



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA - Final

Community Room - 100 Civic Center Drive, Newport Beach, CA 92660

Thursday, November 14, 2024 - 3:00 PM

Finance Committee Members:

Joe Stapleton, Mayor Pro Tem / Chair
Will O' Neill, Mayor
Noah Blom, Council Member
Allen Cashion, Committee Member
William Collopy, Committee Member
Keith Curry, Committee Member
Nancy Scarbrough, Committee Member

Staff Members:

Grace K. Leung, City Manager
Jason Al-Imam, Finance Director/Treasurer
Shelby Burguan, Deputy Finance Director
Marlene Burns, Buyer

NOTICE REGARDING PRESENTATIONS REQUIRING USE OF CITY EQUIPMENT

Any presentation requiring the use of the City of Newport Beach's equipment must be submitted to the Finance Director/Treasurer 24 hours prior to the scheduled Finance Committee meeting.

NOTICE REGARDING PUBLIC PARTICIPATION

Questions and comments may also be submitted in writing for the Finance Committee's consideration by sending them to Jason Al-Imam, Finance Director/Treasurer, at jalimam@newportbeachca.gov. To give the Finance Committee adequate time to review your questions and comments, please submit your written comments by no later than 5 p.m. the day prior to the Finance Committee meeting. All correspondence will be made part of the record.

NOTICE TO THE PUBLIC

The Finance Committee meeting is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that their agenda be posted at least twenty-four (24) hours in advance of each special meeting and that the public be allowed to comment on agenda items before the Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Chair 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) 644-3127 or jalimam@newportbeachca.gov.

I. CALL MEETING TO ORDER

II. ROLL CALL

III. PLEDGE OF ALLEGIANCE

IV. 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 three (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.

V. **CONSENT CALENDAR**

A. **MINUTES OF OCTOBER 10, 2024**

Recommended Action:

Approve and file.

[DRAFT MINUTES OF OCTOBER 10, 2024](#)

[5A1 CORRESPONDENCE DRAFT MINUTES 10102024](#)

VI. **CURRENT BUSINESS**

A. **INTERNAL AUDIT PROGRAM UPDATE**

Summary:

The Finance Department established an Internal Audit Program in 2020 to help management maintain a comprehensive framework of internal controls. Internal audits are performed each year in connection with a recent internal control risk assessment. This report provides an update on internal audit activities to date and also recommends that a new internal audit risk assessment be performed in 2025.

Recommended Action:

Receive and file.

[STAFF REPORT](#)

[ATTACHMENT A](#)

[ATTACHMENT B](#)

[ATTACHMENT C](#)

[6A1 STAFF PRESENTATION](#)

B. **OPEB ACTUARIAL VALUATION REPORT UPDATE**

Summary:

Staff will provide the Committee with an overview of the Fiscal Year 2023-24 actuarial valuation report prepared by the City's actuary.

Recommended Action:

Receive and file.

[STAFF PRESENTATION](#)

C. CALPERS UPDATE

Summary:

Staff will provide the Committee with an update on the City's pension funded status based on the most recent actuarial valuation report provided by CalPERS in July 2024.

Recommended Action:

Receive and file.

[STAFF PRESENTATION](#)

D. FIRST QUARTER BUDGET UPDATE

Summary:

The Finance Department prepares quarterly financial reports to review the status of revenues and expenditures for the City's General Fund and to monitor budgetary trends in other City funds. This report contains information on revenues, expenditures, and estimated fund balance for the first quarter of Fiscal Year 2024-25. The FY 2024-25 first quarter financial report provides an analysis of the City's financial activity from July through September 2024. A \$5.0 million unrestricted General Fund operating surplus is projected for FY 2024-25 based on information currently available for the end of the first quarter. Recommended budget adjustments for revenues and expenditures are outlined in this report and will be reflected in the proposed first quarter budget amendment.

Recommended Action:

Review and discuss the report on the first quarter of Fiscal Year 2024-25 and provide any recommendations for consideration by the City Manager and City Council.

[STAFF REPORT](#)

[6D1 STAFF PRESENTATION](#)

E. 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.

[WORK PLAN](#)

VII. ADJOURNMENT

I. CALL MEETING TO ORDER

The meeting was called to order at 3:00 p.m. by Mayor Pro Tem/Chair Stapleton.

II. ROLL CALL

PRESENT: Joe Stapleton, Mayor Pro Tem/Chair
Allen Cashion, Committee Member
Keith Curry, Committee Member
Nancy Scarbrough, Committee Member
William Collopy, Committee Member

ABSENT: Will O'Neill, Mayor (excused)
Noah Blom, Councilmember (excused)

STAFF PRESENT: Grace K. Leung, City Manager
Jason Al-Imam, Finance Director/Treasurer
Shelby Burguan, Deputy Finance Director
Marlene Burns, Buyer
Dave Webb, Director of Public Works
Theresa Schweitzer, Public Works Finance/Administrative Manager
Michael Sledd, Deputy Public Works Director/Municipal Operations

MEMBERS OF THE PUBLIC: Charles Klobe
Jim Mosher

III. PLEDGE OF ALLEGIANCE

Committee Member Nancy Scarbrough led the Pledge of Allegiance.

IV. PUBLIC COMMENTS

A. ADDITIONAL MATERIALS RECEIVED

Mayor Pro Tem/Chair Stapleton opened public comments.

Jim Mosher, Newport Beach resident, complimented the Finance Department for completing and posting the adopted budget on the website and suggested an electronic table of contents would be a useful improvement. Additionally, Mr. Mosher commented on the City Council study session held in August on development impact fees, noting that he did not recall that ever came to the Finance Committee. He also advised the Committee that on Tuesday, October 8th an item was brought forward at the City Council meeting to establish the in-lieu park dedication fee value, which he thought might be of interest to the Committee. He also pointed out that the development impact fees would be brought back to the City Council at a future date, which he suggested should come back to the Committee for further discussion.

Finance Director/Treasurer Jason Al-Imam noted that there is a table of contents on page five of the document. Mr. Mosher clarified his suggestion was for electronic bookmarks within the document.

Seeing no others, Mayor Pro Tem/Chair Stapleton closed public comments.

V. CONSENT CALENDAR

A. MINUTES OF SEPTEMBER 12, 2024

Recommended Action: Approve and file.

MOTION: Committee Member Keith Curry moved to approve the minutes of September 12, 2024, as amended, seconded by Committee Member Cashion. The motion carried as follows:

AYES: Cashion, Curry, Scarbrough, Stapleton
NOES: None
ABSENT: Blom (excused), O'Neill (excused)
ABSTAIN: Collopy

VII. CURRENT BUSINESS

A. OVERVIEW OF PUBLIC WORKS DEPARTMENT BUDGET

Recommended Action: Receive and file.

Dave Webb, Director of Public Works began the presentation by stating there are 97 full-time employees and 12.5 part-time employees, with several active contract resources. There are three main divisions: Engineering Services, Municipal Operations, and Administration. Public Works is responsible for infrastructure planning, design, construction, management, operation, and maintenance of City facilities.

Director Webb indicated that the Public Works Department is responsible for developing and maintaining City infrastructure master plans. Committee Member Collopy inquired whether the master plans require City Council approval or whether the master plans are used for internal course guidance. Director Webb responded that both are correct. For example, the Water Master Plan is brought forward to the City Council for review and approval, which impacts water rates since the Water Master Plan includes capital items that need to be funded from water rates to pay for those capital improvements.

Theresa Schweitzer, Public Works Finance/Administrative Manager, presented the financial overview of how the operating budget has grown since 2020 relative to the increase in staff. The budget has grown 30% since 2020, while staffing has grown 4% during the same period. Increased maintenance and operating costs make up the bulk of the increases, in part due to increased contract costs such as landscape maintenance, refuse collections, water and electricity costs and maintenance and repair costs.

Committee Member Collopy asked whether the City saved money when refuse operations were outsourced roughly 15 years ago. Committee Member Curry indicated that the City saved \$15 million when it sold its trucks to CR&R, which avoided the need to pay another \$600 thousand to replace those vehicles.

Committee Member Collopy inquired why contract costs for refuse has increased. City Manager Leung indicated that the primary reason for the increase in costs is due to State regulations related to recycling and the related mandates.

Ms. Schweitzer continued with the presentation and indicated that Public Works makes up approximately 41% of the City's budget. Contract Services and Maintenance and Repairs make up about 45% of Public Works budget, and Salaries and Benefits make up 33% of their operating budget. Ms. Schweitzer broke down the different categories within the Public Works budget and explained what expenses were included within each category.

Committee Member Collopy asked whether the department has a chart showing the components of the Public Works Operating Budget over time. It was reiterated that the chart is

a great snapshot of the department's operating budget. However, it would be meaningful for the Committee to look at each component of the department's operating budget over time. Ms. Schweitzer indicated that staff could put something together.

Ms. Schweitzer continued with the presentation and indicated that contract services make up about 22% of the operating budget. The bulk of contract services consists of janitorial services, park maintenance, and tree maintenance. However, it was pointed out that costs associated with the refuse contract are not included in contract services but instead those costs are classified as maintenance and repair. Committee Member Curry asked why the refuse contract is not part of contract services. Director Webb acknowledged that it was not in the right bucket but that it is consistent with how it has been categorized over time.

Ms. Schweitzer continued with the presentation and provided an overview of the components of the Engineering Services Division and Municipal Operations Division. Accomplishments include managing over 65 capital improvement projects each year, in which 31 projects were completed last year. 79% of those projects started within sixty days of when they were scheduled to begin. Operating statistics were also discussed, which includes the number of tons of debris and refuse removed from the beaches, number of trees trimmed, etc. Committee Member Collopy indicated that these are great work volume indicators. However, it would be helpful to have some comparison. For example, how much overtime did it take to accomplish these tasks. Discussion ensued on workload volume indicators and how to best show the Public Works Department is operating in an efficient and effective manner.

A chart was discussed which shows the number of full-time employees responsible for maintenance of vehicles and equipment compared to the number of vehicles and equipment maintained over a fifteen-year period. It was noted that facility maintenance is another area where additional maintenance staff may be needed in the future upon the completion of the new Lecture Hall and the Newport Bay Trash Wheel. Primary costs of the Administration Division include salaries and benefits with the balance largely spent on maintenance and operations.

Public Works brings in approximately \$5 million dollars in revenue each year from recycling service fees, permit and inspection fees, and transfer station rental fees. Future budget related considerations include citywide facilities maintenance, fleet electrification mandates, transportation management, infrastructure and operating impacts from new housing development, refuse/sustainability mandates, homeless response, and corresponding growth in administrative functions. It was also noted that risk management, state and federal oversight/regulations, material cost and availability, and staff retention and recruitment are major factors in future budget needs.

Mayor Pro Tem/Chair Stapleton commented it would be helpful to see a breakdown of each category over time and compare it to previous budgets so they could evaluate the increases of each in addition to the snapshot of the entire budget. That would also be the best way to examine the cost of personnel needed as it relates to services provided and how much overtime is being utilized. Director of Public Works Dave Webb responded more staff are needed on the beaches and the streets due to response times during and after storms. Parks would mostly entail tree services after storms as opposed to possible flooding.

Committee Member Cashion inquired if there was a growing concern with respect to the scarcity of sand for beach replenishment. Director Webb acknowledged that there is a growing scarcity of sand for beach replenishment, which is a concern. However, the City works with County, State and Federal partners to ensure that local sources of sand are preserved for beach replenishment.

