano, Deputy Finance Director
(949) 644-3240, Smontano@newportbeachca.gov

**SUBJECT: RESERVE LEVEL FUNDING STATUS & RECOMMENDATIONS FROM
THE FINANCE DEPARTMENT**

ABSTRACT:

Council Policy F-2 provides guidance for the administration and governance of the City's reserves, and establishes accepted/target funding levels for key reserves and long term liabilities. This report summarizes the funding status of key reserves and long term liabilities for the Fiscal Year ending June 30, 2012.

DISCUSSION:

Prudent long-term financial management requires strategic planning and the ability to recognize that a portion of available funds should be reserved for future liabilities.

As a general budget principle concerning the use of reserves, the City Council decides whether to appropriate funds from reserve accounts. Even though a project or other expenditure qualifies as a proper use of reserves, the Council may decide that it is more beneficial instead to use current year operating revenues or bond proceeds, thereby retaining the reserve funds for future use.

Reserve funds will not be spent for any function other than the specific purpose of the reserve account from which they are drawn without specific direction in the annual budget as approved by City Council, or by a separate City Council action. Information regarding the annual budget adoption and administration is contained in City Council Policy F-3.

STATUS/RECOMMENDATION:

The funding status of key reserves and long term liabilities for the Fiscal Year ending June 30, 2012, follows below.

General Fund Contingency Reserve

The General Fund Contingency Reserve has a target balance of fifteen percent (15%) of General Fund "Operating Budget" as originally adopted. Operating budget for this purpose shall include current expenditure appropriations and shall exclude capital improvement projects and transfers out. Appropriations and or access to these funds are reserved for emergency situations only. In FY 2012, the target reserve performance objective was achieved.

Equipment Replacement Fund

The Equipment Replacement Fund target funding is established at fifty percent (50%) of the current accumulated depreciation value of the fleet, calculated on a replacement value basis. In FY 2012, the percent of depreciation funded was at eighty percent (80%) or \$8 million overfunded. Since the equipment replacement funding status has exceeded its target funding in recent years, \$3.0 million of this surplus has been budgeted in FY 2013 to be transferred to the Information Technology Internal Service Fund (IT ISF) for major software development enhancements.

It is our recommendation that City Council appropriate an additional \$3 million to the IT ISF fund in FY 2014.

Facilities Financing Plan

The City's Facilities Financing Plan Reserve was established to amortize the cost of critical City facilities such as, but not limited to, the Civic Center and police department buildings, fire stations, library branches and other facility improvement projects. Contributions to the reserve are established annually as part of the budget process, or as conditions change. In FY 2012 the target annual contribution was funded as budgeted.

General Liability and Workers Compensation Liabilities

The City employs an actuary to estimate the liabilities and overall funding status of the City's general liability (claims & judgments) and workers compensation liabilities. Full funding of the actuary's "target funding level" establishes a seventy-five percent (75%) confidence level that there will be sufficient resources (including projected interest) to pay the full amount of existing claims without future contributions.

Funding at the "Expected Level" produces a confidence level of only fifty to sixty-five percent (50%-65%). It is the City's policy to fund its risk management obligations at not less than the expected level, and no more than an amount sufficient to establish a seventy-five percent (75%) confidence level.

In FY 2012, the City's general liability was funded at one hundred thirty six percent (136%) of its target funding level or approximately \$1.8 million overfunded, whereas the workers compensation liability was funded at ninety-six percent (96%) or \$751,376 underfunded.

It is our recommendation to administratively move \$751,376 from the General Liability Reserve, as it continues to be well overfunded, to the Workers Compensation Reserve. This will maintain a seventy-five percent (75%) confidence level in the Workers Compensation Fund and still leave the General Liability with a reserve status of \$1,013,371 overfunded.

Compensated Absences

The Compensated Absences Fund is utilized primarily as a means to smooth the annual fluctuations in flex leave, vacation leave and sick leave bank liquidations. The minimum cash reserve should not fall below a three-year average of annual cash flows to provide sufficient resources to fund high cash flow years. The maximum cash reserve should not exceed fifty percent (50%) of the long term liability. The target cash reserve should be the median difference between the minimum and the maximum.

The City fell below the minimum funding level in FY 2011 primarily due to the impact of the Early Retirement Plan (ERIP) offered during 2010. In order to maintain the required funding level, \$1.3 million was transferred from the excess General Liability Reserves in FY 2011. In FY 2012, the reserve once again fell below the minimum target funding level ending at \$442,486 under the minimum primarily due to the third of the five annual payments of \$960,000 to fund the ERIP.

It is our recommendation to seek budget authorization to transfer the remaining \$1,013,371 from the General Liability Reserve to the Compensated Absences Reserve. This will not only help meet the City's minimum funding level in the Compensated Absences Fund but also help to partially fund the fourth ERIP payment coming due this year.

CalPERS Funding Obligation

It is the City's policy to make contributions to the pension funding liability equaling at least one hundred percent (100%) of the actuarially required contribution (ARC). Since the City pays the entire ARC each year, by definition, its net pension obligation at the end of each year is \$0. This means the City was not behind in its "mortgage payments" the pension plan. As of the June 30, 2011, valuation report, the City's miscellaneous and safety pension plans were sixty-seven percent (67%) below actuarial expectations leaving an unfunded liability of \$226 million.

Staff recommends that the City continue to pay the full ARC payment and to direct the actuary to amortize the liability on a fixed declining amortization schedule to accelerate the funded status of the City's pension plan and to avoid substantial interest expense.

OPEB Funding Obligation

The City's Other Post-Employment Benefits (OPEB) funding obligation consists of two retiree medical plans, the new plan (defined contribution plan) and the old plan (defined benefit plan). Per Council policy, the City has transferred a substantial portion of the funding risk to the employee through the new plan. The City's policy is to pay 100% of the cash subsidy portion of the ARC associated with the old plan and this goal was met in FY 2012. Although the funding status of the OPEB liability is improving, the funded status is only 24% of actuarial expectations as of June 30, 2011.

Similar to the pension recommendation, it is our recommendation that the City direct the OPEB actuary to accelerate the funding schedule of the OPEB Plan to improve the funded status of the Plan and avoid future interest expense.

Finance would appreciate feedback from the committee and the City Manager's Office on the recommendations contained in the report to appropriately fund our key reserves and long term liabilities.

Prepared by:

Submitted by:

/s/Rukshana Virany
Rukshana Virany
Accounting Manager

/s/Dan Matusiewicz
Dan Matusiewicz
Finance Director

Attachment: Summary Funding Status of Key Reserves and Long Term Liabilities

Summary Funding Status of Key Reserves and Long Term Liabilities

General Fund Contingency Reserve	2009	2010	2011	2012
Cash Reserve	18,614,125	18,895,125	21,841,467	21,582,798
Target Reserve Level (15% of General Fund Expenditures)	18,614,125	18,895,125	21,841,467	21,582,798
Percentage Funded	100%	100%	100%	100%
Amount Over/(Under Funded)	-	-	-	-

Equipment Replacement Funding Status	2009	2010	2011	2012
Cash Reserve	15,426,317	17,068,463	18,582,415	21,652,397
Accumulated Vehicle Depreciation (Replacement Value)	28,107,209	22,101,180	25,562,945	27,217,438
Target Funding Level (50% of Accumulated Depreciation)	14,053,605	11,050,590	12,781,473	13,608,719
Percentage of Depreciation Funded	55%	77%	73%	80%
Amount Over/(Underfunded)	1,372,713	6,017,873	5,800,943	8,043,678

Facilities Replacement Program Funding Status	2009	2010	2011	2012
Actual Annual Contribution	5,000,000	2,500,000	3,800,000	4,016,812
Target Annual Contribution	5,000,000	2,500,000	3,800,000	4,016,812
Percentage of Target Annual Contribution Funded	100%	100%	100%	100%
Amount Over/(Underfunded)	-	-	-	-

General Liability (Claims & Judgments) Funding Status	2009	2010	2011	2012
Cash Reserve	6,838,561	7,675,407	5,120,981	6,627,697
Long-Term (Expected) Liability	3,918,737	3,820,391	3,958,131	4,320,573
Percentage of Expected Liability Funded	175%	201%	129%	153%
Target Funding Level (75% Confidence Level)	4,385,737	4,273,391	4,444,131	4,862,950
Percentage of Actuarial Target Funded	156%	180%	115%	136%
Amount Over/(Underfunded)	2,452,824	3,402,016	676,850	1,764,747

Workers' Compensation Funding Status	2009	2010	2011	2012
Cash Reserve	14,043,801	14,159,190	16,441,918	16,791,624
Long-Term (Expected) Liability	11,893,000	12,322,000	14,620,000	15,676,780
Unfunded Liability	(2,150,801)	(1,837,190)	(1,821,918)	(1,114,844)
Percentage of Expected Liability Funded	118%	115%	112%	107%
Target Funding Level (75% Confidence Level)	13,213,000	13,825,000	16,404,000	17,543,000
Percentage of Actuarial Target Funded	106%	102%	100%	96%
Amount Over/(Underfunded)	830,801	334,190	37,918	(751,376)

Compensated Absences Funding Status	2009	2010	2011	2012
Cash Reserve	3,177,746	1,841,034	2,286,093	1,723,667
Long Term Liability	9,784,085	12,445,316	11,786,784	10,852,590
Unfunded Liability	6,606,339	10,604,282	9,500,691	9,128,923
Minimum Target Funding Level (3 yr Avg of Cash Flows)	1,634,819	1,557,331	1,969,426	2,166,153
Amount Over/(Under) Minimum Balance	1,542,927	283,703	316,667	(442,486)

Pension Funding Status (PERS)	2009	2010	2011	2012
Accrued Liability	616,584,000	651,801,000	692,988,000	Unavailable
Actuarial Value of Assets (AVA)	482,467,000	502,875,000	523,831,000	Unavailable
Unfunded Liability - AVA	134,117,000	148,926,000	169,157,000	Unavailable
Funded Status - AVA	78%	77%	76%	Unavailable
Market Value of Assets (MVA)	353,644,000	395,266,000	467,355,000	Unavailable
Unfunded Liability - MVA	262,940,000	256,535,000	225,633,000	Unavailable
Funded Status - MVA	57%	61%	67%	Unavailable
Annual Pension Cost (APC)	18,405,000	17,822,000	16,830,000	18,018,000
Target Funding Level (100% of APC)	18,405,000	17,822,000	16,830,000	18,018,000
Net Pension Obligation	-	-	-	-

OPEB Funding Status (Retiree Insurance)	2009	2010	2011	2012
Trust Assets (MVA)	6,321,615	6,789,400	8,240,851	8,894,000
Long Term Liabilities	51,367,000	34,707,000	34,895,000	Unavailable
Unfunded Liability (MVA)	45,045,385	27,917,600	26,654,149	Unavailable
Percentage of Liability Funded	12%	20%	24%	Unavailable
Annual Required Contribution (ARC)				
Cash Subsidy	2,720,000	2,016,000	2,128,000	2,614,000
Implied Subsidy	2,734,000	2,603,000	2,686,000	-
Total ARC	5,454,000	4,619,000	4,814,000	2,614,000
Percentage of ARC Contributed	50%	44%	44%	100%
Net OPEB Obligation	4,408,000	6,472,000	8,484,000	-

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

Agenda Item No. B
March 25, 2013

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: COUNCIL POLICY B-1 REVISIONS

ABSTRACT:

Council Policy B-1 establishes the Park Fee Policy for the City. Among other things, the policy recommends that park fees shall be placed in the General Fund, and used solely for the acquisition, establishment or rehabilitation of existing, park, open space and recreational facilities. The policy also lists the City's community and neighborhood parks in its exhibit. Staff proposes to add three parks to the exhibit list, and also proposes that park fees be placed into the Facilities Financing Plan Fund.

DISCUSSION:

Council Policy B-1, the Park Fee Policy, acknowledges the importance of community and neighborhood parks in the Newport Beach community. The Recreation and Open Space Element of the General Plan divides the City into eleven service areas of residential community in order to determine whether particular geographical areas are deficient in park and recreational facilities and to identify acquisitions or improvements which would provide residents with greater recreational opportunities.

Council Policy B-1 provides that park fees shall be placed in a General Fund upon receipt, with a special designation as Park Fees, and shall be used solely for the acquisition, establishment or rehabilitation of existing park, open space and recreational facilities. The Park Fees shall also be placed on a schedule that lists critical information about the subdivision, the fees, the service area and facilities eligible for park fees generated by the subdivision. The fees are to be used only for the park and recreation facilities identified in the Recreation and Open Space Element and in accordance with the policies and standards specified in the General Plan. The parks are identified in the Council Policy B-1 Exhibit.

In the next year or so, the City will add three large community parks to its inventory – the Civic Center park, Sunset Ridge Park and Marina Park. Staff proposes adding these parks to the Council Policy B-1 Exhibit (see Attachment).

Staff also proposes that Park Fees be placed in the Facilities Financing Plan Fund, rather than the General Fund, and appropriately restricted for park development as required by the Quimby Act of 1975. The purpose of the Facilities Financing Plan Fund is to establish new, or to improve existing facilities, which is consistent with the purpose of the Park Fees in Council Policy B-1. All the other Council Policy B-1 requirements, such as schedules and usage requirements, will also be met.

Prepared by:

Submitted by:

/s/Evelyn Tseng

Evelyn Tseng
Revenue Manager

/s/Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachments: A. Council Policy B-1 Park Fee Policy (Strikeout version)
B. Council Policy B-1 Park Fee Policy (Clean version)

PARK FEE POLICY

PURPOSE

The City of Newport Beach maintains an extensive park and open space system. The acquisition and development of our park and open space properties is funded, in part, through the payment of park fees paid by persons or entities who subdivide properties. The Subdivision Map Act requires park fees to be used only for the purpose of developing new or rehabilitating existing neighborhood or community park or recreational facilities to serve the subdivision that paid the fees. The City is required to develop a schedule specifying how, when and where the park fees will be used. The purpose of this Policy is to establish the criteria to be used in deciding which facilities serve subdivision residents and schedule whereby park fees are properly and timely committed to appropriate projects.

POLICY

A. Service Criteria.

The Recreation and Open Space Element of the General Plan states that community parks and view parks serve the entire City. Community parks are those with improvements such as community buildings, parking, swimming, facilities for picnicking, active sports and other facilities that serve a larger population. Neighborhood parks which include unique recreational facilities, such as basketball courts, tennis courts, turf areas, active sports fields, community buildings, unique play areas or view parks are also considered City-wide resources used by all citizens. Accordingly, park fees generated by any subdivision within the City may be used to develop new or rehabilitate existing community parks, view parks, and those neighborhood parks listed on Exhibit A.

The Recreation and Open Space Element divides the City into 11 service areas consisting of relatively discrete residential communities. These service areas were created for the purpose of determining whether particular geographical areas were deficient in terms of park and recreational facilities and to identify acquisitions or improvements which would provide residents with greater recreational opportunities. Accordingly, park fees generated by a subdivision within any services are may be used to create new, or rehabilitate, existing park

or recreational facilities within that services area and as provided in the Recreation and Open Space Element.

B. Implementation Schedule.

Park fees shall be placed in the ~~General Fund~~ Facilities Financing Plan Fund immediately upon receipt with a special designation as Park Fees. These funds, after special designation, shall be used solely for the acquisition or establishment of new, or the rehabilitation of existing, park, open space and recreational facilities. The park fees shall also be placed on a schedule that lists the location of the subdivision, the fees paid, the date on which the fees were paid or the date on which building permits had been issued for 1/2 of the lots created by the subdivision (whichever occurs later), the service area within which the subdivision is located, the neighborhood park, recreation and open space facilities eligible for park fees generated by that subdivision, the date on which the park fees must be committed to specific project of improvements. The park fees shall be used only for the park and recreation facilities identified in the Recreation and Open Space Element and shall be utilized in accordance with the policies and standards specified in the General Plan. Designations for expenditures will be made as part of the annual budget adoption.

[Attachment - Exhibit A]

Adopted - June 27, 1994

Amended - April 23, 2002

Amended and Reassigned - April 8, 2003

Amended - April 13, 2004

Amended - September 13, 2005

Amended - August 11, 2009

Amended - _____, 2013

Formerly I-1

EXHIBIT A

PARK DEDICATION POLICY

PARKS GUIDE

The following view parks serve as citywide resources by reason of their unusual beauty and the view provided:

- | | |
|---------------------------------|----------------------|
| Back Bay View Park | Castaways Park |
| Bayview Park | Jasmine View Park |
| Begonia Park | Kings Road Park |
| Channel Place Park | Lido Park |
| Cliff Drive Park . | Lookout Point |
| Corona del Mar State Beach Park | Newport Island Park |
| Ensign View Park | Peninsula Park |
| Galaxy View Park | Rhine Wharf Park |
| Inspiration Point | West Jetty View Park |
| Irvine Terrace Park | Westcliff Park |

The following Community and Neighborhood Parks serve as citywide resources by reason of the unique recreational opportunities they offer:

Arroyo Park - Lighted multi-purpose field, basketball court, picnic areas and playground.

