

I. CALL MEETING TO ORDER

Mayor Joe Stapleton called the meeting to order at 3:04 p.m. in the Civic Center Community Room, 100 Civic Center Drive, Newport Beach, California 92660.

II. ROLL CALL

PRESENT: Mayor/Chair Joe Stapleton
Councilmember Robyn Grant
Councilmember Sara J. Weber
Committee Member William Collopy
Committee Member William Kenney, Jr.
Committee Member Kory Kramer

ABSENT: Committee Member Allen Cashion (excused)

STAFF PRESENT: City Manager Grace K. Leung
Finance Director/Treasurer Jason Al-Imam
Deputy Finance Director Shelby Burguan
Assistant Management Analyst Vicky Nguyen
Budget Analyst Abigail Marin
Budget Analyst Anthony Alannouf
Finance Manager Jessica Nguyen
Finance Manager Trevor Power
Finance Manager Jessica Kan
Purchasing and Contracts Administrator Jennifer Anderson
Recreation & Senior Services Director Sean Levin
Deputy Recreation & Senior Services Director Justin Schmillen
Budget Analyst Matthew Chong
Senior Management Analyst Trevor Smouse
Administrative Manager Chris Miller
Administrative Manager Raymund Reyes
Library Services Director Melissa Hartson
Library Services Manager Rebecca Lightfoot
Public Works Director David Webb

OTHER ENTITIES: None

MEMBERS OF THE
PUBLIC: Jim Mosher
Nancy Scarbrough

III. PLEDGE OF ALLEGIANCE

Committee Member Kory Kramer led the Pledge of Allegiance

IV. PUBLIC COMMENTS

Mayor/Chair Stapleton opened public comments. Hearing none, public comments were closed.

V. CONSENT CALENDAR

A. MINUTES OF JANUARY 23, 2025

Recommended Action:

Approve and file.

MOTION: Committee Member William Collopy moved to approve the minutes of January 23, 2025, and Councilmember Sara Weber seconded the motion. The motion carried as follows:

AYES: Weber, Collopy, Stapleton
NOES: None
ABSTAIN: Grant, Kramer, Kenney
ABSENT: Cashion (excused)

VI. CURRENT BUSINESS

A. FISCAL YEAR 2024-2025 FEE STUDY UPDATE

Recommended Action: Review and discuss the proposed fee updates discussed in this report and provide any recommendations for consideration by the City Manager and City Council.

Finance Director/Treasurer Jason Al-Imam introduced Budget Analyst Abigail Marin to give the presentation on the fee study update.

Budget Analyst Marin provided background on the City's fees, explaining that most are cost recovery based with maximum amounts set by the cost to provide the service. She noted that some fees are market-rate based or fines set by council approval. Budget Analyst Marin discussed the spectrum of fees ranging from general public benefit to private benefit, with general benefit fees tending to be subsidized by general revenues.

Budget Analyst Marin explained that the City's authority to charge fees comes from the Newport Beach Municipal Code, fiscal sustainability plan, and certain council policies. She noted that most fees are set at 100% cost recovery as mandated by the municipal code, with exceptions for designated subsidies.

Budget Analyst Marin described the process for determining appropriate cost recovery levels, including considering the degree of private benefit and potentially phasing in substantial fee increases over time. She explained that the fee study calculations aim to capture all direct and indirect costs associated with providing services.

Budget Analyst Marin presented the results of this year's fee study, which focused on the Library and Recreation & Senior Services Departments. For the Library, recommended changes included updating the Central Library Community Room deposit fee by consolidating the room deposit and the refundable cleaning deposit into one fee. Previously, there was a \$196 deposit, with \$96 being refunded if there were no damages. In most cases, this deposit has always been refunded, so it was recommended that the new approach be to deduct any net damages from the initial \$100 deposit. Additionally, the fee study included formalizing existing fines in the fee schedule, including a fax machine use fee of \$1 and fines for overdue materials, as approved by the Board of Library Trustees.

