

ATTACHMENT A

**INTERNAL AUDIT REPORT ON LONG TERM FUNDING STRATEGIES AND COST
RECOVERY**



Consulting Report

October 24, 2025

**CITY OF NEWPORT BEACH,
CALIFORNIA**

**LONG-TERM FUNDING
STRATEGIES AND
COST RECOVERY
ASSESSMENT**

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CONSULTING REPORT

Our assessment of the long-term funding strategies and cost recovery activities utilized by the City of Newport Beach, California (the “City”) involved developing a comprehensive understanding of the City’s practices regarding its long-term funding objectives as well as the methodologies used to allocate and recover costs from various other City funds or third-party entities. To establish this perspective, we examined relevant policy and procedure documents, as well as several reports presented to the City Council and Finance Committee over the last year relating to these activities. In addition, we interviewed key City staff to ensure a clear and accurate understanding of the City’s approach and intentions regarding the measures it takes to identify its long-term funding needs, the actions taken to allocate resources recommended by the planning efforts, and its cost recovery strategies.

After obtaining our understanding of the current funding strategies, our objective was to assess the adequacy of the City’s current practices used to identify and evaluate those areas requiring long-term financial planning or cost recovery efforts. Additionally, we examined the actions taken by the City to determine if those practices align with the adopted funding policies and the funding recommendations developed for each long-term funding strategy. In doing so, we also assessed the extent to which the City’s practices reflect recognized best practices in public financial management based on our experience working with various municipalities over the last thirty years. Our assessment of each element of these plans is discussed in detail in this report.

Our work was predicated on the American Institute of Certified Public Accountants’ Statement on Standards for Consulting Services framework and adapted to include the experience and perspective of the engagement team. We believe our methodology, including review of various documentation and interviews with key staff, provides a reasonable basis for our conclusions. A high-level summary of themes from our findings is provided below.

Our services in this engagement consisted of consulting services and do not constitute an audit, examination, review, or compilation of historical financial information conducted in accordance with generally accepted auditing standards or with other standards established by the American Institute of Certified Public Accountants (AICPA). Accordingly, we are unable to express an opinion or any other form of assurance with respect to any historical financial information. Our engagement was not designed and cannot be relied upon to disclose errors, fraud, or illegal acts that may exist. Other matters of possible interest to the City might not be specifically addressed in this report.

 **OBSERVATIONS**

Our examination of the City's long-term funding strategies and cost allocation/recovery practices demonstrated that the City has several annual processes in place to review and evaluate the funding levels required to meet long-term capital project and facility and equipment replacement objectives. The City then takes various funding actions intended to allocate resources in alignment with identified long-term priorities and timelines established through its planning efforts. Additionally, staff spend significant time each year during the budget process analyzing their allocable and recoverable costs. The results are incorporated into an update of the prior year's analyses, ensuring that costs are allocated/recovered to the extent appropriate, maximizing resources available to the General Fund for annual operations. These annual costing exercises help ensure that the City can commit the level of resources necessary to address long-term capital needs and facility or equipment replacement requirements or revisit the analysis if resource forecasts fall short.

In general, the City's practices reflect a highly attentive and focused approach to the identification and provision of the anticipated necessary resources to fund the City's long-term financial needs on a timely basis in a wide variety of areas. We found both the processes used to identify the amount of resources necessary to meet the City's long-term funding objectives, as well as the actions taken to set aside those resources, have been followed diligently for the five years that we examined and understand have been in place year after year. Additionally, the financial resources accumulated through this process have historically proven adequate to meet the long-term funding objectives of the City and appear generally sufficient to meet those needs in the years ahead under current conditions.

In performing our work, we made minor observations regarding:

- Presentation of additional years in a total amount associated with the Facilities Finance Plan; and,
- Periodic analysis of the equipment maintenance rates used to charge departments internally to actual costs incurred

Last, we found the City's cost allocation and recovery efforts to be well-managed and consistent with best practices used by local government agencies based on our experience working with local municipalities employing strong financial management practices. The annual update of the City's Cost Allocation Plan and the Fees and Charges Study helps ensure that the City is recovering (or allocating) the appropriate amount of costs, which then makes available the greatest amount of resources to address its long-term funding priorities. Further, using a specialized consultant for this work helps ensure that the work is completed thoroughly, accurately, and without bias, making the final product better able to withstand any scrutiny when adopted. Additionally, updates are often not completed by cities on a regular (annual) basis which makes the adoption process more difficult than if updates are brought forward on a timely basis. The City's practice has been firmly committed to regular updates.

