

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
FEBRUARY 12, 2026 MEETING MINUTES**

I. CALL MEETING TO ORDER

The meeting was called to order at 3:00 p.m. in the Civic Center Community Room, 100 Civic Center Drive, Newport Beach, California 92660.

II. ROLL CALL

PRESENT: Chair Stapleton, Councilmember Sara Weber, Committee Member Cashion, Committee Member William Kenney, Committee Member Kramer

ABSENT: None

STAFF PRESENT: Administrative Services Director/Treasurer Jason Al-Imam, City Manager Seimone Jurjis, Budget Manager Jessica Nguyen, Accounting Manager Trevor Power, Assistant Management Analyst Vicky Nguyen, Senior Budget Analyst Abigail Marin, Budget Analyst Courtney Buck, Budget Analyst Anthony Alannouf, Accountant Bryan Bello

OTHER ENTITIES: Jonathan Foster, Davis Farr LLP

MEMBERS OF THE PUBLIC: Jim Mosher, Nancy Scarbrough, Laura Curran

III. PLEDGE OF ALLEGIANCE

Councilmember Sara Weber led the Pledge of Allegiance

IV. PUBLIC COMMENTS

Chair Stapleton opened the public comments.

Jim Mosher stated that he had attempted to raise his question at the prior Tuesday City Council meeting but did not receive a response. He stated that the issue was more appropriate for the Finance Committee because it concerned how City staff interpret the budget-approval process and when funds must be formally appropriated before staff undertakes work. He stated that the City is anticipating the need to replace its Police Headquarters. He noted that the current Capital Improvement Program (CIP) anticipates funding beginning in approximately three years and includes no funding for the current fiscal year. He referenced the January 31st planning session, during which the City Council heard a recommendation to accelerate that schedule and amend the CIP to add \$1.5 million in the current fiscal year to hire a consultant and develop plans for a new Police Station at the Civic Center. He asked whether staff interprets the City Council's general expression of support as authorization to begin soliciting proposals, issuing a Request for Proposal (RFP), and evaluating consultant submissions before a formal budget amendment creates the necessary project account. He asked whether staff may expend time and effort toward the project on the assumption the City Council will ultimately fund it, or whether the budget must be amended first.

City Manager Seimone Jurjis responded that any consultant contract exceeding \$120,000 requires City Council approval. He stated that staff does have authority to proceed with an RFP prior to City

Council approval of a contract, and that the City Council would consider a budget amendment in conjunction with the contract award.

Laura Curran stated that she resides in Corona del Mar and expressed appreciation that the Finance Committee continues to include resident participation. She described her long-standing involvement with the Civic Center Park, beginning in 2005 through discussions with Jan Van der Sloot, Nancy Gardner, and various council members, to establish Orange County Coastal Habitat as the primary landscaping medium for the 4.5-acre parcel. She stated that the native-plant design preceded the Sculpture Garden and that many residents invested substantial time in the project.

Ms. Curran stated that the Civic Center Park proposal to relocate the Police Station is personal to her, but she also wished to address the financial implications. She stated that during the planning session she listened to Public Works Director Dave Webb's presentation, in which he noted that the City could build at the proposed site because it already owns the land. She expressed concern that no mention was made of what the City would lose by removing the existing habitat, landscaping investment, and community value of the park.

Ms. Curran stated that sound financial analysis requires consideration of fully burdened costs. She described the habitat's watershed benefits, recreational value, and health benefits to residents. She noted that the park uses significantly less water than a traditional park of comparable size and has extensive ecological value supporting more than 67 species. She added that the park generates substantial social-media engagement due to popular sculptures, including the bunnies, and is frequently used for family, wedding, and prom photographs.

Ms. Curran stated that if the City attempted to recreate the park's landscape and habitat elsewhere, it could cost approximately \$40 million. She urged the committee to consider these embedded values as part of any financial evaluation of constructing a Police Station at that location. She compared the situation to Central Park in New York, stating that building facilities within a central public park would fundamentally alter its character. She referenced the City's ongoing CalPERS paydown efforts, stating appreciation as a CalPERS member but expressing concern that building the most expensive version of the Police Station while removing a valuable public asset seemed inconsistent with fiscal-responsibility messaging. She concluded by offering to provide committee members with a tour of the park and its history.