Bonita Canyon Sports Park - Four youth baseball fields, one multi-purpose field, one soccer field, tennis courts, basketball court, 2 playgrounds and connecting trail to Arroyo Park.

Bonita Creek Park - Community center, lighted softball and multi-purpose field, and basketball court.

Buffalo Hills Park - Basketball court, baseball/softball diamond, volleyball court, multi-purpose fields.

Carroll Beek Community Center and Balboa Island Park - Basketball court, tot playground and community center.

[Civic Center Park - Dog park, walking and viewing trails, civic lawn and community room.](#)

Coastal Peak Park - Two baseball fields, playground, two picnic pavilions and basketball court.

Community Youth Center/Grant Howald Park - Basketball court, tennis courts, community center, softball and multi-purpose field.

Eastbluff Park - Baseball diamond, multi-purpose field, and view of the Back Bay.

Harbor View Nature Park - Natural vegetation area.

Las Arenas Park - Lighted tennis courts, basketball court and community center.

Lincoln Athletic Center - Gymnasium, lighted baseball/softball diamond and multi-purpose fields.

[Marina Park - Community center, sailing center, picnic area, playground, basketball courts and fitness course.](#)

Mariners Park - Multi-purpose room, baseball/softball facilities, racquetball courts, lighted tennis courts, multi-purpose fields, and an ADA equipped play area.

OASIS Senior Center - Multi-purpose senior facility with classrooms and large multi-purpose room.

Peninsula Park - Beach sited multi-purpose field, playground (ADA compliant), picnic and barbecue facilities, baseball/softball diamond and gazebo.

San Joaquin Hills Park - Tennis courts, pentanque courts and lawn bowling facility.

San Miguel Park - Ball diamond, athletic field, four racquetball courts, basketball court and an ADA equipped play area.

[Sunset Ridge Park - Baseball field, soccer field, butterfly garden and playground.](#)

Theater Arts Center - Ninety seat community theater.

West Newport Park - Tennis courts, racquetball courts, basketball court, and 3 playgrounds.

38th Street Park - Basketball courts and playground (ADA compliant).

DRAFT

PARK FEE POLICY

PURPOSE

The City of Newport Beach maintains an extensive park and open space system. The acquisition and development of our park and open space properties is funded, in part, through the payment of park fees paid by persons or entities who subdivide properties. The Subdivision Map Act requires park fees to be used only for the purpose of developing new or rehabilitating existing neighborhood or community park or recreational facilities to serve the subdivision that paid the fees. The City is required to develop a schedule specifying how, when and where the park fees will be used. The purpose of this Policy is to establish the criteria to be used in deciding which facilities serve subdivision residents and schedule whereby park fees are properly and timely committed to appropriate projects.

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Lincoln Athletic Center - Gymnasium, lighted baseball/softball diamond and multi-purpose fields.

Marina Park - Community center, sailing center, picnic area, playground, basketball courts and fitness course.

Mariners Park - Multi-purpose room, baseball/softball facilities, racquetball courts, lighted tennis courts, multi-purpose fields, and an ADA equipped play area.

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Theater Arts Center - Ninety seat community theater.

West Newport Park - Tennis courts, racquetball courts, basketball court, and 3 playgrounds.

38th Street Park - Basketball courts and playground (ADA compliant).

DRAFT

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

Agenda Item No. C
March 25, 2013

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: FINANCE DEPARTMENT
Dan Matusiewicz, Finance Director
(949) 644-3123 or DanM@NewportBeachCA.gov

SUBJECT: FACILITIES FINANCE PLAN UPDATE

SUMMARY:

City Council Policy F-28, Facilities Financing Plan (FFP), requires that staff prepare an update to the long-term facilities replacement plan in conjunction with the annual budget process for review, modification and approval by the City Council. Using three scenarios, staff has projected the timing, means of financing, and fiscal impacts associated with funding the high-priority projects that were designated by the City Council. Staff welcomes input and recommends that the Committee file and receive the report and the attached FFP scenarios.

DISCUSSION:

Staff has prepared three scenarios that contemplate the initiation of the Council designated high-priority projects as listed below. The scenarios allow for the comparison of key financial indicators.

Project Timing and Costs

	Scenario A	Scenario B	Scenario C	Estimated Project Cost (000's)
Priority Projects	Start Date	Start Date	Start Date	
Marina Park	2013	2013	2013	\$30,000
Sunset Ridge	2013	2013	2013	\$7,000
West Newport Land Purchase	2013	2013	2013	\$4,308
Lifeguard Head Qtrs	2014	2014	2014	\$1,500
Fire Station 5 - CDM	2014	2014	2014	\$4,225
City Hall Demo/Parking Lot	2015	2015	2015	\$100
Fire Station 2 - Lido	2015	2015	2015	\$4,225
West Newport Comm Ctr	2015	2015	2015	\$10,000
Park Placeholder	2015	2015	2015	\$2,000
* Utilities/Corporate Yard Merge	2015	2015	2015	\$0
Big Canyon Aux. Yard	2015	2015	2015	\$1,051
Fire Station 1 - Peninsula	2019	2019	2019	\$4,225
Police Station	2030	2030	2020	\$64,375
Total Priority Projects				\$133,009

* Project scope and cost estimate is not yet available, but is not expected to have a significant impact on the FFP Plan.

Scenario A relies mostly on front-loaded cash contributions for the near-term projects, and new debt issuance of \$55 million for the Police Facility project in FY 2031 (see comparison table below). The targeted annual FFP fund balance is based on the 30-year maximum annual debt service anticipated during the term of the obligation. To maintain the target fund balance and provide sufficient project cash flows, the average annual General Fund contribution to the FFP is projected at \$7.7 million and the average annual debt service payment is \$7.8 million. The maximum annual debt service is projected at 4.9% of General Fund revenues.

Key Financial Indicators

Five-Year (2013-2017) Financing Plan	Scenario A	Scenario B	Scenario C
Debt Supported (000's)	\$0	\$20,000	\$20,000
Total FFP Expenditures 2013-2017 (000's)	\$64,409	\$64,409	\$64,409
Long Term Debt Issuance (Amount and Year)	\$55M in 2031	\$55M in 2031	\$65M in 2021
Key Statistics (Next 15 Years)			
Average Annual GF contribution to FFP (000's)	\$7,747	\$7,974	\$9,499
Average Annual Debt Service (000's)	\$7,757	\$9,328	\$11,322
Average Annual GF Contributions to FFP as % Rev	4.0%	4.1%	4.9%
Average Annual Debt Svc as % of Revenues	4.0%	4.8%	5.8%
Average Annual FFP Balance (000's)	\$27,918	\$36,796	\$35,183
Minimum Annual FFP Balance (000's)	\$11,808	\$11,337	\$18,727
Key Policy Parameters (30 Yr Max)			
Debt Service as % of Revenues < 8%	4.9%	5.8%	6.8%
Min FFP Balance = Max Annual Debt Service	\$11,040	\$11,040	\$13,476

Scenario B assumes a fully callable \$20 million private placement in FY 2014 in the event that development contributions are not received as expected, and a \$55 million debt issuance for the Police Facility project in FY 2031. To maintain the target fund balance under this scenario, the average annual General Fund contribution to the FFP is projected at just under \$8 million and the average annual debt service payment is \$9.3 million. The maximum annual debt service is projected to be 5.8% of General Fund revenues.

Scenario C advances the construction of the Police Facility project 10 years. It relies on supplementing the high cash contributions with a \$20 million debt issuance in FY 2014 for the near-term projects and a \$65 million debt issuance for the Police Facility project in FY 2021. To maintain the target fund balance under this scenario, the average annual General Fund contribution to the FFP is projected at \$9.5 million and the average annual debt service payment is \$11.3 million. The maximum annual debt service is projected to be 6.8% of General Fund revenues.

KEY ASSUMPTIONS:

Projects Included in the Analysis

Only General Fund projects are addressed and new facilities are not included unless specifically identified. Potential expenses for dredging are not included and will have to be budgeted as part of the ongoing annual Tidelands Improvement Master Plan. Expenses for land acquisition are not included unless identified as part of the project. Building maintenance and operation costs are not included and will be addressed in a forthcoming Building Maintenance Master Plan.

Project Costs

Estimated project costs are based on current time-frame estimates by Public Works. Construction costs are projected to increase 2.5% annually. Projects and cost projections are revised periodically and are assumed to include project management expenditures.

Debt Financing

Except for funding from contributions or development agreements specifically dedicated to given projects, Certificates of Participation (COPs) and other legal obligations are expected to be issued to cover project costs. Additionally debt cost factors include:

- a. The interest rate is assumed to be 3% in FY 2014 for a 15-year private placement. All future issuances assume an interest rate of 5% over a 30-year term.
- b. Cost of Issuance (COI) for a private placement is assumed to be \$100,000. The COI for a public offering is assumed to be \$250,000 per issue, plus \$6.50 per bond for underwriting.

Debt Service Requirements

General Fund contributions to the FFP in the current year will be \$4.75 million and will increase 4% to 5% on average of the General Fund revenue budget. Service levels supported by the Operating Budget should not be adversely impacted and as with past debt issuances, contingency, stabilization and designated reserve requirements must be sufficiently maintained.

RECOMMENDATIONS:

Staff welcomes input on the proposed scenarios and recommends that the Committee file and receive the report.

Prepared by:

Submitted by:

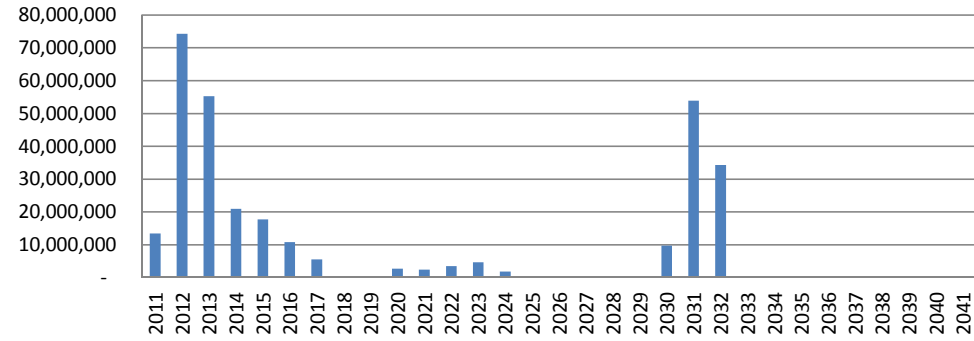
/s/ Rukshana Virany
Rukshana Virany
Accounting Manager

/s/ Dan Matusiewicz
Dan Matusiewicz
Finance Director

Attachments:

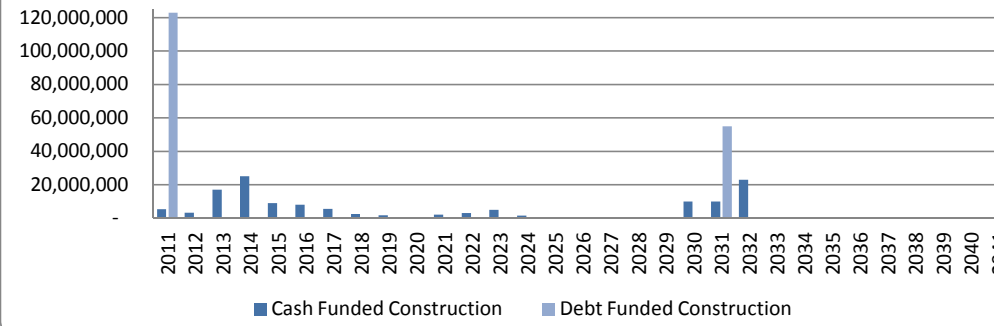
- Exhibit 1 Facilities Finance Plan Scenario A
- Exhibit 2 Facilities Finance Plan Scenario B
- Exhibit 3 Facilities Finance Plan Scenario C

Project Expenditures



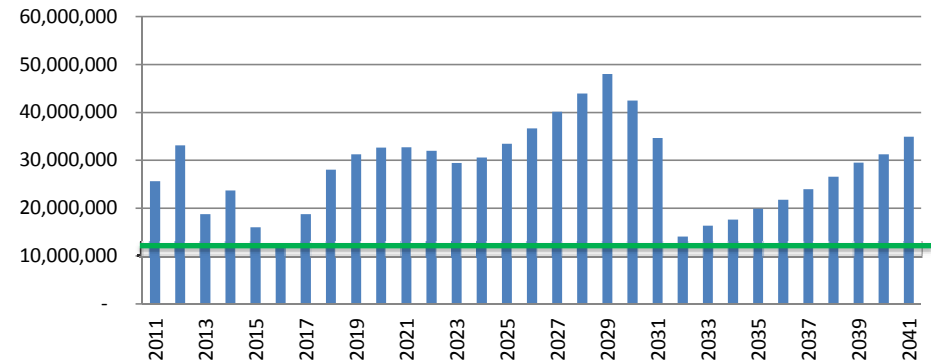
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Project Funding



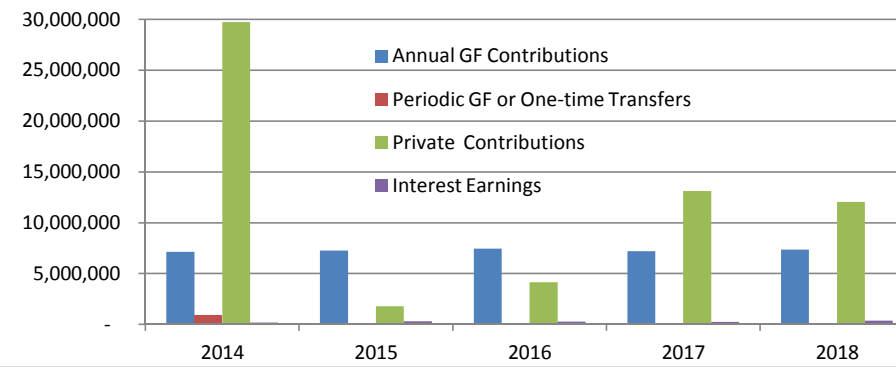
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FFP Reserve Balance



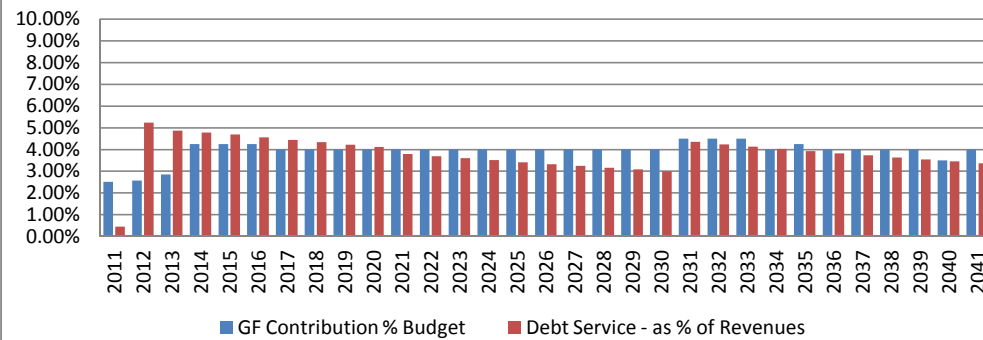
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Cash Contributions



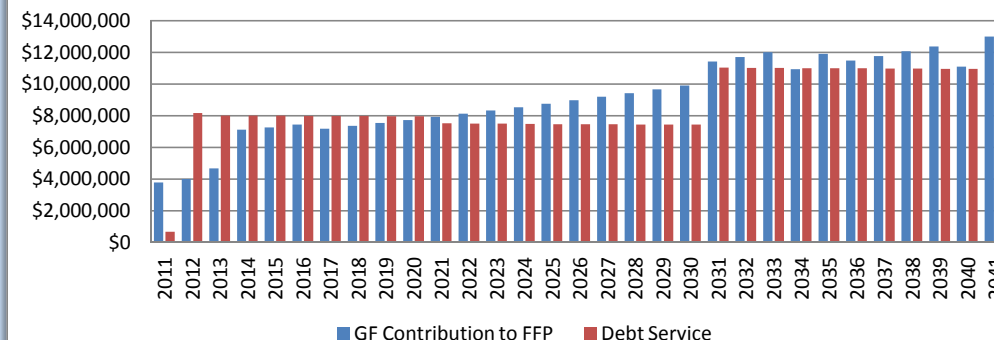
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GF Contribution to FFP as a Percent of GF Revenue