Committee Member Nancy Scarbrough commented that she and the Chair attend the Water Quality Tidelands Committee where the beach sand is addressed and discussed on a monthly basis.

Mayor Pro Tem/Chair Stapleton opened public comments.

Mr. Jim Mosher, Newport Beach resident, spoke about plastic recycling and at a recent meeting it was stated that less than 5% of all plastic gets recycled. Additionally, the pie chart indicates that 7% are paying other departments for services supplied Public Works, which are part of the Internal Service Funds; Mr. Mosher inquired if Public Works delivers services to other departments that fall under Internal Service Funds and commented on the organizational chart and the lack of staff under Chris Miller; and asked if there is a formal procedure for evaluating and considering the advantages of in-sourcing.

Director Webb explained that Chris Miller was added to the Harbor Department specifically to consider adding a new dock, and to work on the legislative side such as overseeing the dredging project that is underway. Chris is the liaison for the Army Corp of Engineers. As it relates to in-sourcing, evaluating and considering the advantages of in-sourcing would generally be a Council Policy direction if they felt it was warranted. However, staff also reviews opportunities for in-sourcing.

Finance Director/Treasurer Jason Al-Imam also added that the City has an Equipment Fund, which is an Internal Service Fund in which internal service charges are charged to other departments to recover costs associated with equipment and vehicle maintenance and repairs.

Seeing no other comments, Mayor Pro Tem/Chair Stapleton closed public comments.

Mayor Pro Tem/Chair Stapleton filed and received the report.

B. YEAR END BUDGET RESULTS AND SURPLUS ALLOCATION

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

Finance Director/Treasurer Jason Al-Imam reported that in May 2024, an unrestricted General Fund operating surplus of \$8.9 million was projected for Fiscal Year 2023-24 based on revenues and expenditures throughout the third quarter. Information available at the end of the fourth quarter indicated an unrestricted General Fund operating surplus of \$10.8 million is projected for FY 2023-24, which is \$1.9 million higher than previously projected. Council Policy F-5 requires 50% to be used to address long-term obligations and 50% to be used to address infrastructure or neighborhood capital improvement. However, since the City pre-funded surplus funds at the beginning of the fiscal year towards paying down the pension liability, it is recommended that the entire unrestricted surplus be allocated towards infrastructure or neighborhood capital improvements.

Deputy Finance Director Shelby Burguan reported the fourth quarter budget update for FY 2023-24 and the preliminary status of the budget after the close of the fiscal year. The FY 2023-24 General Fund expenditure budget totals \$315 million which came in at \$6 million higher than expected. Additional revenues include property taxes, investment earnings, services fees and charges, parking revenue, and intergovernmental revenues. Spending trends in FY 2023-24 are consistent with prior years and do not indicate any cause for concern. Total expenditure savings of \$9.6 million are projected at this time due largely to savings from vacancies as well as savings in contract services. The unaudited actuals include the encumbrances carried forward into FY 2024-25, which draw from the FY 2023-24 budget. The City continues to be in excellent financial health. Conservative budgeting and sound financial policies have resulted in a trend of General Fund operating surpluses and strong reserve levels for several years. The

City is well positioned to continue delivering high levels of services to the community while targeting surplus resources to key priorities each year. A \$15.8 million operating surplus for the General Fund is projected for Fiscal Year 2023-24, which is net of non-operating activity that includes one-time transfers out of the General Fund as well as the addition to the Contingency Reserve (pursuant to City Council Policy F-2).

The City Council has approved three budget amendments in Fiscal Year 2024-25, which allocate a portion of the Fiscal Year 2023-24 year-end surplus. The City's financial records are undergoing a customary audit review. Therefore, the financial information presented in this report is preliminary in nature and subject to adjustments as the year-end closing process continues through December. Adjustments are not expected to have a material impact on the financial information presented in this report. If any material adjustments related to Fiscal Year 2023-24 are subsequently recorded, any such adjustments will be reported to the Finance Committee.

Per Council Policy F-5, "roughly fifty percent (50%) of the Budget Surplus Funds shall be used to address long-term obligations such as pension liabilities, other post-employment benefits, bonded debt, lease obligations and other long-term needs" and "roughly fifty percent (50%) of the Budget Surplus Funds shall be used to address infrastructure or neighborhood capital improvements." However, since the City pre-funded surplus funds at the beginning of the fiscal year towards paying down the pension liability, it is recommended that the entire unrestricted surplus be allocated towards infrastructure or neighborhood capital improvements.

Committee Member Scarbrough inquired about maintenance and repairs, which has a 12% variance in the staff report. The staff report indicates that there is increased maintenance needed at various facilities as well as fire stations. It was questioned whether this increase is across the board. Deputy Finance Director Burguan acknowledged that the increase in maintenance and repairs is being seen across the board.

Committee Member Collopy commented he would agree to wave Council Policy F-5 for the year, but would recommend it not be eliminated entirely, and consider it on a year-to-year basis.

Mayor Pro Tem/Chair Stapleton opened public comments, seeing none he closed public comments.

MOTION: Committee Member William Collopy, moved to recommend that the City Council waive Policy F-5 for the year and review it year by year, seconded by Committee Member Keith Curry. The motion carried as follows:

AYES: Cashion, Collopy, Curry, Scarbrough, Stapleton
NOES: None
ABSENT: Blom (excused), O'Neill (excused)
ABSTAIN: None

C. BUDGET AMENDMENTS FOR QUARTER ENDING SEPTEMBER 30, 2024

Recommended Action: Receive and file.

Mayor Pro Tem/Chair Stapleton opened public comments.

Seeing none, Mayor Pro Tem/Chair Stapleton closed public comments and received and filed the report.

D. WORK PLAN REVIEW

Recommended Action: Receive and file.

The next Finance Committee meeting will take place on Thursday November 14, 2024. There will be a recess in December and the meetings will resume in January.

VII. ADJOURNMENT

The Finance Committee meeting adjourned at 4:19 p.m.

Attest:

Joe Stapleton, Mayor Pro Tem/Chair
Finance Committee

Date

DRAFT

Burns, Marlene

From: Schweitzer, Theresa
Sent: November 14, 2024 11:43 AM
To: Burns, Marlene
Subject: Minutes for FC

Hi Marlene,

I noticed here it says Chris is part of Harbor Department, but he is PW. Also not sure about the “to consider adding a new dock”.

Mr. Jim Mosher, Newport Beach resident, spoke about plastic recycling and at a recent meeting it was stated that less than 5% of all plastic gets recycled. Additionally, the pie chart indicates that 7% are paying other departments for services supplied Public Works, which are part of the Internal Service Funds; Mr. Mosher inquired if Public Works delivers services to other departments that fall under Internal Service Funds and commented on the organizational chart and the lack of staff under Chris Miller; and asked if there is a formal procedure for evaluating and considering the advantages of in-sourcing.

Director Webb explained that Chris Miller was added to the Harbor Department specifically to consider adding a new dock, and to work on the legislative side such as overseeing the dredging project that is underway. Chris is the liaison for the Army Corp of Engineers. As it relates to in-sourcing, evaluating and considering the advantages of in-sourcing would generally be a Council Policy direction if they felt it was warranted. However, staff also reviews opportunities for in-sourcing.

Finance Director/Treasurer Jason Al-Imam also added that the City has an Equipment Fund, which is an Internal Service Fund in which internal service charges are charged to other

Thank you!



Theresa Schweitzer
Finance / Administrative
Manager
Public Works
Office: 949-644-3335
100 Civic Center Dr.
Newport Beach, CA 92660





**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 6A
November 14, 2024

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Jason Al-Imam, Finance Director/Treasurer
949-644-3123, jalimam@newportbeachca.gov

SUBJECT: INTERNAL AUDIT PROGRAM UPDATE

SUMMARY:

The Finance Department established an Internal Audit Program in 2020 to help management maintain a comprehensive framework of internal controls. Internal audits are performed each year in connection with a recent internal control risk assessment. This report provides an update on internal audit activities to date and also recommends that a new internal audit risk assessment be performed in 2025.

RECOMMENDED ACTION:

Receive and file.

DISCUSSION:

The current program was initiated in 2020 with an enterprise risk assessment and initial evaluation of internal control risks, which was presented to the Finance Committee on September 24, 2020. These processes served as the primary building blocks to inform and develop workplans to further assess and test internal controls, conduct performance audits, and provide management consulting services when appropriate.

On July 23, 2024, the City Council approved two, five-year contracts with Eide Bailly and The Pun Group to perform internal audit services following a Request for Proposals, which solicited proposals from qualified firms to provide a review of internal controls and on-call management consulting services in connection with the City's internal audit program. In July 2024, the City issued an informal request for proposals to Eide Bailly and The Pun Group, which identified four areas of focus based on the final remaining topics that were identified during the 2020 risk assessment: Financial Reporting;

Assessment of Budgeting Practices; Finance Customer Service Operational Assessment; and Business Continuity and Disaster Planning Assessment. On August 12, 2024, the following work was awarded to The Pun Group and Eide Bailly:

Area of Focus	Task Resource	Not-to-Exceed Cost
Financial Reporting	The Pun Group	\$ 45,000
Budgeting	Eide Bailly	\$ 38,500
Finance Customer Svc. Operational Review	Eide Bailly	\$ 53,500
Total Awarded		\$137,000

The budget for the four areas of focus was \$150,000. The Pun Group proposed \$45,000 for the fourth topic whereas Eide Bailly proposed \$35,000. Since the three topics that were awarded to the two audit firms amounted to \$137,000, the remaining budget of \$13,000 was insufficient to cover the fourth topic (Business Continuity and Disaster Planning Assessment). However, the First Quarter Budget Update identified expenditure savings, which the City Manager is authorized to reallocate to fund the fourth topic. Therefore, staff plans to initiate the Business Continuity and Disaster Planning Assessment during the current fiscal year utilizing expenditure savings to fund the budget shortfall. Additionally, staff plans to solicit proposals from firms that have extensive experience with Business Continuity and Disaster Planning Assessments. Therefore, the fourth topic will not be performed by The Pun Group or Eide Bailly and instead will be conducted by a consultant that specializes in this type of work.

Current Progress on the 2020 Internal Audit Workplan

The following outlines the progress on the internal audit workplan:

	Key Control	Progress	Task Resource
1	Purchasing and Contract Management	Complete	MGO
2	Cash, Billing, Collections, and Accounts Receivable	Complete	Moss Adams
3	Information Technology – System Security, Help Desk, Workflow, System Support and Monitoring	Complete	Moss Adams
4	Fiscal Policy Inventory & Implementation Plan	Complete	Moss Adams
5	Inventory Management	Complete	Moss Adams
6	Accounts Payable and Disbursement	Complete	Moss Adams
7	Payroll	Complete	Moss Adams
8	Fixed Asset Management	Complete	Moss Adams
9	Police Property & Evidence Internal Controls	Cancelled	N/A
10	Financial Reporting	Complete	Pun Group
11	Assessment of Budgeting Practices	Complete	Eide Bailly
12	Business Continuity & Disaster Planning Assessment	Temporarily Postponed	N/A
13	Finance Customer Service Operational Assessment	Complete	Eide Bailly

Of the workplan items identified in the previous table, items 10, 11, and 13 were recently completed. The final reports are attached to this staff report. Management's responses to the internal audit findings and related recommendations are incorporated within each internal audit report. An overview of each internal audit report is provided below.

