CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA

Council Conference Room,100 Civic Center Drive, Newport Beach
Monday, April 22, 2013 – 4:00 PM

Finance Committee Members:	***Staff Members:***
Mike Henn, Council Member, Chair	Dave Kiff, City Manager
Keith Curry, Mayor	Dan Matusiewicz, Finance Director
Tony Petros, Council Member	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 meeting of March 25, 2013.

5) CURRENT BUSINESS

A. Reserve Policy Review and Update: Review proposed revisions to Council Policy F-2 that will align fund classifications, modify fund descriptions, establish annual funding contributions, and recommend for submission to the City Council for final approval.

B. Final Review of Debt Management Policy and Changes to Facilities Replacement Program Policy F-28: Review Debt Management Policy revised in response to direction by Committee at their last meeting, proposed revisions to Council Policy F-28, and recommend for submission to the City Council for final approval.

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. Second Review of Facilities Finance Plan (FFP): Review revisions to the FFP which have incorporated all the Finance Committee changes including the timing of the projects, means of financing, fiscal impacts associated with funding the high-priority projects that were designated by the City Council, and recommend for submission to the City Council for final approval.

D. Quarterly Financial Review, FY 2013-14 Budget Update and Review of Long-range Fiscal Forecast: Staff will present Q3 financial results prior to the publication of the Quarterly Business Report. Staff will also provide a brief overview of the 2013-14 proposed budget and demonstrate an Excel-based fiscal forecast modeling tool known as MuniCast.

E. 2013 Work Plan Update: Review 2013 Work Plan revised to reflect Finance Committee review of Quarterly Financial Report prior to City Council presentation and other changes.

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 March 25, 2013, Finance Committee meeting was called to order at 4:00 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, Finance Director Dan Matusiewicz, Deputy Finance Director Steve Montano, Public Works Director Dave Webb, Deputy Public Works Director Pat Thomas, Municipal Operations Director Mark Harmon, Deputy Municipal Operations Director Mike Pisani and Administrative Coordinator Tammie Frederickson

Members of the public: Jim Mosher

Outside entities: Tom DeMars and Robert Porr, Fieldman Rolapp and Associates; Lafe Ezzet, HF&H Consultants, LLC

3. PUBLIC COMMENTS

In response to a question raised by Mr. Mosher, Council Member Henn confirmed the Fire Department fee schedule will be reviewed by the Committee at a future meeting. Mr. Mosher inquired whether the auditor recommendation for improvement on receivables older than one year has been completed and Finance Director Matusiewicz was directed to review that with Mr. Mosher offline. Council Member Henn noted the other written comments received from Mr. Mosher prior to the meeting and expressed appreciation for those comments provided in advance.

4. APPROVAL OF MINUTES

Council Member Henn confirmed the Finance Committee Work Plan will be revised and brought back to a future meeting as written in the minutes of February 28, 2013. Council Member Henn directed the minutes of February 28, 2013, item 5E be revised to reflect a consensus was reached to use the existing PERS reserve to fund the $765,000 cost to not defer the phase-in increased contribution rates. Additionally, the minutes of June 11, 2012, and February 28, 2013, should be amended as suggested by Mr. Mosher in his written comments.

With Council Member Petros abstaining from approval of the June 11, 2012, minutes, a motion was made by Mayor Curry, seconded by Council Member

Petros to approve the minutes of June 11, 2012, and February 28, 2013, as amended.

5. CURRENT BUSINESS

A. Reserve Level Funding Status

In regards to questions raised and submitted in advance of the meeting by Mr. Mosher, Council Member Henn suggested Mr. Mosher review with staff offline.

Mr. Matusiewicz stated Council Policy F-2 sets the governance of the City's reserve policies. As previously recommended by the Finance Committee, this item is the annual review of the status of the reserves and sets an action plan regarding the funding. Key reserves of a discretionary nature in terms of management and how the funding target is set were reviewed and recommendations were discussed. Mr. Matusiewicz noted the reserve amounts and targeted funding levels were met in the General Fund Contingency Reserve and Facilities Financing Plan Reserve. Staff recommends Council appropriate an additional $3 million to the IT ISF fund in FY 14 from the overfunded Equipment Replacement Fund; transfer $750,000 from the overfunded General Liability Reserve to the Workers' Compensation Reserve and $1 million to the Compensated Absence Reserve; and continue to pay the full actuarially required contribution (ARC) payment for the CalPERS funding obligation and accelerate the funded status by directing the actuary to amortize the liability on a fixed declining amortization schedule. These recommendations result in shifting the reserve amounts and do not affect the amount in total reserves.

The IT ISF sets aside funding for strategic information technology planning to invest in a new enterprise resource plan (ERP) software, CAD RMS, permit system software and other IT projects. City Manager Kiff confirmed the selection of the IT ISF for additional funding will accelerate the investment in support of the scope of the IT strategic plan that was originally approved as part of the budget.

Council Member Henn stated reserves should be maintained at policy targets and a consensus was reached by the Committee to recommend transferring any additional overfunding remaining in the Equipment Replacement Fund to the Facilities Financing Plan. Mr. Henn noted with the transfer to the Compensated Absence Reserve of $1 million, overfunding in the reserve will help absorb any anticipated charges that are a result of the voluntary separation incentive program (VSIP).

B. Council Policy B-1, Park Fee Policy Revisions

Mr. Matusiewicz confirmed the proposed revisions to Policy B-1 will ensure park fees associated with three new parks will be placed in the Facilities Financing Plan fund and restricted for park development.

Council Member Henn directed staff to review Mr. Mosher's comments and make revisions as appropriate to the Policy in terms of minor typos and clarifications in accordance with compliance to the provisions to the Quimby Act.

Council Member Petros commented by increasing the acreage of our parks, it could trigger revisiting park fees and result in changes to the park in lieu policy.

Mayor Curry moved, Council Member Petros seconded to recommend the proposed revisions to Council Policy B-1 be submitted to the City Council for final approval.

C. <u>Facilities Finance Plan Update</u>

Council Member Henn stated the Facilities Financing Plan is an analytical and planning tool that is used to guide decisions on the ability to execute the entire plan over time. Mayor Curry added it must be consistent with not taking on a debt level that is deemed to be excessive or make us unable to fund other programs in the City.

Mayor Curry recommended using Scenario C as outlined in the staff report. It measures the debt load that is proposed and shows an aggressive strategy that is affordable within our budget.

The Committee went on to discuss further refinements to the Plan. Council Member Henn confirmed whether $135 million for the Civic Center is a reasonable amount; recognized the impact of work that may occur in the west side strategic facilities planning will need to be included in the Plan; would like Banning Ranch development fees added when that is known; instructed park in lieu fees for the Uptown Newport Phase I project which is located in the airport area be included and a tune up done on the timing for the project to reflect best conservative estimate; amend the Scenario to not reflect $20 million debt issuance in 2014 and show a larger issuance using 30-year amortization when the Police Station is constructed.

Council Member Henn proposed a revised FFP be redistributed in light of the refinements discussed and brought back to a future meeting before going to the full Council for consumption. Council Member Petros requested the revenue side be included as a supporting schedule.

D. <u>Draft Debt Management Policy and Proposed Changes to Facilities Replacement Plan Policy F-28</u>

Deputy Director Montano noted the draft policy was revised per previous Finance Committee direction. The policy incorporates best practices recommended by Government Finance Officers Association and was reviewed by financial advisors from Fieldman Rolapp. Three major priorities for the development of the policy were to provide guidelines for the City to manage its debt program in line with its resources, signal to the rating agencies the City is well managed and able to meet its financial obligations, and furtherance of the Fiscal Sustainability Plan through long term financial planning. Proposed changes to the Council Policy F-28, Facilities Replacement Plan provides additional General Fund contribution of a 3% floor and allows any amount over that.

Mayor Curry addressed the rating agency language and stated the City should seek to maintain the highest level of bond rating consistent with its operating and capital needs.

Council Member Henn noted when this is brought to Council for approval, be explicit about the selection of 8% debt ratio and level. He directed and discussed further revisions to language in the Policy that were provided in writing.

Staff will revise the draft policy as discussed and bring it back to a future meeting for consideration.

E. Review of the Request for Proposal (RFP) Outline for the Residential Solid Waste Program

Municipal Operations Director Harmon identified the RFP structure and noted contractors will be asked to make a proposal on two options that will include manual service provided as it is today and an automated option. Recycling in the automated option will be voluntary to the customers. The number and sizes of trash cans will be determined by the customer and the amount of trash is not limited in either option. Core services will include pick-up of bulk items. Any enhanced service being offered should be highlighted in the RFP. It was suggested to change the RFP to reflect three columns with one being the current operation and two columns showing the two options contractors will make proposals on.

Mr. Mosher questioned what the difference is in the cost for the purchase of a diesel truck versus a CNG and how much is saved using a CNG truck. He asked how the voluntary recycling program will work.

Mr. Harmon will incorporate feedback received from the Finance Committee into the RFP and staff report before bringing it to the City Council for approval.

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 other than items that will be revised and brought back as directed.

7. ADJOURNMENT

The Finance Committee adjourned at 6:20 p.m.

DRAFT

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

Attest:

____________________________________ ____________________________________

Mike Henn, Chair
Finance Committee Chair

Date

DRAFT

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

Agenda Item No. A
April 22, 2013

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: RESERVE POLICY REVIEW AND UPDATE

ABSTRACT:

Prudent financial management dictates that some portion of the funds available to the City be reserved for future use. Council Reserve Policy, F-2, establishes reserve requirements for the City. Finance staff has reviewed the policy and is recommending changes as described below. Along with the attached policy revisions, a comprehensive summary of June 30, 2012, fund balance and working capital is attached for your reference.

DISCUSSION:

At the May 24, 2011 meeting, the City Council adopted Resolution 2011-43, significantly revising Council Policy F-2, Reserve Policy, to reflect classification changes required by Governmental Accounting Standards Board Statement 54 (GASB 54). Under GASB 54, fund balance for governmental funds is reported in five classifications that indicate the relative strength of spending constraints placed on each. For enterprise and internal service funds, which follow commercial accounting norms, the policy refers to net working capital as a measure of liquid assets available to meet financial obligations. A description of each of the classifications is included in the Reserve Policy. A summary of proposed changes to the policy are highlighted below:

Changes

Other than minor format and descriptive modifications, Finance staff is proposing the following changes:

- Reclassification of Park In Lieu Reserve from the Committed Fund Balance category to the Restricted Fund Balance due to an externally imposed restriction beyond the City Council's authority.

- Adding an explicit statement to the Contingency reserve that allows the City to use the Contingency reserve if the City was unable to meet its debt service obligations in any given year. The intent of this change was intended to provide additional assurance to creditors and bondholders that the City has considerable flexibility to meet its covenanted obligations.

- Renaming the Facilities Replacement Plan Reserve to Facilities Financing Plan Reserve to align with the Facilities Financing Plan model.

- At the November 27, 2011 meeting, Council approved the revision of Council Policy B-2, Recreation Fees and Related Equipment Replacement Reserves. The following changes will align the Council Reserve Policy F-2 with the Council approved amendments to Council Policy B-2:

  - Addition of Senior Center and Recreation Facilities Rental Reserves, whereby a sum of money equivalent to ten percent (10%) of the gross annual revenues derived from the Senior Center and Recreation Facilities Rental to be set aside annually for equipment replacement and or facility refurbishment.

  - Addition of the Senior Fitness Center Reserve, whereby a sum of money equivalent to ten percent (10%) of the gross annual revenues derived from fitness center memberships will be set aside and used for the purpose of purchasing new or replacement fitness equipment.

  - Termination of the Senior Citizen Site and consolidation of the reserve balance with the Senior Center Rental Reserve.

- Infrastructure Replacement Funding Policy - The annual contribution rates for funding the infrastructure replacement projects in both the Water and Sewer Funds are currently set to a fixed dollar amount escalating at a fixed percentage rate. The revised policy establishes annual contribution rates at an amount that, when combined with prior or future year contributions, is sufficient to provide for the replacement of assets as scheduled in the plan. As funding contributions can vary year to year, and are dependent on the master planning replacement schedule, these policy changes allow for a more accurate determination of the annual funding level that is required.

- Post Retirement Funding Policies - Include additional language regarding the annual maintenance of OPEB and CalPERS reserve funding that will be within a range that is considered acceptable to actuarial standards.

CONCLUSION:

With Finance Committee approval, Finance staff will bring the proposed recommendations to Council for formal approval.

Prepared by:	Submitted by:
/s/Rukshana Virany	/s/Dan Matusiewicz
Rukshana Virany	Dan Matusiewicz
Accounting Manager	Finance Director

Attachments:
A. Summary of June 30, 2012 Fund Balance and Working Capital
B. Council Policy F-2 Reserve Policy (Strikeout version)

Summary of Fund Balances and Working Capital
June 30, 2012

	Governmental Fund Balance June 30, 2012									Proprietary Funds, Working Capital June 30, 2012						
	Major Governmental Funds						Non-Major Governmental Funds			Enterprise Funds		Internal Service Funds				
												Insurance Reserve				
	General	Tidelands Operating	Tidelands Capital	Facilities Financing Plan (FFP)	Civic Center Improvements	Debt Service Fund	Special Revenue Funds	Capital Project Funds	Permanent Funds	Water	Wastewater	General Liability	Workers' Compensation	Compensated Absences	Equipment Maintenance	Totals
Nonspendable:																
Prepaid items	$ 285,754	$ -	$ -	$ -	$ 642,883	$ -	$ 123,772	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ 1,052,409
Inventories	217,771	-	-	-	-	-	-	-	-	-	-	-	-	-	-	217,771
Long-term loan receivable	7,350,953	-	-	-	-	-	-	-	-	-	-	-	-	-	-	7,350,953
Permanent endowment	-	-	-	-	-	-	-	-	4,269,781	-	-	-	-	-	-	4,269,781
Restricted:																
Affordable housing	2,128,289	-	-	-	-	-	-	-	-	-	-	-	-	-	-	2,128,289
Hoag Hospital	134,760	-	-	-	-	-	-	-	-	-	-	-	-	-	-	134,760
Upper Newport bay restoration	-	228,821	-	-	-	-	-	-	1,025,151	-	-	-	-	-	-	1,253,972
Streets and highways	-	-	-	-	-	-	6,085,154	-	-	-	-	-	-	-	-	6,085,154
Public safety	-	-	-	-	-	-	1,802,495	-	-	-	-	-	-	-	-	1,802,495
Transportation	-	-	-	-	-	-	1,063,719	-	-	-	-	-	-	-	-	1,063,719
Air quality improvement	-	-	-	-	-	-	571,340	-	-	-	-	-	-	-	-	571,340
Environmental liability mitigation	-	-	-	-	-	-	4,223,951	-	-	-	-	-	-	-	-	4,223,951
Capital re-appropriations	-	626,751	-	-	-	-	-	128,874	-	-	-	-	-	-	-	755,625
Ackerman Endowments																
Libraries	-	-	-	-	-	-	-	-	178,353	-	-	-	-	-	-	178,353
Scholarships	-	-	-	-	-	-	-	-	228,996	-	-	-	-	-	-	228,996
Debt service	-	-	-	-	-	2,532,561	6,000,000	-	-	-	-	-	-	-	-	8,532,561
Encumbrance reserve	-	434,596	-	-		-	3,278,860	2,547,562	-	-	-	-	-	-	-	6,261,018
Committed:																
Contingency reserve	21,582,798	-	-	-	-	-	-									21,582,798
FFP Reserve	-	-	-	33,149,725	-	-	-	-	-	-	-	-	-	-	-	33,149,725
Oil and gas reserve	-	400,000	-	-	-	-	-	-	-	-	-	-	-	-	-	400,000
Park In Lieu	917,589	-	-	-	-	-	-	-	-	-	-	-	-	-	-	917,589
Oceanfront encroachment	548,448	-	-	-	-	-	-	-	-	-	-	-	-	-	-	548,448
Recreation and senior services	521,447	-	-	-	-	-	-	-	-	-	-	-	-	-	-	521,447
Paramedics program	479,366	-	-	-	-	-	-	-	-	-	-	-	-	-	-	479,366
Cable franchise reserve	1,514,574	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,514,574
START Program	386,607	-	-	-	-	-	-	-	-	-	-	-	-	-	-	386,607
Neighborhood enhancement A	297,612	-	-	-	-	-	-	-	-	-	-	-	-	-	-	297,612
Neighborhood enhancement B	(863,449)	-	-	-	-	-	-	-	-	-	-	-	-	-	-	(863,449)
Off Steet Parking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
In-Lieu Parking	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Encumbrance reserve	3,424,892	-	-	-	36,950,431	-	-	-	-	-	-	-	-	-	-	40,375,323
Assigned:																
PERS rate reserve	5,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,000,000
Lower Newport bay dredging loan	3,800,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,800,000
Surplus to facilities financing plan	5,043,503	-	-	-	-	-	-	-	-	-	-	-	-	-	-	5,043,503
IT strategic fund	3,000,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	3,000,000
Increase Gen Fund CIPs	1,638,677	-	-	-	-	-	-	-	-	-	-	-	-	-	-	1,638,677
Capital re-appropriations	603,167	-	-	-	-	-	-	-	-	-	-	-	-	-	-	603,167
Airport mitigation efforts	100,000	-	-	-	-	-	-	-	-	-	-	-	-	-	-	100,000
Fair value Adjustment Reserve	246,118	-	-	-	-	-	-	-	-	-	-	-	-	-	-	246,118
Unassigned:	21,433,482	-	(6,879,703)	-	-	-	(400,254)	(4,059,714)	-	-	-	-	-	-	-	10,093,811
Working Capital:	-	-	-	-	-	-	-	-	-	15,562,701	1,723,181	6,627,697	16,823,310	1,723,667	22,031,772	64,492,328
Total	**$ 79,792,358**	**$ 1,690,168**	**$ (6,879,703)**	**$ 33,149,725**	**$ 37,593,314**	**$ 2,532,561**	**$ 22,749,037**	**$ (1,383,278)**	**$ 5,702,281**	**$ 15,562,701**	**$ 1,723,181**	**$ 6,627,697**	**$ 16,823,310**	**$ 1,723,667**	**$ 22,031,772**	**$ 239,438,791**

RESERVE POLICY

PURPOSE

To establish City Council policy for the administration of Reserves defined as fund balances in governmental funds and net working capital in proprietary funds.