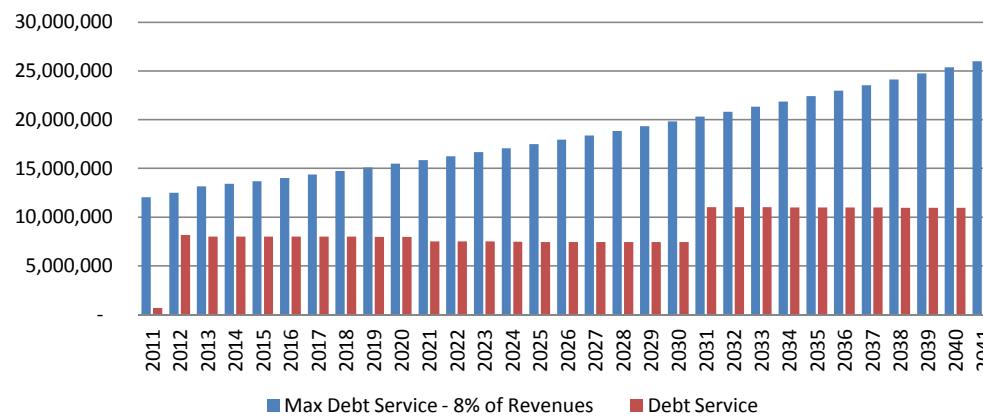
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GF Contribution to FFP Compared to Debt Service



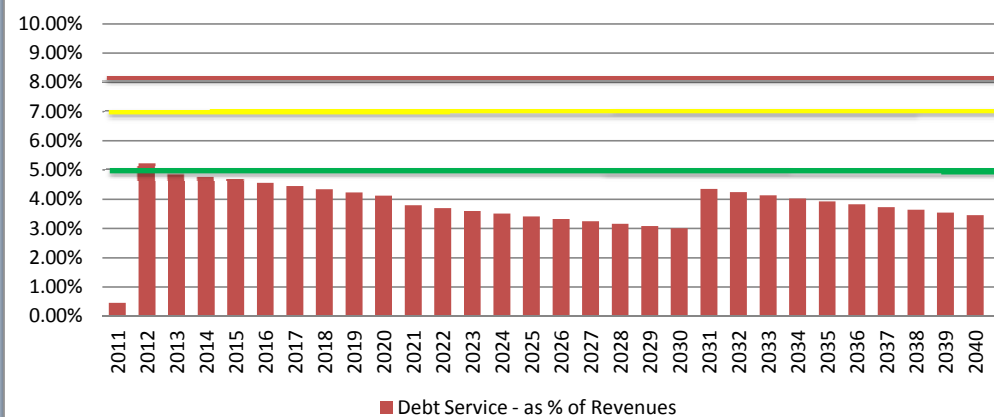
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Debt Service Capacity



7

Debt Service as % of GF Revenues



8

Priority Projects

	Est. Project Cost	Start Date	Yrs to Start
Marina Park	30,000,000	2013	0
Sunset Ridge	7,000,000	2013	0
West Newport Land Purchase	4,308,199	2013	0
Lifeguard Head Qtrs	1,500,000	2014	1
Fire Station 5 - CDM	4,225,000	2014	1
City Hall Demo/Parking Lot	100,000	2015	2
Fire Station 2 - Lido	4,225,000	2015	2
West Newport Comm Ctr	10,000,000	2015	2
Park Placeholder	2,000,000	2015	2
Utilities/Corporate Yard Merge	-	2015	2
Big Canyon Aux. Yard	1,050,625	2015	2
Fire Station 1 - Peninsula	4,225,000	2019	2
Police Station	64,375,000	2030	17

Total 133,008,824

Scenario Highlights

- 1 Marina Park - 2013
- 2 Sunset Ridge - 2013
- 3 Lifeguard Head Qtrs - 2014
- 4 West Newport Comm Ctr - 2015
- 5 Police Station @ Current Site - 2030
- 6 Predicated on \$29 million of developer contributions in FY 2014
- 7 \$64 million of projects cash funded from 2013 -2017
- 8 No debt issue for near term projects
- 9 \$55 million debt issue in 2031 for Police Station

Key Metric
Debt Svc as % of Revenues
FFP Balance (000's)

Policy	
Target	Max
5.0%	8.0%
\$ 11,040	NA

Key Statistics
GF Contribution to FFP (000's)
Debt Service (000's)
GF Contributions to FFP as % Rev
Debt Svc as % of Revenues
FFP Balance (000's)
Project Balance (000's)

15 Year		
Min	Max	Avg
4,676	9,197	7,747
7,458	8,012	7,757
2.85%	4.3%	4.0%
3.24%	4.9%	4.0%
\$ 11,808	\$ 40,140	\$ 27,918
\$ 0	\$ 11,512	\$ 1,992

Key Statistics
GF Contribution to FFP (000's)
Debt Service (000's)
GF Contributions to FFP as % Rev
Debt Svc as % of Revenues
FFP Balance (000's)
Project Balance (000's)

30 Year		
Min	Max	Avg
4,676	12,995	9,553
3,617	11,040	8,773
2.85%	4.5%	4.0%
1.09%	4.9%	3.8%
\$ 11,808	\$ 48,018	\$ 28,844
\$ 0	\$ 11,512	\$ 1,380

PROJECT PLANNING

Scenario A

SK	Function	Project	YR Built	Current Sq Ft	Repl Sq Ft	Est \$ /Sq Ft	Age 2013	Useful Life	Years to Start	Cost Est. Date	Project Estimate	FY	FV	Private Contributions	Net	Est. Debt Svc @ 5%
												Start Date	Cost Est @ 2.5% Growth		Proposed Cost	
1	Gen Gov	Civic Center	2013				0	50	-2	Jan-12	135,000,000	2011	135,000,000	-	135,000,000	8,781,944
1	Gen Gov	City Hall Demo/Parking Lot	2015				-2	50	2	Jan-12	100,000	2015	105,063		105,063	6,834
2	Police	Police Station @ Current Site	1973	47,964	60,000	650	40	50	17	Jan-12	64,375,000	2030	97,954,176		97,954,176	6,372,060
4	Fire	FS 1 - Peninsula	1962	3,423	6,500	650	51	50	6	Jan-12	4,225,000	2019	4,899,705		4,899,705	318,733
4	Fire	FS 2 - Lido	1952	9,953	6,500	650	61	50	2	Jan-12	4,225,000	2015	4,438,891	2,219,446	2,219,445	144,378
4	Fire	FS 3 - Santa Barbara	1971	13,605	6,500	650	42	50	8	Jan-12	4,225,000	2021	5,147,752		5,147,752	334,869
4	Fire	FS 4 - Balboa Island	1994	4,400	6,500	650	19	50	31	Jan-12	4,225,000	2044	9,083,779		9,083,779	590,913
4	Fire	FS 5 - CDM	1950	2,095	6,500	650	63	50	1	Jan-12	4,225,000	2014	4,330,625		4,330,625	281,713
4	Fire	FS 6 - Mariners	1957	2,965	6,500	650	56	50	9	Jan-12	4,225,000	2022	5,276,446		5,276,446	343,240
4	Fire	FS 7 - SAH	2007	11,027	6,500	650	6	50	44	Jan-12	4,225,000	2057	12,522,089		12,522,089	814,580
4	Fire	FS 8 - Npt. Coast	1995	6,975	6,500	650	18	50	32	Jan-12	4,225,000	2045	9,310,873		9,310,873	605,686
4	Fire	Lifeguard HQ Remodel	1958	7,725	7,725	180	55	50	1	Jan-12	1,500,000	2014	1,537,500		1,537,500	100,017
5	Fire	Newport Jr. Guard Building	0				2013	50	7	May-12	1,200,000	2020	1,426,423	1,069,817	356,606	23,198
5	Library	Library-Balboa	1962	5,566	5,000		51	50	49	Jan-12	-	2062	-		-	-
5	Library	Library-CDM	1958	4,323	-		55	50	49	Jan-12	-	2062	-		-	-
5	Library	Library-Mariners	2006	15,305			7	50	43	Jan-12	6,845,355	2056	19,793,481		19,793,481	1,287,594
5	Library	Library-Central	1997	50,930	65,000	400	16	50	39	Jan-12	26,000,000	2052	68,108,936		68,108,936	4,430,584
6	Rec Facility	Marina Park Girl Scout House	1956	5,500	4,000		57	50	0	Jan-12	-	2013	-	-	-	-
6	Rec Facility	Marina Park	NA				NA	50	0	Jan-12	30,000,000	2013	30,000,000		30,000,000	1,951,543
6	Rec Facility	Newport Coast Ctr	2007	16,865	16,865	602	6	50	44	Jan-12	9,984,797	2057	29,593,022		29,593,022	1,925,069
6	Rec Facility	Newport Theater Arts Center	1973	8,042	12,000	500	40	50	37	Jan-12	6,000,000	2050	14,960,092	7,480,046	7,480,046	486,588
6	Rec Facility	OASIS Sr. Ctr	2010	36,467	43,232	360	3	60	47	Jan-12	15,577,116	2060	49,717,436		49,717,436	3,234,191
6	Rec Facility	Sunset Ridge	2014	595,465			-1	50	0	Jan-12	7,000,000	2013	7,000,000		7,000,000	455,360
6	Rec Facility	West Newport Comm Ctr	2016		20,000		-3	50	2	Jan-12	10,000,000	2015	10,506,250		10,506,250	683,447
6	Rec Facility	Park Placeholder						15	2		2,000,000	2015	2,101,250		2,101,250	136,689
6	Rec Facility	West Newport Land Purchase	2013	217,800			0	∞	0	Jan-12	4,308,199	2013	4,308,199		4,308,199	280,255
3	MOD	Utilities/Corporate Yard Merge					0	50	2	May-12	-	2015	-	-	-	-
3	MOD	Big Canyon Aux. Yard					0	50	2	May-12	1,000,000	2015	1,050,625		1,050,625	68,345

354,690,467

528,172,613

517,403,304

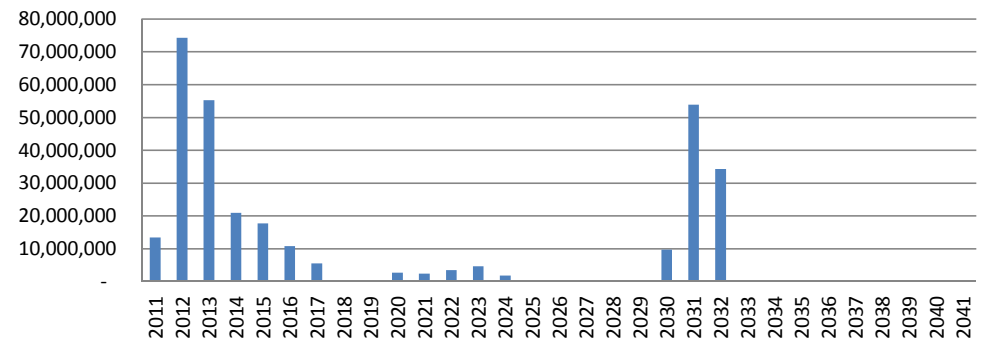
Sources & Uses Proforma

	0	0	0	1	2	3	4	5	6	7	8	9	10	11	12	13		
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025		
AFFORDABILITY ASSUMPTIONS																		
General Fund Revenues	146,914,882	150,735,324	156,100,457	164,323,297	167,609,763	170,961,958	175,236,007	179,616,907	184,107,330	188,710,013	193,427,764	198,263,458	203,220,044	208,300,545	213,508,059	218,845,760		
Growth Assumption	0.00%		3.56%	5.27%	2.00%	2.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%		
GF Annual Contribution %		2.52%	2.57%	2.85%	4.25%	4.25%	4.25%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%	4.00%		
Debt Service as % of GF Revenues		0.45%	5.23%	4.87%	4.78%	4.69%	4.56%	4.45%	4.34%	4.23%	4.12%	3.79%	3.70%	3.60%	3.51%	3.41%		
FFP SOURCES																		
Beginning FFP Balance	-	-	25,625,644	33,149,725	18,726,878	23,678,091	16,023,596	11,807,796	18,757,138	28,056,253	31,226,897	32,621,516	32,684,599	31,955,108	29,421,367	30,576,434		
Sources																		
Annual GF Contributions	-	3,800,000	4,016,812	4,676,143	7,123,415	7,265,883	7,447,530	7,184,676	7,364,293	7,548,401	7,737,111	7,930,538	8,128,802	8,332,022	8,540,322	8,753,830		
Periodic GF or One-time Transfers	-	27,500,000	1,040,773	4,593,503	917,589	-	-	-	-	-	-	-	-	-	-	-		
Private Contributions	-	-	13,545,000	967,856	29,734,386	1,795,566	4,154,434	13,112,652	12,050,000	4,740,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000		
Interest Earnings	-	275,381	343,796	348,072	187,269	295,976	280,413	236,156	375,143	561,125	624,538	652,430	653,692	639,102	588,427	611,529		
Total Sources:	-	31,575,381	18,946,381	10,585,574	37,962,659	9,357,425	11,882,377	20,533,484	19,789,436	12,849,526	9,361,648	9,582,969	9,782,494	9,971,124	10,128,750	10,365,359		
Uses																		
Debt Service	-	(682,755)	(8,165,374)	(8,008,421)	(8,011,446)	(8,011,921)	(7,990,221)	(7,990,221)	(7,990,321)	(7,978,881)	(7,967,030)	(7,519,886)	(7,511,985)	(7,504,864)	(7,493,175)	(7,459,589)		
Other Fiscal Charges	-		(25,645)	-	-	-	-	-	-	-	-	-	-	-	-	-		
Less: Cash Proj Funding	-	(5,266,982)	(3,231,281)	(17,000,000)	(25,000,000)	(9,000,000)	(8,107,956)	(5,593,922)	(2,500,000)	(1,700,000)	-	(2,000,000)	(3,000,000)	(5,000,000)	(1,480,509)	-		
Total Uses:	-	(5,949,737)	(11,422,300)	(25,008,421)	(33,011,446)	(17,011,921)	(16,098,177)	(13,584,142)	(10,490,321)	(9,678,881)	(7,967,030)	(9,519,886)	(10,511,985)	(12,504,864)	(8,973,683)	(7,459,589)		
Projected FFP Balance	-	25,625,644	33,149,725	18,726,878	23,678,091	16,023,596	11,807,796	18,757,138	28,056,253	31,226,897	32,621,516	32,684,599	31,955,108	29,421,367	30,576,434	33,482,204		
PROJECT SOURCES																		
Beginning Balance	-	-	114,976,296	44,357,355	7,448,881	11,512,068	2,736,336	0	0	2,500,000	3,710,030	979,532	553,727	70,006	366,248	0		
CASH FUNDING FROM FFP	-	5,266,982	3,231,281	17,000,000	25,000,000	9,000,000	8,107,956	5,593,922	2,500,000	1,700,000	-	2,000,000	3,000,000	5,000,000	1,480,509	-		
PRIVATE CONTRIBUTIONS FOR SPECIFIC PROJECTS	-	-	-	1,300,000	-	-	-	-	-	-	-	-	-	-	-	-		
DEBT FUNDING																		
2010 Series A & B	-	123,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Traunch 2	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Traunch 3 -	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Traunch 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Traunch 5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-		
Interest on Debt Proceed	-	209,314	399,778	49,725	-	-	-	-	-	-	-	-	-	-	-	-		
TOTAL PROJECT RESOURCES	-	128,476,296	118,607,355	62,707,080	32,448,881	20,512,068	10,844,292	5,593,922	2,500,000	4,200,000	3,710,030	2,979,532	3,553,727	5,070,006	1,846,756	0		
PROJECT USES																		
	Future Cost	Start Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Civic Center	135,000,000	2011	-	(13,500,000)	(74,250,000)	(47,250,000)	-	-	-	-	-	-	-	-	-	-	-	-
City Hall Demo/Parking Lot	105,063	2015	-	-	-	-	-	(10,506)	(57,784)	(36,772)	-	-	-	-	-	-	-	-
Police/Rec Combo @ Corp Yrd	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Police Station @ Current Site	97,954,176	2030	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 1 - Peninsula	4,899,705	2019	-	-	-	-	-	-	-	-	-	(489,970)	(2,694,838)	(1,714,897)	-	-	-	-
FS 2 - Lido	2,219,445	2015	-	-	-	-	-	(221,945)	(1,220,695)	(776,806)	-	-	-	-	-	-	-	-
FS 3 - Santa Barbara	5,147,752	2021	-	-	-	-	-	-	-	-	-	-	-	(514,775)	(2,831,264)	(1,801,713)	-	-
FS 4 - Balboa Island	9,083,779	2044	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 5 - CDM	4,330,625	2014	-	-	-	-	(433,063)	(2,381,844)	(1,515,719)	-	-	-	-	-	-	-	-	-
FS 6 - Mariners	5,276,446	2022	-	-	-	-	-	-	-	-	-	-	-	-	(527,645)	(2,902,045)	(1,846,756)	-
FS 7 - SAH	12,522,089	2057	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 8 - Npt. Coast	9,310,873	2045	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lifeguard HQ Remodel	1,537,500	2014	-	-	-	-	(153,750)	(845,625)	(538,125)	-	-	-	-	-	-	-	-	-
Newport Jr. Guard Building	356,606	2020	-	-	-	-	-	-	-	-	-	-	(35,661)	(196,133)	(124,812)	-	-	-
Library-Balboa	-	2062	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library-CDM	-	2062	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library-Mariners	19,793,481	2056	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library-Central	68,108,936	2052	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marina Park Girl Scout House	-	2013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marina Park	30,000,000	2013	-	-	-	(3,000,000)	(16,500,000)	(10,500,000)	-	-	-	-	-	-	-	-	-	-
Newport Coast Ctr	29,593,022	2057	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Newport Theater Arts Center	7,480,046	2050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OASIS Sr. Ctr	49,717,436	2060	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunset Ridge	7,000,000	2013	-	-	-	(700,000)	(3,850,000)	(2,450,000)	-	-	-	-	-	-	-	-	-	-
West Newport Comm Ctr	10,506,250	2015	-	-	-	-	-	(1,050,625)	(5,778,438)	(3,677,188)	-	-	-	-	-	-	-	-
Park Placeholder	2,101,250	2015	-	-	-	-	-	(210,125)	(1,155,688)	(735,438)	-	-	-	-	-	-	-	-
West Newport Land Purchase	4,308,199	2013	-	-	-	(4,308,199)	-	-	-	-	-	-	-	-	-	-	-	-
Utilities/Corporate Yard Merge	-	2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Big Canyon Aux. Yard	1,050,625	2015	-	-	-	-	-	(105,063)	(577,844)	(367,719)	-	-	-	-	-	-	-	-
TOTAL PROJECT EXPENDITURES	517,403,304		-	(13,500,000)	(74,250,000)	(55,258,199)	(20,936,813)	(17,775,732)	(10,844,292)	(5,593,921)	-	(489,970)	(2,730,498)	(2,425,805)	(3,483,720)	(4,703,759)	(1,846,756)	-
ENDING BALANCE OF PROJECT RESOURCES			114,976,296	44,357,355	7,448,881	11,512,068	2,736,336	0	0	2,500,000	3,710,030	979,532	553,727	70,006	366,248	0	0	