SUGGESTED RECOMMENDATIONS

The following suggested recommendations are offered for consideration based on the results of our assessment of the long-term funding strategies and cost allocation/recovery practices utilized by the City to manage its long-term capital and replacement needs.

Recommendation 1 - Presentation of the Facilities Finance Plan

The City currently presents the FFP to the Finance Committee with an outlook of five years, while the plan encompasses a 40-year analysis of sources and uses of anticipated funding. The City should consider presenting information that includes the full 40-year period, providing the Finance Committee with a longer-term view of the City's facilities planning. Specifically, adding a single column titled "Future Years" representing years 6 – 40 of the plan maintains the primary focus on the first five-years, but the Finance Committee is then also advised of the longer termed portion of this planning effort and any identified imbalances between capital needs and available resources in the later years of the plan.

Management Response:

Management agrees with the recommendation. We recognize the value in providing the Finance Committee with a longer-term perspective on the City's facilities planning. Staff will incorporate a "Future Years" column representing years 6–40 in future presentations of the Facilities Finance Plan. This approach will maintain focus on the near-term five-year outlook while providing visibility into the long-term funding projections and potential gaps between anticipated capital needs and available resources. Implementation is expected for the next annual update of the plan.

Recommendation 2 - Updating Equipment Maintenance Rates

Public Works provides fleet and equipment maintenance services to the City departments. It does so through the development of rates charged to user departments as maintenance services are used. For the equipment maintenance function, user charges are based on the time required to perform a specific maintenance job. This ensures that each department pays its fair share of the operating costs associated with the City's internal auto warehouse and repair garage. We noted during our conversation with City staff that the rates charged for time are updated by a CPI factor annually but have not been analyzed in comparison to actual costs for several years. It is recommended that the City periodically perform an analysis comparing the rates charged to the actual costs incurred to validate their accuracy.

Management Response:

Management agrees with the recommendation. City staff will perform a comprehensive review of equipment maintenance rates within the next year, comparing the current user charges to actual costs incurred. This analysis will help ensure rates remain equitable and reflective of true operating costs. Going forward, staff will conduct this review periodically and adjust rates as necessary to maintain alignment with cost recovery objectives.

APPENDIX A

The documents examined during this engagement are listed below.

| NO. | DOCUMENT |
|-----|--|
| 1 | General Fund Long-Range Fiscal Forecast FY 2026-FY 2045 |
| 2 | Tidelands Fund Long-Range Fiscal Forecast FY 2026-FY 2045 |
| 3 | Harbor Beach Master Plan Financial Planning Programs Policy F-28 |
| 4 | Facilities Financial Plan |
| 5 | Harbor and Beaches Master Plan |
| 6 | Proposed Capital Improvement Program for Fiscal Years 2025-26 to 2030-31 |
| 7 | FY 2025-26 through FY 2030-31 Capital Improvement Program – City Council Study Session Presentation |
| 8 | Facilities Financial Plan (FFP) And Harbor & Beaches Master Plan (HBMP) - Finance Committee Presentation |
| 9 | Long-Range Financial Forecast Fiscal Years 2026-2045 - Finance Committee Presentation |
| 10 | Other Post-Employment Benefits Actuarial Valuation Reports Update – Finance Committee Presentation |
| 11 | CalPERS Update – Finance Committee Meeting Presentation |
| 12 | General Fund and Tidelands Fund Long-Range Financial Forecast Update – Staff Report |
| 13 | Facilities Financial Plan (FFP) and Harbor and Beaches Master Plan (HBMP) – Staff Report |
| 14 | City Indirect Cost Allocation Plan Interfund Charges for Service for Fiscal Year 2025-2026 |
| 15 | FY2025-2026 Schedule of Rents, Fines, and Fees |
| 16 | Debt Management Policy |
| 17 | Debt Service Estimate 2025-2026 |
| 18 | General Fund Surplus Utilization Policy |
| 19 | Reserve Policy |
| 20 | City of Newport Beach Annual Budget Fiscal Year 2025-2026 |
| 21 | Fiscal Year 2023-2024 Financial Statement |