BACKGROUND

Prudent financial management dictates that some portion of the funds available to the City be reserved for future use.

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 to use current year operating revenues or bond proceeds instead, 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; or by a separate City Council action. Information regarding Annual Budget Adoption and Administration is contained in City Council Policy F-3.

GOVERNMENTAL FUNDS AND FUND BALANCE DEFINED

Governmental Funds including the General Fund, Special Revenue Funds, Capital Projects Funds, Debt Service Funds and Permanent Funds have a short-term or current flow of financial resources, measurement focus and basis of accounting and therefore, exclude long-term assets and long-term liabilities. The term Fund Balance, used to describe the resources that accumulate in these funds, is the difference between the fund assets and fund liabilities of these funds. Fund Balance is similar to the measure of net working capital that is used in private sector accounting. By definition, both Fund Balance and Net Working Capital exclude long-term assets and long-term liabilities.

PROPRIETARY FUNDS AND NET WORKING CAPITAL DEFINED

Proprietary Funds including Enterprise Funds and Internal Service Funds have a long-term or economic resources measurement focus and basis of accounting and therefore, include long-term assets and liabilities. This basis of accounting is very similar to that used in private sector. However, instead of Retained Earnings, the term Net Assets is used to describe the difference between fund assets and fund liabilities. Since Net Assets include both long-term assets and liabilities, the most comparable measure of proprietary fund financial resources to governmental Fund Balance is Net Working Capital, which is the difference between current assets and current liabilities. Net Working Capital, like Fund Balance, excludes long-term assets and long-term liabilities.

GOVERNMENTAL FUND RESERVES (FUND BALANCE)

For Governmental Funds, the Governmental Accounting Standards Board ("GASB") Statement No. 54 defines five specific classifications of fund balance. The five classifications are intended to identify whether the specific components of fund balance are available for appropriation and are therefore "Spendable." The classifications also are intended to identify the extent to which fund balance is constrained by special restrictions, if any. Applicable only to governmental funds, the five classifications of fund balance are as follows:

CLASSIFICATIONS	NATURE OF RESTRICTION
Non-spendable	Cannot be readily converted to cash
Restricted	Externally imposed restrictions
Committed	City Council imposed commitment
Assigned	City Manager assigned purpose/intent
Unassigned	Residual balance not otherwise restricted

A. Non-spendable fund balance: That portion of fund balance that includes amounts that are either (a) not in a spendable form, or (b) legally or contractually required to be maintained intact. Examples of Non-spendable fund balance include:

   1. Reserve for Inventories: The value of inventories purchased by the City but not yet issued to the operating Departments is reflected in this account.

   2. Reserve for Long Term Receivables and Advances: This Reserve is used to identify and segregate that portion of the City's financial assets which are not due to be received for an extended period, so are not available for appropriation during the budget year.

   3. Reserve for Prepaid Assets: This reserve represents resources that have been paid to another entity in advance of the accounting period in which the resource is deducted from fund balance. A common example is an insurance premium, which is typically payable in advance of the coverage period. Although prepaid assets have yet to be deducted from fund balance, they are no longer available for appropriation.

4. Reserve for Permanent Endowment - Bay Dredging: The endowment specifies that the principal amount will not be depleted and represents the asset amounts to be held in the Bay Dredging Fund.

5. Reserve for Permanent Endowment - Ackerman Fund: The endowment specifies that the principal amount will not be depleted and represents the asset amount to be held in the Ackerman Fund.

B. Restricted fund balance: The portion of fund balance that reflects constraints placed on the use of resources (other than non-spendable items) that are either (a) externally imposed by creditors, grantors, contributors, or laws or regulations of other governments; or (b) imposed by law through constitutional provisions or enabling legislation. Examples of restricted fund balance are:

1. Reserve for Debt Service: Funds are placed in this Reserve at the time debt is issued. The provisions governing the Reserve, if established, are in the Bond Indenture and the Reserve itself is typically controlled by the Trustee.

2. Affordable Housing: A principal provision of the Newport Beach Housing Element requires developers to provide housing units for lower income households, the number of which is to be negotiated for each development project. In lieu of constructing affordable housing, developers have paid into this reserve which is used at the City Council's discretion to provide alternate methods for the delivery of affordable housing for lower income households.

3. Park In Lieu: Per NBMC 19.52 and California Government Code Section 664777 (The 1975 "Quimby Act"), ~~the City requires~~ a dedication of land or payment of fees for park or recreational purposes in conjunction with residential development is required. The fees collected can only be used for specific park or recreation purposes as outlined in NBMC 19.52.030 and 19.52.070.

~~2.~~

~~3.~~4. Upper Newport Bay Restoration Reserve: This reserve is the repository for funds mandated by SB573, as well as special fees charged to permit holders as an alternative to meeting certain specified mitigation criteria. In addition to the mitigation fees, ten percent (10%) of Beacon Bay lease revenue is placed in this Reserve. Funds in the Reserve are ~~committed to~~restricted for Upper Newport Bay restoration projects.

~~4.~~5. Permanent Endowment for Bay Dredging: The endowment also specifies that the interest earnings on the principal amount can only be used for dredging projects in the Newport Bay.

~~5.~~6. Permanent Endowment for Ackerman Fund: The endowment also specifies that the interest earnings on the principal amount can only be used for scholarships provided by the City.

C. Committed fund balance: That portion of a fund balance that includes amounts that can only be used for specific purposes pursuant to constraints imposed by formal action by the government's highest level of decision making authority, and remain binding unless removed in the same manner. The City considers a resolution to constitute a formal action for the purposes of establishing committed fund balance. The action to constrain resources must occur within the fiscal reporting period; however the amount can be determined subsequently. City Council imposed Commitments are as follows:

1. Contingency Reserve: The Contingency Reserve shall have 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. Appropriation and or access to these funds are reserved for emergency situations only. The parameters by which the Contingency Reserve could be accessed would include the following circumstances:

   a. A catastrophic loss of critical infrastructure requiring an expenditure of greater than or equal to five percent (5%) of the General Fund, Operating Budget, as defined above.

   b. A State or Federally declared state of emergency where the City response or related City loss is greater than or equal to five percent (5%) of the General Fund, Operating Budget.

   c. Any settlement arising from a claim or judgment where the loss exceeds the City's insured policy coverage by an amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.

   d. Deviation from budgeted revenue projections in the top three General Fund revenue categories, namely, Property Taxes, Sales Taxes and Transient Occupancy Taxes in a cumulative amount greater than or equal to five percent (5%) of the General Fund, Operating Budget.

e. Any action by another government that eliminatesting or ~~shifting~~ shifts revenues from the City amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget.

Inability of the City to meet its debt service obligations in any given year.
f.

g. Any combination of factors 1) a.-fe. amounting to greater than or equal to five percent (5%) of the General Fund, Operating Budget in any one fiscal year.

Use of the Contingency Reserve must be approved by the City Council. Should the Contingency Reserve commitment be used, the City Manager shall present a plan to City Council to replenish the reserve within five years.

2. Facilities Financing~~Replacement~~ Plan Reserve: In conjunction with the City's Facilities Financing ~~Replacement~~ Plan, a sinking fund has been established to amortize the cost of critical City facilities such as, but not limited to, the Civic Center,~~City Hall and~~ Police Department buildings, Fire Stations, Library Branches and other Facility Improvement Projects.

   The Facilities Financing~~Replacement~~ Plan establishes a level charge to the General Fund that will perpetually replenish the cash flows necessary to finance the construction of critical City facilities. This plan will be updated annually as part of the budget process, or as conditions change. The City shall strive to maintain fund balance in the Facilities Financing~~Replacement~~ -Plan Reserve at a level equal to or greater than the maximum annual debts of existing obligations.

   The eligible uses of this reserve include the cash funding of public facility improvements or the servicing of related debt.

3. Oceanfront Encroachment Reserve: In the early 1990's, it was discovered by survey that improvements to several ocean front parcels were encroaching onto the public beach. The encroachment was relatively minor. The negotiated solution was for the property owners to pay a permit fee each year to the City. Revenue thus generated may only be used for ocean front restoration projects and incidental costs of improvements and maintenance to enhance public access and use of ocean beaches as approved by the City Council. This Reserve is the repository for those funds. City Council Policy L-12 contains additional background and details about the encroachment issue.

4. Senior ~~Citizen~~ Center and Recreation Facility Rental Reserve~~Site~~: City Council Policy B-2 requires ten percent (10%) of gross revenues derived from Oasis

Senior Center and Recreation facilities rental fees to be set aside annually for equipment replacement and/or facility refurbishment. ~~5, which specified that ten percent (10%) of revenue collected from rental of facilities at the OASIS Center be set aside for equipment replacement and/or refurbishment at the Center. This policy was replaced by a Cooperative Agreement with the Friends of OASIS on May 10, 2005 (Contract # C-3772). This agreement constituted a significant change from the formal City Council policy. Although no new funds are being accumulated, these funds can only be spent for equipment replacement and/or refurbishment at the Center.~~

5. Off Street Parking: Per NBMC 12.44.025 fifty percent (50%) of parking meter revenue collected in designated areas is set aside for acquisition, development and improvement of off street parking facilities within those areas.

6. Paramedic Program (Hoag): In addition to the debt issuance agreements with Hoag Hospital which required an original deposit, effective July 1, 2000, any excess revenues generated by this program, after accounting for General City Overhead of fifteen percent (15%), were to be accumulated for future paramedic related purposes. Funds accumulated may be used only for paramedic related purpose as directed by the City Council.

7. Recreational Instruction: City Council Policy B-2 requires ten percent (10%) to twenty percent (20%) of gross annual revenues derived from specified recreational classes to be set aside for the refurbishment of certain recreational facilities, fee-based activity programs and equipment used in connection with fee-based recreation classes.

~~7.~~8. Senior Fitness Center Reserve: City Council Policy B-2 requires ten percent (10%) of the gross annual revenues derived from fitness center membership fees to be set aside and used for new or replacement fitness equipment.

~~8.~~9. In Lieu Parking: Per NBMC 12.44.125 the City requires commercial businesses to provide adequate off-street parking or where this is not possible, businesses are afforded the opportunity to pay an annual fee and use parking spaces in a municipal lot, providing such a lot is located within specified proximity to the business. These funds can only be used to provide additional parking.

~~9. Park In Lieu: Per NBMC 19.52, the City requires dedication of land or payment of fees for park or recreational purposes in conjunction with residential~~

~~development. The fees collected can only be used for specific park or recreation purposes as outlined in NBMC 19.52.030 and 19.52.070.~~

10. Neighborhood Enhancement - A: NBMC 12.44.027 directs revenues from parking meters in Zone 9 shall be apportioned to this Neighborhood Enhancement A. Funds accumulated will only be used for the purpose of enhancing and supplementing services to the West Newport area. Both the nature of the supplemental services and the definition of the area served are set forth in the Code Section above.

11. Neighborhood Enhancement - B: NBMC 12.44.027 directs that fifty percent (50%) of revenues from parking meters in the Balboa Peninsula be apportioned to this Neighborhood Enhancement B. Funds accumulated will only be used for the purpose of enhancing and supplementing services in the Balboa Peninsula. Specific details are contained in the Code Section.

12. Cable Franchise: Pursuant to the provisions of the Newport Beach Municipal Code, Title 5, Business Licenses & Regulations, Chapter 5.44, in return for the use of the City's streets and public ways for the purpose of installing, operating, maintaining, or reconstructing a cable system to provide cable service, fees are collected by the City from cable providers. Those fees are to be used by the City for support of Public, Education, and Government access programming only.

13. START Program: The Fire Department's START Program developed by the Fire Department and Hoag Hospital helps prepare emergency personnel to quickly organize their resources to handle multi-casualty emergencies. Training video and training materials are sold to other agencies. Any excess revenues generated by this program shall only be used for production expenses related to future START training materials and to enhance paramedic, EMT, and MICN pre-hospital education as directed by the City Council.

14. Oil and Gas Reserve: The annual $40,000 which is being set aside from the oil and gas field production revenues is to be used to fund abandoned wells and facilities as they go out of service.

D. Assigned fund balance: That portion of a fund balance that includes amounts that are constrained by the City's intent to be used for specific purposes but that are not restricted or committed. This policy hereby delegates the authority to the City Manager or designee to modify or create new assignments of fund balance. Constraints imposed on the use of assigned amounts may be changed by the City Manager or his designee. Appropriations of balances are subject to Council Policy

F–-3 concerning budget adoption and administration. Examples of assigned fund balance may include but are not limited to:

1. Appropriations Reserves:. This is a temporary repository for funds not yet fully appropriated in the annual budget. It is normally used during the budget process to set aside funds for known or strongly anticipated expenses that will need to be addressed by budget amendment during the budget year. Sometimes the dollar amount and/or appropriate account breakdown for such expenses cannot be specifically identified at the time the budget is adopted, even though the funds will be needed. In such cases, the funds will normally be budgeted to the Reserve for Appropriations.

2. Change in Fair Market Value of Investments:. As dictated by GASB 31, the City is required to record investments at their fair value (market value). This accounting practice is necessary to insure that the City's investment assets are shown at their true value as of the balance sheet. However, in a fluctuating interest rate environment, this practice records market value gains or losses which may never be actually realized. The City Manager may elect to reserve a portion of fund balance associated with an unrealized market value gain. However, it is impractical to assign a portion of fund balance associated with an unrealized market value loss.

3. PERS Rate Reserve:. This Reserve may be established for the specific purpose of helping to smooth out the year-to-year fluctuations in PERS rates.

When the City Manager or his designee authorizes a change in General Fund, Assigned Fund Balance, City Council shall be notified quarterly.

E. Unassigned fund balance:– The residual portion of available fund balance that is not otherwise restricted, committed or assigned.