For Recreation & Senior Services, changes included consolidating some fees to eliminate redundancy, removing fees for services no longer provided by the City—such as the Special Services Preschool 101 fees, due to expanded preschool offerings by the Newport Mesa Unified School District—and adding new fees for facilities like the Newport Coast Community Center preschool room and the Junior Lifeguard building and patio area. New fees also included an OASIS Garden membership where the City is taking over administration from the Friends of OASIS, and a \$5 late registration fee for serving contests to encourage timely registration. Additionally, rental rates for the new lecture hall, courtyard, and AV specialist were proposed in preparation for a 2026 opening. Overall, the proposed updates in the Recreation & Senior Services Department were expected to result in an estimated \$192,000 increase in revenues.

Committee Member William Collopy raised questions about subsidies for programs such as the OASIS Center and Junior Lifeguards, inquiring about who is responsible for making decisions on the levels of subsidization.

Staff clarified that these decisions are set in the municipal code but could be revisited by the council if there is a desire to do so.

Councilmember Robyn Grant was curious about the fees for the new Witte Hall, which staff confirmed would be based on market rates.

Committee Member Kory Kramer suggested that the report should include more comprehensive information on the total amount of subsidies provided by the City across all programs, pointing out that this information was not clearly quantified in the current report. The Committee collectively agreed that this additional information would be valuable for presentation to the council. There was an extensive discussion regarding the process for setting market-based fees and ensuring that appropriate cost recovery levels are maintained.

Mayor/Chair Stapleton opened public comments.

Ms. Nancy Scarbrough suggested that presenting subsidy information could enhance transparency and aid council decision-making. She emphasized the importance of incremental cost increases, arguing that adjusting fees annually—rather than imposing large increases every few years—would help the public better understand and accept financial changes. Furthermore, she noted that providing a detailed breakdown of subsidies would offer valuable insights into the City's financial planning. This approach would not only clarify budget allocations but also improve transparency in council decisions.

Mr. Jim Mosher emphasized that a detailed understanding of subsidy impacts could shape perceptions of fairness in council policies. He noted that generous subsidization of certain programs might be viewed differently across community groups if not properly explained. Providing detailed subsidy information could help address these concerns by clearly outlining the rationale behind the subsidies, ensuring council policies are perceived as fair and well-justified.

Mayor/Chair Stapleton closed public comments.

The item was received and filed.

B. FACILITIES FINANCIAL PLAN (FFP) AND HARBOR & BEACHES MASTER PLAN (HBMP)
Recommended Action:

Review and discuss the report on the Facilities Financial Plan and the Harbor & Beaches Master Plan, accept staff's recommended funding levels, and provide any additional recommendations for consideration by the City Manager and City Council.

Deputy Finance Director Shelby Burguan provided an overview of the Facilities Financial Plan (FFP) and the Harbor & Beaches Master Plan (HBMP). She explained that these plans outline major capital projects and their funding sources over several decades.

For the FFP, Deputy Finance Director Burguan noted it is funded by general fund contributions, developer agreements, and impact fees. The current budget includes \$9.9 million from the general fund for FFP projects. She presented the project planning page showing upcoming FFP projects.

Committee Member William Collopy expressed concern about the large scale and cost of many projects, particularly seawall and pier improvements. He questioned whether all the planned projects for 2030-2032 could realistically be completed in that timeframe. Mayor/Chair

Stapleton acknowledged the ambitious nature of the plans but noted they serve as a roadmap that is constantly reviewed and adjusted by the staff and the City Council.

For the HBMP, Deputy Finance Director Burguan explained it is funded by Tidelands revenues and general fund contributions. She presented an overview of major HBMP projects planned. Deputy Finance Director Burguan mentioned that in the current fiscal year, \$6,000,000 is anticipated in Tidelands revenues, with an additional \$5,800,000 being transferred from the general fund. The general fund's contribution is set to increase by 2.5% annually. During the discussion, committee members asked specific questions regarding the funding sources of large projects, aiming to understand better the interplay of funding from different sources and its implications on the financial health of the HBMP.

Committee Member William Collopy inquired about the PCH pedestrian bridge project, which has a total cost of \$29,000,000 and nearly \$22,000,000 in private contributions. Clarifications were provided that this project funding would come through sources like the Orange County Transportation Authority, which planned to provide grant funding due to the traffic mitigation at the intersection impacted by the project. Further analysis included reviewing the major projects that account for approximately 50% of the total funding needs of the HBMP.