Chair Stapleton closed public comments.

Chair Stapleton received and filed the item.

There was no further discussion on the item.

V. CURRENT BUSINESS

A. FINANCIAL STATEMENT AUDIT RESULTS AND RELATED COMMUNICATION FOR THE FISCAL YEAR ENDING JUNE 30, 2025

Recommended action:

Receive and file.

Administrative Services Director/Treasurer Jason Al-Imam introduced the item and explained that the report concerned the City's annual financial statement audit for the fiscal year ending June 30, 2025, which includes the balance sheet, income statement, and notes to the financial statements. He stated that the financial statements are typically finalized by December 31 but were delayed by one month due to implementation of Governmental Accounting Standards Board (GASB) 101 related to compensated absences, which required additional year-end closing work. He noted that audit partner Marc Davis was unable to attend due to illness and introduced Jonathan Foster of Davis Farr LLP to present the report.

Jonathan Foster thanked the committee and explained that he would review the audit scope, management's responsibilities, the auditor's responsibilities, and the audit results, including the impact of GASB 101. He stated that the annual financial audit is incorporated into the City's Annual Comprehensive Financial Report (ACFR) and includes the auditor's opinion. He explained that the opinion outlines the responsibilities of both management and the auditors and is accompanied by reports on internal controls and compliance, as well as a Summary of Audit Results letter. He reported that there were no deficiencies in internal controls and no instances of noncompliance identified.

Mr. Foster stated that the firm would also issue a Single Audit report for federal expenditures, which was underway and required to be completed by the end of March. He explained that the Single Audit evaluates compliance with federal grant requirements. He added that the firm would issue an agreed-upon procedures report related to the City's appropriations limit and that no exceptions were identified.

Mr. Foster summarized management's responsibilities, including preparing and fairly presenting the financial statements in accordance with Generally Accepted Accounting Principles (GAAP), maintaining internal controls, ensuring the statements are free from material misstatement, and evaluating the City's ability to continue as a going concern. He stated that management concluded the City would remain operational for at least twelve months. He explained that the auditors' responsibility is to issue an opinion on the financial statements and provide reasonable assurance that they are free from material misstatement due to fraud or error. He noted that the audit included evaluating internal controls and testing areas such as cash receipting, disbursements, purchasing compliance, payroll, and investment compliance.

Mr. Foster outlined the audit timeline, noting that initial communication with the Finance Committee occurred on May 8, 2025, interim audit work was conducted in June 2025, and final fieldwork occurred from November 2025 through January 2026. He reported that the audit resulted in an unmodified opinion, the highest level of assurance an auditor can issue. He stated that an Emphasis of Matter paragraph was included to highlight the required implementation of GASB 101.

Mr. Foster summarized the financial results, stating that assets and deferred outflows increased slightly while liabilities and deferred inflows decreased, resulting in an increase in the City's net position of approximately \$60.4 million. He reported that revenues decreased by approximately \$23.8 million and expenses decreased by approximately \$16.9 million.

Accounting Manager Trevor Power explained that the revenue decline was largely attributable to the prior year's issuance of approximately \$25 million in assessment district bonds.

Administrative Services Director/Treasurer Al-Imam noted that governmental accounting treats bond proceeds as revenue, so the absence of those proceeds in the current year created the year-over-year decline.

Mr. Foster reviewed the Summary of Audit Results letter and stated that auditors identified two significant risks: implementation of GASB 101 due to its impact on compensated absence liabilities and compliance with federal grant requirements. He explained that GASB 101 requires governments to accrue both compensated absences payable upon separation and leave likely to be used in future periods, including related payroll taxes. He stated that auditors also evaluated significant estimates, including useful lives of capital assets, pension and OPEB actuarial valuations, and estimated claims payable, and found them to be reasonable. He reported that there were no unusual transactions, no material audit adjustments, no uncorrected misstatements, and no difficulties encountered during the audit. He noted that management provided all required representations and that there were no consultations with outside accounting firms.

Committee Member Collopy asked whether auditors are required to provide an opinion on state grants.

Mr. Foster responded that the State does not require a separate audit of state grants unless requested by a specific agency and noted that state agencies sometimes conduct their own audits.

Committee Member Collopy asked about the relative size of state and federal grant revenue.