PROPRIETARY FUND RESERVES (NET WORKING CAPITAL)

In the case of Proprietary Funds (Enterprise and Internal Service Funds), Generally Accepted Accounting Principles ("GAAP") does not permit the reporting of reserves on the face of City financial statements. However, this does not preclude the City from setting policies to accumulate financial resources for prudent financial management of its proprietary fund operations. Since proprietary funds may include both long-term capital assets and long-term liabilities, the most comparable measure of liquid financial resources that is similar to fund balance in proprietary funds is net working capital which is the difference between current assets and current liabilities. For all further references to reserves in Proprietary Funds, Net Working Capital is the intended meaning.

A. Water Enterprise Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is fifty percent (50%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 6 months with zero income or 24 months at a twenty-five percent (25%) loss rate. The City Council must approve the use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to water distribution.

2. Infrastructure Replacement Funding Policy: This funding policy is intended to be a temporary repository for cash flows associated with the funding of infrastructure replacement projects provided by the Water Master Plan. The contribution rate is intended to level-amortize the cost of infrastructure replacement projects over a long period. The annual funding rate of the Water Master Plan is targeted at an amount that, when combined with prior or future year contributions, is sufficient to provide for the eventual replacement of assets as scheduled in the plan. ~~$3.5 million per year (Base Year = Fiscal Year 2009-10) escalating at 3.5 percent (3.5%) per year.~~ This contribution policy is based on the funding requirements of the most current Water Master Plan. There are no minimum~~s~~ or maximum~~s~~ balances contemplated by this funding policy. However, the contributions level should be reviewed periodically or as major updates to the Water Master Plan occur. Annual funding is contingent on many factors and may ultimately involve a combined strategy of cash funding and debt issuance with the intent to normalize the burden on Water customer rates.

B. Wastewater Enterprise Fund

1. Stabilization and Contingency Reserve: This Reserve is used to provide sufficient funds to support seasonal variations in cash flows and in more extreme conditions, to maintain operations for a reasonable period of time so the City may reorganize in an orderly manner or effectuate a rate increase to offset sustained cost increases. The intent of the Reserve is to provide funds to offset cost increases that are projected to be short-lived, thereby partially eliminating the volatility in annual rate adjustments. It is not intended to offset ongoing, long-term pricing structure changes. The target level of this reserve is fifty percent (50%) of the annual operating budget. This reserve level is intended to provide a reorganization period of 6 months with zero income or 24 months at a twenty-five percent (25%) loss rate. The City Council must approve use of these funds, based on City Manager recommendation. Funds collected in excess of the Stabilization reserve target would be available to offset future rate adjustments, while extended reserve shortfalls would be recovered from future rate increases. Should catastrophic losses to the infrastructure system occur, the Stabilization and Contingency Reserve may be called upon to avoid disruption to wastewater service.

2. Infrastructure Replacement Funding Policy: This funding policy is intended to be a temporary repository for cash flows associated with the funding of infrastructure replacement projects provided by the Wastewater Master Plan. The contribution rate is intended to level-amortize the cost of infrastructure replacement projects over a long period of time. The annual funding rate of the Wastewater Master Plan is targeted at an amount that, when combined with prior or future year contributions, is sufficient to provide for the eventual replacement of assets as scheduled in the plan. ~~$500,000 per year (Base Year = Fiscal Year 2011-12) escalating at 3.5 percent (3.5%) per year.~~ This contribution policy should be updated periodically based on the most current Wastewater Master Plan. There are no minimum or maximum balances contemplated by this funding policy. However, the contributions level should be reviewed periodically or as major updates to the Wastewater Master Plan occur. Annual funding is contingent on many factors and may ultimately involve a combined strategy of cash funding and debt issuance with the intent to normalize the burden on Wastewater customer rates.

C. Internal Service Funds

Background.

Internal Service Funds are used to centrally manage and account for specific program activity in a centralized cost center. Their revenue generally comes from internal charges to departmental operating budgets rather than direct appropriations. They have several functions.

--They work well in normalizing departmental budgeting for programs that have life-cycles greater than one year; thereby facilitating level budgeting for expenditures that will, by their nature, be erratic from year to year. This also facilitates easier identification of long term trends.

--They act as a strategic savings plan for long-term assets and liabilities.

--From an analytical standpoint, they enable appropriate distribution of city-wide costs to individual departments, thereby more readily establishing true costs of various operations.

Since departmental charges to the internal service fund duplicate the ultimate expenditure from the internal service fund, they are eliminated when consolidating entity-wide totals.

The measurement criteria, cash flow patterns, funding horizon and acceptable funding levels are unique to each program being funded. Policy regarding target balance and/or contribution policy, gain/loss amortization assumption, source data, and governance for each of the City's Internal Service Funds is set forth as follows:

1. For all Internal Service Funds: the Finance Director may transfer part or all of any unencumbered fund balance between the Internal Service Funds provided that the withdrawal of funds from the transferred fund would not cause insufficient reserve levels or insufficient resources to carry out its intended purpose. This action is appropriate when the decline in cash balance in any fund is precipitated by an off-trend non-recurring event. The Finance Director will make such recommendations as part of the annual budget adoption or through separate Council action.

2. Equipment Maintenance Fund and Equipment Replacement Fund:~~.~~ The Equipment Maintenance and Replacement Funds receive operating money from the Departments to provide equipment maintenance and to fund the regular replacement of major pieces of equipment (mostly vehicles) at their economic obsolescence.

    a. Equipment Maintenance Fund:~~.~~ The Equipment Maintenance Fund acts solely as a cost allocation center (vs. a pre-funding center) and is funded on a pay-as-you-go basis by departmental maintenance charges by vehicle type and usage requirement. Because of this limited function, the target year-end balance is zero.

Contribution rates (departmental charges) are set to include the direct costs associated with maintaining the City vehicle ~~Fleet~~fleet, including fleet maintenance employee salary and benefits, operating expenses and maintenance related capital outlay. Administrative overhead and maintenance facility improvements and replacement costs are to be provided outside of this cost unit.

Because of the limited purpose of this fund, a gain / loss assumption is not needed.

Source data is ongoing city fleet inventory and maintenance cost information.

Governance is achieved through annual management adjustment of contribution rates on the basis of maintenance cost by vehicle and distribution of costs based on fleet use by department.

b. Equipment Replacement Fund:~~.~~ Operating Departments are charged annual amounts sufficient to accumulate funds for the replacement of ~~rolling stock~~vehicles, communications equipment, parking equipment and other equipment replacement determined appropriate by the Finance Director. ~~in accordance with Council Policy F-9, City Vehicle/Equipment Replacement Guidelines.~~ The City Manager ~~approves~~ recommends annual rate adjustments as part of the budget preparation process. These adjustments are based on pricing, future replacement schedules and other variables.

The age and needs of the equipment ~~fleet~~ inventory vary from year to year. Therefore the year-end fund balance will fluctuate in direct correlation to accumulated depreciation. In general, it will increase in the years preceding the scheduled replacement of relatively large percentage of the ~~fleet~~equipment, on a dollar value basis. However, rising ~~vehicle~~ equipment costs, dissimilar future needs, replacing ~~vehicles~~ equipment faster than their expected life or maintaining ~~vehicles~~ equipment longer than their expected life all contribute to variation from the projected schedule.

In light of the above, the target funding level is not established in terms of a flat dollar figure or even a percentage of the overall value of the ~~fleet~~equipment inventory. It is established at fifty percent (50%) of the current accumulated depreciation value of the equipment inventory~~fleet~~, calculated on a replacement value basis. This will be reconciled annually as part of the year-end close out process by the Finance Department. If departmental replacement charges for ~~each vehicle~~ equipment prove to be excessive or insufficient with regard to this target funding level, new rates established during the next budget cycle will be adjusted with a view toward bringing the balance back to the target level over a three-year period.

3. Insurance Reserve Funds:~~.~~ The Insurance Reserve funds account for the activities of general liability and claims workers' compensation.

Background.

The City employs an actuary to estimate the liabilities associated with the general liability and workers compensation activities. The costs typically associated with these programs include: claims administration, legal defense, insurance premiums, self insured retention and the establishment of appropriate loss reserves including "incurred-but-not reported" (IBNR) claims. In a prescribed measurement methodology, the Actuary estimates the liabilities in conformity with Generally Accepted Accounting Principles (GAAP).

The Actuary refers to this measurement level in his report as the "Expected Level." However, because actuarial estimates are subject to significant uncertainties, actuaries typically recommend that a target funding level be set at an amount in excess of expected liability as a margin to cover contingencies. A typical target funding level would be set to obtain a specified confidence level (the percent chance that resources set-aside will be sufficient to cover existing claims).

Full funding of the Actuary's "Target Funding Level" establishes a seventy-five percent (75%) confidence 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 percent to sixty-five percent (50%-65%). Therefore, the target funding of insurance reserves exceed the "Expected Level" to account for adverse estimate deviation.

Policy & Practice.

The City should target funding of its risk management obligations at not less than the Expected Level, described above; and not more than an amount sufficient to establish a seventy-five percent (75%) Confidence Level. Actuarial losses should be recovered over a rolling 3-year basis while actuarial gains should be amortized over a rolling 5-year basis. As part of the operating budget, each department will be charged a rate equal to its proportionate share of the total "revenue" required to fund the Insurance Reserve Fund at this level.

To lessen the impact of short-term annual rate change fluctuation, City management may implement one-time fund transfers (rather than department rate increases) when funding shortfalls appear to be due to unusually sharp and non-recurring factors. Excess reserves in other areas may be transferred to the internal service fund in these instances but such transfers should not exceed the funding necessary to reach a seventy-five (75%) confidence level interval. ~~The City Council will be informed at the first City Council meeting following such transfer action.~~

4. Compensated Absences Fund:~~.~~

Background.

The primary purpose of flex leave, vacation leave and sick leave is to provide compensated time off as appropriate and approved. However, under certain circumstances, typically at separation from service, some employees have the option of receiving cash-out payments for some accumulated leave balances. The Compensated Absences Fund is utilized primarily as a budget smoothing technique for any such leave bank liquidations. The primary purpose of the Compensated Absences Fund is to maintain a balance sufficient to facilitate this smoothing.

Policy and Practice.

The contribution rate will be set to cover estimated annual cash flows based on a three-year trailing average. ~~plus a margin to provide sufficient resources to fund high cash flow years, as further described below.~~

The minimum cash reserve should not fall below that three-year average~~, plus the maximum annual variance~~. The maximum cash reserve should not exceed fifty percent (50%) of the long term liability. The target cash reserve shall be the median difference between the minimum and maximum figures.

Each department will make contributions to the Compensated Absences Fund through its operating budget as a specified percentage of salary. The Finance Director will review and recommend adjustments to the percentage of salary required during the annual budget development process. This percentage will be set so as to maintain the reserve within the parameters established above. ~~In addition, if the cash reserve falls below the target floor, the Finance Director may~~

~~implement a one-time cash infusion. This action is appropriate when the decline in cash balance is precipitated by an off trend non recurring event. If the size of the infusion is greater than $500,000, the City Council will be advised at the first City Council meeting following such action.~~

5. Post Retirement Funding Policies:~~.~~

   a. Pension Funding:~~.~~

      (i) California Public Employees Retirement System (CalPERS):~~.~~ The City's principal Defined Benefit Pension program is provided through contract with CalPERS. The City's contributions to the plan include a fixed employer paid member contribution and an actuarially determined employer contribution that fluctuates each year based on an annual actuarial plan valuation. This variable rate employer contribution includes the normal cost of providing the contracted benefits plus or minus an amortization of plan changes and net actuarial gains and losses since the last valuation period.

      It is the City's policy to make contributions to the plan equaling at least one hundred percent (100%) of the actuarially required contribution (annual pension cost). Because the City pays the entire actuarially required contribution each year, by definition, its net pension obligation at the end of each year is $0. Any unfunded actuarial liability (UAL) is amortized and paid in accordance with the actuary's funding recommendations. The City will strive to maintain its UAL within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual CalPERS contribution should the UAL status fall below acceptable actuarial standards.

      (ii) Laborer's International Union of North America (LIUNA):~~.~~ The City provides funds to support a supplemental pension plan for some employee associations through contract with LIUNA. This is funded at a fixed percentage of total compensation on a pay-as-you-go basis. The City is not contractually required to guarantee the level of the ultimate LIUNA benefit to retirees, nor does it do so. Therefore the City's liability for this program is full funded each year.

   b. Other Post Employment Benefits (OPEB Funding):~~.~~

   Background.

The City's OPEB funding obligations consists of two retiree medical plans.

New Plan. Effective January 2006, the City and its employee associations agreed to major changes to the Post Employment Healthcare Plan. New employees and all current employees participate in a program that requires certain defined employee and employer contributions while the employee is in active service. However, once the contributions have been made to the employee's account, the City has ~~no further funding obligation to the plan~~transferred a substantial portion of the funding risk to the employee.

Old Plan. Eligible employees who retired prior to the "New Plan" and certain active employees were eligible to continue to receive post-retirement medical benefits (a defined benefit plan). The cost was divided among the City, current employees and retirees. In the past, this program was largely funded on a pay-as-you-go basis, so there was a significant unfunded liability. Recognizing this problem, the City began contributing to this obligation in 2001. In 2008, these assets were placed in a pre-funding trust. The City's intention is to amortize the remaining unfunded liability within 20 years.

Policy & Practice.

New Plan. Consistent with agreements between the City and Employee Associations, the new defined contribution plan will be one hundred percent (100%) funded, on an ongoing basis, as part of the annual budget process. Funds to cover this expenditure will be contained within the salary section of each department's annual operating budget.

Old Plan. The City's policy is to pre fund the explicit (cash subsidy) portion of the Actuarial Accrued Liability (AAL) of the remnants of the old plan over a 20-year amortization period, or less. This amount will be based on the Annual Required Contribution (ARC) determined by a biennial actuarial review; subject to review and analysis by the City. The City will strive to maintain ~~annual target reserve balance~~a funded status ~~-~~that will be within a range that is considered acceptable to actuarial standards. The City Council shall consider increasing the annual OPEB contribution should the funded status fall below acceptable actuarial standards. ~~-established and maintained through this process~~.

~~City policy is to not separately fund any actuarially defined liability for "implied subsidy" because the City will not incur an additional cash flow with this premise, outside of active employee salary and benefits. However,~~

~~the City plans to meet all other contributions connected with this retiree benefit as defined by GASB 45. Costs of administering this program will be contained within the Human Resources Department's annual operating budget.~~

Adopted - January 24, 1994
Amended - April 10, 1995
Amended - April 27, 1998
Amended - March 14, 2000
Amended – May 8, 2001
Amended – April 23, 2002
Amended – April 13, 2004
Amended – September 15, 2008
Amended – November 12, 2008
Amended – May 24, 2011
Amended – September 27, 2011

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

Agenda Item No. B
April 22, 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: THIRD REVIEW OF DRAFT DEBT MANAGEMENT POLICY, SECOND REVIEW OF PROPOSED CHANGES TO COUNCIL POLICY F-28, FACILITIES REPLACEMENT PROGRAM, AND CONSIDER CHANGE TO FISCAL SUSTAINABILITY PLAN

ABSTRACT:

Staff met with the Finance Committee on March 25, 2013, to obtain policy guidance and input regarding the second 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 final consideration. Per the direction of the Finance Committee, staff also made related changes to Council Policy F-28, Facilities Replacement Program. Revisions to the Fiscal Sustainability Plan are proposed to align with the revisions to F-28. All changes to both policies since the March 25th meeting are indicated in the attachments.

RECOMMENDATION:

Review the third draft of the Debt Management Policy and the proposed changes to Council Policy F-28, Facilities Replacement Program; consider revision to Fiscal Sustainability Plan; suggest further changes as needed and recommend 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 2) and the Fiscal Sustainability Plan, adopted by City Council Resolution 2010-4. The proposed change to policy F-28 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. The following proposed change to the Fiscal Sustainability Plan is necessary to maintain consistency with the changes to policy F-28 described above:

> The City will manage its Facilities Replacement Plan so that General Fund contributions to the Program shall not be less than 3.0% of the total General Fund Operating Budget. STRATEGY: Maintain consistency with proposed changes to Council Policy F-28, recommending the General Fund contribution to the Facilities Financing Plan reflect a 3% *minimum* contribution rather than a 5% maximum contribution.