Financial Reporting

City staff retained The Pun Group to examine the financial reporting function, which involved a comprehensive assessment of the year-end close process, the process of journal entry processing, the maintenance of the chart of accounts, and the preparation, review and approval of Annual Comprehensive Financial Reports. The auditors also determined whether account reconciliations are performed on a routine basis. The assessment process included interviews with key City staff, process walkthroughs, and analysis of sample documentation.

As outlined in the report, the assessment resulted in recommendations for improvement related to the Manual Journal Entry Process, Chart of Account Maintenance, and the Timeliness and Accuracy of Bank Reconciliations.

Although The Pun Group identified opportunities for improvement, the auditors noted that the City has developed a comprehensive year-end close checklist and memorandum, as well as a timeline that identifies roles and responsibilities.

Assessment of Budgeting Practices

City staff retained Eide Bailly to examine the budgeting function, which involved a comprehensive assessment of all aspects of the budget operation – pre-development efforts, the budget development process, monitoring of the budget after adoption, and periodic reporting of budget status (versus year-to-date actual activity) throughout the year. The auditors also explored other fiscal management matters related to the budget including the City's Capital Improvement Program preparation process, the Long-Range Financial Forecast (LRFF), and the Reserve Policy and practices. The objective of this examination was to assess the effectiveness of the current budget practices and to identify any efficiencies that could enhance the current practices and to make recommendations accordingly. This assessment process included interviews with key City staff, an examination of existing policies and procedures, and examining financial reports used to communicate budget status.

As outlined in the report, the assessment resulted in recommendations for improvement related to Budget Development Efficiencies, the LRFF, Budget Validation in Accounts Payable Processing, and Performance Measurement.

Although Eide Bailly identified opportunities for improvement, the auditors noted that the City of Newport Beach has a robust, well-timed budget development process that provides numerous opportunities for input from all stakeholders to impact the allocation

of resources to the various City priorities. It was also noted that the quarterly reporting of the budget status to the Finance Committee and City Council is a well-established process in which Budget staff and department representatives work together to develop and communicate the position of actual revenues and expenditures in relation to what was anticipated in the budget.

Finance Customer Service Operational Assessment

City staff retained Eide Bailly to examine the customer service activity of the Revenue Division within the Finance Department, which involved a comprehensive assessment of the division's structure, use of allocated resources, staffing levels, and documented or undocumented policies and procedures used within the division. The objective of this assessment was to evaluate the efficiency with which the duties are performed, and the level of customer service provided in performing those duties. The assessment process included interviews with key staff and a review of existing procedural documentation to evaluate the operating efficiency of its operations.

As outlined in the report, the assessment resulted in recommendations for improvement related to Performance Measures, Documentation, Manual Processing, and Utility and General Billing.

Although Eide Bailly identified opportunities for improvement, the auditors noted that significant attention is paid to the customer service delivery, which reflects the high standards of the City. Although there were instances in which efficiency or service levels may be enhanced, these are exceptions. Therefore, it is clear that the division is focused on the delivery of service to its customers.

Internal Audit Risk Assessment

The current internal audit program was initiated in 2020 with an enterprise risk assessment and initial evaluation of internal control risks. These processes served as the primary building blocks to inform and develop an internal audit workplan. Since the final remaining item on the 2020 internal audit workplan will be completed by a consultant that specializes in business continuity and disaster planning assessments, it is recommended that a new enterprise risk assessment and evaluation of internal control risk be performed in 2025, which will serve as the primary building blocks to inform and develop a new internal audit workplan. If the Finance Committee supports embarking on a new internal audit risk assessment and evaluation of internal control risks, an informal request for proposals will be sent to Eide Bailly and The Pun Group in 2025, which will outline internal audit work to be performed next year.

Prepared and Submitted by:

/s/ Jason Al-Imam

Jason Al-Imam
Finance Director/Treasurer

ATTACHMENTS:

Attachment A – Report on Financial Reporting

Attachment B – Report on the Assessment of Budgeting Practices

Attachment C – Report on Finance Customer Service Operational Assessment

ATTACHMENT A
REPORT ON FINANCIAL REPORTING

City of Newport Beach

Newport Beach, California

Internal Audit Report on Financial Reporting

November 5, 2024



**City of Newport Beach
Internal Audit Report**

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EXECUTIVE SUMMARY

The Pun Group LLP (“the Pun Group”, “We”, “Ours”, or “Us”) was contracted by the City of Newport Beach, California (the “City”) to conduct an internal audit of the City’s Financial Reporting function to evaluate associated process and controls. This includes reviewing the Year-End Close process, the process of Journal Entry Processing, the Chart of Accounts Maintenance, and the Preparation, Review and Approval of Annual Comprehensive Financial Reports, and determining whether the Account Reconciliations are performed on a routine basis. The City’s Finance Department is comprised of multiple divisions including Budget, Accounting, Revenue and Purchasing. Each division has distinct responsibilities and collaborates closely to strengthen internal controls over the City’s Financial Reporting Function. The review work took place between September 2024 through October 2024.

This engagement was performed in accordance with Standards for Consulting Services established by the American Institute of Certified Public Accountants. Accordingly, we provide no opinion, attestation, or other form of assurance with respect to our work or the information upon which our work is based. This report was developed based on information gained from our interviews, process walkthroughs, and analysis of sample documentation. The procedures we performed do not constitute an examination in accordance with generally accepted auditing standards or attestation standards.

We greatly appreciate and thank the input of the City’s Finance Department during this process.

FINDINGS AND RECOMMENDATIONS

Finding #1 – Manual Journal Entry Process

Findings:

We used a statistical method to randomly choose 25 samples and judgmentally selected 3 additional samples for testing. The table below summarizes our selections.

Type of the Entry	Munis Code	Number of Transactions Tested	%
Manually Entered Budget Amendments	BUA	5	17.86%
Manually Entered Actual Transactions Related	GEN	13	46.43%
Imported Entries	GNI	10	35.71%
	Total	28	100.00%

During our testing of the manual journal processing, the following observations related to control activities were noted:

- Delays in recording manual journal entries were observed. This could potentially affect the accuracy of the financial statements and decision-making. The table below summarizes our result.

Number of Days from the Actual Posting Date to the Effective Date	Number of Transactions Tested
with in 30 days	16
between 31 days to 60 days	8
Between 61 days to 90 days	3
Between 91 days to 120 days	0
Between 121 days to 150 days	0
Between 121 days to 180 days	0
Between 181 days to 210 days	1
	28

Recommendation:

We recommend that the City establish a formal procedure for the manual journal entry process, outlining how to prepare, review, and approve entries. We also recommend that the City establish strict timelines for the recording of manual journal entries. This includes monitoring compliance with these timelines and ensure that any delays are addressed promptly.

Management Response:

The City concurs with the recommendation that a formal procedure be established surrounding the journal entry process, which shall set forth a timeline for the recording of journal entries. However, it should be noted that the accounting division had several vacancies during Fiscal Year 2023-24, which led to delays in the completion of bank reconciliations and delays in the recording of the related journal entries. Now that the accounting division is fully staffed, the accounting division is committed to ensuring that bank reconciliations and journal entries are recorded in a timely manner.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding #2 – Chart of Account (“COA”) Maintenance

Finding:

The periodic review of the chart of accounts ensures the accuracy of new accounts that have been setup and also provides an opportunity to verify that existing accounts remain relevant and accurate. In performing our procedures, it was noted that Finance Department staff perform reviews of the chart of accounts at fiscal year-end and during the quarterly budget updates. However, there is no formal evidence of these reviews of the chart of accounts.

Recommendation:

It is recommended that documentation be maintained as evidence of staff’s review of the chart of accounts at fiscal year-end and during the quarterly budget updates. In addition, it is recommended that staff perform a periodic review of an audit report that outlines new accounts that have been established in Munis.

Management Response:

The City agrees to maintain documentation of staff’s review of the chart of accounts at fiscal year-end and during the quarterly budget updates. The City also agrees to incorporate an additional form of review of the chart of accounts through the periodic review of an audit report that outlines new accounts that have been established in Munis.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding #3 – Timeliness and Accuracy of Bank Reconciliations

Finding:

During our testing of the bank reconciliation process, we noted below:

- The October 2023 bank reconciliation was completed in May 2024, roughly six months late.
- The December 2023 bank reconciliation was completed in June/July 2024 timeframe, roughly six months behind.
- The June 2024 bank reconciliation was completed in September 2024 timeframe, which was about 60 to 90 days after month end.
- There was an unreconciled variance noted from our testing. The unreconciled variance has carried over from the fiscal year ended June 30, 2020.

Recommendation:

We recommend the City implement a policy to complete bank reconciliations in a reasonable timeframe to provide reliable financial information, ideally 30 to 60 days after month end. This helps in identifying discrepancies early and ensures that records are up-to-date.

In addition, we recommend the City investigate unreconciled variances timely, ideally during the month of occurrence.

Management Response:

The City concurs with the recommendation that bank reconciliations be completed in a timely manner and that all related activity (including unreconciled variances) be resolved in a timely manner. However, it should be noted that the accounting division had several vacancies during Fiscal Year 2023-24, which led to delays in the completion of bank reconciliations and delays in the recording of the related journal entries. Now that the accounting division is fully staffed, the accounting division is committed to ensuring that bank reconciliations and journal entries are recorded in a timely manner.

COMMENDATIONS

Although the focus of this internal audit was to identify opportunities for improvement, it is important to note the areas of commendable operations. The City should be commended for the following accomplishments:

- The City has developed a comprehensive year-end close checklist and an audit assignments checklist, as well as a timeline that identifies roles and responsibilities.
- The City has developed a year-end memorandum that establishes the year-end close timeline and identifies roles and responsibilities.
- Staff Responsibility: The Finance Department team we interacted with was responsible and responsive to our requests.

We would like to thank City staff and management for their willingness to assist with this project.

ATTACHMENT B
REPORT ON THE ASSESSMENT OF BUDGETING PRACTICES

The logo for EideBailly, featuring the company name in a serif font with a stylized orange arrow graphic above it.

EideBailly®

A low-angle photograph of a dense forest of trees with vibrant green leaves, with sunlight filtering through the canopy on the right side.

**INSPIRED TO
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THRIVE**

Assessment of Budgeting Practices

**NEWPORT BEACH, CALIFORNIA
FINANCE DEPARTMENT**

EIDE BAILLY, LLP

NOVEMBER 4, 2024

Prepared by:

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Executive Summary

Our examination of the budgeting function within the Budget Division of the Finance Department in the City of Newport Beach, California involved a comprehensive assessment of all aspects of the budget operation – pre-development efforts, the budget development process, monitoring of the budget after adoption, and periodic reporting of budget status (versus year-to-date actual activity) throughout the year. The 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 also explored other fiscal management matters related to the budget including the City’s Capital Improvement Program preparation process, the Long-Range Financial Forecast (LRFF), and the Reserve Policy and practices. The objective of this examination was to assess the effectiveness of the current budget practices and to identify any efficiencies that could enhance the current practices and to make recommendations accordingly. This assessment process included interviews with key City staff, an examination of existing policies and procedures, and examining financial reports used to communicate budget status.