DEBT SERVICE

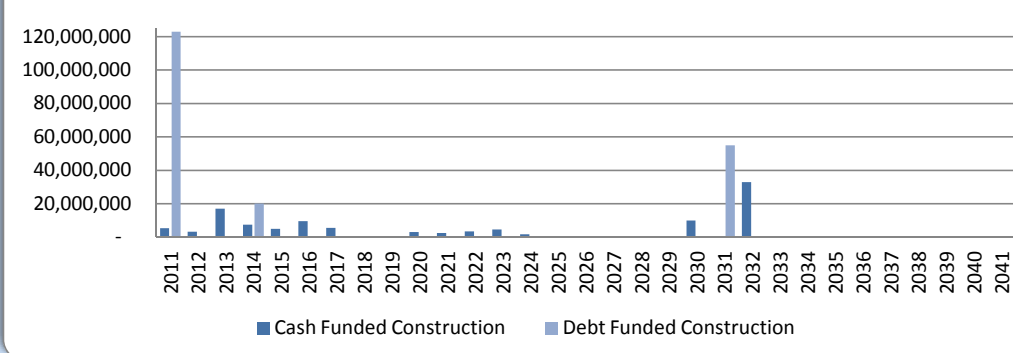
	Project Proceeds	COI	Total Issue	Interest Rate	Term	Issuance	Maturity	Avg Debt Service (Net)	0 2010	0 2011	0 2012	1 2013	2 2014	3 2015	4 2016
2010 Civic Center Bonds	123,000,000	1,289,442	124,289,442	4.44%	30	2011	2041	(7,598,450)	-	(682,755)	(8,165,374)	(8,008,421)	(8,011,446)	(8,011,921)	(7,990,221)
Traunch 2	55,000,000	607,500	55,607,500	5.00%	30	2031	2061	(3,617,348)	-	-	-	-	-	-	-
Traunch 3	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
								(11,215,797)	-	(682,755)	(8,165,374)	(8,008,421)	(8,011,446)	(8,011,921)	(7,990,221)
								11,039,633.18							

Project Expenditures



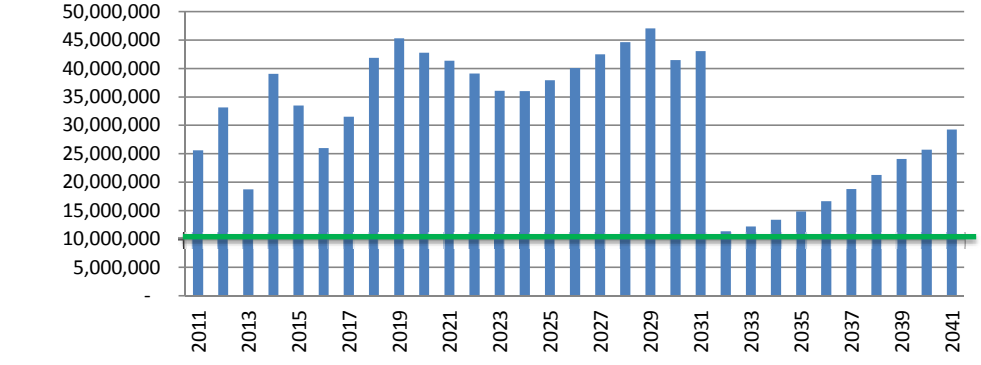
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Project Funding



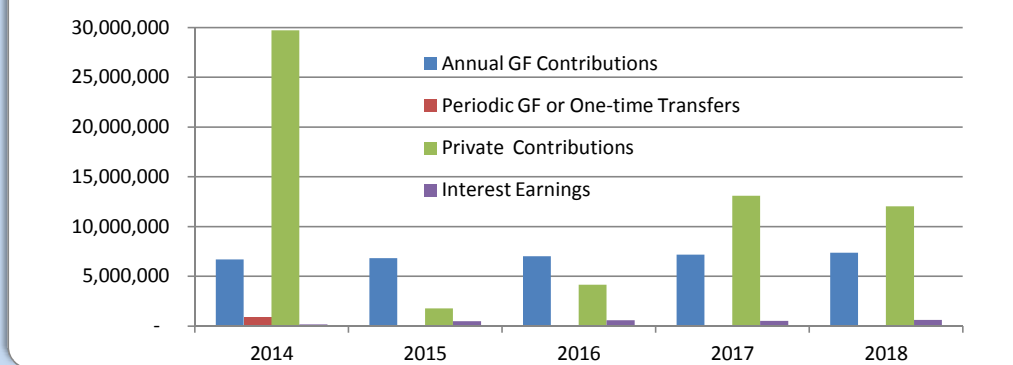
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FFP Reserve Balance



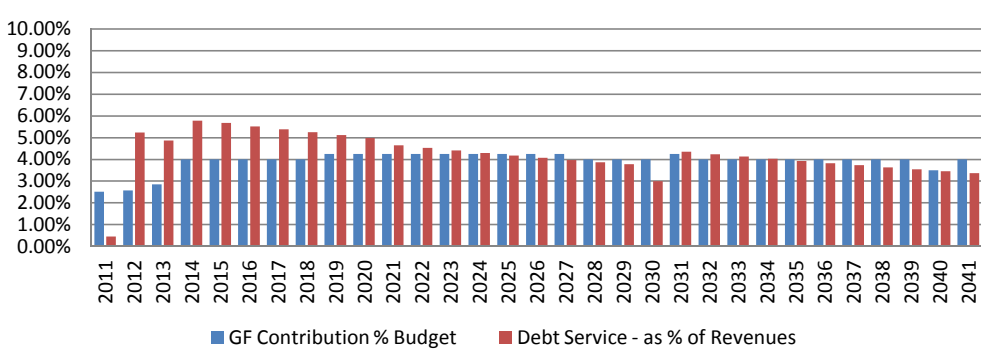
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Cash Contributions



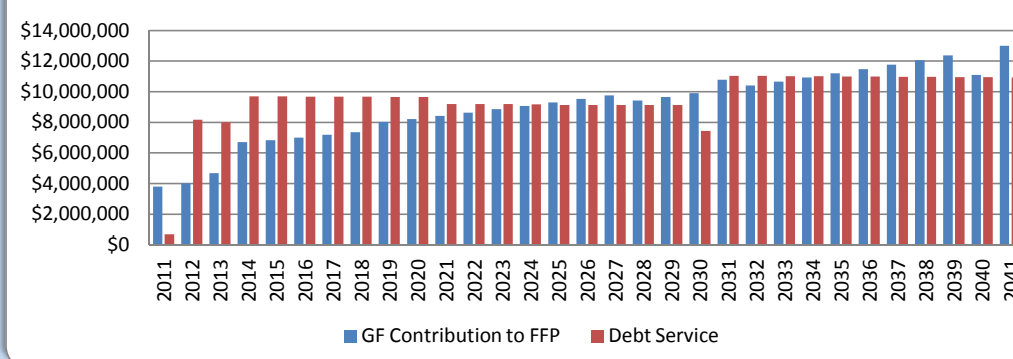
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GF Contribution to FFP as a Percent of GF Revenue



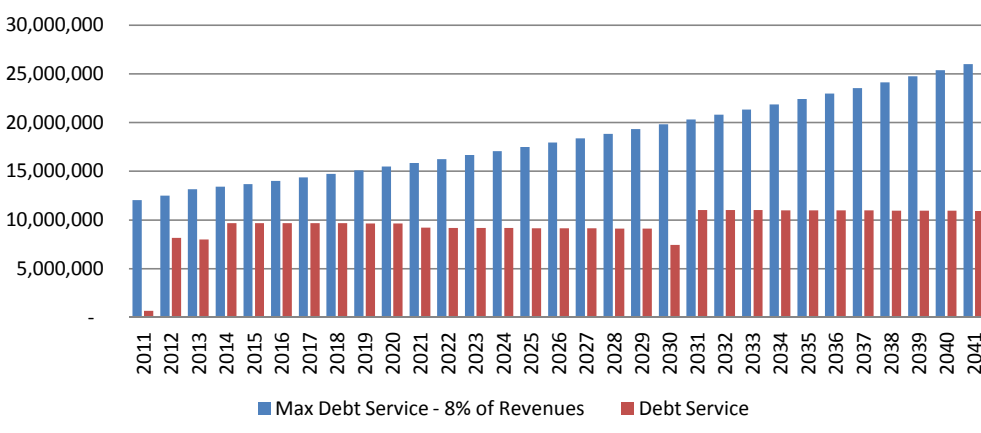
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GF Contribution to FFP Compared to Debt Service



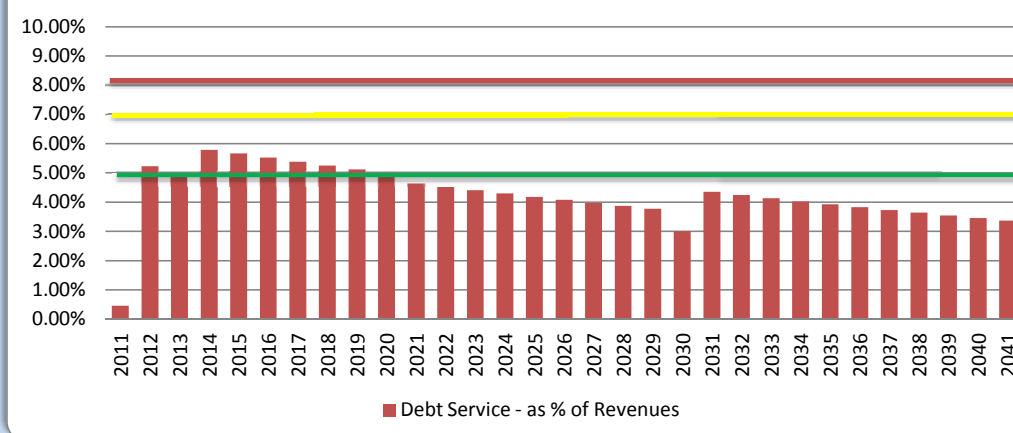
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Debt Service Capacity



7

Debt Service as % of GF Revenues



8

Priority Projects

Priority Projects	Est. Project Cost	Start Date	Yrs to Start
Marina Park	30,000,000	2013	0
Sunset Ridge	7,000,000	2013	0
West Newport Land Purchase	4,308,199	2013	0
Lifeguard Head Qtrs	1,500,000	2014	1
Fire Station 5 - CDM	4,225,000	2014	1
City Hall Demo/Parking Lot	100,000	2015	2
Fire Station 2 - Lido	4,225,000	2015	2
West Newport Comm Ctr	10,000,000	2015	2
Park Placeholder	2,000,000	2015	2
Utilities/Corporate Yard Merge	-	2015	2
Big Canyon Aux. Yard	1,050,625	2015	2
Fire Station 1 - Peninsula	4,225,000	2019	2
Police Station	64,375,000	2030	17

Total 133,008,824

Scenario Highlights

- 1 Marina Park - 2013
- 2 Sunset Ridge - 2013
- 3 Lifeguard Head Qtrs - 2014
- 4 West Newport Comm Ctr - 2015
- 5 Police Station @ Current Site - 2030
- 6 Predicated on \$29 million of developer contributions in FY 2014
- 7 \$44 million of projects cash funded from 2013 -2017
- 8 \$20 million of new debt in 2014
- 9 \$55 million debt issue in 2031 for Police Station

Key Metric
Debt Svc as % of Revenues
FFP Balance (000's)

Policy	
Target	Max
5.0%	8.0%
\$ 11,040	NA

Key Statistics
GF Contribution to FFP (000's)
Debt Service (000's)
GF Contributions to FFP as % Rev
Debt Svc as % of Revenues
FFP Balance (000's)
Project Balance (000's)

15 Year		
Min	Max	Avg
4,676	9,772	7,974
8,008	9,696	9,328
2.85%	4.3%	4.1%
3.98%	5.8%	4.8%
\$ 18,727	\$ 45,325	\$ 36,796
\$ 0	\$ 14,012	\$ 1,592

Key Statistics
GF Contribution to FFP (000's)
Debt Service (000's)
GF Contributions to FFP as % Rev
Debt Svc as % of Revenues
FFP Balance (000's)
Project Balance (000's)

30 Year		
Min	Max	Avg
4,676	12,995	9,535
3,617	11,040	9,671
2.85%	4.3%	4.0%
1.09%	5.8%	4.2%
\$ 11,337	\$ 47,068	\$ 31,816
\$ 0	\$ 14,012	\$ 847