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	/s/ Dan Matusiewicz
Steve Montano	Dan Matusiewicz
Deputy Finance Director	Finance Director

Attachments:

1. Debt Management Policy – Draft 3
2. Revised Facilities Replacement Plan Policy F-28 – Draft 2

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 and 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 distributing the payments for the asset over its useful life so that benefits more closely match costs ~~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, proceeds derived from development or redevelopment of existing land and capital assets owned by the City, and 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~~ should not exceed 20% of total City General Fund supported debt.
ii. Any variable rate debt ~~shall~~ should 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~~ should 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~~consider 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~~ should ~~regularly~~ report feedback from rating agencies, when and if available, 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 Security and Exchange Commission 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 consistent with its current operating and capital needs.

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 consistent with its current operating and capital needs. ~~as compared to other California AAA rated cities of comparable size.~~ The Finance Director shall review benchmarking results of other California cities of comparable size 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~~ should 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~~ should 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.~~ the goal of distributing the payments for the asset over its useful life so that benefits more closely match costs for both current and future residents. 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:
   a) Natural disasters or extraordinary or unanticipated external factors make payments on the debt in early years prohibitive.
   b) The benefits derived from the debt issuance can clearly be demonstrated to be greater in the future than in the present.

c) Such structuring is beneficial to the City's aggregate overall debt payment schedule or achieves measurable interest savings.
d) 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~~ B~~b~~ond repayments should not increase on an annual basis in excess of 2% without a dedicated and supporting revenue funding stream.

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 FINANCING PROGRAM

PURPOSE

To establish the policy for the administration of the City's Facilities Financing 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, proceeds derived from redevelopment or redeployment of existing land and capital assets owned by the City, 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, proceeds derived from redevelopment or redeployment of existing land and capital assets owned by the City, 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 Financing 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 Financing 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 Financing 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 Financing Program can be temporarily 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 Financing 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 STAFF REPORT

Agenda Item No. C
April 22, 2013

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: SECOND REVIEW OF THE FACILITIES FINANCE PLAN

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. Staff met with the Finance Committee on March 25, 2013, to present three scenarios and obtain guidance and input regarding the FFP. The Finance Committee highlighted some changes and recommended that staff integrate these into one scenario and bring it back to the Finance Committee for a second review. Per the direction of the Finance Committee, staff has incorporated all the changes including the timing of the projects, means of financing, and fiscal impacts associated with funding the high-priority projects that were designated by the City Council.

DISCUSSION:

The revised FFP relies mostly on front-loaded cash contributions for the near-term projects, and very little new proposed debt issuance over the 30-year planning period.

Key Plan Highlights:

- Priority near-term projects including Marina Park, Sunset Ridge Park, Corona Del Mar Fire Station, and the Lifeguard Headquarters remodel can be cash funded.
- The Police Facility project is assumed to start in 2020 and can be funded by cash contributions and a new debt issuance of $20 million, which is significantly less than the $64 million cost.
- With the debt issuance mentioned above, the remaining debt capacity is nearly $80 million relative to the policy limit restricting debt service not exceeding 8% of General Fund Revenues.

- The maximum annual General Fund contribution to the FFP is 4.5% and averages 4.3% of General Fund revenues over the 30-year planning period.
- The annual debt service as a percentage of General Fund revenues is below the 8% policy limit, reaches a maximum of 4.9%, and averages 3.7% over the 30-year planning period.
- The FFP minimum target fund balance is maintained above the Maximum Annual Debt Service (MADS) over the 30-year planning period.

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. 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 $4.68 million and will increase to an average ranging from 4% to 4.3% 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:

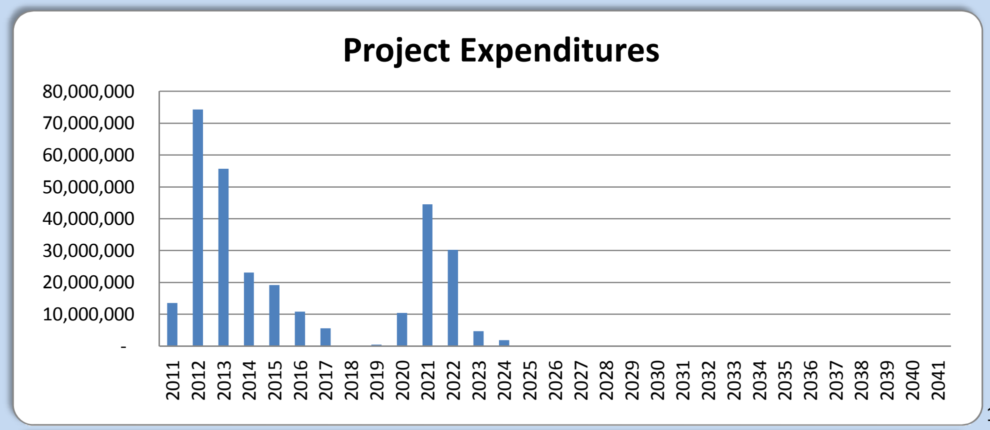
Staff welcomes input on the proposed plan and recommends that the Committee file and receive the report.

Prepared by:	Submitted by:
/s/ Rukshana Virany	/s/ Dan Matusiewicz
Rukshana Virany	Dan Matusiewicz
Accounting Manager	Finance Director

Attachment: Facilities Finance Plan

FACILITIES FINANCING PLAN (FFP) DASHBOARD

4/18/2013



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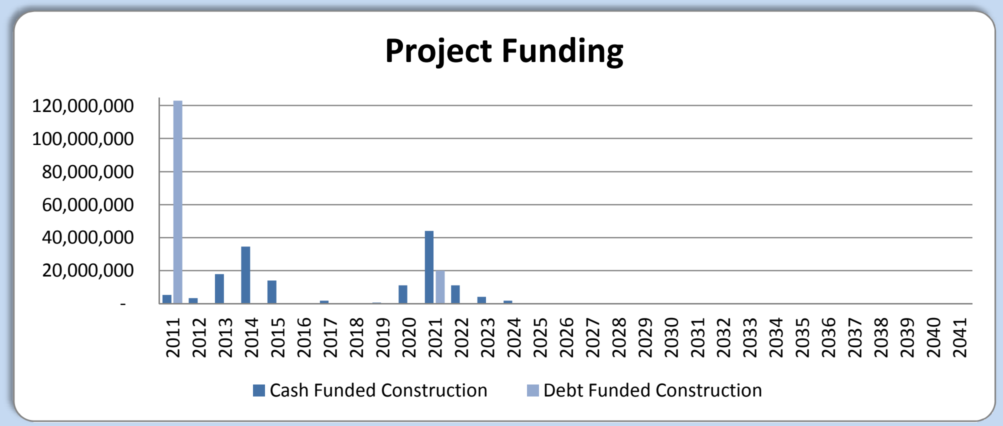

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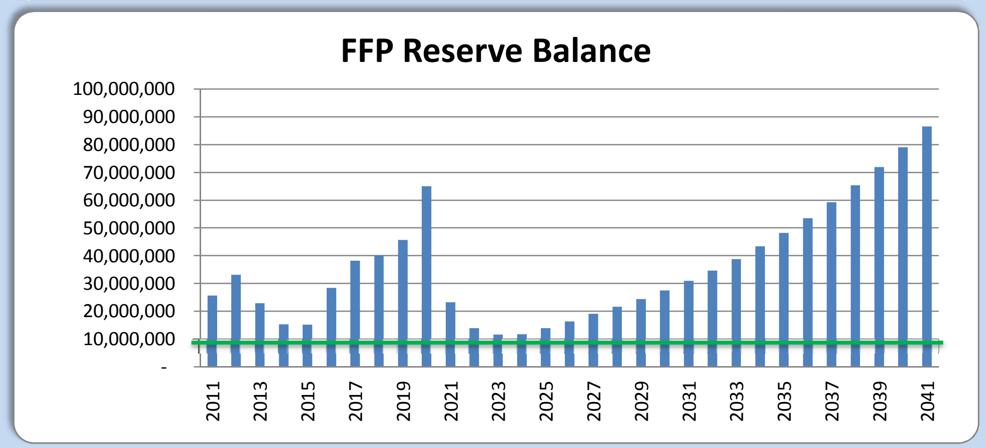

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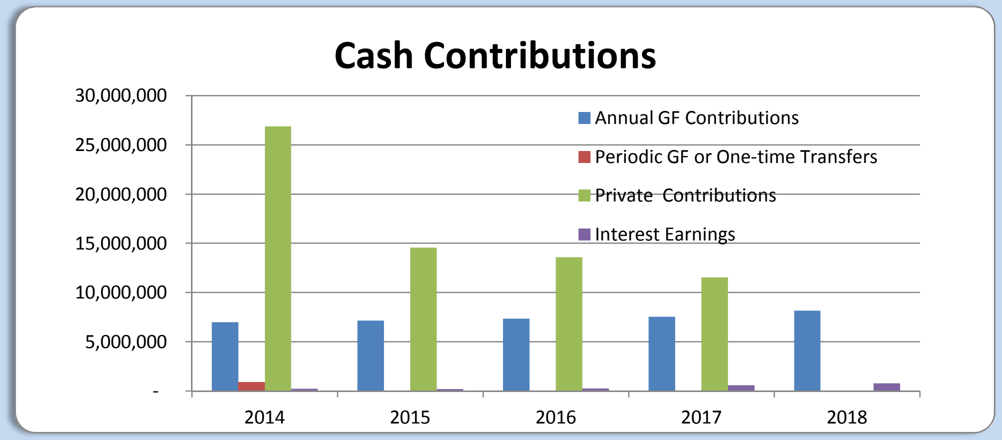

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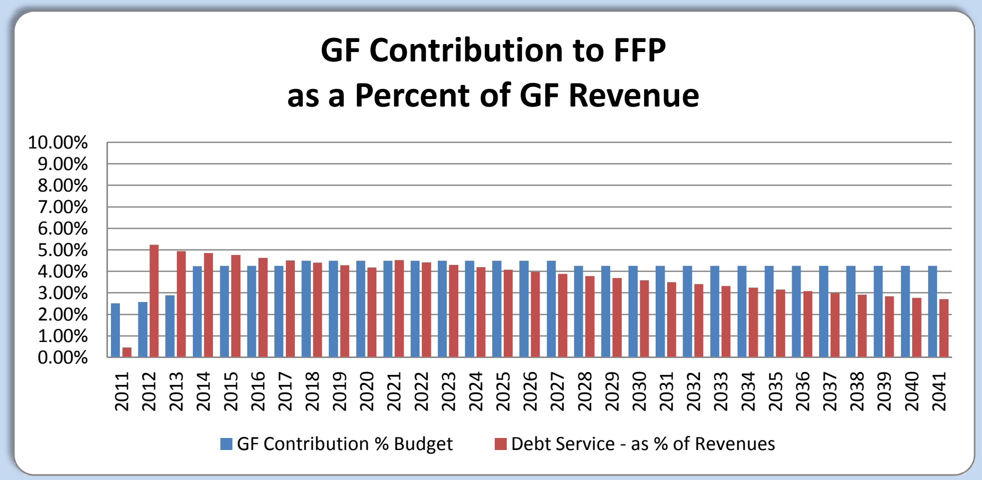

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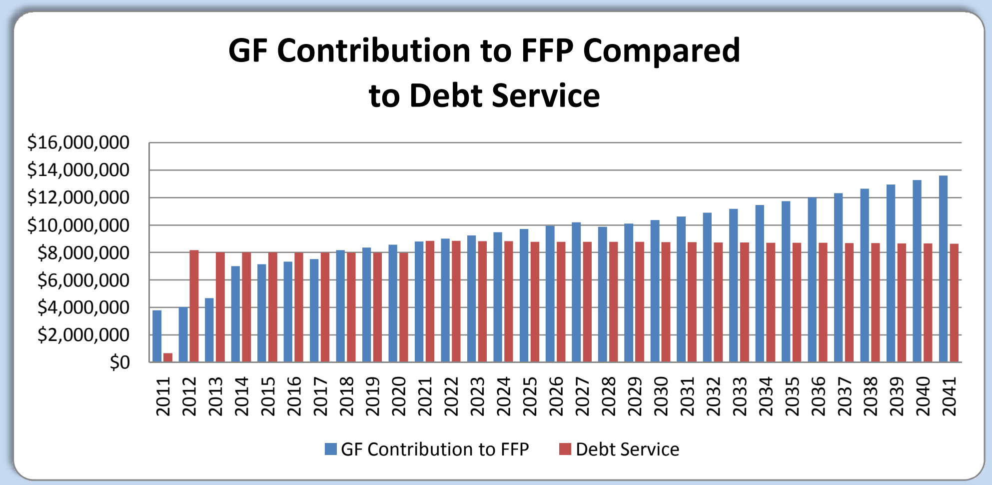

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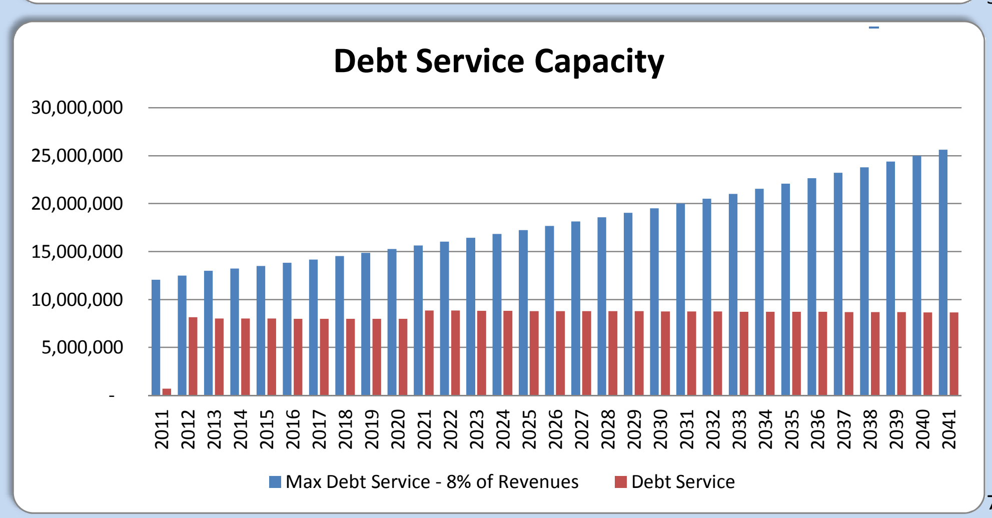

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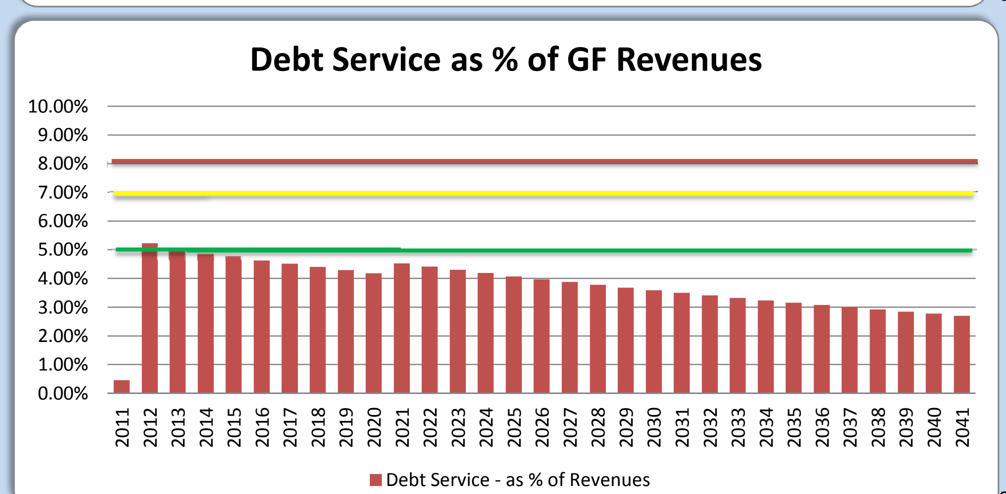