Committee Member William Collopy inquired about a large increase in the Facilities Financial Plan (FFP) reserve balance projected for 2027-2028. He noted that the reserve balance appeared to almost double from slightly over \$40 million to almost \$80 million and sought clarification on the source of this increase. Staff explained that the substantial increase in the reserve balance was attributed to anticipated development agreement revenues scheduled to come in during those years.

Finance Director Jason Al-Imam mentioned that the timing of development agreements would have a significant impact on the financial projections, as they contribute considerable funds once they reach specific stages in the development process. This projection is subject to change as it depends on the timing and status of various development projects managed by the Community Development Department.

Committee Member Kory Kramer requested more detailed information about the Tidelands Fund revenues and expenditures, particularly regarding major lease income sources. He inquired about the main leases contributing to this fund and expressed curiosity about the general revenues that are generated from these leases.

Staff explained that revenue for the Tidelands Fund primarily comes from parking fees in the Tideland area, as well as leases and moorings. They also highlighted the significant lease contributions from operations such as the Balboa Bay Club.

There was also discussion about oil well revenues and the potential plans to phase out city-owned wells. Committee members questioned the City's long-term vision for these assets, considering their diminishing profitability. Staff noted that there are ongoing plans and discussions to either shut down the oil wells or to determine other methods to maximize their use.

City Manager Grace Leung explained some of the legislative challenges and restrictions in maintaining oil wells, including recent housing developments near the wells that may affect their operation, combined with new environmental regulations. The Committee was informed that Utilities Director Mark Vukojevic was actively working on a strategy to address this issue, considering the revenue potential versus the costs and legislative hurdles associated with these operations.

Mayor/Chair Stapleton opened public comments.

Mr. Mosher questioned the large spike in fund balances shown on slide 12 of the HBMP where the projected balance appears to reach nearly \$500 million in 2030.

Deputy Finance Director Burguan acknowledged that this was a labeling error and clarified that the bar represents a consolidation of all future years beginning in FY 2030.

Mayor/Chair Stapleton closed public comments.

The item was received and filed.

C. SECOND QUARTER BUDGET AMENDMENT

Recommended Action:

Review and discuss this report and provide any recommendations for consideration by the City Manager and City Council.

Deputy Finance Director Burguan presented the second quarter budget update for fiscal year 2024-2025. She reported that general fund revenues were projected to exceed the revised budget by \$5.6 million, with positive variances in several categories offset by a slight decrease in projected sales tax revenue. The general fund's anticipated revenue outperformance was primarily attributed to notable gains in property tax, intergovernmental revenues, service fees and charges, other taxes, and licensing permits. However, these increases were somewhat tempered by a decrease in projected sales tax revenue of about \$100,000 from the original budget.

Deputy Finance Director Burguan provided a detailed overview of the major revenue sources anticipated for the fiscal year, beginning with sales tax, which was projected at \$45.2 million. This represented a 4% increase compared to the prior year; however, it was noted to be slightly below the original budget expectations.

During the discussion, Mayor/Chair Joe Stapleton questioned the current sales tax projections and the potential impact of the Bentley Porsche dealership reopening. Finance Director/Treasurer Jason Al-Imam explained that sales tax growth projections remain strong for the coming year, driven by the dealership's anticipated reopening and moderate growth in the autos and transportation sector.

Deputy Finance Director Burguan continued her presentation and explained that transient occupancy tax, commonly referred to as TOT, is projected this to reach \$32.7 million, marking a 2.9% increase over figures from the previous year. Although residential TOT revenues appeared to be plateauing, it was observed that hotel-based TOT continued to grow, signaling a positive outlook for the tourism and hospitality sectors in Newport Beach. She noted the City's approach to tracking hotel TOT, stating that they monitor revenues from individual hotels and compare them year over year, which assists in fine-tuning projections.

Deputy Finance Director Burguan highlighted that the remaining revenue sources were generally displaying a trend above the initial budget projections, indicating overall positive performance across various categories of the City's fiscal revenue portfolio. She mentioned growth in other tax revenue by about \$600,000, service fees and charges up by \$500,000, and a notable increase of \$1,000,000 in mutual aid reimbursements for fire strike teams, illustrating broad-based improvements across multiple areas.