Accounting Manager Power stated that the City generally receives relatively few grants and does not rely heavily on grant funding. He reported that in fiscal year 2025 the City received approximately \$1.25 million in federal funds and a comparable amount from the State.

Administrative Services Director/Treasurer Al-Imam explained that most federal revenue derives from Community Development Block Grant (CDBG) funds, while state funding varies by program.

Chair Stapleton provided examples of project-based funding, including the trash wheel project and a restoration project.

Committee Member Kenney asked whether most grant funds support the Capital Improvement Program (CIP).

Administrative Services Director/Treasurer Al-Imam confirmed that many grants are restricted for capital purposes.

Mr. Foster noted that the threshold requiring a Single Audit is currently \$750,000 but will increase to \$1 million next fiscal year.

Committee Member Kramer commended staff and noted that an unmodified opinion reflects strong financial management.

Chair Stapleton opened public comments.

Mr. Mosher stated that certain information in the Letter of Transmittal appeared confusing or inconsistent. He noted that the ACFR references approximately 4,300 recreational and sports charter boats in a "21-square-mile harbor area," while the City website previously referenced approximately 9,000 boats in the same area. He expressed concern that both the vessel count and harbor size appear inaccurate, noting that the City's total land area is listed as 24 square miles and that he believes the harbor area is closer to 2 square miles. Mr. Mosher also commented on the description of property tax reassessment in the ACFR, stating that the explanation should reference reassessment for new construction in addition to changes in ownership. He suggested that the report disclose how much property-tax growth above 2 percent results from ownership changes versus new construction.

Chair Stapleton closed public comments.

Committee Member Collopy stated that he had several questions. Referring to page 15 of the ACFR, he questioned language stating that the City employs an aggressive strategy to reduce its unfunded pension liability and is committed to contributing \$45 million annually, noting that the contribution is reviewed annually and is not established in formal policy.

Administrative Services Director/Treasurer Al-Imam responded that while the amount is not codified in policy, it is reviewed each year by the Finance Committee and the City Council. He explained that maintaining the language is important from a credit rating perspective and that reducing the contribution to only the minimum required payment could negatively affect the

City's credit profile. He added that allocating funds to a pension trust for pension purposes would not adversely affect the City's credit standing.

Committee Member Collopy referenced page 131 and asked whether the comparison of 2023 and 2024 balances for the net Other Post Employment Benefits (OPEB) liability was appropriate.

Administrative Services Director/Treasurer Al-Imam explained that accounting standards require reporting with a one-year lag, which can make the data appear unusual. He noted that staff provides more current information during Committee presentations.

Committee Member Collopy then referenced page 166 and asked about the reported \$648,928 in asset forfeiture revenue.

Accounting Manager Power clarified that the amount reflects cash received and does not include non-cash assets.

Committee Member Collopy asked about Certificates of Participation (COPs) related to a potential new police station and referenced a prior City Council policy requiring voter approval for COPs exceeding \$50 million.

Committee Member Collopy referenced page 238 of the statistical section and asked about a significant decrease in reported per capita income for 2025.

Administrative Services Director/Treasurer Al-Imam acknowledged that the change appeared unusual and stated that staff would review the data and report back to the Finance Committee.

Administrative Services Director/Treasurer Al-Imam noted that because the Finance Committee also serves as the Audit Committee, a motion should be made recommending that the City Council receive and file the financial statements.

Committee Member Collopy stated that he believed Mr. Mosher's comments regarding the number of vessels and harbor size were reasonable, noting that he had consistently heard there were approximately 9,000 vessels in the harbor and questioning whether the referenced 21-square-mile figure was accurate.

Administrative Services Director/Treasurer Al-Imam responded that the questions were reasonable but clarified that the referenced information appears in the introductory and statistical sections of the report, which are unaudited and do not affect the audit opinion.

MOTION: Committee Member Collopy moved to recommend that the City Council receive and file the financial statements, seconded by Committee Member Kenney. The motion carried as follows:

AYES: Collopy, Cashion, Kenney, Kramer, Weber, Stapleton
NOES: None
ABSENT: None
ABSTAIN: None

There was no further discussion on the item.

B. SECOND QUARTER BUDGET UPDATE

Recommended action:
Receive and file.