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Priority Projects	Est. Project Cost	Start Date	Yrs to Start
Marina Park	30,000,000	2013	0
Sunset Ridge	11,000,000	2013	0
West Newport Land Purchase	4,308,199	2013	0
FS 5 - CDM	4,225,000	2014	1
Lifeguard HQ Remodel	1,500,000	2014	1
City Hall Demo/Parking Lot	100,000	2014	1
West Newport Comm Ctr	10,000,000	2015	2
FS 2 - Lido	4,225,000	2015	2
Park Placeholder	2,000,000	2015	2
Big Canyon Aux. Yard	1,000,000	2015	2
Utilities/Corporate Yard Merge	-	2015	2
FS 1 - Penisula	4,225,000	2019	6
Police Station @ Current Site	64,375,000	2020	7
Total	136,958,199		

Scenario Highlights

Marina Park - 2013
Sunset Ridge - 2013
West Newport Comm Ctr - 2013
Lifeguard Head Qtrs - 2014
Fire Station 5 - CDM - 2014
West Newport Comm Ctr - 2015
Police Station - 2020
Predicated on $27 million of developer contributions in FY 2014
$20 million debt issue in 2021 for Police Station

Key Metric	Policy Target	Policy Max
Debt Svc as % of Revenues	5.0%	8.0%
Minimum FFP Balance (000's)	$ 8,846	NA

Key Statistics	15 Year Min	15 Year Max	15 Year Avg
GF Contribution to FFP (000's)	4,676	10,196	8,345
Debt Service (000's)	7,967	8,846	8,376
GF Contributions to FFP as % Rev	2.88%	4.5%	4.3%
Debt Svc as % of Revenues	3.88%	4.9%	4.4%
FFP Balance (000's)	$ 11,610	$ 65,038	$ 25,396
Project Balance (000's)	$ 0	$ 20,115	$ 4,555

Key Statistics	30 Year Min	30 Year Max	30 Year Avg
GF Contribution to FFP (000's)	4,676	13,947	10,072
Debt Service (000's)	1,326	8,846	8,298
GF Contributions to FFP as % Rev	2.88%	4.5%	4.3%
Debt Svc as % of Revenues	0.40%	4.9%	3.7%
FFP Balance (000's)	$ 11,610	$ 101,890	$ 38,929
Project Balance (000's)	$ 0	$ 20,115	$ 2,278

Debt Service Description	Year	Project Proceeds	COI	Total Issue	Interest Rate	Term	Maturity
2010 Civic Center COPs	2011	123,000,000	1,289,442	124,289,442	4.4%	30	2041
2021 Police Facility COPs	2021	20,000,000	380,000	20,380,000	5.0%	30	2051
Traunch 3	0	0	0	0	5.0%	30	30

Remaining Debt Capacity (Dbt. Svc < or = 8% of GF Rev): 79,976,264

PROJECT PLANNING

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 Start Date	FV Cost Est @ 2.5% Growth	Private Contribtions	Net Proposed Cost	Est. Debt Svc @ 5%
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	1	Jan-12	100,000	2014	102,500		102,500	6,668
2	Combo	Police/Rec Combo @ Corp Yrd	1973	47,964	60,000	650	40	50		N/A	-		-		-	-
	Police	Police Station @ Corp. Yrd.	1973	47,964	60,000	650	40	50		N/A	-		-			
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 - Penisula	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 Thearter 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	11,000,000	2013	11,000,000		11,000,000	715,566
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

Sources and Uses Proforma

AFFORDABILITY ASSUMPTIONs	1 2013	2 2014	3 2015	4 2016	5 2017	6 2018	7 2019	8 2020	9 2021	10 2022	11 2023	12 2024	13 2025
General Fund Revenues	162,324,124	165,175,208	168,478,712	172,690,680	177,007,947	181,433,145	185,968,974	190,618,198	195,383,653	200,268,245	205,274,951	210,406,824	215,666,995
Growth Assumption	3.99%	1.76%	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 %	2.88%	4.24%	4.25%	4.25%	4.25%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%	4.50%
Debt Service as % of GF Revenues	4.93%	4.85%	4.76%	4.63%	4.51%	4.40%	4.29%	4.18%	4.53%	4.41%	4.30%	4.19%	4.07%

FFP SOURCES	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Beginning FFP Balance	33,149,725	22,862,635	15,292,984	15,177,004	28,388,871	38,264,139	40,203,593	45,637,387	65,037,713	23,285,097	13,925,138	11,610,401	11,789,838
Sources													
Annual GF Contributions	4,676,143	7,000,000	7,160,345	7,339,354	7,522,838	8,164,492	8,368,604	8,577,819	8,792,264	9,012,071	9,237,373	9,468,307	9,705,015
Periodic GF or One-time Transfers	7,043,503	917,589											
Private Contributions	3,416,227	26,895,579	14,544,434	13,597,136	11,551,190	1,000,000	4,740,000	28,876,789	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Interest Earnings	348,072	228,626	191,162	265,598	567,777	765,283	804,072	912,748	1,300,754	465,702	278,503	232,208	235,797
Total Sources:	15,483,945	35,041,794	21,895,941	21,202,088	19,641,805	9,929,774	13,912,676	38,367,356	11,093,019	10,477,773	10,515,876	10,700,515	10,940,812
Uses													
Debt Service	(8,008,421)	(8,011,446)	(8,011,921)	(7,990,221)	(7,990,221)	(7,990,321)	(7,978,881)	(7,967,030)	(8,845,634)	(8,837,733)	(8,830,613)	(8,818,923)	(8,785,337)
Other Fiscal Charges													
Less: Cash Proj Funding	(17,762,614)	(34,600,000)	(14,000,000)	-	(1,776,316)	-	(500,000)	(11,000,000)	(44,000,000)	(11,000,000)	(4,000,000)	(1,702,154)	-
Total Uses:	(25,771,035)	(42,611,446)	(22,011,921)	(7,990,221)	(9,766,537)	(7,990,321)	(8,478,881)	(18,967,030)	(52,845,634)	(19,837,733)	(12,830,613)	(10,521,077)	(8,785,337)
Projected FFP Balance	**22,862,635**	**15,292,984**	**15,177,004**	**28,388,871**	**38,264,139**	**40,203,593**	**45,637,387**	**65,037,713**	**23,285,097**	**13,925,138**	**11,610,401**	**11,789,838**	**13,945,313**

PROJECT SOURCES	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Beginning Balance	44,357,355	8,371,880	19,824,817	14,603,216	3,780,834	0	0	10,030	627,367	20,114,657	848,361	144,602	0
CASH FUNDING FROM FFP	17,762,614	34,600,000	14,000,000	-	1,776,316		500,000	11,000,000	44,000,000	11,000,000	4,000,000	1,702,154	-
PRIVATE CONTRIBUTIONS FOR SPECIFIC PROJECTS	1,360,385	-	-	-	-	-	-	-	-	-	-	-	-
BET FUND CONTRIBUTIONS FOR SPECIFIC PROJECTS	500,000	-											
DEBT FUNDING													
2010 Civic Center COPs	-	-	-	-	-	-	-	-	-	-	-	-	-
2021 Police Facility COPs	-	-	-	-	-	-	-	-	20,000,000	-	-	-	-
Traunch 3	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 4	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 5	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL DEBT FUNDING	-	-	-	-	-	-	-	-	20,000,000	-	-	-	-
Interest on Debt Proceed	49,725	-											
TOTAL PROJECT RESOURCES	**64,030,079**	**42,971,880**	**33,824,817**	**14,603,216**	**5,557,150**	**0**	**500,000**	**11,010,030**	**64,627,367**	**31,114,657**	**4,848,361**	**1,846,756**	**0**

PROJECT USES	Future Cost	Start Date	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023	2024	2025
Civic Center	135,000,000	2011	(47,250,000)	-	-	-	-	-	-	-	-	-	-	-	-
City Hall Demo/Parking Lot	102,500	2014	-	(10,250)	(56,375)	(35,875)	-	-	-	-	-	-	-	-	-
Police/Rec Combo @ Corp Yrd	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Police Station @ Current Site	76,521,645	2020	-	-	-	-	-	-	-	(7,652,165)	(42,086,905)	(26,782,576)	-	-	-
FS 1 - Penisula	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 Thearter Arts Center	7,480,046	2050	-	-	-	-	-	-	-	-	-	-	-	-	-
OASIS Sr. Ctr	49,717,436	2060	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunset Ridge	11,000,000	2013	(1,100,000)	(6,050,000)	(3,850,000)	-	-	-	-	-	-	-	-	-	-
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	**499,968,211**		**(55,658,199)**	**(23,147,063)**	**(19,221,601)**	**(10,822,382)**	**(5,557,150)**	**-**	**(489,970)**	**(10,382,663)**	**(44,512,710)**	**(30,266,296)**	**(4,703,759)**	**(1,846,756)**	**-**
ENDING BALANCE OF PROJECT RESOURCES			**8,371,880**	**19,824,817**	**14,603,216**	**3,780,834**	**0**	**0**	**10,030**	**627,367**	**20,114,657**	**848,361**	**144,602**	**0**	**0**

Sources and Uses Proforma

	14	15	16	17	18	19	20	21	22	23	24	25	26
	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
AFFORDABILITY ASSUMPTIONs													
General Fund Revenues	221,058,670	226,585,137	232,249,765	238,056,009	244,007,409	250,107,595	256,360,285	262,769,292	269,338,524	276,071,987	282,973,787	290,048,131	297,299,335
Growth Assumption	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%	2.50%
GF Annual Contribution %	4.50%	4.50%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%	4.25%
Debt Service as % of GF Revenues	3.97%	3.88%	3.78%	3.68%	3.59%	3.50%	3.41%	3.32%	3.24%	3.15%	3.08%	3.00%	2.92%

FFP SOURCES	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Beginning FFP Balance	13,945,313	16,388,449	19,129,139	21,607,106	24,388,109	27,483,365	30,914,571	34,691,428	38,823,376	43,329,990	48,221,996	53,511,208	59,220,198
Sources													
Annual GF Contributions	9,947,640	10,196,331	9,870,615	10,117,380	10,370,315	10,629,573	10,895,312	11,167,695	11,446,887	11,733,059	12,026,386	12,327,046	12,635,222
Periodic GF or One-time Transfers													
Private Contributions	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Interest Earnings	278,906	327,769	382,583	432,142	487,762	549,667	618,291	693,829	776,468	866,600	964,440	1,070,224	1,184,404
Total Sources:	11,226,546	11,524,100	11,253,198	11,549,523	11,858,077	12,179,240	12,513,604	12,861,523	13,223,355	13,599,659	13,990,826	14,397,270	14,819,626
Uses													
Debt Service	(8,783,410)	(8,783,410)	(8,775,231)	(8,768,519)	(8,762,822)	(8,748,034)	(8,736,747)	(8,729,575)	(8,716,741)	(8,707,654)	(8,701,613)	(8,688,280)	(8,681,883)
Other Fiscal Charges													
Less: Cash Proj Funding	-	-	-	-	-	-	-	-	-	-	-	-	-
Total Uses:	(8,783,410)	(8,783,410)	(8,775,231)	(8,768,519)	(8,762,822)	(8,748,034)	(8,736,747)	(8,729,575)	(8,716,741)	(8,707,654)	(8,701,613)	(8,688,280)	(8,681,883)
Projected FFP Balance	**16,388,449**	**19,129,139**	**21,607,106**	**24,388,109**	**27,483,365**	**30,914,571**	**34,691,428**	**38,823,376**	**43,329,990**	**48,221,996**	**53,511,208**	**59,220,198**	**65,357,941**

PROJECT SOURCES	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Beginning Balance	0	0	0	0	0	0	0	0	0	0	0	0	0
CASH FUNDING FROM FFP	-	-	-	-	-	-		-	-	-	-	-	-
PRIVATE CONTRIBUTIONS FOR SPECIFIC PROJECTS	-	-	-	-	-	-	-	-	-	-	-	-	-
BET FUND CONTRIBUTIONS FOR SPECIFIC PROJECTS													
DEBT FUNDING													
2010 Civic Center COPs	-	-	-	-	-	-	-	-	-	-	-	-	-
2021 Police Facility COPs	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 3	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 4	-	-	-	-	-	-	-	-	-	-	-	-	-
Traunch 5	-	-	-	-	-	-	-	-	-	-	-	-	-
TOTAL DEBT FUNDING	-	-	-	-	-	-	-	-	-	-	-	-	-
Interest on Debt Proceed													
TOTAL PROJECT RESOURCES	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

PROJECT USES	Future Cost	Start Date	2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
Civic Center	135,000,000	2011	-	-	-	-	-	-	-	-	-	-	-	-	-
City Hall Demo/Parking Lot	102,500	2014	-	-	-	-	-	-	-	-	-	-	-	-	-
Police/Rec Combo @ Corp Yrd	-	-	-	-	-	-	-	-	-	-	-	-	-	-	-
Police Station @ Current Site	76,521,645	2020	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 1 - Penisula	4,899,705	2019	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 2 - Lido	2,219,445	2015	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 3 - Santa Barbara	5,147,752	2021	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 4 - Balboa Island	9,083,779	2044	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 5 - CDM	4,330,625	2014	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 6 - Mariners	5,276,446	2022	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 7 - SAH	12,522,089	2057	-	-	-	-	-	-	-	-	-	-	-	-	-
FS 8 - Npt. Coast	9,310,873	2045	-	-	-	-	-	-	-	-	-	-	-	-	-
Lifeguard HQ Remodel	1,537,500	2014	-	-	-	-	-	-	-	-	-	-	-	-	-
Newport Jr. Guard Building	356,606	2020	-	-	-	-	-	-	-	-	-	-	-	-	-
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	-	-	-	-	-	-	-	-	-	-	-	-	-
Newport Coast Ctr	29,593,022	2057	-	-	-	-	-	-	-	-	-	-	-	-	-
Newport Thearter Arts Center	7,480,046	2050	-	-	-	-	-	-	-	-	-	-	-	-	-
OASIS Sr. Ctr	49,717,436	2060	-	-	-	-	-	-	-	-	-	-	-	-	-
Sunset Ridge	11,000,000	2013	-	-	-	-	-	-	-	-	-	-	-	-	-
West Newport Comm Ctr	10,506,250	2015	-	-	-	-	-	-	-	-	-	-	-	-	-
Park Placeholder	2,101,250	2015	-	-	-	-	-	-	-	-	-	-	-	-	-
West Newport Land Purchase	4,308,199	2013	-	-	-	-	-	-	-	-	-	-	-	-	-
Utilities/Corporate Yard Merge	-	2015	-	-	-	-	-	-	-	-	-	-	-	-	-
Big Canyon Aux. Yard	1,050,625	2015	-	-	-	-	-	-	-	-	-	-	-	-	-

		2026	2027	2028	2029	2030	2031	2032	2033	2034	2035	2036	2037	2038
TOTAL PROJECT EXPENDITURES	**499,968,211**	-	-	-	-	-	-	-	-	-	-	-	-	-
ENDING BALANCE OF PROJECT RESOURCES		**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**	**0**

DEBT SERVICE

Debt Service Description	Year	Project Proceeds	COI	Total Issue	Interest Rate	Term	Maturity	Avg Debt Service (Net)	1	2	3	4	5	6	7	8	9	10
									2013	2014	2015	2016	2017	2018	2019	2020	2021	2022
2010 Civic Center COPs	2011	123,000,000	1,289,442	124,289,442	4.4%	30	2041	(7,598,450)	(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)
2021 Police Facility COPs	2021	20,000,000	380,000	20,380,000	5.0%	30	2051	(1,325,748)	-	-	-	-	-	-	-	-	(1,325,748)	(1,325,748)
Traunch 3	0	0	0	0	5.0%	30	30		-	-	-	-	-	-	-	-	-	-
Traunch 4	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
Traunch 5	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
Traunch 6	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
Traunch 7	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
Traunch 8	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
Traunch 9	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
Traunch 10	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
Traunch 11	0	0	0	0	5.0%	30	30	-	-	-	-	-	-	-	-	-	-	-
TOTAL DEBT								(8,924,198)	(8,008,421)	(8,011,446)	(8,011,921)	(7,990,221)	(7,990,221)	(7,990,321)	(7,978,881)	(7,967,030)	(8,845,634)	(8,837,733)

