

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

**1. CALL TO ORDER**

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

**2. ROLL CALL**

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

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

Members of the public: Jim Mosher

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

**3. PUBLIC COMMENTS**

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

**4. APPROVAL OF MINUTES**

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

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

## 5. CURRENT BUSINESS

### A. Audit Review

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

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

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

### B. Finance Committee Charter Review and Update

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

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

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

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

### C. 2013 Finance Committee Work Plan

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

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

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

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

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

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

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

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

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

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

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

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

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

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

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

#### E. PERS Funding Direction

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

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

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

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

The Committee concurred with staff's recommendations to implement the new rates without the phase-in option, to use the existing PERS reserve to fund the \$765,000 cost and to begin amortizing the unfunded pension liability over a fixed declining amortization period.

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

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

No future agenda items were discussed.

**7. ADJOURNMENT**

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

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

Attest:



\_\_\_\_\_  
Mike Henn, Chair  
Finance Committee Chair

4/22/13

\_\_\_\_\_  
Date