Budget Manager Jessica Nguyen presented the Fiscal Year (FY) 2025–26 second quarter budget update. She stated that general fund revenues were projected to grow by 0.27%, or approximately \$0.9 million, above first-quarter projections. She explained that this increase was driven primarily by upward adjustments to sales tax revenue, which had risen by \$700,000, or 1.4%, compared to the first quarter.

Budget Manager Nguyen stated that second-quarter analysis showed a decrease in Transient Occupancy Tax (TOT) relative to first-quarter projections; however, she noted that the decrease was offset by higher performance in several other categories. Turning to specific revenue areas, she stated that property tax is the City's largest revenue source and was projected to increase by \$8.9 million over the prior fiscal year. She stated that in the first quarter staff adjusted property tax projections upward by \$3.1 million from the adopted budget, and that the second-quarter projection remained unchanged from the first-quarter estimate.

Budget Manager Nguyen stated that sales tax revenue was projected in the first quarter at \$48.1 million. She noted that an updated projection from the City's sales tax consultant reflected a 1.44%, or \$700,000, increase. As a result, she reported that total sales tax revenue for the current fiscal year was estimated at \$48.8 million. She stated that the autos and transportation sector was a major contributor to this growth. She reviewed projected changes by industry group, stating that autos and transportation were up 12.2%; restaurants and hotels were up 2.6%; general consumer goods were up 4.4%; and state and county pools were up 11%.

Budget Manager Nguyen stated added that the City continued to trend well above statewide and regional averages. She stated that revenues were projected to fall below first-quarter estimates by 2.7% due to decreases in international tourism and reduced commercial hotel activity. She noted, however, that restaurants and hotels continued to contribute positively to sales tax revenue, suggesting shifts in visitor spending patterns.

Budget Manager Nguyen reviewed additional General Fund revenues that exceeded first-quarter projections. She stated that property income was projected to grow by 5.67% due to performance across various City properties. She stated that licenses and permits were projected to grow by 7.3% due to increases in residential and commercial development activity. She explained that growth in fines, penalties, and dues was attributed to administrative citations.

Budget Manager Nguyen then provided an overview of expenditures. She stated that the FY 2025–26 budget totaled \$35.13 million. As of the second quarter, she noted that staff projected additional expenditure savings of \$1.7 million, largely due to position vacancies and reduced spending in contract services and capital expenditures.

Budget Manager Nguyen stated that unrestricted General Fund revenues were projected to total \$12.9 million at the end of fiscal year 2026, which represented a \$2.6 million increase over first-quarter projections. She stated that, consistent with prior years, staff anticipated additional budget savings as the fiscal year progressed.

Administrative Services Director/Treasurer Al-Imam confirmed that the \$12.9 million figure represented the forecast for the fiscal year.

Committee Member Collopy asked about the source of information regarding TOT decreases and reduced hotel activity.

Administrative Services Director/Treasurer Al-Imam responded that the City reviews TOT receipts remitted by hotels and monitors anomalies monthly through direct outreach. He reiterated that staff had received feedback indicating decreases in international tourism, though some categories, such as dining, remained strong.

Committee Member Kramer questioned the projected TOT decrease. He stated that his observation of hotel performance did not align with declines reflected in the City's projections and recommended that staff update the estimate based on more recent actuals.

Administrative Services Director/Treasurer Al-Imam stated that staff would re-evaluate TOT projections in April in conjunction with the next budget review.

Committee Member Cashion asked whether the \$12.9 million figure represented the forecast for the fiscal year.

Administrative Services Director/Treasurer Al-Imam confirmed that it did.

Committee Member Kramer stated that it would be beneficial for the City Council to develop clearer public messaging regarding the need for a new Police Station, including the deficiencies of the current facility and the programming requirements for a replacement. He recommended consideration of a dedicated savings account or earmarked fund to support the project and demonstrate long-term commitment.

Administrative Services Director/Treasurer Al-Imam stated that the upcoming Financial Forecast Presentation (FFP) in April would provide greater clarity regarding annual set-asides, which currently total approximately \$6 million for facilities, including public safety infrastructure. He noted that the primary funding for a new Police Station would likely come from property sales and developer fees, with the possibility of short-term financing if required for cash-flow timing.

Committee Member Kenney raised the issue of the City's pension paydown strategy and the approach to ongoing contributions once the unfunded liability reaches approximately 90%. He discussed market volatility and the potential fiscal impacts of significant investment fluctuations on the City's liability position.

