

CITY OF NEWPORT BEACH
CITY COUNCIL FINANCE COMMITTEE
MINUTES

1. CALL TO ORDER

The June 11, 2012, Finance Committee meeting was called to order at 2:05 p.m. in the Council Conference Room, 3300 Newport Blvd., Newport Beach, California 92663.

2. ROLL CALL

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

Excused: Council Member Leslie Daigle

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

Members of the public: Jim Mosher

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

3. PUBLIC COMMENTS

Mr. Mosher commented it is hard to reconcile the financial structure of Business Improvement Districts (BIDs) with the Streets and Highways Code Section that calls out district boards as advisory bodies. He noted the City Council, not the BIDs, should spend the BID levy through normal City mechanisms. He also questioned what a cash basis fund is (Charter section 1112), and referred to a section of the Charter that puts limits on what can be done with capital improvement funds (section 1113).

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

4. APPROVAL OF MINUTES

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

5. CURRENT BUSINESS

A. Audit Entrance Conference

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

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

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

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

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

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

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

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

B. Assessment District Bond Issuance Update

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

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

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

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

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

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

C. Proposed FY 2012-13 Budget

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

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

D. Facilities Financing Plan (FFP) Update

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

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

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

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

No future agenda items were discussed.

7. ADJOURNMENT

The Finance Committee adjourned at 2:45 p.m.

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

Attest:



Keith Curry, Mayor Pro Tem
Finance Committee Chair



Date

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