DEVELOPMENT AGREEMENTS AND PRIVATE CONTRIBUTIONS

Agreement	REF	Description	Trigger	General Public Benefit	Park Benefit	Public Arts & Culture	TOTAL FFP BENEFIT	Non FFP Traffic Circulation	Total	FFP ETA FY	CHECK CELLS	
Hoag OASIS Pledge		May 12, 2009 Pledge Letter	Payment Schedule	500,000	-	-	500,000	-	500,000	2009	500,000	OK
Hoag OASIS Pledge		May 12, 2009 Pledge Letter	Payment Schedule	500,000	-	-	500,000	-	500,000	2010	500,000	OK
Hoag OASIS Pledge		May 12, 2009 Pledge Letter	Payment Schedule	1,500,000	-	-	1,500,000	-	1,500,000	2010	1,500,000	OK
				2,500,000	-	-	2,500,000	-	2,500,000			
Friends of Oasis Pledge		Oasis Construction	Restricted for Oasis Only	2,000,000	-	-	2,000,000	-	2,000,000	9,10,11	2,000,000	OK
North Newport Center	4.1	In Lieu Park Fees	Paid within 5 Days of Award of OASIS Contract	-	5,600,000		5,600,000		5,600,000	2009	5,600,000	OK
North Newport Center	4.1	In Lieu Park Fees 430 $$26,046.51	Milestone Pmts	-	5,600,000		5,600,000		5,600,000	14	5,600,000	OK
North Newport Center T2	4.1	94 Units x $26,046.51	Milestone Pmts		2,448,371		2,448,371			14	2,448,371	OK
North Newport Center	4.2	Public Benefit Fee - 430 Units @ $31,500	Issuance of First Building Permit	13,545,000	-		13,545,000		13,545,000	2012	13,545,000	OK
North Newport Center	4.2	Public Benefit Fee - 430 Units @ $31,500	Issuance of remaining 430 Residential Building Permits	13,545,000	-	(270,900)	13,274,100		13,274,100	14	13,274,100	OK
North Newport Center T2	Amended Agrmt	Public Benefit Fee - 94 Units @ $63,000	Issuance of 431 st permit - 524 th permit	5,922,000		(118,440)	5,803,560		5,803,560	14	5,803,560	OK
North Newport Center	4.4	Street Widening and Traffic Signals	Within 30 Days of Reimbursement Request	-			-	2,500,000	2,500,000	NA	-	OK
North Newport Center	Amended Agrmt	Bayside Drive Walkway Connection	Within 90 Days of written notice after award of contract	200,000			200,000		200,000		200,000	OK
		37150.76336		**33,212,000**	**13,648,371**	**(389,340)**	**46,471,031**	2,500,000	**48,971,031**			
The Dart Development (24 units)(PA2012-146)				-	627,000		627,000		627,000		627,000	OK
Newport Bay Marina Project (27 units) (PA2001-210)				-	186,147		186,147		186,147		186,147	OK
Via Lido Mixed Use(2 units) (PA2010-081)				-	52,250		52,250		52,250		52,250	OK
Plaza CDM (6 Units) (PA2010-061)				-	156,750		156,750		156,750		156,750	OK
214 Narcissus (1 Units) (PA2011-192)				-	26,125		26,125		26,125		26,125	OK
604 Acacia Ave (PA2012-005)				-	26,125		26,125		26,125		26,125	OK
				-	**1,074,397**	**-**	**1,074,397**	**-**	**1,074,397**			
Hoag DA # 5	8.2	Semeniuk Slough Study	$200K Fee Eliminated with with DA amendment in 2008	-	-	-	-	-	-	NA	-	OK
Hoag DA # 5	8.2	Reimb City CIP related to Superior Ave Medians,Newport Blvd	Completion of Project Expenditures	-	-	-	-	1,500,000	1,500,000	NA	-	OK
Hoag DA # 5	8.2	Public Benefit (Park or Pub Safety)	Paid June 2009 Xfred to Facilities Reserve	1,500,000	-	-	1,500,000	-	1,500,000	2009	1,500,000	OK
Hoag DA # 5	8.4	Sunset View Park, Shrub & Groundcover	Pending Improvements	-	150,000	-	150,000	-	150,000	2015	150,000	OK
				1,500,000	**150,000**	**-**	**1,650,000**	**1,500,000**	**3,150,000**			
Santa Barbara Condos						-	-	-	-			
Santa Barbara Condos	ection 3.3 of MO	Unrestricted Public Benefit	Concurrent with Certificate of Occupancy	1,645,566	-	(32,911)	1,612,655	-	1,612,655	2015	1,612,655	OK
Santa Barbara Condos	ection 3.3 of MO	Unrestricted Public Benefit	Concurrent with Certificate of Occupancy	3,354,434	-	(67,089)	3,287,345	-	3,287,345	2016	3,287,345	OK
Santa Barbara Condos	ection 3.2 of MO	79 Units x $26,046.51	Fee due at building permit issue		2,057,674	-	2,057,674	-	2,057,674	2014	2,057,674	OK
				5,000,000	**2,057,674**	**(100,000)**	**6,957,674**	**-**	**6,957,674**			
Banning Ranch	Section 3.1	1375 x 30,909 - Coastal Commission Status?	Each Building Permit	**42,499,875**	-	-	42,499,875	-	42,499,875		-	UNKNOWN
Newport Uptown		$32,500/Unit - 1,244 Units			-	-	-	-	-			
		Phase I - 680 Units		**22,100,000**		(442,000)	21,658,000	966,665	22,624,665	2015-2017	21,658,000	OK
		Phase II - 544 Units		**17,680,000**		(353,600)	17,326,400	631,456	17,957,856	2020	17,326,400	OK
		In Lieu Park Fees - Phase I	Recordation of Map Less Park Credits	**-**	10,143,361		10,143,361		10,143,361	2015-2017	10,143,361	OK
		In Lieu Park Fees - Phase II	Recordation of Map Less Park Credits	**-**	10,550,389		10,550,389		10,550,389	2020	10,550,389	OK
				39,780,000	**20,693,750**	**(795,600)**	**59,678,150**	**1,598,121**	**61,276,271**			
NB Country Club	3.1	54,800 x 10.00 Golf Club Clubhouse	Issuance of First Building Permits	54,800	-	(1,096)	53,704	-	53,704	2014	53,704	OK
Dunes Settlement	Section C(e)	Restaurant on Parcel B2	Issuance of Building Permit	50,000	-	(1,000)	49,000	-	49,000	2017	49,000	OK
Dunes Settlement	Section C(f)	Family Inn	Issuance of Building Permit	100,000	-	(2,000)	98,000	-	98,000	2017	98,000	OK
Dunes Settlement	Section C(g)	Family Inn	Prior to Occupancy	410,402	-	(8,208)	402,194	-	402,194	2017	402,194	OK
				560,402	**-**	**(11,208)**	**549,194**	**-**	**549,194**			
Golf Reality Fund (GRF)	3.1	Tennis Club Reconstruction 3,725 x $10.00	Issuance of Building Permit	37,250		(745)	36,505	-	36,505	2017	36,505	OK
Golf Reality Fund (GRF)	3.1	Single Family Homes $5 x $93,000	Single Family Homes	465,000		(9,300)	455,700	-	455,700	2017	455,700	OK
				502,250	**-**	**(10,045)**	**492,205**	**-**	**492,205**			
Land Re Use Decisions												
City Hall ReUse	Concord	Estimated Annual Lease Revenues	Apartments or Hotel	1,000,000			1,000,000	-	1,000,000		Annual	Annual
Police Facility	Concord	Estimated Annual Lease Revenues	Upon Occupancy	1,706,000			1,706,000	-	1,706,000		-	UNKNOWN
West Newport Comm Center Sale	Concord	Sale of Property	Upon Sale	3,540,000			3,540,000	-	3,540,000		3,540,000	OK
				6,246,000	-	-	6,246,000	-	6,246,000			
				133,855,327	37,624,192	(1,307,289)	170,172,230	5,598,121	175,770,351	GRAND TOTAL		169,766,355

DEVELOPMENT AGREEMENTS AND PRIVATE CONTRIBUTIONS

Agreement	REF	Description	1 2011	2 2012	3 2013	4 2014	5 2015	6 2016	7 2017	8 2018	9 2019	10 2020	11 2021	12 2022	13 2023	14 2024	15 2025	16 2026
Hoag OASIS Pledge		May 12, 2009 Pledge Letter																
Hoag OASIS Pledge		May 12, 2009 Pledge Letter																
Hoag OASIS Pledge		May 12, 2009 Pledge Letter	1,500,000															
Friends of Oasis Pledge		Oasis Construction	500,000															
North Newport Center	4.1	In Lieu Park Fees																
North Newport Center	4.1	In Lieu Park Fees 430 $$26,046.51				5,600,000												
North Newport Center T2	4.1	94 Units x $26,046.51			2,448,371				-		-							
North Newport Center	4.2	Public Benefit Fee - 430 Units @ $31,500		13,545,000														
North Newport Center	4.2	Public Benefit Fee - 430 Units @ $31,500				13,274,100												
North Newport Center T2	Amended Agrmt	Public Benefit Fee - 94 Units @ $63,000				5,803,560												
North Newport Center	4.4	Street Widening and Traffic Signals																
North Newport Center	Amended Agrmt	Bayside Drive Walkway Connection									200,000							
		37150.76336																
The Dart Development (24 units)(PA2012-146)						627,000												
Newport Bay Marina Project (27 units) (PA2001-210)					186,147													
Via Lido Mixed Use(2 units) (PA2010-081)					52,250													
Plaza CDM (6 Units) (PA2010-061)						156,750												
214 Narcissus (1 Units) (PA2011-192)					26,125													
604 Acacia Ave (PA2012-005)					26,125													
Hoag DA # 5	8.2	Semeniuk Slough Study																
Hoag DA # 5	8.2	Reimb City CIP related to Superior Ave Medians,Newport Blvd																
Hoag DA # 5	8.2	Public Benefit (Park or Pub Safety)																
Hoag DA # 5	8.4	Sunset View Park, Shrub & Groundcover					150,000											
Santa Barbara Condos																		
Santa Barbara Condos	ection 3.3 of MO	Unrestricted Public Benefit					1,612,655											
Santa Barbara Condos	ection 3.3 of MO	Unrestricted Public Benefit						3,287,345										
Santa Barbara Condos	ection 3.2 of MO	79 Units x $26,046.51			677,209	1,380,465												
Banning Ranch	Section 3.1	1375 x 30,909 - Coastal Commission Status?																
Newport Uptown		$32,500/Unit - 1,244 Units																
		Phase I - 680 Units					8,918,000	6,370,000	6,370,000									
		Phase II - 544 Units										17,326,400						
		In Lieu Park Fees - Phase I					3,863,779	3,139,791	3,139,791									
		In Lieu Park Fees - Phase II										10,550,389						
NB Country Club	3.1	54,800 x 10.00 Golf Club Clubhouse				53,704												
Dunes Settlement	Section C(e)	Restaurant on Parcel B2							49,000									
Dunes Settlement	Section C(f)	Family Inn							98,000									
Dunes Settlement	Section C(g)	Family Inn							402,194									
Golf Reality Fund (GRF)	3.1	Tennis Club Reconstruction 3,725 x $10.00							36,505									
Golf Reality Fund (GRF)	3.1	Single Family Homes $5 x $93,000							455,700									
Land Re Use Decisions																		
City Hall ReUse	Concord	Estimated Annual Lease Revenues						800,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000
Police Facility	Concord	Estimated Annual Lease Revenues																
West Newport Comm Center Sale	Concord	Sale of Property									3,540,000							
			2,000,000	13,545,000	3,416,227	26,895,579	14,544,434	13,597,136	11,551,190	1,000,000	4,740,000	28,876,789	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000	1,000,000

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

Agenda Item No. D
April 22, 2013

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: QUARTERLY FINANCIAL REPORT – UPDATE MARCH 31, 2013

ABSTRACT:

The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's funds. This report contains information on resources and expenditures for the third quarter of the fiscal year, which is the period between January 1, 2013, and March 31, 2013. While it will be presented at the May 28, 2013, City Council meeting with the City Manager's Quarterly Business Report (QBR), staff will provide a brief summary of the financial status report. This report also provides a high-level summary of some of the major funding initiatives that will be proposed in the FY 13/14 Operating Budget. During the Finance Committee meeting, staff will also demonstrate the interactive features of a new Excel-based fiscal forecast model using preliminary data from the FY 2013/14 Proposed Operating Budget.

BACKGROUND:

Below is an outline highlighting the major financial results and activities for the quarter ending March 31, 2013:

- Recent economic forecasts predicts that the largest employment gains in Orange County will include those that are among the City's most vital including leisure and hospitality, and professional, scientific and technical services. Higher sales tax revenue resulting from lower unemployment and higher discretionary spending on transportation, dining, and leisure continues to improve the local economy through the third quarter.

- The General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 76% of General Fund revenues. With 75% of the year complete, General Fund revenues overall are at 69% of projections. This is generally consistent with prior years as certain revenues are received in the latter part of the fiscal year.

- Property taxes will finish the year $3.9 million, or 5.3%, higher than the FY 12/13 amended budget. FY 13/14 property taxes are forecasted at $77.6 million, or approximately 3.3% higher than the FY 12/13 forecast, net of a one-time $1.9 million dollar receipt received in FY 12/13. Secured property tax is expected to grow 4% in FY 13/14.

- Sales taxes will finish the year $1.4 million, or 5.2%, higher than the FY 12/13 amended budget. FY 13/14 sales taxes are forecasted at $29.6 million, or approximately 5% higher than the FY 12/13 forecast.

- Transient Occupancy Taxes will finish the year $908,000, or 6.3%, higher than the FY 12/13 amended budget. FY 13/14 TOT is forecasted at $16.4 million, or approximately 7% higher than the FY 12/13 forecast.

- With expenditures at 70% of the amended budget, the General and Tidelands Funds are generally on-track. Some departments incur a greater or lower level of expenditures in the first half of the year than in the second half due to the timing and seasonality of their operations or programs. This variability is generally consistent with prior years.

- FY 13/14 will provide funding for facilities and capital projects while addressing higher employee pension costs by increasing employee contributions, workforce reductions, outsourcing, increasing operational efficiencies through the use of technology, and providing for the health and safety of the citizenry.

Staff recently acquired an Excel-based fiscal forecast modeling tool known as MuniCast with the goal of identifying future challenges and opportunities, causes of fiscal imbalances, and strategies to maintain financial sustainability. Staff will demonstrate the interactive features of the model using preliminary data from the FY 13/14 Proposed Operating Budget. Staff is in the preliminary process of populating the model. As we further develop and incorporate our assumption data, such as output from the Facilities Financing Plan Dashboard, we will seek further input and direction from the Finance Committee.

CONCLUSION:

Over the past year, the City has developed several strategies to right size the organization, streamline processes, and to foster an environment of economic vitality. As the result, the City's financial position is generally performing as planned through the third quarter. In FY 13/14, staff continues to take a conservative approach to forecasting revenues while proactively making strategic cuts to department operations. As the economy slowly moves beyond "recovery," management will continue to focus on Council priorities and maintain responsible fiscal planning and forecasting.

Prepared by:	Submitted by:
/s/Steve Montano	/s/Dan Matusiewicz
Steve Montano	Dan Matusiewicz
Deputy Finance Director	Finance Director

Attachment: Quarterly Financial Report for Quarter Ending March 31, 2013

Quarterly Financial Report

Executive Summary

The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's funds. This report contains information on resources and expenditures for the third quarter of the fiscal year, which is the period between January 1, 2013, and March 31, 2013. The City's major General Fund revenue categories are likely to perform above their projected levels for this year due to the improving economy. Current expenditures are thus far performing within expected levels. This report also provides a high-level summary of some of the major funding initiatives that will be proposed in the FY 13/14 Operating Budget.