In general, the budget development process and subsequent monitoring and reporting is a very efficient and effective operation that serves the City well and embeds significant public presentation and opportunity for input from the Finance Committee, City Council, and interested members of the public. The process begins with a debrief of the prior year’s process giving time to incorporate changes deemed appropriate based on the experience from the prior year. Based on the interview feedback received, the interaction within and between City departments is timely and collaborative throughout the several month process. Materials presented are clear and simple to follow and Budget Division staff are always available to assist with questions or challenges. There are many time-sensitive steps throughout the process, but these are well managed, and the staff have demonstrated flexibility as special circumstances periodically arise.

Our assessment of this process is that the City of Newport Beach has a robust, well-timed budget development process that provides ample opportunity for input from all stakeholders to impact the allocation of resources to the various City priorities. Subsequent quarterly reporting of the budget status to the Finance Committee and City Council is a well-established process in which Budget staff and department representatives work together to develop and communicate the position of actual revenues and expenditures in relation to what was anticipated in the budget.

Finally, we noted additional financial tools used by the City to help manage its financial affairs in a healthy, conservative, and responsive manner. Our recommendations are noted in the following section of this report, which are offered as potential enhancements to the budget process.

Suggested Recommendations

The following suggested recommendations are offered for consideration based on the results of our assessment of the budget development process, subsequent monitoring, and periodic reporting of its status to the City Council.

Budget Development Efficiencies

During the course of completing this assessment, we noted an item that we believe merits additional consideration by City staff to determine whether there are efficiencies to be gained in the budget development process, thereby providing additional time to the Budget staff to focus their efforts on other matters or compressing the current timeline necessary to complete their work.

The Budget Division does not use the existing salary and benefits projection module within the Munis system for developing the salary and benefit budget amounts. We discussed this at length, and it appears that Munis has difficulty in handling the complexities of the City's compensation structure. The module was used previously, but at that time, and at certain points in the process, data would be exported, processed externally, and imported back into Munis. We recommend that the City reach out to the vendor (Tyler Technologies) to assist with exploring this functionality such that current staff of the Budget Division can assess whether the software can actually perform the necessary calculations required by the City's compensation structure using the guidance of an implementation advisor from Tyler Technologies.

Management's Response:

Management concurs with this recommendation. We will coordinate with Tyler Technologies to explore the functionality of the salary and benefits projection module in Munis to determine whether the software can efficiently perform the necessary calculations required by the City's compensation structure.

Long-Range Financial Forecast

Annually, the City updates its Long-Range Financial Forecast. This plan focuses strictly on the General Fund. The City should consider whether there are any other funds, particularly those that impact the General Fund, for which similar long-range forecasting would be appropriate. Specifically, we noted the Tideland fund receives a significant transfer from the General Fund every year to balance the cost of its operations. It is suggested that a more detailed analysis of the long-term fiscal health of the Tideland fund be incorporated into this annual process to better reflect in the LRFF the fiscal impact associated with the transfer to the Tideland Fund.

Management’s Response:

Management concurs with this recommendation. The Tidelands Fund will be incorporated into the Long-Range Financial Forecast to better reflect in the LRFF the fiscal impact associated with the cost allocation plan charges from the General Fund and the General Fund subsidy.

Budget Validation in Accounts Payable Processing

We noted in performing our assessment that although the final adopted budget is loaded into the accounting system, and the system cross references the budget during the Accounts Payable entry, any flags generated by the system indicating an overbudget issue are overridden by the Accounts Payable staff. We also noted that one mitigating control for this is that when purchase orders are being prepared by the Purchasing Division, they are checked for adequate budget before being approved and released. However, the City’s “direct pays” (amounts not being paid on purchase orders) are not being checked for adequate existing budget authority. It is suggested that rather than overriding budget flags, the City develop a reasonable threshold to determine which flags can be overridden by Accounts Payable staff and which ones need approval.

Management’s Response:

Management concurs with this recommendation. Procedures have been implemented, which require Accounts Payable staff to obtain approval when a budget warning is flagged in Munis over certain spending thresholds.

Performance Measurement

The City implemented performance measures as part of the Fiscal Year 2024/25 budget development process. This was begun as it is recognized as a strong practice to help evaluate the success of an operating function. It is also a requirement of the award program sponsored by the GFOA. It is recommended that the City closely monitor the results from this first year, and as it is developing this portion of the budget for subsequent fiscal periods, modify and add to the existing performance measures to further assist City Management in gathering data that helps better evaluate current operations and make adjustments as appropriate.

Management’s Response:

Management concurs with this recommendation. Annually, each department will continue to refine their performance measures to ensure that the data tracked by each department appropriately targets key performance standards.

ATTACHMENT C
REPORT ON FINANCE CUSTOMER SERVICE OPERATIONAL ASSESSMENT

The logo for EideBailly, featuring the company name in a serif font with a stylized orange arrow graphic above the 'y'.A low-angle photograph of a dense forest canopy with sunlight filtering through the leaves, creating a bright, warm atmosphere.

**INSPIRED TO
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Finance Customer Service Operational Assessment
NEWPORT BEACH, CALIFORNIA
FINANCE DEPARTMENT

EIDE BAILLY LLP

NOVEMBER 4, 2024

Prepared by:

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Executive Summary

Our examination of the customer service activity for the City of Newport Beach, California, Finance Department, Revenue Division (the “Division”) involved a comprehensive assessment of the Division’s structure, use of allocated resources, staffing levels, and documented or undocumented policies and procedures used within the Division. The objective of this assessment was to evaluate the efficiency with which the duties are performed, and the level of customer service provided in performing those duties. The 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. The assessment process included interviews with key staff and a review of existing procedural documentation to evaluate the operating efficiency of its operations. A high-level summary of our findings is provided below.

- In general, the Division’s practices reflect modern business operations for the various sections making up the Revenue Division. However, throughout the interviews conducted with the Revenue Manager and various staff members, we noted instances of inefficiency or opportunities to strengthen internal controls.
- Our procedures were not designed to document or test internal controls embedded in the department. However, our conversations were sufficiently broad to consider internal controls. We noted strong internal controls surrounding the cash receipting operation, namely segregation of duties, limited quantities of cash kept on site, and daily reconciliations related to the collection and deposit of payments received by the City.
- Eide Bailly noted significant attention is paid to the customer service delivery, which reflects the high standards of the City. Although there were instances in which efficiency or service levels may be enhanced, these are exceptions, and the Division can accurately be described as focused on the delivery of service to its customers.

Eide Bailly’s Suggested Recommendations follow.

Findings and Recommendations

The following suggested recommendations are offered for consideration based on the results of our assessment of the customer service and operational efficiency of the Finance Department's Revenue Division.

Performance Measures

During the 2024/25 budget process, the City implemented Performance Measures as a new tool to assist management with evaluation of performance in several areas. For the Revenue Division, the length of time a phone customer spends on hold before the call is answered by a staff member is tracked. The evaluation of customer service for the customers calling into the Revenue Division could be enhanced by utilizing an additional measurement of the customer's satisfaction after they have completed their transaction with the City. For instance, adding a short voluntary survey after the call in which the customer could register their level of satisfaction may provide a better sense of their feelings on the outcome of their business with the City. Additionally, for customers coming to the counter, installing a device that enables them to register their satisfaction or dissatisfaction with the service provided as they exit would gather real time data on customer satisfaction.

Management Response:

Management concurs with this recommendation. Revenue Division staff will coordinate with Information Technology Division staff on the development of a short voluntary phone survey and a customer satisfaction survey that enables walk-in customers to participate in a short customer satisfaction survey.

Documentation

In the course of our discussions with City staff, we made inquiry about the internal controls around the handling of cash within the Division. We were advised that staff are in the process of developing a policy and procedure document regarding cash handling. This is a document critical to the internal control over cash because of the greater risk of misappropriation associated with this method of payment. Staff provided Eide Bailly a copy of the current draft of the document, which we read. The policy and procedure document for handling cash is nearing completion and appears appropriate in scope based on our experience working with these policies in other organizations. We believe this process needs to be completed in the near term to provide the documented framework for staff as they execute their duties handling cash.

Management Response:

Management concurs with this recommendation. Policies and procedures surrounding cash handling will be finalized by January 31, 2025.

Manual Processing

Throughout our conversations with Revenue Division staff, Eide Bailly noted several instances of manual processing occurring in different operations. This was noted specifically in the following processes:

- Bill notices for UTOT
- Application, renewal, and various notices for the Short-Term Lodging functions
- Business Licensing applications and renewals
- Cash Receipting for UTOT, Business Licensing and Short-Term Lodging
Regulatory permits
- K-File processing for following up on unlicensed business

Modifying these processes to eliminate the existing inefficiency is recommended.

We were advised that an active system implementation is underway within the City, EnerGov, which will integrate these processes with the City's Munis financial ERP system. Staff advised that the switch to EnerGov is anticipated to bring significant efficiency and automation to these currently manual processes.

Management Response:

Management concurs with this recommendation. An item will be brought forward for City Council consideration by March 31, 2025, that recommends the purchase of the necessary Energov modules to integrate the UTOT, Business Licensing, and Short-Term Lodging processes with the City's financial ERP system (Munis). Energov is an online web-based platform that will allow for convenient electronic submission of forms and payment processing, which is expected to streamline processes and yield efficiencies for customers and City staff. If the City Council approves this purchase, Revenue Division staff will develop a project timeline for design configuration and testing with the goal of going live by October 1, 2025.

Utility and General Billing

The uncollected amounts from invoices generated for utility services or miscellaneous billings are pursued through various internal collections processes, but in some cases will remain outstanding despite staff's efforts to collect. The City performs a write off procedure annually in June of each year sending uncollected amounts to its third-party collection agency. On a quarterly basis, staff send a report of open and outstanding invoices to the departments that have requested specific billings to determine if the amounts are still considered collectible from the responsible party. For utility receivables, the required notices are sent to delinquent accounts throughout the year. These efforts to reduce the total amount of uncollected receivables occur throughout the year. It is recommended that the write off procedure occur on a basis more frequent than annual, consistent with the timing of the City's internal collection efforts for delinquent accounts. Collection agencies indicate the single most important factor in collecting these balances is getting the information as soon as possible. If this process was done semi-annually or quarterly, the City is likely to have greater success in recovering these amounts.

Management Response:

Management concurs with this recommendation. The Revenue Manager will ensure that the write-offs are performed on at least a semi-annual basis (or on a quarterly basis, if practical) beginning with write-offs for delinquent receivables as of December 31, 2024.

INTERNAL AUDIT PROGRAM UPDATE

Finance Committee Meeting – November 14, 2024



BACKGROUND

- In 2020, an enterprise risk assessment and initial evaluation of internal controls were presented to the Finance Committee, outlining 13 focus areas for future reviews.
- Eleven reviews have been completed, one was canceled, and one is temporarily postponed.
- A subject matter expert is recommended to perform the Business Continuity & Disaster Planning Assessment.