On the expenditure side, Deputy Finance Director Burguan reported projected savings of \$5.6 million compared to the revised budget, primarily due to vacancy savings in salaries and benefits.

The Committee delved into discussions over the reasons behind these vacancies and sought understanding on how these savings could be reallocated or utilized to further benefit the City's

financial health. During the conversation, Councilmember Sara Weber sought clarification on the process by which reimbursements for fire strike teams are incorporated into the budget. Her inquiry aimed to understand how these reimbursements are accounted for and their impact on the overall budget projections. It was clarified that these reimbursements were factored in as part of the City's revenue projections, equating to additional funds that offset the cost associated with overtime to backfill when strike teams are called to respond to wildfires.

Committee Member Kramer raised a concern about the short-term lodging permit fees in the City, noting that they appear significantly lower than those in other jurisdictions. Finance Director Al-Imam explained that these fees are not market-based but are instead set to ensure full cost recovery. He also stated that the fees would be reviewed in a study next year.

Committee Member Kramer brought another perspective by suggesting that the City should explore opportunities to optimize sales tax revenue from auto dealerships and showrooms located in Newport Beach. Finance Director Al-Imam stated that a request would be made for HdL, the City's sales tax consultant, to present to the Committee on the sales tax rules governing auto sales.

Mayor/Chair Stapleton opened public comments.

Ms. Scarbrough expressed her concern about the impact of online sales on local tax revenue, highlighting that currently, online sales tax is attributed to the warehouse location rather than the city of the purchaser. This point emphasized the potential for further legislative actions to address and mitigate these impacts on Newport Beach's budget.

Mayor/Chair Stapleton closed public comments.

The item was received and filed.

D. OVERVIEW OF REVENUE PROJECTIONS

Recommended Action:

Receive and file.

Deputy Finance Director Burguan provided an in-depth presentation of the preliminary revenue projections for the fiscal year 2025-2026. She began by highlighting property tax, which is the City's largest revenue source. Property tax was expected to grow by 4.8%, reaching \$160 million, supported by the City's strong property values and continued residential demand. In explaining this projection, Deputy Finance Director Burguan emphasized the stability and reliability of property tax revenue, which serves as a foundation for the City's financial health. Approximately 85% of the property tax in Newport Beach comes from residential homes, and the high median prices of single-family homes in the area contribute significantly to this revenue stream. The City's collaboration with a property tax consultant helps ensure that these projections are grounded in thorough analysis and expert insight.

Deputy Finance Director Burguan discussed sales tax, projecting an increase of 6.9% to \$48.3 million. She explained that this growth would be fueled by the auto and transportation sectors, reflecting strong consumer demand and robust market conditions. The City's second largest revenue source, sales tax, comprises 15% of the total general fund revenues, further underscoring its importance. During the presentation, it was noted that the auto sector is experiencing a particularly strong forecast, driven by new dealership openings and optimism in consumer markets. This prompted a conversation around the fluctuations in sales tax and the City's strategies for tracking these variations.

Another key highlight in her presentation was the projection for Transient Occupancy Tax (TOT), which was also anticipated to grow. The main driver of this growth was hotel-based TOT, suggesting an optimistic outlook for the local tourism and hospitality sectors, which

continued to recover and expand post-pandemic. Deputy Finance Director Burguan underscored the City's methodology for projecting TOT, which includes detailed tracking of hotel revenues and occupancy trends. This data-driven approach allows Newport Beach to fine-tune its forecasts and manage expectations regarding TOT revenue, which is integral to planning public services that depend on this funding source.

Deputy Finance Director Burguan then discussed the outlook for other general fund revenues, noting a slight projected decrease. This decline was primarily attributed to lower projections for fees related to development activities, reflecting a modest slowdown in new construction and property development within the City.

Committee Member William Kenney expressed his concerns regarding potential disruptions in the auto sales market resulting from recent events in Washington D.C. He speculated that these events could potentially have an impact on the City's sales tax projections. His comments prompted a broader conversation about variables affecting sales tax revenue, especially given the volatile nature of auto sales and the potential impact of national economic conditions on local markets.