PROJECT PLANNING

Scenario B

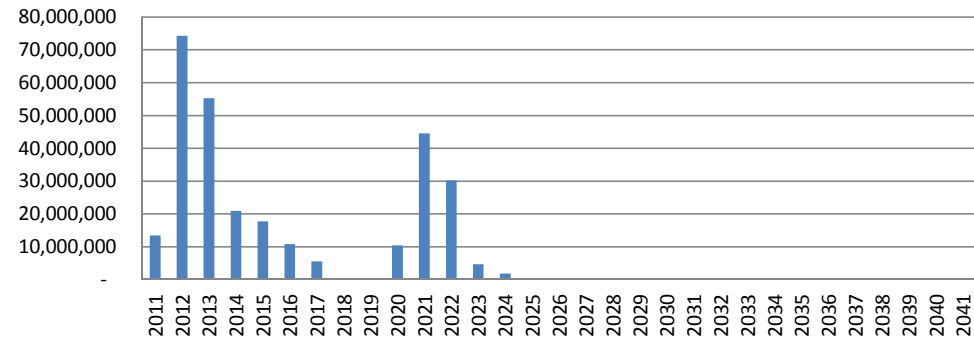
SK	Function	Project	YR Built	Current Sq Ft	Repl Sq Ft	Est \$ /Sq Ft	Age 2013	Useful Life	Years to Start	Cost Est. Date	Project Estimate	FY	FV	Private Contributions	Net	Est. Debt Svc @ 5%
												Start Date	Cost Est @ 2.5% Growth		Proposed Cost	
1	Gen Gov	Civic Center	2013				0	50	-2	Jan-12	135,000,000	2011	135,000,000	-	135,000,000	8,781,944
1	Gen Gov	City Hall Demo/Parking Lot	2015				-2	50	2	Jan-12	100,000	2015	105,063		105,063	6,834
2	Police	Police Station @ Current Site	1973	47,964	60,000	650	40	50	17	Jan-12	64,375,000	2030	97,954,176		97,954,176	6,372,060
4	Fire	FS 1 - Peninsula	1962	3,423	6,500	650	51	50	6	Jan-12	4,225,000	2019	4,899,705		4,899,705	318,733
4	Fire	FS 2 - Lido	1952	9,953	6,500	650	61	50	2	Jan-12	4,225,000	2015	4,438,891	2,219,446	2,219,445	144,378
4	Fire	FS 3 - Santa Barbara	1971	13,605	6,500	650	42	50	8	Jan-12	4,225,000	2021	5,147,752		5,147,752	334,869
4	Fire	FS 4 - Balboa Island	1994	4,400	6,500	650	19	50	31	Jan-12	4,225,000	2044	9,083,779		9,083,779	590,913
4	Fire	FS 5 - CDM	1950	2,095	6,500	650	63	50	1	Jan-12	4,225,000	2014	4,330,625		4,330,625	281,713
4	Fire	FS 6 - Mariners	1957	2,965	6,500	650	56	50	9	Jan-12	4,225,000	2022	5,276,446		5,276,446	343,240
4	Fire	FS 7 - SAH	2007	11,027	6,500	650	6	50	44	Jan-12	4,225,000	2057	12,522,089		12,522,089	814,580
4	Fire	FS 8 - Npt. Coast	1995	6,975	6,500	650	18	50	32	Jan-12	4,225,000	2045	9,310,873		9,310,873	605,686
4	Fire	Lifeguard HQ Remodel	1958	7,725	7,725	180	55	50	1	Jan-12	1,500,000	2014	1,537,500		1,537,500	100,017
5	Fire	Newport Jr. Guard Building	0				2013	50	7	May-12	1,200,000	2020	1,426,423	1,069,817	356,606	23,198
5	Library	Library-Balboa	1962	5,566	5,000		51	50	49	Jan-12	-	2062	-		-	-
5	Library	Library-CDM	1958	4,323	-		55	50	49	Jan-12	-	2062	-		-	-
5	Library	Library-Mariners	2006	15,305			7	50	43	Jan-12	6,845,355	2056	19,793,481		19,793,481	1,287,594
5	Library	Library-Central	1997	50,930	65,000	400	16	50	39	Jan-12	26,000,000	2052	68,108,936		68,108,936	4,430,584
6	Rec Facility	Marina Park Girl Scout House	1956	5,500	4,000		57	50	0	Jan-12	-	2013	-	-	-	-
6	Rec Facility	Marina Park	NA				NA	50	0	Jan-12	30,000,000	2013	30,000,000		30,000,000	1,951,543
6	Rec Facility	Newport Coast Ctr	2007	16,865	16,865	602	6	50	44	Jan-12	9,984,797	2057	29,593,022		29,593,022	1,925,069
6	Rec Facility	Newport Theater Arts Center	1973	8,042	12,000	500	40	50	37	Jan-12	6,000,000	2050	14,960,092	7,480,046	7,480,046	486,588
6	Rec Facility	OASIS Sr. Ctr	2010	36,467	43,232	360	3	60	47	Jan-12	15,577,116	2060	49,717,436		49,717,436	3,234,191
6	Rec Facility	Sunset Ridge	2014	595,465			-1	50	0	Jan-12	7,000,000	2013	7,000,000		7,000,000	455,360
6	Rec Facility	West Newport Comm Ctr	2016		20,000		-3	50	2	Jan-12	10,000,000	2015	10,506,250		10,506,250	683,447
6	Rec Facility	Park Placeholder						15	2		2,000,000	2015	2,101,250		2,101,250	136,689
6	Rec Facility	West Newport Land Purchase	2013	217,800			0	∞	0	Jan-12	4,308,199	2013	4,308,199		4,308,199	280,255
3	MOD	Utilities/Corporate Yard Merge					0	50	2	May-12	-	2015	-	-	-	-
3	MOD	Big Canyon Aux. Yard					0	50	2	May-12	1,000,000	2015	1,050,625		1,050,625	68,345

354,690,467

528,172,613

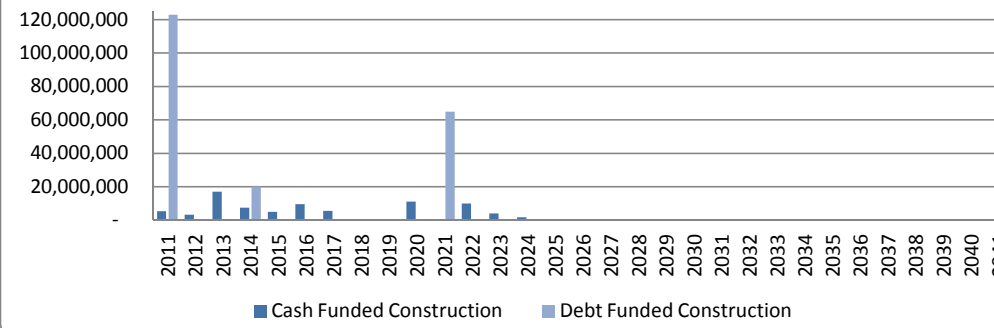
517,403,304

Project Expenditures



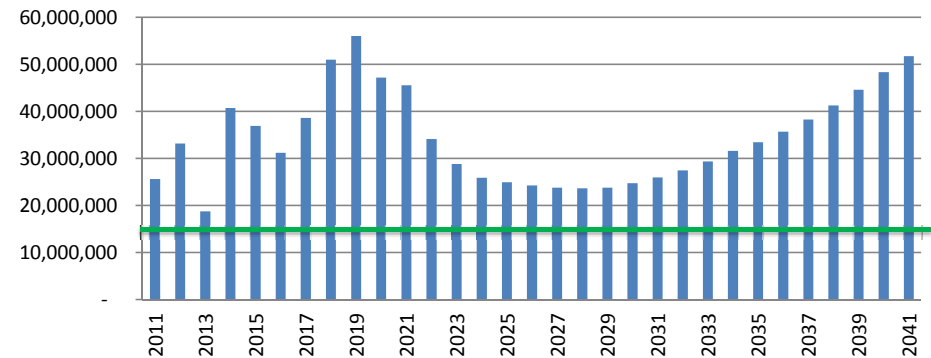
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Project Funding



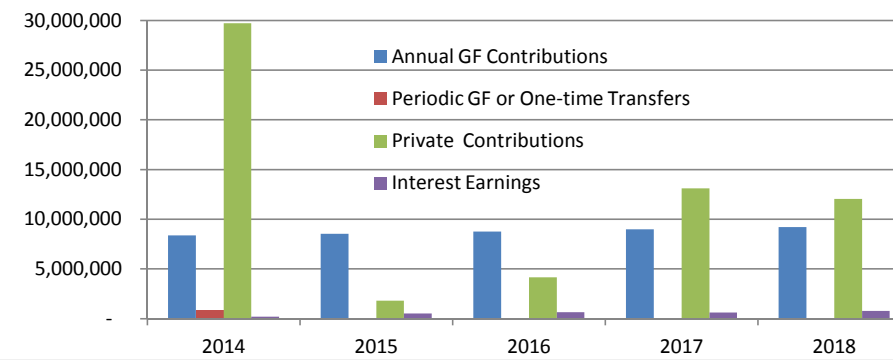
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FFP Reserve Balance



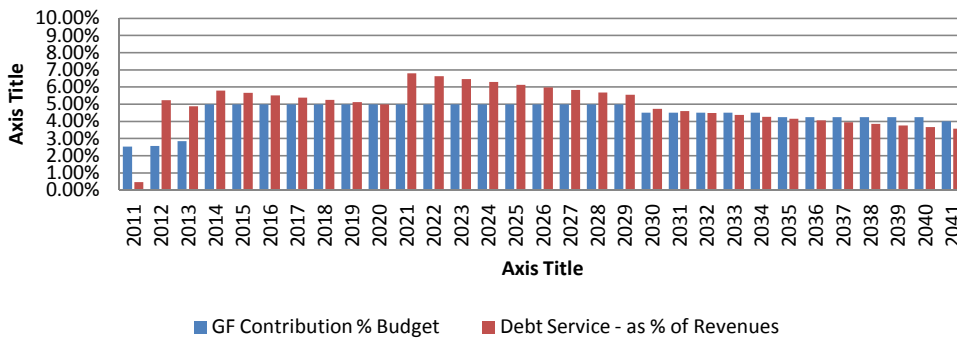
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Cash Contributions



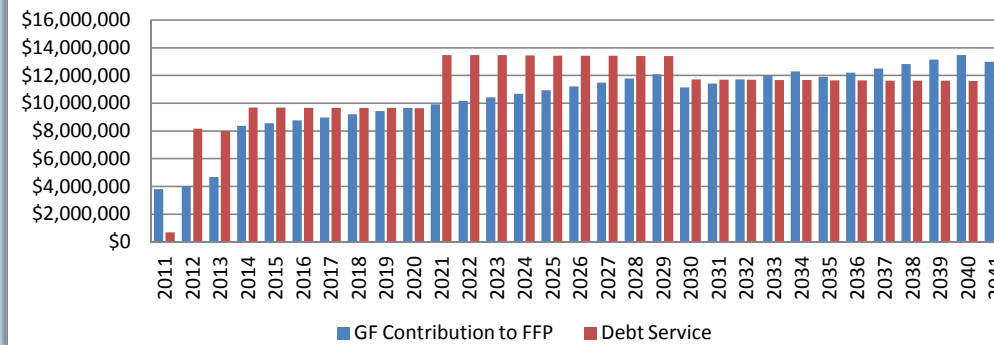
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GF Contribution to FFP as a Percent of GF Revenue



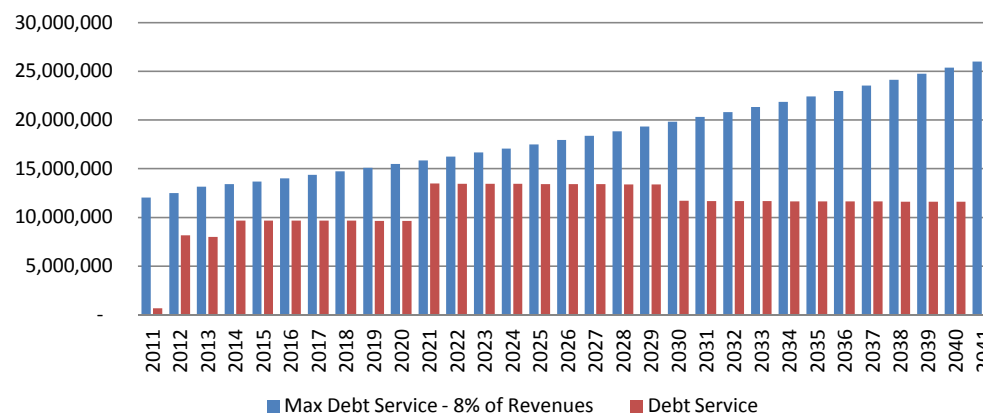
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GF Contribution to FFP Compared to Debt Service



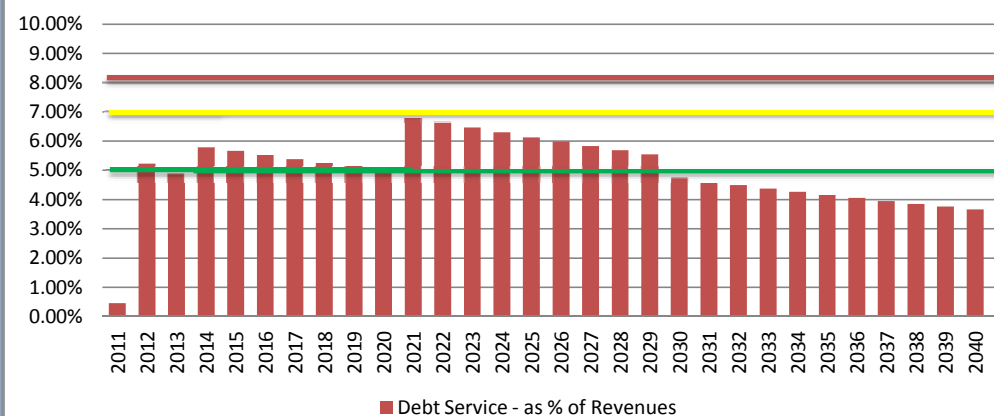
6

Debt Service Capacity



7

Debt Service as % of GF Revenues



8

Priority Projects

Priority Projects	Est. Project Cost	Start Date	Yrs to Start
Marina Park	30,000,000	2013	0
Sunset Ridge	7,000,000	2013	0
West Newport Land Purchase	4,308,199	2013	0
Lifeguard Head Qtrs	1,500,000	2014	1
Fire Station 5 - CDM	4,225,000	2014	1
City Hall Demo/Parking Lot	100,000	2015	2
Fire Station 2 - Lido	4,225,000	2015	2
West Newport Comm Ctr	10,000,000	2015	2
Park Placeholder	2,000,000	2015	2
Utilities/Corporate Yard Merge	-	2015	2
Big Canyon Aux. Yard	1,050,625	2015	2
Fire Station 1 - Peninsula	4,225,000	2019	2
Police Station	64,375,000	2020	7

Total 133,008,824

Scenario Highlights

- 1 Marina Park - 2013
- 2 Sunset Ridge - 2013
- 3 Lifeguard Head Qtrs - 2014
- 4 Fire Station 5 - CDM - 2014
- 5 West Newport Comm Ctr - 2015
- 6 Police Station @ Current Site - 2030
- 7 Predicated on \$29 million of developer contributions in FY 2014
- 8 \$44 million of projects cash funded from 2013 -2017
- 9 \$20 million of new debt in 2014
- 10 \$65 million debt issue in 2031 for Police Station

Key Metric
Debt Svc as % of Revenues
FFP Balance (000's)

Policy	
Target	Max
5.0%	8.0%
\$ 13,476	NA

Key Statistics
GF Contribution to FFP (000's)
Debt Service (000's)
GF Contributions to FFP as % Rev
Debt Svc as % of Revenues
FFP Balance (000's)
Project Balance (000's)

15 Year		
Min	Max	Avg
4,676	11,496	9,499
8,008	13,476	11,322
2.85%	5.0%	4.9%
4.87%	6.8%	5.8%
\$ 18,727	\$ 56,025	\$ 35,183
\$ 0	\$ 21,115	\$ 3,029

Key Statistics
GF Contribution to FFP (000's)
Debt Service (000's)
GF Contributions to FFP as % Rev
Debt Svc as % of Revenues
FFP Balance (000's)
Project Balance (000's)

30 Year		
Min	Max	Avg
4,676	13,471	10,909
4,272	13,476	11,357
2.85%	5.0%	4.6%
1.28%	6.8%	5.0%
\$ 18,727	\$ 62,787	\$ 35,678
\$ 0	\$ 21,115	\$ 1,515