Current Progress on 2020 Internal Audit Workplan

	Key Control	Progress	Task Resource
1	Purchasing and Contract Management	Complete	MGO
2	Cash, Billing, Collections, and Accounts Receivable	Complete	Moss Adams
3	Information Technology – System Security, Help Desk, Workflow, System Support and Monitoring	Complete	Moss Adams
4	Fiscal Policy Inventory & Implementation Plan	Complete	Moss Adams
5	Inventory Management	Complete	Moss Adams
6	Accounts Payable and Disbursement	Complete	Moss Adams
7	Payroll	Complete	Moss Adams
8	Fixed Asset Management	Complete	Moss Adams
9	Police Property & Evidence Internal Controls	Cancelled	N/A
10	Financial Reporting	Complete	Pun Group
11	Assessment of Budgeting Practices	Complete	Eide Bailly
12	Business Continuity & Disaster Planning Assessment	Postponed	N/A
13	Finance Customer Service Operational Assessment	Complete	Eide Bailly

STATUS OF PRIOR AUDIT FINDINGS

Cash Handling Review

- Policies and procedures for cash handling are nearing completion.
 - These policies and procedures will provide guidance to all employees that handle cash, including those employees that are located at offsite cash receipting locations.
- Citywide training will be conducted for all employees handling cash once the formal policies and procedures are finalized.

Ongoing Review of Fiscal Policies

- Reviewing and revising various policies and procedures is an ongoing effort.



INTERNAL AUDIT PROGRAM FINDINGS

Financial Reporting

- The Pun Group was retained to examine the financial reporting function, which included a comprehensive assessment of the year-end close process, journal entry processing, the maintenance of the chart of accounts, account reconciliations, and the preparation, review and approval of Annual Comprehensive Financial Reports.
- The assessment recommended improvements to the Manual Journal Entry Process, Chart of Account Maintenance, and the Timeliness and Accuracy of Bank Reconciliations.



INTERNAL AUDIT PROGRAM FINDINGS

Assessment of Budgeting Practices

- Eide Bailly was retained to examine the budgeting function, which involved a comprehensive assessment of all aspects of the budget operation – pre-development efforts, the budget development process, monitoring of the budget after adoption, and periodic reporting of budget status throughout the year.
- The auditors also examined other fiscal matters, including the City’s Capital Improvement Program preparation process, the Long-Range Financial Forecast, and the Reserve Policy and practices.
- The assessment resulted in recommendations for improvement related to Budget Development Efficiencies, the LRFF, Budget Validation in Accounts Payable Processing, and Performance Measurement.



INTERNAL AUDIT PROGRAM FINDINGS

Finance Customer Service Operational Assessment

- Eide Bailly was retained to examine the customer service activity of the Revenue Division within the Finance Department, which involved a comprehensive assessment of the division's structure, resource allocation, staffing levels, and documented or undocumented policies and procedures used within the division.
- The assessment recommended improvements in Performance Measures, Documentation, Manual Processing, and Utility and General Billing.



2025 INTERNAL AUDIT RISK ASSESSMENT

- The current internal audit program was initiated in 2020 with an enterprise risk assessment and initial evaluation of internal control risks, which served as the primary building blocks to inform and develop an internal audit workplan.
- Since the final item on the 2020 internal audit workplan will be completed by a consultant specializing in business continuity and disaster planning assessments, it is recommended that a new enterprise risk assessment and evaluation of internal control risk be performed in 2025, to serve as the foundation for developing a new internal audit workplan.





QUESTIONS?



OTHER POST-EMPLOYMENT BENEFITS ACTUARIAL VALUATION REPORT UPDATE

Finance Committee

November 14, 2024

BACKGROUND

- The City provides eligible retirees and surviving spouses with certain retiree medical benefits, also known as other post-employment benefits (OPEB).
- Benefits vary by hire date, employment status and classification. Benefits generally fall into the following categories:
 - **Legacy Defined Benefit Plan** – up to \$450 per month is provided for eligible healthcare expenses. The legacy plan is a closed plan, which generally includes employees and retirees who were active and enrolled in the defined benefit plan as of 12/31/2005.
 - **Defined Contribution Retiree Health Savings Plan** – employee and employer contributions are required to be made to the employee’s Retiree Health Savings (RHS) account, which generally includes new hires on or after 1/1/2006. The City has no further funding obligation to the RHS plan once the City has made the required contributions.
 - **CalPERS Minimum Required Contribution (MRC)** – agencies that contract with CalPERS for health insurance coverage are required under the Public Employee’s Medical and Hospital Care Act (PEMHCA) to contribute a minimum amount for retiree health insurance (\$157/month in 2024).



IMPLICIT RATE SUBSIDY

- A portion of the City's OPEB liability is in the form of an implicit rate subsidy, which results from the pooling of non-Medicare retirees and active employees for premium purposes.
- Although retirees are solely responsible for the cost of their health insurance, retirees receive the benefit of a lower rate. The difference between these amounts is the implicit rate subsidy.
- The accounting standards require that the value of the implicit subsidy be included in the City's OPEB liability, even though these costs will be paid on a pay-as-you-go basis in the future in the form of higher premiums for active employees.
- However, the cost associated with the implicit subsidy is covered by the City's cafeteria plan contribution and is paid from the City's operating budget. Therefore, the targeted funding level is based on the value of the explicit subsidy associated with the legacy defined benefit plan and the CalPERS MRC.





OVERVIEW OF THE PARS TRUST

PUBLIC AGENCY RETIREMENT SERVICES

- In March of 2024, the City Council approved establishing an OPEB Trust with the Public Agency Retirement Services (PARS)
- Funds were transferred from the prior trust with California Employers' Retiree Benefit Trust (CERBT), which is managed by CalPERS
- The PARS OPEB Trust has an expected rate of return of 6.27% and volatility of 10.12% (which is lower than the 12.1% volatility for CERBT)



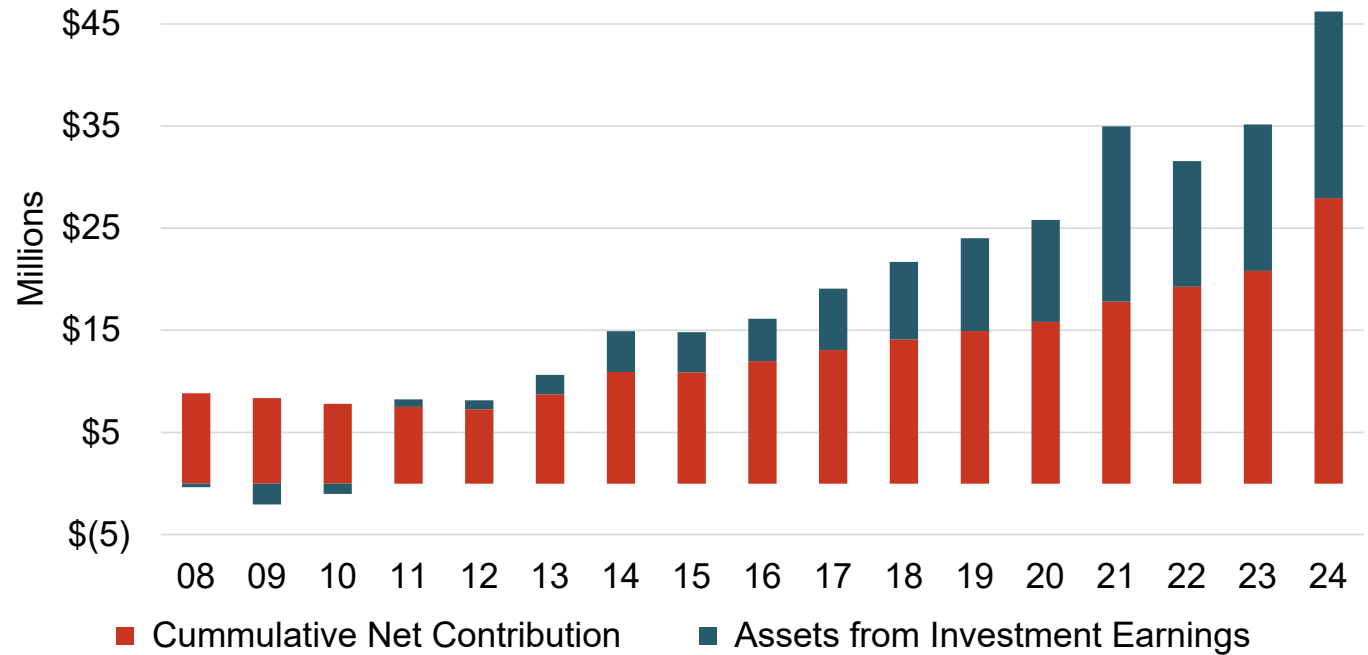
PARS BALANCED STRATEGY

Asset Class	Strategic Range
Equity Style:	
Domestic Large Cap Equity	20%-50%
Domestic Mid Cap Equity	0%-15%
Domestic Small Cap Equity	0%-20%
International Equity (incl. Emerging Markets)	0%-20%
Real Estate Investment Trust (REIT)	0%-10%
Total Equities	50%-70%
Fixed Income Style:	
Long-Term Bonds (Maturities > 7 Years)	0%-20%
Intermediate-Term Bonds (Maturities 3-7 Years)	15%-50%
Shorter-Term Bonds (Maturities < 3 Years)	0%-15%
High Yield Bonds	0%-8%
Total Fixed Income	30%-50%
Total Cash	0%-20%



HISTORICAL PERFORMANCE OF THE CITY'S TRUST ACCOUNT

- Total contributions in excess of withdrawals of \$27.9 million
- Total investment earnings (net of fees) of \$18.3 million
- Total assets of \$46.2 million at 6/30/24
- Annualized net rate of return of 5.6% from 2008-2024





2024 ACTUARIAL VALUATION REPORT

2024 ACTUARIAL VALUATION REPORT

- An actuarial valuation is completed once every two years. The most recent actuarial was completed in 2024, which had a measurement date of June 30, 2023.
- The actuarial valuation report reflects a discount rate of 6.00%



SUMMARY OF VALUATION RESULTS

- The City’s total OPEB liability decreased by \$1.1 million, which is due to benefit payments exceeding interest costs.
- Assets on hand with CERBT as of June 30, 2024 related to balances as of June 30, 2023, which were \$3.6 million higher due to a \$2.1 million gain on investments as well as a net increase in contributions to the trust of \$1.5 million.