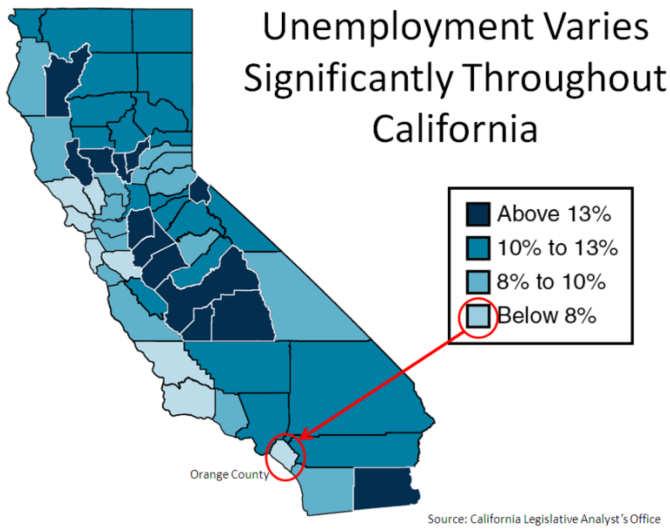
Recent economic forecasts predicts that the largest employment gains in Orange County will include those that are among the City's most vital including leisure and hospitality, and professional, scientific and technical services. Higher sales tax revenue resulting from lower unemployment and higher discretionary spending on transportation, dining, and leisure continues to improve the local economy through the third quarter.

Market Update

The minutes from the March 19–20, 2013, Federal Open Market Committee revealed that some policymakers were concerned about increased risks resulting from the central bank's aggressive monetary stimulus. The minutes suggested a growing sentiment for reducing asset purchases later this year. Skeptical policymakers said they were worried that continuing monetary stimulus could cause instability in the financial system along with a sudden rise in interest rates and inflation. Under the latest version of its quantitative easing policy, the Fed is buying $85 billion a month in U.S. Treasuries and mortgage-backed securities. The minutes offered market watchers a glimpse into how the Fed intends to unwind some of its $3.2 trillion balance sheet. Committee members said holding its mortgage-backed securities debt to duration would minimize the potential disruptions to the markets. Although the final vote affirming the policy statement was nearly unanimous with only one dissenting member, future Fed policy has the potential to significantly impact the broader economy.

Spending in the third quarter appears to be declining, according to a recent Commerce Department report. The decline in sales was broad-based with auto sales registering a 0.6% drop, sales at electronics and appliance stores falling 1.6%, and consumers spending 2.2% less on gasoline. The Producer Price Index dropped 0.6% in March, marking the largest one-month dip in wholesale prices since last May. Business inventories registered a slight increase of 0.1% in February, falling short of analysts' expectations.

Despite some of these negative economic indicators at the national level, the stock market continued its trip into record territory and the local economy continues to surge. According to the California Employment Development Department, the number of new jobs in Orange County increased 2.3 %, or 30,600, from January 2012 to January 2013, suggesting widespread recovery across the local economy. As a result of these gains, Orange County's economy is expanding faster than that of California or the nation. Newport Beach's unemployment rate stood at 4.2% as of December 2012.



A recent forecast by the Los Angeles County Economic Development Corporation (LAEDC) predicts that the largest employment gains in Orange County will include those that are among the City's most vital including leisure and hospitality, and professional, scientific and technical services.

Orange County jobs in financial activities, which include mortgage refinancing, increased 5.3%, health-care positions grew 5.2% and professional and business services jobs, which include software development, rose 3.7 % from the prior year. The growth in office jobs in Orange County in particular has been a boon for the commercial real estate market. Vacancy rates for the office market have fallen to as low as 13% in some parts of the county. The tourism industry, anchored by two Disney amusement parks, has also driven economic activity in the area. The leisure and hospitality sector, which outperformed all other sectors, has grown 4.7% since February 2012, adding 8,200 jobs. The National Association of Realtors reported vacation-home sales in Orange County jumped 10.1% from last year. Economists predict February's 6.5% unemployment rate will decline to 6.1% next year and return to a more normal level of 5.2% by 2015. But it will take several more years for the county's jobless rate to reach a pre-recession level of about 4%, economists said in the report.

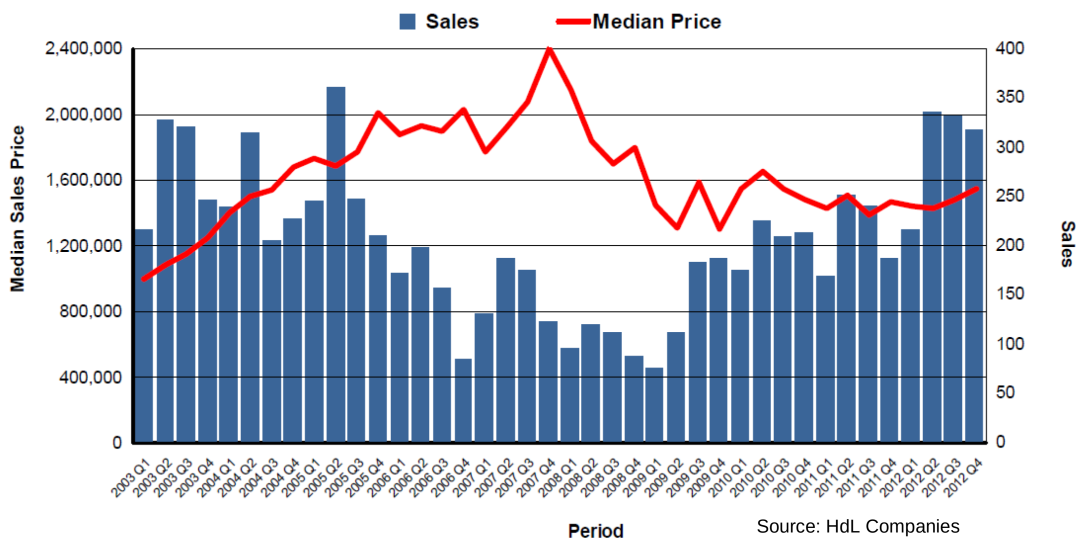
Top "3" Revenues

The General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 76% of General Fund revenues. With 75% of the year complete, General Fund revenues overall are at 69% of projections. This is generally consistent with prior years as certain revenues are received in the latter part of the fiscal year. Unlike prior periods, revenue results can be forecasted with greater confidence by the third quarter of the fiscal year. The City has long taken a conservative approach to forecasting revenues and continues to do so in the preparation of the FY 13/14 budget, often assuming a "worst case scenario." This fiscal conservatism has created a stable financial base. As a result, even in a downturn, the City of Newport Beach is able to maintain its services at a high level, while reducing expenses to accommodate reduced revenues. The City's fiscal discipline has allowed it to prepare balanced budgets and to save, both during prosperous and difficult economic periods.

Property Tax

Property tax is the top source of revenue for the City of Newport Beach, representing almost half (45.8%) of all General Fund revenues. Despite dramatic declines in the real estate market in recent years, sales data demonstrates the high market values throughout the residential communities of Newport Beach. As the chart below indicates, the median sales price in Newport Beach has shown a slight rise between December 2011 and December 2012. The number of sales during the same period has risen precipitously.

City of Newport Beach Home Sales History
Detached Single Family Residential Full Value Sales (01/01/2003 – 03/31/2012)



Overall, the City has received $47.1 million, or 65%, of its budgeted property taxes through the third quarter of FY 12/13. Secured property taxes are recorded as they are remitted, in large part, during December and April of each year. A large secured property tax payment is expected in late April. Most property tax revenue categories through March are thus far meeting or exceeding the prior year collection trend and the revenue category overall is 8% higher than at this same time last year. The “All Other” category is higher than last year largely due largely to a $1.9 million one-time receipt from the county resulting from the dissolution of the Santa Ana Heights redevelopment zone. The total amount expected by June 30, 2013 from the redevelopment zone dissolution is $2.6 million.

Property Taxes

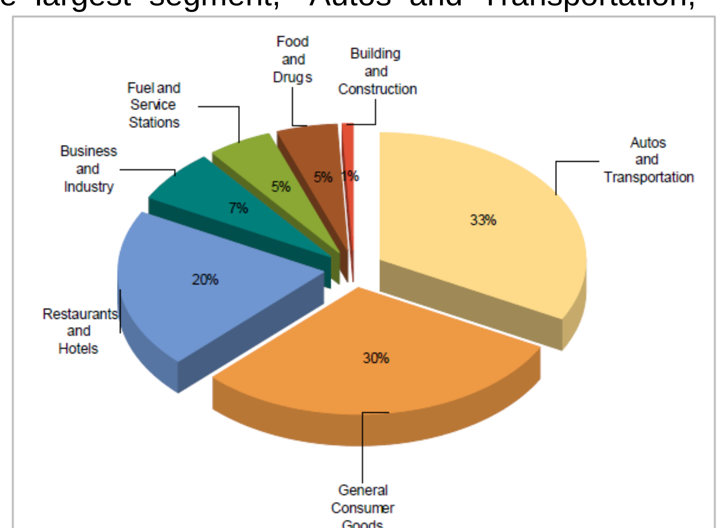
	Amended Budget 2012/13	YTD Actual 2012/13	Prior Year YTD Actual 2011/12	Inc/Dec from PY	Percent Realized Budget 2012/13	2012/13 Forecast	Budget to 12/13 Forecast Variance	2013/14 Forecast (Preliminary)	12/13 Forecast to 12/14 Forecast Variance
Secured	$60,236,000	$37,252,835	$35,632,346	4%	62%	$61,424,455	$1,188,455	$63,881,433	4%
Unsecured	2,400,000	1,963,533	2,092,899	-7%	82%	2,266,203	(133,797)	2,266,203	0%
Prior Year Penalties & Interest	1,300,000	977,697	957,084	2%	75%	1,200,000	(100,000)	1,200,000	0%
Supplemental	725,000	420,400	267,401	36%	58%	600,000	(125,000)	600,000	0%
In Lieu of VLF	6,788,083	3,508,049	3,394,863	3%	52%	6,965,878	177,795	7,166,788	3%
All Other*	1,635,228	3,050,100	1,030,826	66%	187%	4,493,737	2,858,509	2,446,545	-46%
TOTAL	**$73,084,311**	**$47,172,615**	**$43,375,419**	**8%**	**65%**	**$76,950,273**	**$3,865,962**	**$77,560,969**	**1%**

*Includes an estimated one-time $1.9 million receipt resulting from the disolution of the Santa Ana Heights redevelopment area in FY 12/13

Housing demand within Orange County is increasing, as are housing prices, and new housing construction activity and commercial development are projected to continue growing in 2013. Existing home sales in Orange County rose to 34,380 last year from 29,398 in 2011 — a 17% rise. According to economists, home sales are expected to grow 12% in 2013. The forecast for secured property tax is based on the amount of new construction completed, the growth in the City's property valuation, an estimate of the City's exposure to property tax appeals, an assumed tax collection rate, and overall housing market trends. Tax revenue on the unsecured roll is based upon tenant-owned personal property and fixtures and is forecasted to decrease slightly based on current trends. The City receives supplemental property tax revenue when a change in ownership occurs or new construction is completed. Although supplemental tax revenue is increasing, the amount forecasted for this revenue source is less than originally forecasted in the FY 12/13 budget due to trend indications. Overall, it is forecasted that property taxes will finish the year $3.9 million, or 5.3%, higher than the FY 12/13 amended budget. Fiscal year 13/14 property taxes are forecasted at $77.6 million, or approximately 3.3% higher than the FY 12/13 forecast, net of the one-time $1.9 million dollar receipt received in FY 12/13.

Sales Tax

The City's sales tax base is largely generated from three main industry categories including Autos and Transportation, General Consumer Goods, and Restaurants/Hotels as indicated in the chart below. The largest segment, "Autos and Transportation," accounts for 33% of total sales taxes and is represented by 181 new and used auto/boat/aircraft dealers, supply stores and repair shops. The next largest segment, "General Consumer Goods" accounts for 30% of total sales taxes and is represented by a multitude of stores and shops that provide various consumer goods. The third largest sales tax segment, "Restaurants and Hotels," accounts for 20% of total sales tax and is represented by 427



restaurants, hotels, clubs and other amusement places.

Source: HdL Companies

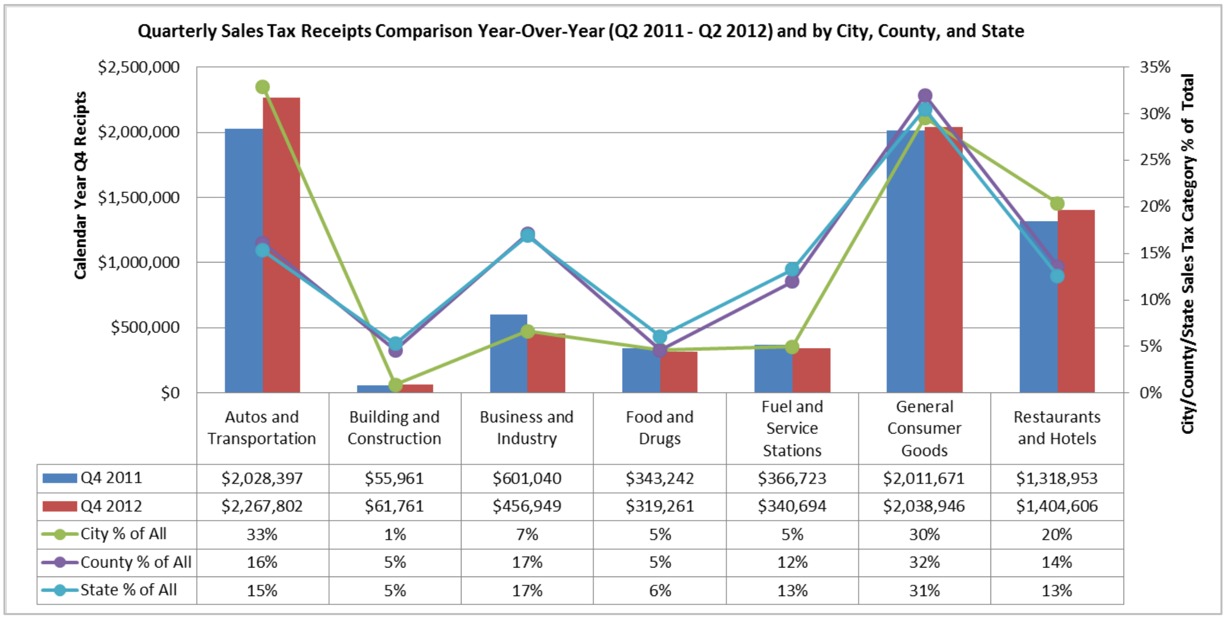
The City received $15.8 million, or 59%, of its budgeted sales taxes through the end of the third quarter.[1] A comparison of sales tax performance from the prior year reveals that the City realized a 7% increase year-over-year. Overall, it is anticipated that sales taxes will finish the year $1.4 million, or 5.2%, higher than the FY 12/13 amended budget. FY 13/14 sales taxes are forecasted at $29.6 million, or less than 5% higher than the FY 12/13 forecast. These forecasts are based on a number of factors including adjustments for economic trends in various industries, adjustments based on the number of open and closed business permits, growth estimates from the State Department of Finance, and local economic trends.

Sales Taxes

	Amended Budget 2012/13	YTD Actual 2012/13	Prior Year YTD Actual 2011/12	Inc/Dec from PY	Percent Realized 2012/13	2012/13 Forecast	Budget-to-12/13 Forecast Variance	2013/14 Forecast (Preliminary)	12/13 Forecast to 12/14 Forecast Variance
Sales and Use Tax	$20,180,129	$12,130,810	$11,413,559	6%	60%	$21,102,543	$922,414	$22,247,340	5%
Property Tax in Lieu of Sales Tax	6,613,750	3,698,531	3,303,668	11%	56%	7,078,517	464,767	7,326,265	4%
TOTAL	**$26,793,879**	**$15,829,342**	**$14,717,227**	**7%**	**59%**	**$28,181,060**	**$1,387,181**	**$29,573,605**	**5%**

The chart below compares the most currently available quarterly data with the same period of the prior year (from the second quarter - September 2012 to December 2012). Transportation, consumer goods, and restaurants have seen the largest gains and are indicative of growing consumer confidence. The chart also indicates that relative to the state and county, the City has a greater reliance on sales tax revenue from the Autos/Transportation and Restaurants/Hotels categories.

