



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

Newport Coast Conference Room, Bay 2E
100 Civic Center Drive, Newport Beach
Tuesday, October 15, 2013 – 1:45 PM

Finance Committee Members:

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

Staff Members:

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

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- 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 the July 22, 2013 Finance Committee meeting minutes.

5) CURRENT BUSINESS

- A. RESPONSE TO RALPH M. BROWN ACT ALLEGATIONS PURSUANT TO CALIFORNIA GOVERNMENT CODE SECTION 54960.2(C)(1): Authorize the Chairman to sign the proposed unconditional commitment letter pursuant to California Government Code Section 54960.2 to conserve public resources and avoid unnecessary litigation.

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

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.

**CITY OF NEWPORT BEACH
CITY COUNCIL FINANCE COMMITTEE
JULY 22, 2013 MEETING MINUTES**

1. CALL TO ORDER

The meeting was called to order at 4:00 p.m. in the Newport Coast Conference Room, Bay 2E, 100 Civic Center Drive, Newport Beach, California 92660.

2. ROLL CALL

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

Staff present: City Manager Dave Kiff, Finance Director Dan Matusiewicz, Deputy Finance Director Steve Montano, and Accountant Cory Pearson

Outside entities: Jason Schmidt, Chandler Asset Management; Dave Witthohn, Cutwater Investor Services; and Hal Nachtrieb Cutwater Investor Services

Members of the public: Jim Mosher, Carl Cassidy

3. PUBLIC COMMENTS

Mr. Mosher commented on the general liability insurance renewal that was on the agenda for the June 22, 2013, Finance Committee meeting. He stated that the City's broker should be questioned as to why they did not achieve a more competitive rate compared to the State agency bid that had a lower premium cost and lower deductible amount. Mr. Mosher also wanted Council to know it is difficult for the public to know the result of claims that Council considers during closed session and that information is not available through the City Clerk's Office as Risk Manager Lauren Farley stated. Mr. Mosher's final comment was to point out that while he's hearing that the financial vitality of the Newport Beach business community is recovering, the increase in sales tax as reported by the Finance Department in the July 19, 2013, City Manager's Newsletter, was 2.7% over what it was the first quarter of last year, however Orange County's increase as a whole was twice that amount as was the Southern California reported increase. A second contradictory piece of information is the revenue associated with the City's Transient Occupancy Tax (TOT), particularly the administrative fee associated with the Tourism BID, which according to Mr. Mosher peaked two years ago and appears to be declining even though we've added Newport Dunes and the hotels are doing well.

Finance Director Matusiewicz shared that the Tourism BID is a small sample of hotels and may not be an accurate representation.

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

Council Member Henn commented that comparisons of year over year require assessment of the base year and can affect recent year percentages; a fallacy of percentages.

4. APPROVAL OF MINUTES

Mayor Curry moved, Council Member Petros seconded to approve the minutes of the June 24, 2013 Finance Committee meeting.

5. CURRENT BUSINESS

A. Investment Policy Review

Mr. Matusiewicz, as background, explained that the Investment Policy was distributed to the investment advisors for review. Each had the opportunity to submit comments and a group meeting was conducted to review all comments. He then turned the meeting over to Mr. Nachtrieb for a brief review of the market.

Mr. Nachtrieb presented a brief overview of the economic and market environment. He noted expectations going forward will see a flattening of the yield curve especially in the 2-year and 5-year treasury notes, credit spreads will remain tight and volatility will increase in the fixed income market.

Mr. Matusiewicz reminded the Committee that the overall investment objectives, safety as the primary objective followed by liquidity, remain unchanged. Mr. Matusiewicz then began a review of the proposed policy changes as described in the staff report for this agenda item. All of the proposed revisions to the authorized investments in the Policy are permissible by California government state code.

In response to a question raised by Council Member Petros, Mr. Matusiewicz explained that the agency market is shrinking; by not restricting certain types of securities, portfolio managers have greater flexibility to better diversify the portfolio.

Council Member Henn suggested that clarification is needed in Section G.1.f. The Policy revision should state that no more than five percent of the City's total portfolio shall be invested in any one municipal issuer.

Investment pools as referenced in Section H.1. of the Policy was defined as local government investment pools. The addition of the Orange County investment pool was discussed and it was determined that there are other suitable investment pools available as an alternative

Mr. Mosher questioned the meaning of municipality as referenced in municipal bonds. It was clarified that it is generally understood by the investment

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community that municipal bonds include state obligations. The Policy limit is 5 percent per issuer. In response to another question raised by Mr. Mosher, reverse repurchase agreement was defined as a temporary investment where a security is purchased to be sold at a specific future date. The risk is a counterparty risk, not a principal risk. Mr. Mosher suggested making it clear to the public what securities carry the most risk. Mayor Curry commented that while there are relative risk differentials between these securities, the reason they are allowed by the government code is they are not risky investments. Council Member Henn added that all of these investments are in a very risk adverse sector of the market.