PROJECT PLANNING

Scenario C

SK	Function	Project	YR Built	Current Sq Ft	Repl Sq Ft	Est \$ /Sq Ft	Age 2013	Useful Life	Years to Start	Cost Est. Date	Project Estimate	FY	FV	Private Contributions	Net	Est. Debt Svc @ 5%
												Start Date	Cost Est @ 2.5% Growth		Proposed Cost	
1	Gen Gov	Civic Center	2013				0	50	-2	Jan-12	135,000,000	2011	135,000,000	-	135,000,000	8,781,944
1	Gen Gov	City Hall Demo/Parking Lot	2015				-2	50	2	Jan-12	100,000	2015	105,063		105,063	6,834
2	Police	Police Station @ Current Site	1973	47,964	60,000	650	40	50	7	Jan-12	64,375,000	2020	76,521,645		76,521,645	4,977,843
4	Fire	FS 1 - Peninsula	1962	3,423	6,500	650	51	50	6	Jan-12	4,225,000	2019	4,899,705		4,899,705	318,733
4	Fire	FS 2 - Lido	1952	9,953	6,500	650	61	50	2	Jan-12	4,225,000	2015	4,438,891	2,219,446	2,219,445	144,378
4	Fire	FS 3 - Santa Barbara	1971	13,605	6,500	650	42	50	8	Jan-12	4,225,000	2021	5,147,752		5,147,752	334,869
4	Fire	FS 4 - Balboa Island	1994	4,400	6,500	650	19	50	31	Jan-12	4,225,000	2044	9,083,779		9,083,779	590,913
4	Fire	FS 5 - CDM	1950	2,095	6,500	650	63	50	1	Jan-12	4,225,000	2014	4,330,625		4,330,625	281,713
4	Fire	FS 6 - Mariners	1957	2,965	6,500	650	56	50	9	Jan-12	4,225,000	2022	5,276,446		5,276,446	343,240
4	Fire	FS 7 - SAH	2007	11,027	6,500	650	6	50	44	Jan-12	4,225,000	2057	12,522,089		12,522,089	814,580
4	Fire	FS 8 - Npt. Coast	1995	6,975	6,500	650	18	50	32	Jan-12	4,225,000	2045	9,310,873		9,310,873	605,686
4	Fire	Lifeguard HQ Remodel	1958	7,725	7,725	180	55	50	1	Jan-12	1,500,000	2014	1,537,500		1,537,500	100,017
5	Fire	Newport Jr. Guard Building	0				2013	50	7	May-12	1,200,000	2020	1,426,423	1,069,817	356,606	23,198
5	Library	Library-Balboa	1962	5,566	5,000		51	50	49	Jan-12	-	2062	-		-	-
5	Library	Library-CDM	1958	4,323	-		55	50	49	Jan-12	-	2062	-		-	-
5	Library	Library-Mariners	2006	15,305			7	50	43	Jan-12	6,845,355	2056	19,793,481		19,793,481	1,287,594
5	Library	Library-Central	1997	50,930	65,000	400	16	50	39	Jan-12	26,000,000	2052	68,108,936		68,108,936	4,430,584
6	Rec Facility	Marina Park Girl Scout House	1956	5,500	4,000		57	50	0	Jan-12	-	2013	-	-	-	-
6	Rec Facility	Marina Park	NA				NA	50	0	Jan-12	30,000,000	2013	30,000,000		30,000,000	1,951,543
6	Rec Facility	Newport Coast Ctr	2007	16,865	16,865	602	6	50	44	Jan-12	9,984,797	2057	29,593,022		29,593,022	1,925,069
6	Rec Facility	Newport Theater Arts Center	1973	8,042	12,000	500	40	50	37	Jan-12	6,000,000	2050	14,960,092	7,480,046	7,480,046	486,588
6	Rec Facility	OASIS Sr. Ctr	2010	36,467	43,232	360	3	60	47	Jan-12	15,577,116	2060	49,717,436		49,717,436	3,234,191
6	Rec Facility	Sunset Ridge	2014	595,465			-1	50	0	Jan-12	7,000,000	2013	7,000,000		7,000,000	455,360
6	Rec Facility	West Newport Comm Ctr	2016		20,000		-3	50	2	Jan-12	10,000,000	2015	10,506,250		10,506,250	683,447
6	Rec Facility	Park Placeholder						15	2		2,000,000	2015	2,101,250		2,101,250	136,689
6	Rec Facility	West Newport Land Purchase	2013	217,800			0	∞	0	Jan-12	4,308,199	2013	4,308,199		4,308,199	280,255
3	MOD	Utilities/Corporate Yard Merge					0	50	2	May-12	-	2015	-	-	-	-
3	MOD	Big Canyon Aux. Yard					0	50	2	May-12	1,000,000	2015	1,050,625		1,050,625	68,345

354,690,467

506,740,083

495,970,774

Sources & Uses Proforma

	0	0	0	1	2	3	4	5	6	7	8	9	10	11	12	13
	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
AFFORDABILITY ASSUMPTIONS																
General Fund Revenues	146,914,882	150,735,324	156,100,457	164,323,297	167,609,763	170,961,958	175,236,007	179,616,907	184,107,330	188,710,013	193,427,764	198,263,458	203,220,044	208,300,545	213,508,059	218,845,760
Growth Assumption		0.00%	3.56%	5.27%	2.00%	2.00%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
GF Annual Contribution %		2.52%	2.57%	2.85%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%	5.00%
Debt Service as % of GF Revenues		0.45%	5.23%	4.87%	5.78%	5.67%	5.52%	5.39%	5.25%	5.12%	4.99%	6.80%	6.63%	6.46%	6.30%	6.13%

FFP SOURCES																
Beginning FFP Balance	-	-	25,625,644	33,149,725	18,726,878	40,751,456	36,908,884	31,189,139	38,638,568	50,992,677	56,025,442	47,166,601	45,547,421	34,151,588	28,788,984	25,889,039
Sources																
Annual GF Contributions	-	3,800,000	4,016,812	4,676,143	8,380,488	8,548,098	8,761,800	8,980,845	9,205,367	9,435,501	9,671,388	9,913,173	10,161,002	10,415,027	10,675,403	10,942,288
Periodic GF or One-time Transfers	-	27,500,000	1,040,773	4,593,503	917,589	-	-	-	-	-	-	-	-	-	-	-
Private Contributions	-	-	13,545,000	967,856	29,734,386	1,795,566	4,154,434	13,112,652	12,050,000	4,740,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Interest Earnings	-	275,381	343,796	348,072	187,269	509,393	645,905	623,783	772,771	1,019,854	1,120,509	943,332	910,948	683,032	575,780	517,781
Total Sources:	-	31,575,381	18,946,381	10,585,574	39,219,732	10,853,057	13,562,140	22,717,280	22,028,138	15,195,354	11,791,897	11,856,505	12,071,951	12,098,059	12,251,183	12,460,069
Uses																
Debt Service	-	(682,755)	(8,165,374)	(8,008,421)	(9,695,154)	(9,695,629)	(9,673,929)	(9,673,929)	(9,674,029)	(9,662,590)	(9,650,738)	(13,475,685)	(13,467,783)	(13,460,663)	(13,448,974)	(13,415,388)
Other Fiscal Charges	-	-	(25,645)	-	-	-	-	-	-	-	-	-	-	-	-	-
Less: Cash Proj Funding	-	(5,266,982)	(3,231,281)	(17,000,000)	(7,500,000)	(5,000,000)	(9,607,956)	(5,593,922)	-	(500,000)	(11,000,000)	-	(10,000,000)	(4,000,000)	(1,702,154)	-
Total Uses:	-	(5,949,737)	(11,422,300)	(25,008,421)	(17,195,154)	(14,695,629)	(19,281,885)	(15,267,851)	(9,674,029)	(10,162,590)	(20,650,738)	(13,475,685)	(23,467,783)	(17,460,663)	(15,151,128)	(13,415,388)
Projected FFP Balance	-	25,625,644	33,149,725	18,726,878	40,751,456	36,908,884	31,189,139	38,638,568	50,992,677	56,025,442	47,166,601	45,547,421	34,151,588	28,788,984	25,889,039	24,933,720

PROJECT SOURCES																
Beginning Balance	-	-	114,976,296	44,357,355	7,448,881	14,012,068	1,236,336	0	0	0	10,030	627,367	21,114,657	848,361	144,602	0
CASH FUNDING FROM FFP	-	5,266,982	3,231,281	17,000,000	7,500,000	5,000,000	9,607,956	5,593,922	-	500,000	11,000,000	-	10,000,000	4,000,000	1,702,154	-
PRIVATE CONTRIBUTIONS FOR SPECIFIC PROJECTS	-	-	-	1,300,000	-	-	-	-	-	-	-	-	-	-	-	-
DEBT FUNDING																
2010 Series A & B	-	123,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 2	-	-	-	-	20,000,000	-	-	-	-	-	-	-	-	-	-	-
Traunch 3 -	-	-	-	-	-	-	-	-	-	-	-	65,000,000	-	-	-	-
Traunch 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest on Debt Proceed	-	209,314	399,778	49,725	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL PROJECT RESOURCES	-	128,476,296	118,607,355	62,707,080	34,948,881	19,012,068	10,844,292	5,593,922	0	500,000	11,010,030	65,627,367	31,114,657	4,848,361	1,846,756	0

PROJECT USES		Future Cost	Start Date	2010	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Civic Center	135,000,000	2011	-	(13,500,000)	(74,250,000)	(47,250,000)	-	-	-	-	-	-	-	-	-	-	-	-	-
City Hall Demo/Parking Lot	105,063	2015	-	-	-	-	-	(10,506)	(57,784)	(36,772)	-	-	-	-	-	-	-	-	-
Police/Rec Combo @ Corp Yrd	-	0	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Police Station @ Current Site	76,521,645	2020	-	-	-	-	-	-	-	-	-	-	(7,652,165)	(42,086,905)	(26,782,576)	-	-	-	-
FS 1 - Peninsula	4,899,705	2019	-	-	-	-	-	-	-	-	-	-	(489,970)	(2,694,838)	(1,714,897)	-	-	-	-
FS 2 - Lido	2,219,445	2015	-	-	-	-	-	(221,945)	(1,220,695)	(776,806)	-	-	-	-	-	-	-	-	-
FS 3 - Santa Barbara	5,147,752	2021	-	-	-	-	-	-	-	-	-	-	-	(514,775)	(2,831,264)	(1,801,713)	-	-	-
FS 4 - Balboa Island	9,083,779	2044	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 5 - CDM	4,330,625	2014	-	-	-	-	(433,063)	(2,381,844)	(1,515,719)	-	-	-	-	-	-	-	-	-	-
FS 6 - Mariners	5,276,446	2022	-	-	-	-	-	-	-	-	-	-	-	-	(527,645)	(2,902,045)	(1,846,756)	-	-
FS 7 - SAH	12,522,089	2057	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 8 - Npt. Coast	9,310,873	2045	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Lifeguard HQ Remodel	1,537,500	2014	-	-	-	-	(153,750)	(845,625)	(538,125)	-	-	-	-	-	-	-	-	-	-
Newport Jr. Guard Building	356,606	2020	-	-	-	-	-	-	-	-	-	-	(35,661)	(196,133)	(124,812)	-	-	-	-
Library-Balboa	-	2062	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library-CDM	-	2062	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library-Mariners	19,793,481	2056	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Library-Central	68,108,936	2052	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marina Park Girl Scout House	-	2013	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Marina Park	30,000,000	2013	-	-	-	(3,000,000)	(16,500,000)	(10,500,000)	-	-	-	-	-	-	-	-	-	-	-
Newport Coast Ctr	29,593,022	2057	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Newport Theater Arts Center	7,480,046	2050	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
OASIS Sr. Ctr	49,717,436	2060	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunset Ridge	7,000,000	2013	-	-	-	(700,000)	(3,850,000)	(2,450,000)	-	-	-	-	-	-	-	-	-	-	-
West Newport Comm Ctr	10,506,250	2015	-	-	-	-	-	(1,050,625)	(5,778,438)	(3,677,188)	-	-	-	-	-	-	-	-	-
Park Placeholder	2,101,250	2015	-	-	-	-	-	(210,125)	(1,155,688)	(735,438)	-	-	-	-	-	-	-	-	-
West Newport Land Purchase	4,308,199	2013	-	-	-	(4,308,199)	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities/Corporate Yard Merge	-	2015	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Big Canyon Aux. Yard	1,050,625	2015	-	-	-	-	-	(105,063)	(577,844)	(367,719)	-	-	-	-	-	-	-	-	-
TOTAL PROJECT EXPENDITURES	495,970,774		-	(13,500,000)	(74,250,000)	(55,258,199)	(20,936,813)	(17,775,732)	(10,844,292)	(5,593,921)	-	(489,970)	(10,382,663)	(44,512,710)	(30,266,296)	(4,703,759)	(1,846,756)	-	-
ENDING BALANCE OF PROJECT RESOURCES			114,976,296	44,357,355	7,448,881	14,012,068	1,236,336	0	0	0	10,030	627,367	21,114,657	848,361	144,602	0	0	0	0

DEBT SERVICE

	Project Proceeds	COI	Total Issue	Interest Rate	Term	Issuance	Maturity	Avg Debt Service (Net)	0 2010	0 2011	0 2012	1 2013	2 2014	3 2015	4 2016
2010 Civic Center Bonds	123,000,000	1,289,442	124,289,442	4.44%	30	2011	2041	(7,598,450)	-	(682,755)	(8,165,374)	(8,008,421)	(8,011,446)	(8,011,921)	(7,990,221)
Traunch 2	20,000,000	100,000	20,100,000	3.00%	15	2014	2029	(1,683,708)	-	-	-	-	(1,683,708)	(1,683,708)	(1,683,708)
Traunch 3	65,000,000	672,500	65,672,500	5.00%	30	2021	2051	(4,272,090)	-	-	-	-	-	-	-
Traunch 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
								(13,554,248)	-	(682,755)	(8,165,374)	(8,008,421)	(9,695,154)	(9,695,629)	(9,673,929)

DEBT SERVICE

	Project Proceeds	COI	Total Issue	Interest Rate	Term	Issuance	Maturity	Avg Debt Service (Net)	0 2010	0 2011	0 2012	1 2013	2 2014	3 2015	4 2016
2010 Civic Center Bonds	123,000,000	1,289,442	124,289,442	4.44%	30	2011	2041	(7,598,450)	-	(682,755)	(8,165,374)	(8,008,421)	(8,011,446)	(8,011,921)	(7,990,221)
Traunch 2	20,000,000	100,000	20,100,000	3.00%	15	2014	2029	(1,683,708)	-	-	-	-	(1,683,708)	(1,683,708)	(1,683,708)
Traunch 3	55,000,000	607,500	55,607,500	5.00%	30	2031	2061	(3,617,348)	-	-	-	-	-	-	-
Traunch 4	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 5	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 6	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 7	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 8	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 9	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 10	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 11	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
								(12,899,505)	-	(682,755)	(8,165,374)	(8,008,421)	(9,695,154)	(9,695,629)	(9,673,929)

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

Agenda Item No. D
March 25, 2013

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director
(949) 644-3126 or DanM@NewportBeachCA.gov

Steven Montano, Deputy Finance Director
(949) 644-3240 or Smontano@NewportBeachCA.gov

**SUBJECT: DRAFT DEBT MANAGEMENT POLICY AND PROPOSED CHANGES
TO COUNCIL POLICY F-28 FACILITIES REPLACEMENT PLAN**

ABSTRACT:

Staff met with the Finance Committee on June 13, 2011, to obtain policy guidance and input regarding the first draft of a comprehensive Debt Management Policy. The Finance Committee provided policy parameters, directed staff to further refine the policy and bring the revised policy back for further consideration.

Per the direction of the Finance Committee, the revised draft of the policy allows for the use of alternative debt instruments. The revised policy is also shorter in length due to the elimination of several procedural elements of debt administration that were included in the first version. Staff is also proposing changes to the Facilities Replacement Plan Policy F-28 necessitated, in part, by the new Debt Management Policy.

RECOMMENDATION:

Review the second draft of the Debt Management Policy and the proposed changes to the Facilities Replacement Plan Policy F-28, suggest further changes as needed and recommend both policies for submission to the City Council for final approval.

DISCUSSION:

A formal debt policy is an essential financial management tool for any municipality authorized to issue debt. A debt policy establishes criteria for the issuance of debt obligations so that acceptable levels of indebtedness are maintained. Second, a debt policy transmits the message to investors and rating agencies that the City is committed to sound financial management. Third, a debt policy can provide consistency and continuity to public policy development when elected officials work from guidelines that

govern the planning and execution of projects for which debt is used. The Government Finance Officers Association (GFOA) recommends that a “comprehensive and routine analysis of debt capacity is conducted to assure that the amount of debt issued by a government is affordable and cost effective.” By doing so “an appropriate balance is struck between a jurisdiction’s capital needs and its ability to pay for them.”

The proposed Debt Management Policy addresses the following:

- Conditions and purposes of debt issuance
- The use and conditions for using alternative debt instruments
- Debt refunding guidelines
- Market communication, administration and reporting
- The legal debt limit
- Affordability
- Structural features of debt obligations

Recognizing that critical facilities will need to be replaced in perpetuity, the City strives to provide a consistent cash funding source to maintain its commitment to the Facilities Financing Plan while simultaneously adhering to the affordability ratios specified in the new debt policy. To this end, we are also proposing changes to the Facilities Financing Plan Policy F-28 (see Attachment 3). The proposed change to this policy provides an annual General Fund contribution floor, as opposed to ceiling, and also allows for lesser contributions should there be a revenue shortfall resulting from a decline in economic activity.