Beyond these sector-specific concerns, the Committee also engaged in a broader dialogue about the relative volatility of sales tax revenues compared to property tax revenues. Members highlighted that sales tax income is more sensitive to economic fluctuations, which makes accurate forecasting more challenging. The inherent volatility due to changing consumer behaviors and economic trends necessitates vigilant monitoring and adjustment of projections. In contrast, Newport Beach's property tax base remains robust and provides a solid financial foundation. The City's high property values ensure stable and predictable revenue, setting it apart in terms of financial stability.

These discussions underscored Newport Beach's fiscal resilience and the benefits of its strong property tax base amidst revenue streams subject to market volatility. Committee members acknowledged the need for ongoing analysis and adaptation in response to changing conditions, emphasizing the importance of incorporating a range of data sources and expert insights. The Committee recommended staff continue to refine projections, particularly for sales tax, as more data becomes available and economic conditions evolve. This proactive approach is crucial for maintaining the City's financial health and continuing to provide high-quality public services.

Mayor/Chair Stapleton opened public comments.

Jim Mosher raised a question about the Tideland funds, inquiring about the oversight and repayment structures concerning loans from the general fund. Additionally, he highlighted that the 16.8% share of property tax revenue going to the City is an average calculated across various tax rate areas, which means different properties may contribute higher or lower percentages based on their designated tax areas. This clarification on how property tax rate areas differ throughout the City adds a layer of complexity to financial management.

Mayor/Chair Stapleton closed public comments.

The item was received and filed.

E. ENTERPRISE RISK ASSESSMENT REVIEW

Recommended Action:

It is recommended that the Finance Committee review and acknowledge the findings of the enterprise risk assessment and support the continued development of a comprehensive internal audit work plan based on these results.

Finance Director/Treasurer Jason Al-Imam presented the results of a preliminary enterprise risk assessment, conducted with assistance from an external audit firm. The assessment focused on evaluating 12 key areas for risk and potential impact. Finance Director/Treasurer Al-Imam explained that the majority of these areas were assessed as low or very low risk, attributing this to the City's highly regulated environment and strong internal controls. These regulations and ongoing audits work together to minimize compliance failures, supporting the overall low-risk determination.

Despite the low overall risk rating, Finance Director/Treasurer Al-Imam emphasized that the City still has areas that warrant closer attention. Based on the assessment, staff recommended an annual audit of three focus areas over the next four years, ensuring diligent scrutiny of each area to continuously improve the City's financial and operational frameworks.

Committee Member Collopy questioned the rationale behind the relatively high importance assigned to risk management.

Finance Director/Treasurer Al-Imam pointed out the extensive activity in risk management, particularly in workers' compensation and general liability processes, justifying its high importance level.

Committee Member Kenney sought further clarification regarding the slightly elevated risk level of cash and investment administration.

Finance Director/Treasurer Al-Imam noted that, although the overall risk is low, the portfolio's active nature and constant reinvestments elevate the risk slightly, due to the dynamic nature of the investment environment.

The Committee ultimately agreed with the proposed audit plan.

Mayor/Chair Stapleton opened public comments. Hearing none, public comments were closed.

The item was received and filed.

F. WORK PLAN REVIEW

Summary:

Staff and Finance Committee to review the proposed work plan and identify matters that members would like placed on a future Agenda for discussion, action, or report.

Recommended Action:

Receive and file.

Mayor/Chair Stapleton provided an overview of the upcoming work plan for the Finance Committee. He detailed the agenda for the April meeting, which will focus on the budget overview and expenditures for the fiscal year 2025-2026. Moving forward to May, the Committee will engage in a detailed budget review and subsequently formulate recommendations to present to the council. On May 27, a joint study session with the City Council is scheduled, facilitating an opportunity for in-depth discussion and collaboration on financial matters. The Committee will then culminate their efforts with May 29 being set aside for the Finance Committee to make their final budget recommendations to the council.

Mayor/Chair Stapleton opened public comments. Hearing none, public comments were closed.

The item was received and filed.

VII. AJOURNMENT

Before adjourning, committee members expressed appreciation for the thorough and well-organized financial management of the City. Committee Member Kramer commended staff for their work, noting it provides confidence to residents and businesses. Councilmember Grant echoed these sentiments, praising the conservative nature of the City's financial approach.

The Finance Committee meeting adjourned at 4:47 p.m.

Attest:

Joe Stapleton, Mayor/Chair
Finance Committee

Date

DRAFT