With the clarification to Section G.1.f., the Committee members unanimously concurred with staff's recommended revisions to the Investment Policy and instructed staff to advance the item to the City Council.

B. Investment Portfolio Review

Mr. Matusiewicz presented a summary on the performance of the City's investment portfolios. He pointed out that during May and June the fixed income portfolios declined in value as interest rates rose across the yield curve but this had no impact on the portfolio as the City generally holds medium term securities until maturity. He explained that a larger portion of the portfolio is being held in short term to account for some of the current capital needs. Further explanation was provided on forecasting liquidity needs and increasing the short term portfolio to pay for short term projects without tapping into the medium term note portfolio. The overall portfolio totals about \$45 million short term and \$158 million in medium term securities.

Council Member Petros raised a question about the investment advisors performance relative to benchmarks. Mr. Nachtrieb described the portfolio objectives of safety, liquidity, and yield, and benchmarks for the portfolio. He commented the main risk portfolio duration, interest rate changes, credit exposure, and uncertain cash flows.

Mr. Mosher requested clarification on the meaning of bond fund portfolios. In response, Mayor Curry explained it is the portfolio of bond proceeds. Bonds that were issued are subject to investment guidelines outlined in the bond indentures. The guidelines for the bond proceeds are typically more restrictive than the State code or our Investment Policy. The bonds are managed separately in a bond fund so they can be drawn down and accounted for to bondholders.

Mayor Curry moved, Council Member Petros seconded to receive and file the report.

C. Investment Strategy Recommendations

Mayor Curry recused himself.

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Mr. Matusiewicz stated that the first recommendation is to create a new actively managed short term portfolio which would simply require creating an additional custody account with the Bank of New York and we would purchase securities to match the specific outflows required for construction projects without looking to the medium term portfolios for liquidity. Under our current contracts, the portfolio managers are compensated based on the funds managed. Managing a portion of the short term portfolio would be paid the same rate.

The second recommendation is to consider increasing overall duration of the medium term portfolio when market conditions are favorable. Given the volatility in the market, this increased duration should be considered down the road when the market has stabilized more.

The third recommendation is to establish another reference point that is more reflective of universe of investable securities that are purchased in the short term portfolios, and not only compare to 1-3 year treasury index but also include a benchmark that includes the current mix of asset classes we currently invest in.

Mr. Mosher commented he was glad the 3 year benchmark is not being dispensed and he inquired whether the City has the capability to directly invest in the securities. Mr. Matusiewicz stated that having dedicated resources who are actively managing the portfolio is a strategy that has worked well for the City since the early 1990s.

Mr. Cassidy speculated whether some of callable agency bond risk will be reduced if the third recommendation is adopted which will allow more investment input.

Council Member Henn, with Council Member Petros concurrence stated support for the three recommendations.

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

City Manager Kiff indicated the trash RFP analysis may be brought back to the Finance Committee at a future meeting.

7. ADJOURNMENT

The Finance Committee adjourned at 5:20 p.m.

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

Attest:

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

Mike Henn, Chair
Finance Committee Chair

Date

DRAFT

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CITY OF NEWPORT BEACH

October 15, 2013

To Mr. Jim Mosher:

The City of Newport Beach's Finance Committee has received your cease and desist letter dated September 17, 2013, alleging that the following described past action of the Finance Committee violates the Ralph M. Brown Act:

A letter co-written by Mayor Keith Curry and myself to a local newspaper discussing the benefits and cost savings associated with the possible outsourcing of residential refuse collection.

While I strongly assert that no violation of the Brown Act occurred in this matter, in order to avoid unnecessary, costly, and frivolous litigation associated with this allegation, the Finance Committee hereby agrees that it will not repeat the challenged past action as described above.

The Finance Committee will rescind this commitment only by a majority vote of its membership taken in open session at a regular meeting and noticed on its posted agenda as "Rescission of Brown Act Commitment."

You will be provided with written notice, sent by any means or media you provide in response to this message, to whatever address or addresses you specify, of any intention to consider rescinding this commitment at least 30 days before any such regular meeting.

In the event that this commitment is rescinded, you will have the right to commence legal action pursuant to subdivision (a) of Section 54960 of the Government Code. That notice will be delivered to you by the same means as this commitment, or may be mailed to an address that you have designated in writing.

I consider this matter closed, and hope that we will all move on to more cost-effective uses of the taxpayers' dollars.

Sincerely,

Mike Henn
Chairman of the Finance Committee