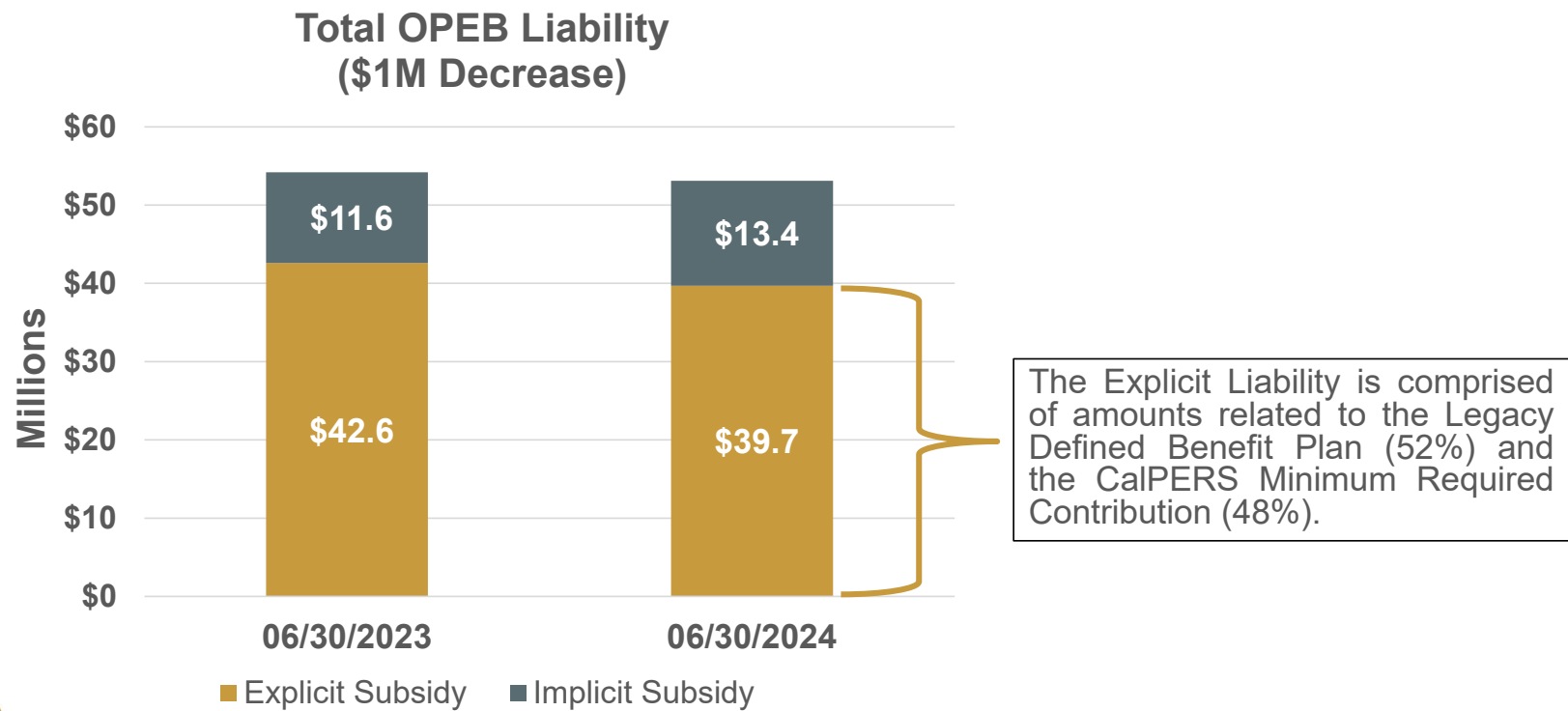
	June 30, 2023 ¹	June 30, 2024 ²
Total OPEB Liability	\$ 54,234,204	\$ 53,136,842
Trust Assets	<u>(\$ 31,569,252)</u>	<u>(\$ 35,166,853)</u>
Net OPEB Liability	\$ 22,664,952	\$ 17,969,989
Funded Percentage	58.2%	66.2%

¹ June 30, 2022 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2023.

² June 30, 2023 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2024.



CHANGES IN THE OPEB LIABILITY



TARGETED FUNDING LEVEL

- City Council Policy F-2 (Reserve Policy) requires the “new plan” be 100% funded and that the explicit portion of the “old plan” be funded over a 20-year amortization period (or less) based on the annual required contribution determined by a biennial actuarial review. Council Policy F-2 does not directly address whether funds should be set-aside for the implicit subsidy.
- Since the cost associated with the implicit subsidy is covered by the City’s cafeteria plan contribution and is paid from the City’s operating budget, the targeted funding level has been based on the value of the explicit subsidy associated with the legacy defined benefit plan and the CalPERS MRC.
- In October 2023, the City Council approved allocating \$5.8 million of the General Fund’s operating surplus for Fiscal Year 2022-23 towards paying down the City’s OPEB liability.
- The explicit subsidy is fully funded as of June 30, 2024.



FY 2024-25 IMPACT

- Since the OPEB liability is fully funded, contributions to the OPEB Trust are no longer required and Trust assets will be utilized to fund future benefit payments.
- Therefore, beginning in Fiscal Year 2024-25, annual savings totaling approximately \$4 million are expected to accrue due to the elimination of the OPEB liability.





QUESTIONS?

CALPERS UPDATE

Finance Committee Meeting – November 14, 2024





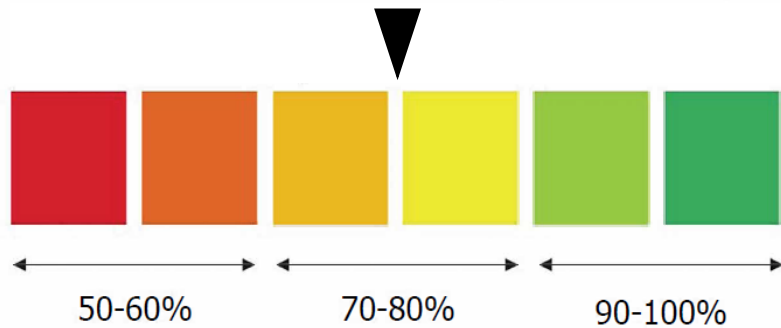
CALPERS NEWS

FISCAL YEAR 2023-24 CALPERS FISCAL STATUS

\$502.9 billion in assets

9.3% net return on investments
Preliminary

75% funded status



CalPERS
investment earnings

55¢

CalPERS
employers

34¢

CalPERS
members

11¢

CalPERS Pension Buck: a 20-year Average (as of June 30, 2024)





JUNE 30, 2023
ACTUARIAL VALUATION REPORTS
(PUBLISHED IN JULY 2024)

JUNE 30, 2023 ACTUARIAL VALUATION REPORTS

- 2023 valuation reports set the contribution rates for FY2025-26.
- FY 2022-23 investment return was 6.1%, underperforming the 6.8% target.
- Total unfunded liability decreased from \$348 million to \$341 million whereas the total funded ratio increased from 70.9% to 72.5%.
- The funded status improved due to the City's aggressive pension paydown strategy, despite investment returns falling short of the 6.8% target.

	June 30, 2023			June 30, 2022
	Miscellaneous	Safety	Total	Total
Accrued Liability	\$ 529,376,448	\$ 711,388,538	\$ 1,240,764,986	\$ 1,196,853,094
Market Value of Assets	\$ 399,991,701	\$ 499,763,899	\$ 899,755,600	\$ 849,020,920
Unfunded Liability	\$ 129,384,747	\$ 211,624,639	\$ 341,009,386	\$ 347,832,174
Funded Ratio	75.6%	70.3 %	72.5%	70.9%



CALPERS FUNDING RISK MITIGATION POLICY

- In 2015, CalPERS approved the Funding Risk Mitigation Policy, which included a provision that automatically triggered a decrease in the discount rate when the actual investment return for a fiscal year exceeded the assumed rate of return by at least 2%. The two percent trigger intended to use a portion of unexpected gains to de-risk the portfolio.
- In April 2024, CalPERS approved a change to the Funding Risk Mitigation Policy:
 - **Automatic change to discount rate removed:** The policy no longer automatically changes the discount rate.
 - **Board discussion required:** The board will now discuss the discount rate and expected investment returns when the investment return at fiscal year-end exceeds the assumed rate of return by 2% or more.
- In September 2024, CalPERS used their new discretion to leave the discount rate at 6.8% despite investment returns beating the target in FY 2023-24 by more than 2%.



COMPARISON TO OTHER ORANGE COUNTY EMPLOYERS

- The funded percentage for every non-pooled plan in the County increased in part to the investment gain.

Agency	June 30, 2023, Valuation		June 30, 2024, Valuation		Change		
	UAL	Funded %	UAL	Funded %	UAL \$	UAL %	Funded %
City of Anaheim	1,007,646,110	68.9%	942,224,154	71.7%	(65,421,956)	-6.5%	2.7%
City of Brea*	49,697,608	71.9%	46,262,674	74.6%	(3,434,934)	-6.9%	2.6%
City of Buena Park*	25,479,436	85.2%	23,557,554	86.6%	(1,921,882)	-7.5%	1.4%
City of Costa Mesa	271,199,110	62.4%	255,750,461	65.5%	(15,448,649)	-5.7%	3.1%
City of Fullerton	321,231,685	67.2%	306,048,958	69.4%	(15,182,727)	-4.7%	2.2%
City of Garden Grove	378,352,420	65.3%	358,999,367	68.1%	(19,353,053)	-5.1%	2.8%
City of Huntington Beach	224,255,857	86.5%	204,411,677	88.0%	(19,844,180)	-8.8%	1.5%
City of Irvine	211,157,864	78.4%	193,682,765	80.3%	(17,475,099)	-8.3%	1.8%
City of La Habra*	18,642,781	87.5%	16,641,093	89.2%	(2,001,688)	-10.7%	1.7%
City of Laguna Beach*	35,794,229	76.1%	32,905,252	78.8%	(2,888,977)	-8.1%	2.7%
City of Mission Viejo*	30,166,285	75.3%	27,720,619	78.2%	(2,445,666)	-8.1%	2.9%
City of Newport Beach	341,009,386	72.5%	293,791,911	76.9%	(47,217,474)	-13.8%	4.4%
City of Orange	103,263,020	91.0%	85,312,554	92.9%	(17,950,466)	-17.4%	1.9%
City of Santa Ana	463,102,824	81.2%	420,794,474	83.3%	(42,308,350)	-9.1%	2.1%
City of Tustin*	36,428,973	77.1%	32,183,180	80.5%	(4,245,793)	-11.7%	3.4%
City of Westminster*	55,424,288	66.7%	52,472,224	69.3%	(2,952,064)	-5.3%	2.6%
City of Yorba Linda*	27,773,564	71.5%	25,517,229	74.9%	(2,256,335)	-8.1%	3.4%
Irvine Ranch Water District*	101,128,596	73.1%	93,149,470	76.2%	(7,979,126)	-7.9%	3.1%
Santa Margarita Water District*	39,241,223	71.3%	36,583,480	74.3%	(2,657,743)	-6.8%	3.0%





PENSION PAYDOWN STRATEGY

PENSION PAYDOWN STRATEGY

- The pension paydown strategy is revisited each year.
- In 2024, the Finance Committee and City Council approved the continuation of an aggressive pension paydown strategy, and approved staff's recommendation to make a payment of \$40 million to CalPERS as part of the budget with the intent to allocate an additional \$5 million from the FY 2024-25 budget surplus.
- The previous forecast projected the City's pension liability being paid off in FY 2032-33, which was dependent on CalPERS earning 6.8% over the long-term.
- The expected investment gain for FY 2023-24 is 9.3%, which is greater than the 6.8% discount rate.