Administrative Services Director/Treasurer Al-Imam noted that the CalPERS portfolio had strongly performed year-to-date, but emphasized the uncertainty of long-term market conditions.

Chair Stapleton opened public comments.

Ms. Curran provided public comment and requested clarification regarding the differences between planned and actual revenue figures and asked when projected numbers become actuals. She inquired about the labeling of projections versus actuals, noting that once the books are closed in October for the fiscal year ending June 30, the City will have actual figures. She asked when current reports continue to reflect projections rather than actuals.

Administrative Services Director/Treasurer Al-Imam responded that while actual data exists internally, the report presents projections for clarity and consistency, incorporating known results and anticipated year-end outcomes into a unified forecast, closing on June 30th.

Ms. Curran suggested that for readability, reports should clearly distinguish between actual figures and projected amounts, with appropriate labeling for each column. She asked how long it takes to close the books for the first quarter and raised questions about the sensitivity analysis between operating revenues and operating expenditures.

Ms. Curran requested greater clarity regarding the assumptions underlying the projected \$12 million variance and asked which components carry a higher probability of occurring. She indicated that additional narrative context explaining the likelihood of various revenue and expenditure assumptions would enhance the overall presentation.

Administrative Services Director/Treasurer Al-Imam responded that the City typically concludes the fiscal year with a surplus in the range of \$20 to \$25 million and expects the current projection to increase accordingly.

Ms. Curran noted the absence of Visit Newport Beach financial reporting in the work plan. She stated that over the years the City Council and Finance Committee have emphasized transparency and accountability regarding Visit Newport Beach financial performance and expressed surprise that the current work plan does not include regular reporting. She suggested that quarterly updates would be appropriate, given the financial significance of the organization and its role in marketing the City.

Chair Stapleton closed public comments.

Chair Stapleton received and filed the item.

There was no further discussion on the item.

C. WORK PLAN REVIEW

Recommended action:

Receive and file.

Committee Member Collopy stated that he did not see any deep-dive topics listed in the work plan. He asked whether the committee would normally have conducted a deep dive in March and whether that meeting had been cancelled.

Chair Stapleton noted that the City Council had recently discussed the matter at the City Council level and, for the time being, no deep-dive items were planned. He stated that the committee already had a full agenda for April and that its primary responsibility in May would be review of the annual budget. He noted that the committee would not meet during the summer and that the City Council had formed an ad hoc committee to consider the future structure of the Finance Committee. He stated that deep-dive topics could be included in the future if necessary but were not planned at this time.

Chair Stapleton outlined the upcoming schedule. He stated that the committee would meet on April 16 to review the Facilities Financial Plan (FFP), the Harbor and Beaches Master Plan, the fiscal year fee study update, and an overview of the proposed Fiscal Year 2026–27 budget.

Chair Stapleton indicated that the committee would then meet on May 14 for follow-up discussion on the proposed budget. He explained that on May 26 there would be a joint City Council and Finance Committee meeting at which the budget would be presented to the Council.

Administrative Services Director/Treasurer Al-Imam added that the committee typically reconvened on May 28 to formally recommend approval of the budget after the City Council's review. He stated that the City Council rarely made substantive changes to the budget during the joint meeting. He suggested that the Finance Committee might instead recommend approval of the budget at the May 14 meeting, contingent on no significant modifications at the City Council level. He stated that if the City Council did not make substantive changes, the May 28th meeting might not be necessary.

Chair Stapleton noted that it should remain on the calendar in case follow-up review was required. He stated that if the City Council did make material changes, it would be appropriate for the Finance Committee to reconvene to review the revisions and provide confirmation that the changes were fiscally appropriate. He emphasized that, while the committee does not

engage in policy disputes with the City Council, it provides an important fiscal oversight function.

Chair Stapleton summarized that the committee would meet on April 16th, May 14th, and May 26th (joint meeting), with May 28 reserved as needed. He reiterated that the committee would then recess for the summer while the City Council's ad hoc committee evaluated potential future adjustments to the Finance Committee structure.

Chair Stapleton received and filed the item.

There was no further discussion on the item.

VI. AJOURNMENT

The Finance Committee adjourned at 4:05 p.m.

Attest:

Joe Stapleton, Chair
Finance Committee

Date