I hope you find the attached financial policies to be a thoughtful and prudent policy tool for the governance of the City’s financial resources.

Prepared by:

Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

/s/ Dan Matusiewicz

Dan Matusiewicz
Finance Director

Attachments:

1. Minutes from the June 13, 2011 Finance Committee Meeting discussion of Debt Management Policy
2. Debt Management Policy – Draft 2
3. Revised Facilities Replacement Plan Policy F-28

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

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

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

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

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

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

C. Draft Debt Management Policy

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

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

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

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

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

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

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

D. Review of Budget Checklist

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

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

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

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

V. ADJOURNMENT

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

DEBT MANAGEMENT POLICY

A. PURPOSE

The purpose of this policy is to establish guidelines and parameters for the effective governance, management and administration of City debt.

B. BACKGROUND

The City is committed to fiscal sustainability by employing long-term financial planning efforts, maintaining appropriate reserves levels and employing prudent practices in governance, management, budget administration, financial reporting.

Debt levels and their related annual costs are important long-term obligations that must be managed within available resources. A disciplined thoughtful approach to debt management includes policies that provide guidelines for the City to manage its debt program in-line with those resources. Therefore, the objective of this policy is to provide written guidelines and restrictions concerning the amount and type of debt issued by the City and the ongoing management of the debt portfolio.

This debt management policy is intended to improve the quality of decisions, provide justification for the structure of debt issuance, identify policy goals, and demonstrate a commitment to long-term financial planning, including a multi-year capital plan. Adherence to a debt management policy signals to rating agencies and the capital markets that a government is well managed and should meet its obligations in a timely manner.

C. CONDITIONS AND PURPOSES OF DEBT ISSUANCE

1. Acceptable Conditions for the Use of Debt

The City believes that prudent amounts of debt can be an equitable and cost-effective means of financing major infrastructure and capital project needs of the City. Debt will be considered to finance such projects if:

- (a) It meets the City's goal of equitable payment for large infrastructure and capital projects, for both current and future residents.
- (b) It is the most cost-effective funding means available to the City, taking into account cash flow needs and other funding alternatives.

- (c) It is fiscally prudent and meets the guidelines of this Policy. Any consideration of debt financing shall consider financial alternatives, including pay-as-you-go funding, use of existing or future cash reserves, or combinations thereof.

2. Acceptable Uses of Debt

The City will consider financing for the acquisition, substantial refurbishment, replacement or expansion of physical assets, including land improvements. The primary purpose of debt is to finance one of the following:

- a) Acquisition and or improvement of land, right-of-way or long-term easements.
- b) Acquisition of a capital asset with a useful life of 3 or more years.
- c) Construction or reconstruction of a facility.
- d) Refunding, refinancing, or restructuring debt, subject to refunding objectives and parameters discussed in Section E.
- e) Although not the primary purpose of the financing effort, project reimbursables that include project planning design, engineering and other preconstruction efforts; project-associated furniture fixtures and equipment; capitalized interest, original issuer's discount, underwriter's discount and other costs of issuance.
- f) Interim or cash flow financing, such as anticipation notes.
- g) Refinancing or advance funding of City pension obligations, but only to the extent significant financial benefit is achieved and limited by Section E.

3. Prohibited Uses of Debt

Prohibited uses of debt include the following:

- a) Financing of operating costs except for anticipation notes with a term of less than one year.
- b) Debt issuance used to address budgetary deficits.
- c) Debt issued for periods exceeding the useful life of the asset or projects to be financed.

D. USE OF ALTERNATIVE DEBT INSTRUMENTS

The City recognizes that there are numerous types of financing structures and funding sources available, each with specific benefits, risks, and costs. All potential funding

sources are reviewed by management within the context of the Debt Policy and the overall portfolio to ensure that any financial product or structure is consistent with the City's objectives. Regardless of what financing structure(s) is utilized, due-diligence review must be performed for each transaction, including the quantification of potential risks and benefits, and analysis of the impact on City creditworthiness and debt affordability and capacity.

1. Variable Rate Debt

Variable rate debt affords the City the potential to achieve a lower cost debt depending on market conditions. However, the City will seek to limit the use of variable-rate debt due to the potential risks of such instruments.

a) Purpose

The City shall consider the use of variable rate debt for the purposes of:

- i. Reducing the costs of debt issues.
- ii. Increasing flexibility for accelerating principal repayment and amortization.
- iii. Enhancing the management of assets and liabilities (matching short-term "priced debt" with the City's short-term investments).
- iv. Diversifying interest rate exposure.

b) Considerations and Limitations on Variable-Rate Debt

The City may consider the use of all alternative structures and modes of variable rate debt to the extent permissible under State law and will make determinations among different types of modes of variable-rate debt based on cost, benefit, and risk factors. The Finance Director shall consider the following factors and limitations in considering whether to utilize variable rate debt:

- i. Any variable rate debt shall not exceed 20% of total City General Fund supported debt.
- ii. Any variable rate debt shall be fully hedged by expected future Facility Financing Plan reserves or unrestricted General Fund reserve levels.
- iii. Whether interest cost and market conditions (including the shape of the yield curves and relative value considerations) are unfavorable for issuing fixed rate debt.
- iv. The likelihood of projected debt service savings when comparing the cost of fixed rate bonds.

- v. Costs, implementation and administration are quantified and considered.
- vi. Cost and availability of liquidity facilities (lines of credit necessary for variable rate debt obligations and commercial paper in the event that the bonds are not successfully remarketed) are quantified and considered.
- vii. Ability to convert debt to another mode (daily, monthly, fixed) or redeem at par at any time is permitted.
- viii. The findings of a thorough risk management assessment.

c) Risk Management

Any issuance of variable rate debt shall require a rigorous risk assessment, including, but not limited to factors discussed in this section. Variable rate debt subjects the City to additional financial risks (relative to fixed rate bonds), including interest rate risk, tax risk, and certain risks related to providing liquidity for certain types of variable rate debt.

The City will properly manage the risks as follows:

- i. ***Interest Rate Risk and Tax Risk*** - The risk that market interest rates increase on variable-rate debt because of market conditions, changes in taxation of municipal bond interest, or reductions in tax rates. ***Mitigation*** - Limit total variable rate exposure per the defined limits and match the variable rate liabilities with short term assets.
- ii. ***Liquidity/Remarketing Risk*** - The risk that holders of variable rate bonds exercise their "put" option, tender their bonds, and the bonds cannot be remarketed requiring the bond liquidity facility provider to repurchase the bonds. This will result in the City paying a higher rate of interest to the facility provider and the potential rapid amortization of the repurchased bonds. ***Mitigation*** - Limit total direct variable-rate exposure. Seek liquidity facilities which allow for longer (5-10 years) amortization of any draws on the facility. Secure credit support facilities that result in bond ratings of the highest short-term ratings and long-term ratings not less than AA. If the City's bonds are downgraded below these levels as a result of the facility provider's ratings, a replacement provider shall be sought.

- iii. **Liquidity/Rollover Risk** - The risk that arises due to the shorter term of most liquidity provider agreements (1-5 years) relative to the longer-term amortization schedule of the City's variable-rate bonds. In particular, (1) the City may incur higher renewal fees when renewal agreements are negotiated and (2) the liquidity bank market constricts such that it is difficult to secure third party liquidity at any interest rate. **Mitigation** - Negotiate longer terms on provider contracts to minimize the number of rollovers

2. Derivatives

The use of certain derivative products to hedge variable rate debt, such as interest rate swaps, may be considered to the extent the City has such debt outstanding or under consideration. The City will exercise extreme caution in the use of derivative instruments for hedging purposes, and will consider their utilization only when sufficient understanding of the products and sufficient expertise for their appropriate use has been developed. A comprehensive derivative policy will be adopted by the City prior to any utilization of such instruments.

E. REFUNDING GUIDELINES

The Finance Director shall monitor at least annually all outstanding City debt obligations for potential refinancing opportunities. The City will consider refinancing of outstanding debt to achieve annual savings. Absent a compelling economic reason or financial benefit to the City, any refinancing shall not result in any increase to the weighted average life of the refinanced debt.

The City will generally seek to achieve debt service savings which, on a net present value basis, are at least 3% of the debt being refinanced. The net present value assessment shall factor in all costs, including issuance, escrow, and foregone interest earnings of any contributed funds on hand. Any potential refinancing shall additionally factor in whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

Any potential refinancing executed more than 90 days in advance of the outstanding debt optional call date shall require a higher savings threshold. Consideration of this

method of refinancing shall place greater emphasis on determining whether an alternative refinancing opportunity with higher savings is reasonably expected in the future.

F. MARKET COMMUNICATION, ADMINISTRATION, AND REPORTING

1. **Rating Agency Relations and Annual or Ongoing Surveillance** - The Finance Director shall be responsible for maintaining the City's relationships with Standard & Poor's Ratings Services, Fitch Ratings and Moody's Investor's Service. The City is committed to maintaining its existing rating levels. In addition to general communication, the Finance Director shall:
 - a) Ensure the rating agencies are provided updated financial information of the City as it becomes publically available.
 - b) Communicate with credit analysts at each agency at least once each year, or as may be requested by the agencies.
 - c) Prior to each proposed new debt issuance, schedule meetings or conference calls with agency analysts and provide a thorough update on the City's financial position, including the impacts of the proposed debt issuance.
2. **Council and Finance Committee Communication** - The Finance Director shall regularly report feedback from rating agencies regarding the City's financial strengths and weaknesses and recommendations for addressing any weaknesses as they pertain to maintaining the City's existing credit ratings.
3. **Continuing Disclosure Compliance** - The City shall remain in compliance with Rule 15c2-12 by filing its annual financial statements and other financial and operating data for the benefit of its bondholders within 270 days of the close of the fiscal year, or as required in any such agreement for any debt issue. The City shall maintain a log or file evidencing that all continuing disclosure filings have been made promptly.
4. **Debt Issue Record-Keeping** - A copy of all debt-related records shall be retained at the City's offices. At minimum, these records shall include all official statements, bond legal documents / transcripts, resolutions, trustee statements, leases, and title reports for each City financing (to the extent available).
5. **Arbitrage Rebate** - The use of bond proceeds and their investments must be monitored to ensure compliance with all Internal Revenue Code Arbitrage Rebate Requirements. The Finance Director shall ensure that all bond proceeds and investments are tracked in a manner which facilitates accurate calculation; and, if a rebate payment is due, such payment is made in a timely manner.

G. CREDIT RATINGS

The City will seek to maintain, or ultimately surpass if rated less than AAA, its existing credit ratings when contemplating any additional debt. The City will consider published ratings agency guidelines regarding best financial practices and guidelines for structuring its capital funding and debt strategies to maintain the highest possible credit ratings.

H. LEGAL DEBT LIMIT

Newport Beach Charter section 1109 indicates that the City shall not incur an indebtedness evidenced by general obligation bonds which shall in the aggregate exceed the sum of fifteen percent (15%) of the total assessed valuation, for purposes of City taxation, of all the real and personal property within the City. While this limit defines the absolute maximum legal debt limit for the City, it is not an effective indicator of the City's affordable debt capacity.

I. AFFORDABILITY

Prior to the issuance of debt to finance a project, the City will carefully consider the overall long-term affordability of the proposed debt issuance. The City shall not assume more debt without conducting an objective analysis of the City's ability to assume and support additional debt service payments. The City will consider its long-term revenue and expenditure trends, the impact on operational flexibility and the overall debt burden on the tax payers. The evaluation process shall include a review of generally accepted measures of affordability and will strive to achieve and or maintain debt levels as compared to other California AAA rated cities of comparable size. The Finance Director shall review benchmarking results with the City's Finance Committee at least annually and prior to any significant project financing.

1. **General Fund-Supported Debt** - General Fund Supported Debt generally include Certificates of Participation (COPs) and Lease Revenue Bonds (LRBs) which are lease obligations that are secured by an installment sale or by a lease-back arrangement between the City and another public entity. The general operating revenues of the City are pledged to pay the lease payments, which are, in turn, used to pay debt service on the bonds or Certificates of Participation.

These obligations do not constitute indebtedness under the state constitutional debt limitation and, therefore, are not subject to voter approval.

Payments to be made under valid leases are payable only in the year in which use and occupancy of the leased property is available, and lease payments may not be accelerated. Lease financing requires the fair market rental value of the leased property to be equal to or greater than the required debt service or lease payment schedule. The lessee (City) is obligated to place in its Annual Budget the rental payments that are due and payable during each fiscal year the lessee has use of the leased property.

The City shall strive to maintain its net General Fund-backed debt service at or less than 8% of available annually budgeted revenue. This ratio is defined as the City's annual debt service requirements on Certificates of Participation and Lease Revenue Bonds compared to total General Fund Revenues net of interfund transfers. This ratio, which pertains to only general fund backed debt, is often referred to as "lease burden."

2. **Revenue Bonds** - Long-term obligations payable solely from specific pledged sources, in general, are not subject to a debt limitation. Examples of such long-term obligations include those which achieve the financing or refinancing of projects provided by the issuance of debt instruments that are payable from restricted revenues or user fees (Enterprise Revenues) and revenues generated from a project.

In determining the affordability of proposed revenue bonds, the City will perform an analysis comparing projected annual net revenues (exclusive of depreciation which is a non-cash related expense) to estimated annual debt service. The City shall strive to maintain a coverage ratio of 125% using historical and/or projected net revenues to cover annual debt service for bonds. The City may require a rate increase to cover both operations and debt service costs, and create debt service reserve funds to maintain the required coverage ratios.

3. **Special Districts Financing** - The City's Special Districts primarily consist of Community Facilities Districts (CFDs) and 1913/1915 Act Assessment Districts (Assessment Districts). The City will consider requests for Special District formation and debt issuance when such requests address a public need or

provide a public benefit. Each application will be considered on a case by case basis, and the Finance Department may not recommend a financing if it is determined that the financing could be detrimental to the debt position or the best interests of the City.

4. **Conduit Debt** - Conduit financing provides for the issuance of securities by a government agency to finance a project of a third party, such as a non-profit organization or other private entity. The City may sponsor conduit financings for those activities that have a general public purpose and are consistent with the City's overall service and policy objectives. Unless a compelling public policy rationale exists, such conduit financings will not in any way pledge the City's faith and credit.

J. STRUCTURE OF DEBT

1. **Term of Debt** - Debt will be structured with a fair allocation of costs to current and future beneficiaries or users. Borrowings by the City should be of a duration that does not exceed the useful life of the improvement that it finances. The standard term of long-term borrowing is typically 15-30 years.
2. **Rapidity of Debt Payment** - Accelerated repayment schedules reduce debt burden faster and reduce total borrowing costs. The Finance Department will amortize debt through the most financially advantageous debt structure and to the extent possible, match the City's projected cash flow to the anticipated debt service payments. "Backloading" of debt service will be considered only when one or more of the following occur:
 - i. Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
 - ii. The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.
 - iii. Such structuring is beneficial to the City's aggregate overall debt payment schedule or achieves measurable interest savings.
 - iv. Such structuring will allow debt service to more closely match project revenues during the early years of the project's operation.
3. **Level Payment** - To the extent practical, bonds will be amortized on a level repayment basis, and revenue bonds will be amortized on a level repayment

basis considering the forecasted available pledged revenues to achieve the lowest rates possible. In no case shall bond repayments increase on an annual basis in excess of 2%.

4. **Serial Bonds, Term Bonds, and Capital Appreciation Bonds** - For each issuance, the City will select serial bonds or term bonds, or both. On the occasions where circumstances warrant, Capital Appreciation Bonds (CABs) may be used. The decision to use term, serial, or CAB bonds is driven based on market conditions.
5. **Reserve Funds** - The City shall strive to maintain fund balance in the Facilities Replacement Plan Reserve at a level equal to or greater than the maximum annual debt service of existing obligations.

FACILITIES REPLACEMENT PROGRAM

PURPOSE

To establish the policy for the administration of the City's Facilities Replacement Program.

DISCUSSION

In addition to the annual Capital Improvement Projects (CIP) program, the City has established a long term plan for replacement of aging General Fund supported facilities. The primary focus of the program is the replacement or major renovation of existing physical infrastructure. The addition of new facilities is also a goal of the program. – The emphasis is on structures and adjacent grounds, rather than transportation, environmental, or other projects funded either in whole or in part by the General Fund.