ROLL-FORWARD OF VALUATIONS TO JUNE 30, 2023

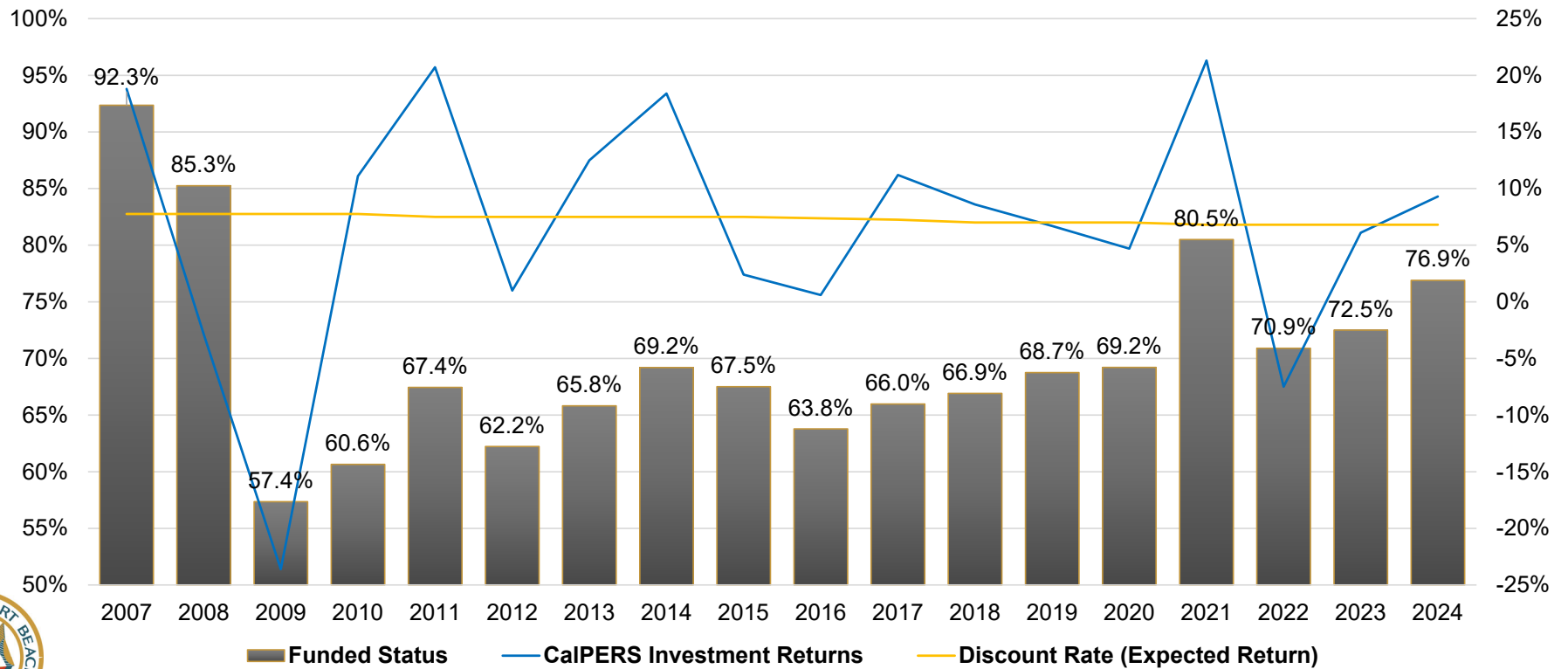
- It is expected that CalPERS will announce a 9.3% investment return for FY 2023-24 in November.
- The Actuarial Valuation at June 30, 2024, will not be available until August 2025. However, the CalPERS Pension Outlook tool has been utilized to estimate the City's projected funded status as of June 30, 2024, which reflects the impact associated with the 9.3% investment gain.

	June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023	June 30, 2024*
Unfunded Liability	\$ 333,046,257	\$ 223,438,444	\$347,832,174	\$341,009,386	\$295,190,000
Funded Percentage	69.2 %	79.3 %	70.9%	72.5%	76.9%
Investment Return	4.7 %	21.3 %	-7.5%	6.1%	9.3%

* Projected



HISTORICAL INVESTMENT RETURNS & THE CITY'S FUNDED STATUS



PROJECTIONS FOR THE FUTURE

- Using the CalPERS Pension Outlook tool, staff modeled the impact of the projected 9.3% return for FY 2023-24 and the impact of continuing the current payment strategy
 - The FY 2023-24 rate of return is estimated to be 2.5% higher than expected
 - Current projection shows the liability will be eliminated in FY 2032-33
 - FY 2024-25 projected to pay approximately \$13.9 million more than required by CalPERS

	2024-25	2025-26	2026-27	2027-28	2028-29	2029-2030	2032-33
Planned Payment	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 26,828,000
Beginning Unfunded Liability	\$ 295,490,000	\$ 268,765,000	\$ 240,536,000	\$ 210,387,000	\$ 178,188,000	\$143,800,000	\$ 26,828,000
Beginning Funded Percentage	76.9%	79.5%	82.2%	84.9%	87.6%	90.3%	98.4%
Investment Return	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %



NORMAL COST FOR ACTIVE EMPLOYEES

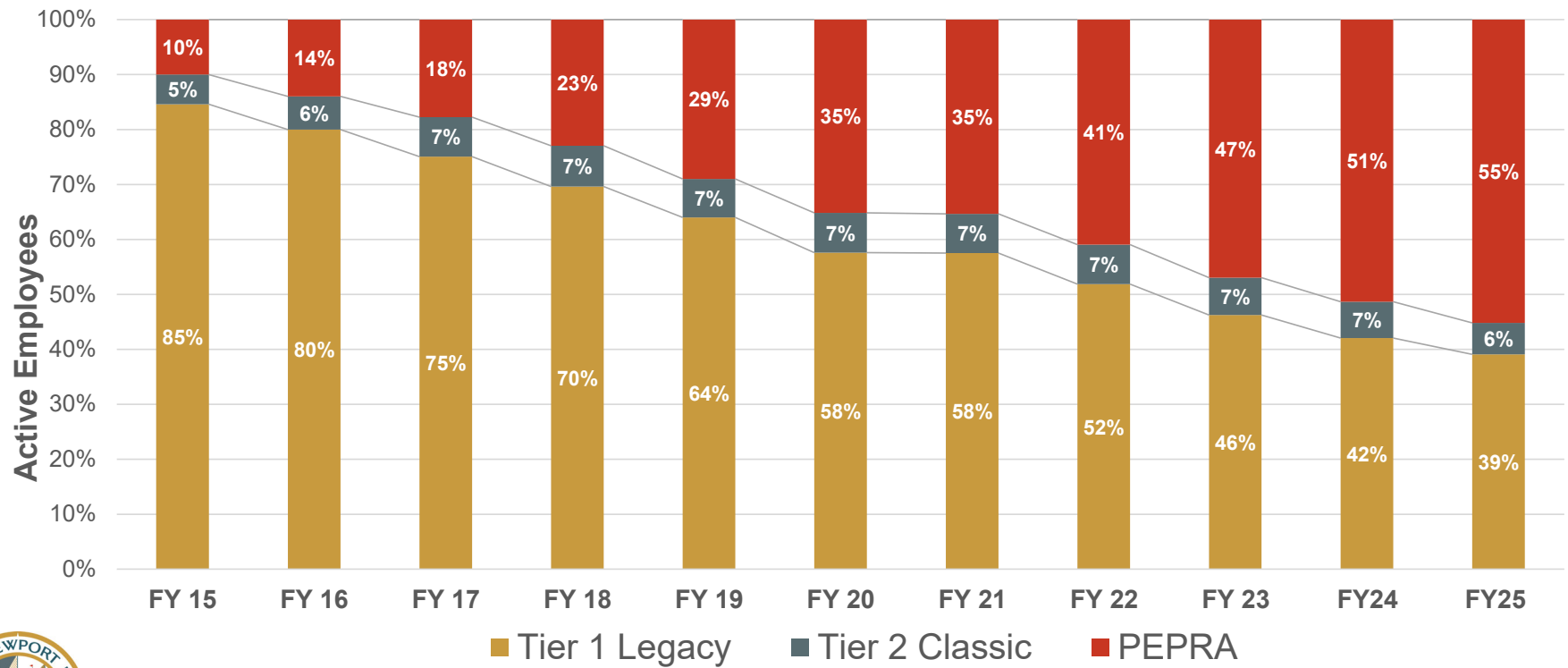
- Tier 1 (Legacy) & Tier 2 (Classic) employees in the Miscellaneous Plan contribute approximately 57% of amounts associated with normal cost.
- Tier 1 (Legacy) & Tier 2 (Classic) employees in the Safety Plan contribute approximately 42% of amounts associated with normal cost on average across the various bargaining groups.
- Miscellaneous PEPRA employees contribute approximately 77% of amounts associated with normal cost, whereas Safety PEPRA employees share equally 50% in the payment of normal cost.

Total Normal Cost Rates (as a % of Payroll)

	Miscellaneous	Safety
Tier 1 "Legacy"	20.09%	30.64%-37.26%
Tier 2 "Classic"	19.64%	24.46%-33.84%
Tier 3 "PEPRA"	15.3%	25.5%-30.9%



ACTIVE EMPLOYEES BY BENEFIT TIER



IMPACT OF INVESTMENT RETURN AND ADDITIONAL PAYMENTS

- Last year's CalPERS update projected the pension liability to be paid off in FY 2032-33
- FY 2023-24 projection considered a return of 6.8%, where return actual was 9.3%, shortening the payoff timeline further by a few months
- Staff project the pension liability to be paid off in FY 2032-33 if CalPERS can achieve an investment rate of return equal to their 6.8% discount rate



SUMMARY

- Staff recommend continuing with the current ADP strategy
- This disciplined approach to the accelerated paydown of the City's unfunded liability is expected to:
 - Paydown the current liability in FY 2032-33
 - Reduce long-term pension costs
- Monitor future CalPERS investment returns and respond accordingly





QUESTIONS?



**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT**

Agenda Item No. 6D
November 14, 2024

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Jason Al-Imam, Finance Director / Treasurer
949-644-3123, jalimam@newportbeachca.gov

SUBJECT: FIRST QUARTER BUDGET UPDATE

SUMMARY:

The Finance Department prepares quarterly financial reports to review the status of revenues and expenditures for the City's General Fund and to monitor budgetary trends in other City funds. This report contains information on revenues, expenditures, and estimated fund balance for the first quarter of Fiscal Year 2024-25.

The FY 2024-25 first quarter financial report provides an analysis of the City's financial activity from July through September 2024. A \$5.0 million unrestricted General Fund operating surplus is projected for FY 2024-25 based on information currently available for the end of the first quarter. Recommended budget adjustments for revenues and expenditures are outlined in this report and will be reflected in the proposed first quarter budget amendment.

RECOMMENDED ACTION:

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

DISCUSSION:

Economic Overview

The City's assessed property values continue to increase providing a strong revenue base for the City. Recent reductions to sales tax revenue have caused concerns for the broader economy, however, staff estimates that in FY 2024-25 sales tax will begin to rebound. Revenue for hotels continues to grow as tourism remains a strong source of revenue to the City. The City is well positioned to withstand the impacts of a potential recession and is expected to maintain long-term fiscal sustainability.

General Fund Revenues

Most revenue categories performed at or higher than their budgeted levels last year due to more favorable economic conditions than what was originally anticipated in the adopted budget. Growth in many areas has led to a \$1.4 million projected increase in General Fund revenues than what is estimated in the budget. Projections for property taxes, sales tax, service fees and charges, intergovernmental revenues, and donations and contributions have been increased.

The following table summarizes the changes to projected General Fund revenues versus the revised budget for FY 2024-25. Details highlighting the reasons for the material variances follow.

FY 2024-25 Projected General Fund Revenues

Revenues by Category	A Revised Budget	B Q1 Projected Actuals	C = B-A Variance	D = C/A % Variance
Property Taxes	149,296,403	150,434,533	1,138,130	0.8%
Sales Tax	45,299,626	45,406,798	107,172	0.2%
Transient Occupancy Tax*	32,625,873	32,625,873	-	0.0%
Other Taxes	9,587,638	9,587,638	-	0.0%
Service Fees & Charges	25,230,457	25,300,457	70,000	0.3%
Parking Revenue	8,271,651	8,271,651	-	0.0%
Licenses and Permits	5,952,271	5,952,271	-	0.0%
Property Income	9,633,853	9,633,853	-	0.0%
Fines & Penalties	3,996,299	3,996,299	-	0.0%
Intergovernmental	4,964,764	4,989,240	24,476	0.5%
Investment Earnings	1,904,925	1,904,925	-	0.0%
Misc Revenues	425,125	455,125	30,000	7.1%
Operating Transfers In	19,767,775	19,767,775	-	0.0%
Total Revenues	316,956,660	318,326,438	1,369,778	0.4%

* Gross TOT revenues amount to approximately \$39.8 million. Visit Newport Beach (VNB) receives 18% (or approximately \$7.2 million) of TOT on a gross basis, which brings projected TOT revenues to \$32.6 million, net of amounts remitted to VNB.