[1] Businesses collecting sales and use taxes periodically remit the amount collected to the State Board of Equalization (BOE). To compensate for the lag time between the sales period and the time that the tax is remitted to the City, the BOE advances 90% of the net sales tax collections for the same period of the prior year. The difference between the advances and total actual receipts for the quarter is remitted in the form of “clean-up” payments, which are included in the March, June, September, and December remittances. The amount of sales tax realized through March represents seven monthly advance payments and two clean-up (December 2012 and March 2013) payments.



	Autos and Transportation	Building and Construction	Business and Industry	Food and Drugs	Fuel and Service Stations	General Consumer Goods	Restaurants and Hotels
Q4 2011	$2,028,397	$55,961	$601,040	$343,242	$366,723	$2,011,671	$1,318,953
Q4 2012	$2,267,802	$61,761	$456,949	$319,261	$340,694	$2,038,946	$1,404,606
City % of All	33%	1%	7%	5%	5%	30%	20%
County % of All	16%	5%	17%	5%	12%	32%	14%
State % of All	15%	5%	17%	6%	13%	31%	13%

Source: HdL Companies

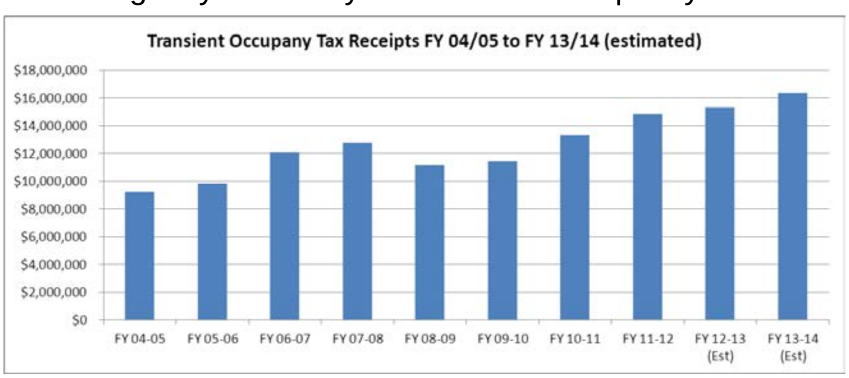
Transient Occupancy Taxes

The City has received $11 million, or 77%, of its budgeted Transient Occupancy Taxes (TOT) through the end of the third quarter. The amount collected represents a 9% increase over the same period last year. This increase is due to higher occupancy rates in the City's hotels, motels, cottages, and resorts and a generally improving travel and tourism business sector.

Transient Occupancy Taxes

	Amended Budget 2012/13	YTD Actual 2012/13	Prior Year YTD Actual 2011/12	Inc/Dec from PY	Percent Realized 2012/13	2012/13 Forecast	Budget to 12/13 Forecast Variance	2013/14 Forecast (Preliminary)	12/13 Forecast to 12/14 Forecast Variance
Transient Occupancy Taxes	$14,390,157	$11,057,998	$10,021,208	9%	77%	$15,298,000	$907,843	$16,363,510	7%

The largest year-over-year transient occupancy tax increases were derived from the Fairmont Hotel, Marriot Resort, and Resort at Pelican Hill. It is anticipated that TOT will finish the year $908,000, or 6.3%, higher than the FY 12/13 amended budget. FY 13/14 TOT is forecasted at $16.4 million, or approximately 7% higher than the FY 12/13 forecast.



Expenditures

With expenditures at 70% of the amended budget, the General and Tidelands Funds are generally on-track. The table below aggregates General and Tidelands Funds expenditures by department through March 31, 2013. Some departments incur a greater or lower level of expenditures in the first half of the year than in the second half due to the timing and seasonality of their operations or programs. This variability is generally consistent with prior years.

GENERAL AND TIDELANDS FUNDS EXPENDITURES BY DEPARTMENT

Department	FY 12/13 Amended Budget	YTD Expended (3/31/13)	Percent Expended (3/31/13)	PY YTD Expended (3/31/12)	PY Percent Expended (3/31/12)
City Council	1,003,776	689,816	69%	851,683	75%
City Clerk	724,950	566,994	78%	433,622	78%
City Manager	2,630,510	1,482,981	56%	1,349,152	69%
HR	2,593,673	1,739,260	67%	1,647,076	69%
City Attorney	2,301,853	1,499,827	65%	1,449,603	63%
Finance	7,289,050	4,684,600	64%	4,828,589	70%
Police	43,892,717	32,658,484	74%	30,668,985	73%
Fire	35,989,564	26,598,116	74%	25,629,080	74%
Community Development	8,798,347	6,166,043	70%	6,327,569	71%
Muncipal Operations	24,814,357	17,366,737	70%	16,899,678	70%
Library Services	7,418,858	5,230,440	71%	5,313,563	70%
Recreation & Senior Services	8,918,423	6,342,327	71%	6,170,908	73%
Public Works	8,402,854	5,471,007	65%	5,616,864	71%
Capital Projects	14,624,448	7,570,281	52%	9,265,485	60%
Total	**$ 169,403,381**	**$ 118,066,911**	**70%**	**$ 116,451,856**	**71%**

Preview of FY 13/14 Proposed Expenditures

As of this writing, Finance staff is in the process of coordinating final funding decisions for the FY 13/14 Operating Budget with the City Manager. The proposed operating budget document will be compiled, edited, and forwarded to the Council members in May. At that time, the City Manager will formally present the proposed budget to the City Council in one or more study sessions. Final adoption occurs at a public hearing in June. All changes made during the public process will be incorporated into the adopted budget document which is published on the City website in August. The following sections provide a high-level summary of some of the major funding initiatives in the FY 13/14 Operating Budget.

The City has been very proactive in restructuring and making strategic cuts in department operations, systematically evaluating how services are delivered and at what cost, and striving to evolve into a smarter, faster, smaller local government. Looking ahead, management will continue to evaluate Council priorities while managing scarce resources wisely. As such, FY 13/14 will be another year of providing funding for facilities and capital projects, addressing higher employee pension costs, increasing operational efficiencies through the use of technology, and providing for the health and safety of the citizenry.

Facilities Financing Plan (FFP) and Capital Projects

Council Policy F-28, approved in August 2009, establishes a long-term Facilities Financing Plan (FFP) for the replacement of all General Fund supported facilities (Civic Center, Fire Stations, Police Stations and Parks). The City has been committing (reserving prior to fiscal year 2011) these funds in a Facilities Financing "Reserve or Fund." This designation is available to accumulate resources to pre-fund debt service or cash fund construction of projects catalogued in the FFP. In the FY 13/14 Proposed Budget, the City continued its financial commitment to the FFP with a $7 million transfer from the General Fund. This represents a $3 million increase from the prior year that will provide for the following projects in the coming year: Marina Park, Sunset Ridge, Lifeguard Headquarters, and the Corona del Mar Fire Station. The City's Capital Improvement Program (CIP) serves as a plan for the provision of public infrastructure improvements, special projects, ongoing maintenance programs, and the implementation of the City's master plans. In FY 13/14, General Fund contributions in the amount of $5 million to the CIP will provide for Balboa Boulevard landscape rehabilitation, street and sidewalk maintenance, park structure replacements, and other projects.

Reduction in Employee and Pension Costs

The City Council's recent actions to decrease pension costs include reducing the size of the City workforce, establishing partnerships with employees to pay more of the City's pension costs, and the adoption of lower pension benefits for new hires. Those significant efforts are reflected in the FY13/14 Proposed Budget as well as the City Council's recent decision to accelerate (increase) the City's payment schedule for the unfunded liability. This action will avoid over 100 million of interest expense over the next 30 years. However, the City still faces the potential of increased pension costs resulting from changes in actuarial assumptions and rate smoothing methodologies. The City will continue to assess its alternatives as new actuarial valuations surface in the coming year.

As part of the City's ongoing efforts towards budget reduction and citywide restructuring, the City recently offered to eligible employees a Voluntary Separation Incentive Program (VSIP). The purpose of this program is to reduce and restructure the workforce prior to effectuating layoffs or contracting out services. The City achieved the participation of 21 employees who met the proposed VSIP criteria and accepted the terms of the agreement. Staff is in the process of determining the amount of savings that will result from this program, net of back-filling some of the vacated positions. Other personnel reductions resulting from outsourcing and the consolidation of staff at the new Civic Center are ongoing.

Technology Improvements
The FY 13/14 Proposed Budget continues the five-year CIP investment started in the prior fiscal year to upgrade the City's technology. The City will set aside $2 million in FY 13/14, in addition to the $5.5 million set aside in FY 12/13, to upgrade the City's integrated financial and human resource management system, upgrade the Computer Aided Dispatch/Records Management System in the Police Department to provide better analytics to combat crime, create a more robust online permitting system, and to develop better online customer service portals.

Public Safety
In 2011, Governor Brown signed Assembly Bill (AB) 109 to reduce the number of inmates in the state's 33 prisons to 137.5% of design capacity by June 27, 2013. As the result of this legislation, thousands of convicts who formerly would have gone to state prisons were shifted into county jails instead. In anticipation of potentially higher crime rates that might result from the early release of such prisoners from county jail, the Police Department has proposed the creation of a crime suppression unit that will add 3 officers and 1 sergeant in FY 13/14.

Conclusion

Over the past year, the City has developed several strategies to right size the organization, streamline processes, and to foster an environment of economic vitality. As the result, the City's financial position is generally performing as planned through the third quarter. In FY 13/14, staff continues to take a conservative approach to forecasting revenues while proactively making strategic cuts to department operations. As the economy slowly moves beyond "recovery," management will continue to focus on Council priorities and maintain responsible fiscal planning and forecasting.

CITY OF NEWPORT BEACH
FINANCE COMMITTEE STAFF REPORT

Agenda Item No. E
April 22, 2013

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: FINANCE COMMITTEE 2013 WORK PLAN

SUMMARY

Staff met with the Finance Committee on February 28, 2013, to present and seek approval of the tentative Finance Committee agenda topics scheduled for the year. The Finance Committee directed staff to present future Quarterly Financial Reports (QFR) to the Finance Committee prior to presenting them to the City Council. The FY 2012-13 Q4 financial report will not be available for review until the September 23, 2013 Finance Committee meeting, which is after the deadline for submitting it to the City Council as planned for the October 8, 2013 Council meeting. Additionally, the FY 2013-14 Q1 QFR requires submission on November 8, for the November 26, 2013, Council meeting. Since the Finance Committee is not meeting until November 14, it will be necessary to submit the quarterly financial report to the Finance Committee in October to make the November 8 Council packet deadline. However, there is currently no scheduled Finance Committee meeting in October.

Staff is seeking direction to pursue one of the three options below to address these and similar scheduling conflicts as they arise in the future.

1. Designate one member of the Finance Committee to review and provide comment on the QFR on behalf of the committee;

2. Schedule a special meeting to review and provide comment on the QFR; or

3. Do not present the QFR to the Finance Committee in advance of submission to the City Council.

Staff will endeavor to present the QFR to the Finance Committee in advance of City Council meetings when timing allows.

RECOMMENDATION:

Review the revised Finance Committee 2013 Work Plan, suggest further changes as needed, and provide direction to staff regarding the review of the QFR when committee scheduling conflicts arise.

Prepared and Submitted by:

____
Steve Montano
Deputy Finance Director

Attachment: 2013 Finance Committee Work Plan

City of Newport Beach Finance Committee 2013 Work plan

Scheduled Date	Agenda Title	Agenda Description
February 2013		
2/28/2013	Charter Review and Update	The resolution authorizing the purpose and responsibilities of the Finance Committee was last updated by Resolution No. 2007-21, as adopted April 10, 2007. Proposed revisions to the Finance Committee charter will incorporate prior year recommendations.
	2013 Work Plan Overview	Staff will present and seek approval of tentative Finance Committee agenda topics scheduled for the year.
	Audit Review (with Auditor)	The City's external audit firm, White Nelson Diehl Evans LLP will meet with the Finance Committee to discuss the audit findings for the fiscal year ending 6/30/2012. The committee will have an opportunity to discuss any potential areas of concern and the auditors can discuss any changes in accounting standards or disclosures that were relevant for the audit year.
	Staff Recommendation to Direct PERS Actuaries to Not Phase-in Impact of PERS Actuarial Assumptions (Financial Savings) and to Amortize the Unfunded Liability Over a Fixed Declining Period	The City has an option to pay up-front or phase-in the Public Employee Retirement System (PERS) retirement costs resulting from the latest actuarial assumptions. This agenda topic will describe the economic costs and benefits of both options.
	Review of 2013-14 Post Employment Retiree Insurance Actuarial Valuation (AKA OPEB)	The City's OPEB actuary John Bartel will review the City's latest OPEB valuation and liability.
March 2013		
3/25/2013	Facilities Financing Plan (FFP) Update	Staff will provide an overview of the current projects in the FFP, present the funding status, and receive input from the Finance Committee.
	Reserve Level Funding Status	Summarizes the funding status of key reserves for FY 2011-12.
	Draft Debt Management Policy and Proposed Changes to Facilities Replacement Plan Policy F-28	Staff will propose a new comprehensive policy containing guidelines affecting the amount, issuance, process, and type of governmental debt issued by the City of Newport Beach. This item also proposes changes to Policy F-28 necessitated in part by F-29.
	Council Policy B-1 Revisions	This item proposes the addtion of 3 parks to the exhibit list of Policy B-1 and adds park fees to the FFP.
April 2013		
4/22/2013	Reserve Policy Review and Update	Review of Reserve Policy F-2 with recommended changes.
	Final Review of Debt Management Policy and Changes to Facilities Finacing Plan Policy F-28	Committee will finalize their review of the Debt Management Policy based on the changes suggested on 3/25/13.
	Second Review of Facilities Financing Plan (FFP)	Committee will finalize their review of FFP based on the changes suggested on 3/25/13.
	Quarterly Financial Review, FY 2013-14 Budget Update, and demonstration of long-range fiscal forecast tool.	Staff will present Q3 financial results prior to the publication of the Quarterly Business Report. Staff will also provide a brief overview of the 2013-14 Proposed Budget and demonstrate an Excel-based fiscal forecast modeling tool known as MuniCast
		Committee will review changes made to the work plan since the February meeting.

Scheduled Date	Agenda Title	Agenda Description
May 2013		
5/13/2013	Budget Review	Staff will provide a comprehensive overview of the 2013-14 Proposed Budget.
	Fire Fee Schedule	The purpose of this meeting is to review staff's recommendation to revise the Master Fee Schedule according to CPI and to review the specific changes recommended for Fire Department related fees based on a recent review of Fire Department services. The City Council will consider all Master Fee Schedule changes on March 26th.
June 2013		
6/24/2013	Audit Entrance Conference (Optional)	Auditors will contact members of the Finance Committee individually to discuss discuss the work plan for the fiscal year ending 6/30/2013 CAFR audit. The committee will have an opportunity to discuss any potential areas of concern they wish the auditors to review and the auditors can discuss any changes in accounting standards or disclosures that may be relevant for the audit year.
July 2013		
7/22/2013	Investment Policy Review	Staff will present its annual review of the City's investment policy and seek approval and guidance from the Finance Committee regarding the scope, objectives, and standards that govern the City's investment portfolio.
	Investment Performance Review	Staff and/or one or more investment advisors will describe the performance of the City's investment portfolio.
September 2013		
9/23/2013	2012-13 Preliminary Year-End Results and the Q4 Financial Report	Staff will present the preliminary year-end closing results for FY 2012-13 and the Q4 financial results.
	2014-15 Review Proposed Budget Assumptions	The Committee will review staff's proposed budget assumptions for the 2014-15 fiscal year.
	Performance Budgeting Roadmap	Staff will present options for incorporating a performance management system into the City budget and budgeting process. The overall goal of Performance Based Budgeting (PBB) is to link day-to-day program activities with the long-term goals of the City and to demonstrate transparency and accountability for dollars spent.
	2014-15 Budget Improvement Strategy	Staff will seek guidance from the Committee regarding potential areas of improvement prior to the preparation of the 2014-15 annual budget.
November 2013		
11/14/2013	Review of Public Employees Retirement System (PERS) Valuation	Staff will present the latest actuarial valuation changes to actuarial assumptions, a review of investment returns, the potential impact of future rates, and the results of employee cost sharing.
	Quarterly Financial Review	Staff will present Q1 financial results prior to the publication of the Quarterly Business Report.