OBJECTIVES

- A. To insure that a long-term program addressing large, non-recurring projects for replacement of facilities is addressed as part of the budget process each year.
- B. To insure that development fees and other non-recurring revenues are dedicated to the replacement of infrastructure facilities, rather than ongoing operating expenses.
- C. To provide a consistent, level funding plan that will minimize the 'peaks and valleys' in General Fund support levels for elements of the program.
- D. To insure that projects are properly prioritized and scheduled, taking into considering the relative age, condition, and functional viability of current facilities; pairing of projects where prudent; and cost implications of immediate projects for the overall long-term program.
- E. Budgeting the cost of facilities while those facilities are in use is consistent with good government management practices. However, creating a legacy of excessive fixed costs for debt service is not. Therefore one of the objectives of this

program is to insure that future generations will not be required to carry a disproportionate fiscal burden for previously completed projects.

SOURCES AND USES OF FUNDS

Funding for the program comes from development fees, contributions from individuals and organizations within the community, annual budget allocations from the General Fund, net proceeds of Certificates of Participation or other financing instruments, and investment earnings on temporarily idle funds.

Program funds are used for actual site acquisition, design, construction, and directly related costs; as well as debt service expenses.

POLICY AND PROCEDURE

- A. Each year, as part of the budget process, staff shall prepare an update of the Facilities Replacement Program for review, modification, and approval by the City Council.
- B. Unless otherwise specified in individual development agreements, other governing documents, or as otherwise specifically directed by the City Council, all development fees received by the City will be dedicated to the Facilities Replacement Program.
- C. Prudent assumptions regarding revenue and expenditure growth, inflation, and all relevant factors will be included in each year's update of the Facilities Replacement Program.
- D. General Fund contributions to the Program ~~should ideally be in the range of 3.0% to 4.5% of the General Fund Operating Budget each year, but in no case shall said contributions exceed~~ shall not be less than 53.0% of the total General Fund Operating Budget. ~~This provision does not preclude periodic year-end close contributions of unexpended appropriations originally budgeted for other purposes; or contributions of unexpected one-time revenues not specified for another purpose. Similarly, it is not intended to constrain additional contributions required to keep the program solvent in exceptional cases, such as~~

~~an unexpected shortfall of General Fund revenue or increase in cost of the program. If it is necessary for General Fund contributions to exceed 5.0% of the total General Fund Operating Budget to maintain the Facilities Replacement Program, the Program shall be modified to maintain contributions under the 5.0% threshold. If there is a shortfall in General Fund revenue due to a decline in economic activity and it is necessary to reduce expenditures, General Fund contributions to the Facilities Replacement Program can be modified to maintain contributions under the 3% threshold.~~

- E. The financing duration for any borrowed funds shall not exceed 30 years or the projected life of the new facility, whichever is less.
- F. The Facilities Replacement Program may be amended by City Council action in the event of a natural disaster or financial crisis.

Adopted - August 11, 2009

Amended - 2013

FACILITIES REPLACEMENT PROGRAM

PURPOSE

To establish the policy for the administration of the City's Facilities Replacement Program.

DISCUSSION

In addition to the annual Capital Improvement Projects (CIP) program, the City has established a long term plan for replacement of aging General Fund supported facilities. The primary focus of the program is the replacement or major renovation of existing physical infrastructure. The addition of new facilities is also a goal of the program. The emphasis is on structures and adjacent grounds, rather than transportation, environmental, or other projects funded either in whole or in part by the General Fund.

OBJECTIVES

- A. To insure that a long-term program addressing large, non-recurring projects for replacement of facilities is addressed as part of the budget process each year.
- B. To insure that development fees and other non-recurring revenues are dedicated to the replacement of infrastructure facilities, rather than ongoing operating expenses.
- C. To provide a consistent, level funding plan that will minimize the 'peaks and valleys' in General Fund support levels for elements of the program.
- D. To insure that projects are properly prioritized and scheduled, taking into considering the relative age, condition, and functional viability of current facilities; pairing of projects where prudent; and cost implications of immediate projects for the overall long-term program.
- E. Budgeting the cost of facilities while those facilities are in use is consistent with good government management practices. However, creating a legacy of excessive fixed costs for debt service is not. Therefore one of the objectives of this

program is to insure that future generations will not be required to carry a disproportionate fiscal burden for previously completed projects.

SOURCES AND USES OF FUNDS

Funding for the program comes from development fees, contributions from individuals and organizations within the community, annual budget allocations from the General Fund, net proceeds of Certificates of Participation or other financing instruments, and investment earnings on temporarily idle funds.

Program funds are used for actual site acquisition, design, construction, and directly related costs; as well as debt service expenses.

POLICY AND PROCEDURE

- A. Each year, as part of the budget process, staff shall prepare an update of the Facilities Replacement Program for review, modification, and approval by the City Council.
- B. Unless otherwise specified in individual development agreements, other governing documents, or as otherwise specifically directed by the City Council, all development fees received by the City will be dedicated to the Facilities Replacement Program.
- C. Prudent assumptions regarding revenue and expenditure growth, inflation, and all relevant factors will be included in each year's update of the Facilities Replacement Program.
- D. General Fund contributions to the Program shall not be less than 3.0% of the total General Fund Operating Budget. If there is a shortfall in General Fund revenue due to a decline in economic activity and it is necessary to reduce expenditures, General Fund contributions to the Facilities Replacement Program can be modified to maintain contributions under the 3% threshold.
- E. The financing duration for any borrowed funds shall not exceed 30 years or the projected life of the new facility, whichever is less.

F. The Facilities Replacement Program may be amended by City Council action in the event of a natural disaster or financial crisis.

Adopted - August 11, 2009

Amended - _____ 2013

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

Agenda Item No. E
March 25, 2013

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Municipal Operations Department
Mark Harmon, Municipal Operations Director
(949) 644-3055, Mharmon@newportbeachca.gov

**SUBJECT: REVIEW OF THE REQUEST FOR PROPOSAL (RFP) OUTLINE FOR
THE RESIDENTIAL SOLID WASTE PROGRAM**

DISCUSSION

Currently, with a few exceptions such as Newport Coast and Santa Ana Heights, City staff and equipment are responsible for the collection of residential refuse and recyclables within the City. Staff has identified several key concerns that may negatively impact the internal solid waste operation in the near future, including the significant reduction of personnel due to past and pending retirements, and the age of the current collection fleet and cost of new alternative fuel trucks.

In addition to the operational challenges facing the city-provided collection program, staff and the consulting team of HF&H Consultants have also identified significant one-time and ongoing cost savings that may result from contracting out these services. One time savings include the elimination of the \$4.5M equipment replacement fund for refuse trucks and the sale of the existing fleet valued at \$1.5M. Ongoing savings include the elimination of the \$410K annual payment to the equipment replacement fund and the overall cost reduction per dwelling for the collection service. Contracting collection services may also provide the opportunity to enhance current service levels by providing additional services, such as curbside collection of large, bulky items.

City Council has directed staff to develop a Request for Proposal (RFP) document to solicit bids for the residential solid waste program so that a cost-service benefit analysis can occur. Staff has provided an outline of this RFP (attached) so that we can take comments and suggestions as we move forward with developing the formal document. The attached document includes the following key elements:

- Collection Methods
- Core Services
- Optional Services
- Contract Terms

Following input from the Finance Committee, staff will develop the formal RFP for presentation at a future meeting of the full City Council.

Collection Method

Residential Collection	
Option 1: Manual	Option 2: Two-Cart Automated
<ul style="list-style-type: none"> • Manual Collection • Single-Stream • Mixed Waste Processing • Customer-provided barrels with lids 	<ul style="list-style-type: none"> • Automated Collection • Dual Stream – Refuse and Recyclables • Recycling Voluntary for Customers • Contractor-Provided Carts

Core Services – Both Options
<ul style="list-style-type: none"> • Residential Collection Service (excluding Newport Coast and Santa Ana Heights) • Mixed Waste Processing of Residential Waste • Bulky Item Collection • Summer Saturday Collection • Alley Collection • Special Event Collection • Alternative Fuel Equipment • Hire Qualified City employees

Optional Services – Both Options
<ul style="list-style-type: none"> • Lease of City Transfer Station to Utilize Excess Capacity • Concierge/Backyard Service • Enhanced Bulky Item Collection (large appliances)

Residential “Core” Services

Service Term	Current Arrangements	RFP
Collection Method	Unlimited manual co-collection of all solid waste in customer provided containers.	Proposal: Option 1: Continue current unlimited manual single stream collection with mixed waste processing Option 2: Automated two-cart refuse and recycling system (recycling voluntary for customers)
Containers	Customers provide refuse barrels.	Option 1: Customer provided-barrels with lids under continued manual collection. Option 2: Contractor-provided carts under automated option.
Collection Location	Collected from both parkway and alley. Some rental and alley collection is from containers placed within 8’ to 10’ of property line.	Option 1: Collection location remains the same as Current Location. Option 2: Carts in most of the City could be collected from street gutter. About 20% of the City would require alternative placement and for the driver to possibly leave the cab to position carts for collection.
Solid Waste Processing	City transfers solid waste from City route trucks to CR&R trailers at the City transfer station. CR&R hauls solid waste to processing facility. CR&R’s processing contract, including delivery from transfer station to processing facility, can be terminated upon six-month notice, or can be extended to 2023.	Contractor may, but is not required to, use City transfer station at no cost to contractor. Contractor may use City’s contract with CR&R, or may propose alternative processing arrangements

Residential "Core" Services (continued)

Service Term	Current Arrangements	RFP
Guaranteed Contractor-Collected Diversion Rate	CR&R provides a 41% diversion rate.	Proposers to propose a guaranteed diversion rate for residential solid waste equal to or greater than current 41%.
Bulky Item Collection	<p>City crews collect unlimited items, provided they can be easily broken down for collection in route trucks (for example, no large appliances or pull-out couches collected, but mattresses, chairs and couches without pull-out beds are collected).</p> <p>Core service will include collection of all items currently collected.</p>	<p>As an optional service, include up to four pickups per year of larger items on collection day with 24-hour advance call-in.</p> <p>Continue collection of bags and extra smaller items that can be collected with the manual truck (or can be placed in a cart for collection in an automated truck, if applicable).</p> <p>RFP to request a separate rate for collection of bulky items not currently collectable with a manual truck.</p>
Missed Pickup	Currently, City provides next business day collection of missed pickup, or forgotten put-out, if notified by noon.	Continue existing service, providing hauler until no later than the close of business the following business day to make up a missed pickup or forgotten put-out.
Holiday Tree Collection	Currently, Christmas Trees are collected for two weeks following December 25 th .	Continue existing service, notifying residents of the collection of trees for three weeks following December 25 th . Trees left after three weeks will still be collected.

Residential "Core" Services (continued)

Service Term	Current Arrangements	RFP
Summer Saturday Collection	Additional collection services are provided in select, high-rental areas on Saturdays from nine to eleven weeks each Summer.	Continue.
Special Event Collection	Third-party contractors stage the containers. Tonnage is currently included in residential tonnage and therefore charged to the City. Events include the CdM 5K and Fourth of July.	Contractor to continue existing service. Under the agreement, the hauler will provide and service roll-off boxes and bins at City-sponsored events at no additional charge. Contractor is responsible for the processing/disposal of special event waste. City to identify the events and estimated service levels to be required.
Abandoned Item Collection	City crews collect. Operation Maintenance crew currently handles abandoned item collection. Tonnage is included in residential tonnage.	Contractor to continue existing service. Contractor shall continue to be responsible for disposal of abandoned item tonnage collected by City crews, either from City transfer station, or if another transfer station is proposed, contractor shall service a roll-off box placed at the City yard.
Vehicles	Hauler shall be required to propose a price to purchase City vehicles, whether or not such vehicles will be used under the new agreement. City to provide list of vehicles for purchase.	CNG or LNG vehicles to be required within 12 months of service initiation, or earlier if required by law. Vehicles should be no more than 10 years old at any time during the term. RFP will request that proposers indicate whether they intend to use the City's CNG fueling station.

Optional Services to be Proposed

Service	Current Status
Transfer Station Lease	The City has excess capacity at its transfer station (approximately 150 tpd) and offers use of excess capacity to contractor for a fixed annual lease payment. Tonnage may be in-City commercial tonnage or limited out-of-City tonnage.
Concierge/Backyard Service	Under Option 2 (automation), allow proposers to propose a cost per participating home to receive collection service from a back or side yard.
Emergency Services	Currently, the City maintains a collection fleet which may be used for emergency clean up situations. RFP to include an hourly rate for the use of one crew and one vehicle for on-call emergencies. Proposers to provide a rate.
Bulky Item Collection	Request separate cost to City for bulky item collection under all options.

Other Services Identified by City to Be Discussed

The following items may be addressed in the RFP with City Council direction:

- Sharps Collection Program
- Paint, Battery, Household Cleaner and Garden Pesticide Collection
- Community Custom E-Waste Collection
- Community Shred-It Day(s)
- Community Compost Giveaway Day(s)

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Contract Terms

Contract Term	Notes
Term	Contracts are typically five to ten years, with seven years common. RFP will request proposals for a seven-year contract.
Extension	At City's sole option up to 36 months.
Proposed Cost to City	RFP shall request proposal to include a total annual cost to City for providing all core services.
Compensation Adjustment Method	<p>Suggest annual adjustments to contractor compensation based on the weighted change in the following cost categories' corresponding published indices (currently disposal and all other/CPI used):</p> <ul style="list-style-type: none"> • Disposal (gate rate at the Orange County landfill system) • Fuel (published index for natural gas) • All other (CPI less food and energy) <p><i>Include all three components.</i></p>
Extraordinary Rate Adjustment	<p>Specify:</p> <ul style="list-style-type: none"> • Circumstances for which adjustments will not be made, • That such adjustments are at the sole, unfettered discretion of the City, and • That the City may request documentation and consider cost changes over several years.
Public Education	Contractor shall be responsible for conducting transition and other community meetings, and for notifying customers of transition information, holiday schedules, other solid waste events, and, under Option 2, materials to be placed in each cart through mailings and a website.

Contract Terms (continued)

Contract Term	Notes
Hazardous Substance Indemnification	Include indemnification language from Newport Coast agreement.
AB 939 Indemnification	Include indemnification language from Newport Coast agreement.
Insurance	<p>City to confirm types and levels. Typical insurance includes General Liability, Automobile Liability, and Workers' Compensation. General and automotive liability levels typically range from \$3 million to \$10 million. Newport Coast agreement levels - \$5 million for general and automotive.</p> <p>City's risk manager to confirm insurance levels.</p>
Performance Surety	<p>City to confirm with City's risk manager. City may request a performance bond or letter of credit, or combination of both. A typical level is equal to one to two-month's revenue. Newport Coast agreement requires a labor and performance bond equal to six-month's revenue.</p> <p>City's risk manager will provide required bond amount.</p>
Warning Tags	Contractor to leave an educational warning tag on improperly set out material (such as HHW in the refuse can or bulky items that were not called in).
Default Provisions	Include a list of key events constituting contractor's default.
Excuse from Performance	Include a limited list of occurrences that would constitute an excuse from contractor performance. Include limitations on duration and mitigating steps to be taken by contractor in such events, particularly for labor unrest.

Contract Terms (continued)

Contract Term	Notes
Records and Reports	Include monthly and annual reporting requirements, including tonnage, complaints records, and service counts.
Audits	Include an audit after the first year, and anytime thereafter at City request. It will be important to verify reported tonnage and diversion rate.
Dedicated Routes	Separate routes (residential/commercial) increase reporting accuracy. Several businesses with manual can service could be serviced on residential routes.
Transition to Next Franchisee	Include requirements and deadlines by which contractor will provide information and assistance to the next contractor. Include liquidated damages for failure to comply.
Collection Hours	Collection permitted between 7:00 am and 7:00 pm, Monday through Friday, plus Saturday of summer/ holiday weeks. City is open to changing route days to better balance daily routes, subject to City approval.
Office Location and Hours, Customer Service	Proposers shall be requested to describe their office location and hours, and telephone answering and other customer service procedures. Service calls are to be directed to the contractor, not the City.

Contract Terms (continued)

Contract Term	Notes
Holiday Schedule	Continue current holiday schedule. All collections for the remainder of a holiday week pushed back one day (with Friday collection made up on Saturday)
Government Liaison and Route Supervisor	Require contractor to designate a specific point of contact for all contract and service matters, and to designate a route supervisor as well. Provide City with option to approve these positions.
Performance Standards	Include list of performance standards and liquidated damages to be assessed if standards are not met.
Customer Satisfaction Survey	One Customer Satisfaction Survey to be required first year, and upon City request up to once every three years thereafter. City to approve survey content and provide addresses or, at contractor's cost, may mail the surveys.