Property Tax - Property taxes are the City’s single largest General Fund revenue and represent approximately 50% of all General Fund revenues. Property tax revenue was projected to increase approximately 4% from \$143.6 million in FY 2023-24 to \$149.3 million in FY 2024-25, largely due to the inflation adjustment indexed at the 2% cap allowed by Proposition 13 and due to changes in ownership. Property tax revenue for FY 2023-24 totaled \$146.1 million, which is \$2.6 million higher than previously projected. The higher-than-projected revenue in FY 2023-24 is largely due to supplemental property tax revenue, Redevelopment Agency (RDA) residual revenues, and property tax transfers. Therefore, property tax revenue for FY 2024-25 is projected to be \$1.1 million higher than previously projected due to the increase in assessed values. Staff is recommending a budget amendment to align the revised budget with updated projections.

Sales Tax - The second largest funding source for the General Fund is sales tax revenue, making up more than 15% of General Fund revenues. The City's sales tax base is largely generated from three industry groups — autos and transportation; general consumer goods; and restaurants/hotels. In FY 2023-24 the City saw a decline in sales tax revenue that was primarily attributed to an 18% decline in the autos and transportation category compared to FY 2022-23. Sales tax revenues are projected to increase by approximately 5% over the FY 2023-24 amounts, which will still be below the FY 2022-23 actuals. The projection for FY 2024-25 of \$45.3 million is still reasonable, however, the City has a sales tax sharing agreement with an auto dealer that is set to expire after the third quarter whereas a full year of the tax sharing was incorporated into the budget. This increases revenue projections by \$107,000. A budget amendment is recommended to align the revised budget with updated projections.

Transient Occupancy Tax – The third largest funding source for the General Fund is TOT, making up more than 10% of General Fund revenues. Staff's projection for Q1 is in line with the budgeted revenues, and no adjustment is recommended. Staff will continue to monitor TOT trends and will provide additional updates to projections as necessary in future quarterly financial reports.

All Other Revenue – This category includes all other revenue sources other than the top three (property tax, sales tax and TOT). All other revenue is made up of other taxes, service fees and charges, parking revenue, licenses and permits, property income, fines and penalties, intergovernmental revenues, investment earnings, and miscellaneous revenues. Changes in projected amounts are proposed in the following categories:

- Service Fees and Charges – plan check fees, recreation classes, emergency medical services fees and numerous other cost-of-service fees. The Police Department established multi-year agreements for Supplemental Law Enforcement Services between the City of Newport Beach and the City of Anaheim, and the City of Newport Beach and the City of Huntington Beach. The intent of the agreements is for law enforcement personnel to provide these agencies with support during special events. The cities are directly billed for expenses incurred because of this support and are billed at the Special Events Hourly Rate. A budget amendment for a \$70,000 increase to revenue account 01035352-521175 and expense account 01035353-713002 is recommended to recognize the offset in expenditures by the additional revenues for the first-year expectation of the agreements.
- Intergovernmental Revenues – federal, state and local grant revenues, which includes, but is not limited to, the City's portion of the half cent sales tax revenue paid to the County for public safety, state mandate reimbursements, reimbursement for strike teams sent to assist with fires, and revenue sharing with the County of Orange under the Waste Disposal Agreement (WDA). The Police Department participates in a State 911 program that is administered through the California Governor's Office of Emergency Services (Cal OES) for the software maintenance phone contracts. The program is transitioning from receiving direct

billing towards reimbursement base. A budget amendment is proposed to recognize the expected revenue reimbursement in Police Support Services Cal OES account 01035352-431245 and increase in expenditures in the Police IT Software License Renewal account 0103522-871017 by \$24,476.49.

- **Miscellaneous Revenues** – restricted revenue, damage to City property, bad debt, donations and contributions, non-operating revenues such as proceeds from the sale of materials and equipment, and other miscellaneous revenues. The Library Department received a check for \$30,000 for a Variance and Coastal Development Permit. A budget amendment will recognize \$30,000 in additional revenue in the Private Donation and Contributions account 0106053-561005 and increase expenditures by \$30,000 for Programming related expenditures in 0106053-841004.

General Fund Expenditures

The FY 2024-25 General Fund revised expenditure budget totals \$325.8million. Spending trends in FY 2024-25 are generally consistent with prior years and do not indicate any cause for concern. Total expenditure savings of \$2.4 million are projected at this time due to year-to-date savings from vacancies, offset by expenses that are addressed in Budget Amendment No. 25-024 (to be attached to this report when it is presented to the City Council) and are explained in detail below.

The following table summarizes the changes to the adopted expenditure budget for FY 2024-25, as well as expenditure savings by budget category. Details highlighting the reasons for the material variances follow.

FY 2024-25 Projected General Fund Expenditures

Expenditures by Category	A Revised Budget	B Q1 Projected Actual	C = A-B Savings (Overage)	D = C/A % Variance
Salary & Benefits	188,194,601	185,732,949	2,461,652	1.3%
Contract Services	32,899,719	32,899,719	-	0.0%
Grant Operating	1,411,935	1,411,935	-	0.0%
Utilities	4,446,732	4,446,732	-	0.0%
Supplies & Materials	4,827,384	4,857,384	(30,000)	-0.6%
Maintenance & Repair	16,742,060	16,742,060	-	0.0%
Travel & Training	925,308	905,308	20,000	2.2%
General Expenses	4,301,266	4,325,743	(24,476)	-0.6%
Internal Svc Charge	31,245,497	31,245,497	-	0.0%
Capital Expenditures	1,574,128	1,574,128	-	0.0%
Operating Transfers Out	39,255,611	39,255,611	-	0.0%
Total Expenditures	325,824,241	323,397,066	2,427,175	0.7%

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$188.2 million, an increase of \$5.3 million over the adopted budget. An analysis of salary and benefit activity for quarter one indicates that \$2.5 million in personnel savings have been captured to date. These savings are offset by the \$70,000 proposed budget increase related to the Police Department's Supplemental Law Enforcement Services contracts, as explained in the General Fund's service fees and charges section of this report.
- The supplies and materials budget will be increased by \$30,000 for the Library's programming, as explained in the General Fund's miscellaneous revenues section of this report.
- The travel and training budget will be decreased by \$20,000 as the budget intended for Certified Access Specialist (CASp) training should be funded from Fund 180, the Restricted Programs Fund, and was erroneously included in the General Fund budget in FY 2024-25, despite this program being transferred to Fund 180. A budget amendment is recommended to transfer \$20,000 from the General Fund to the Restricted Programs Fund.
- The general expenses category will be increased by \$24,476 for the Police Department's software license, as explained in the General Fund's intergovernmental revenues section of this report.

General Fund Sources, Uses, and Projected Surplus

The City continues to be in excellent financial health. Conservative budgeting and sound financial policies have resulted in a trend of General Fund operating surpluses and strong reserve levels for several years. The City is well positioned to continue delivering high levels of services to the community while targeting surplus resources to key priorities each year. It is currently projected that unrestricted General Fund resources will total \$5.0 million at the end of FY 2024-25. As is the case each year, staff anticipate that additional budget savings will be realized, and the final year-end budget surplus will exceed this amount.

The following table illustrates the prior year sources and uses of funds, current year activity and the projected year-end results.

FY 2024-25 Projected General Fund Sources, Uses, and Budget Surplus

Category	A Revised Budget	B Q1 Projection	C=B-A Variance	D=C/A % Variance
Beginning Fund Balance Reserves	\$ 15,752,275	15,752,275	-	0.0%
Operating Resources:				
Operating Revenues	297,188,885	298,558,663	1,369,778	0.5%
Prior Year Resources Carried Forward	6,786,845	6,786,845	-	0.0%
Transfers In from Other Funds	19,767,775	19,767,775	-	0.0%
Repayment of Advances	1,250,000	1,250,000	-	0.0%
Total Operating Resources	324,993,505	326,363,283	1,369,778	0.4%
Operating Uses:				
Operating Expenditures	286,568,630	284,141,455	(2,427,175)	-0.8%
Transfers Out	39,255,611	39,255,611	-	0.0%
Total Operating Uses	325,824,241	323,397,066	(2,427,175)	-0.7%
Net Operating Surplus	(830,736)	2,966,217	3,796,953	-457.1%
Non-Operating Resources & Uses				
Transfers Out	(13,680,159)	(13,685,648)	(5,489)	0%
Total Non-Operating Resources & Uses	(13,680,159)	(13,685,648)	(5,489)	0.0%
Net Change in Fund Balance	(14,510,895)	(10,719,431)	3,791,464	-26.1%
Ending Fund Balance Reserves	\$ 1,241,380	5,032,844	3,791,464	305.4%

Facility Financing Plan

Per the City’s Municipal Code, park dedication and in-lieu fees provide for the dedication of land, the payment of fees in lieu thereof or a combination of both, for park or recreational purposes in conjunction with the approval of residential development. \$976,701 of budgeted park zone fees in Park Zone 9 are not anticipated to be received in FY 2024-25. A budget amendment is recommended to align the budgeted revenues in this fund with current projections by reducing revenues in account 51303-422105. Additionally, park zone fees in Park Zone 4 are now estimated to be received this fiscal year, therefore, it is recommended to increase the revenue budget in 51303-422080 by \$506,789.

Fire Equipment Fund

The FY 2024-25 Internal Service Fund (ISF) for fire equipment will be increased by \$56,400. Planned additional expenses for FY 2024-25 were included in the ISF chargeback accounts in the general fund but were not reflected in the expense account in the Fire Equipment fund; thus, the General Fund will not be impacted.

Other Funds

Staff have evaluated the fiscal condition of the City’s other major operating funds

(Tidelands and Water). An analysis of the budget performance for these funds indicates that no budget adjustments are necessary and variances between budgeted and actual amounts are within reason.

Personnel Changes

It is recommended that two Equipment Operator I (EOI) positions be flexibly staffed to two Equipment Operator II (EOII) positions. The EOII is a highly skilled journeyman position. It is distinguishable from the EOI through performance of more skilled and complex tasks involving heavy equipment, possession of a California Class A commercial driver's license, and an additional year experience requirement. Those who hold that position are able to safely operate 14 pieces of complex heavy equipment such as Loaders, Beach Cleaners, Dump Trucks, Skid-loaders and Backhoes, and 15 pieces of light duty equipment. EOII's are responsible for training EOIs and Maintenance Workers in the operation of heavy and light equipment. There will be no change to the total fulltime position count, and no budget amendment is required as the cost to flexibly staff these positions is \$9,500, which can be covered by vacancy savings.

Conclusion

Staff recommends that the Finance Committee review and discuss this report and provide any recommendations for city manager and City Council consideration.

Prepared and Submitted by:

/s/ Shelby Burguan

Shelby Burguan
Deputy Finance Director

FISCAL YEAR 2024-25 FIRST QUARTER FINANCIAL REPORT

November 14, 2024
Finance Committee

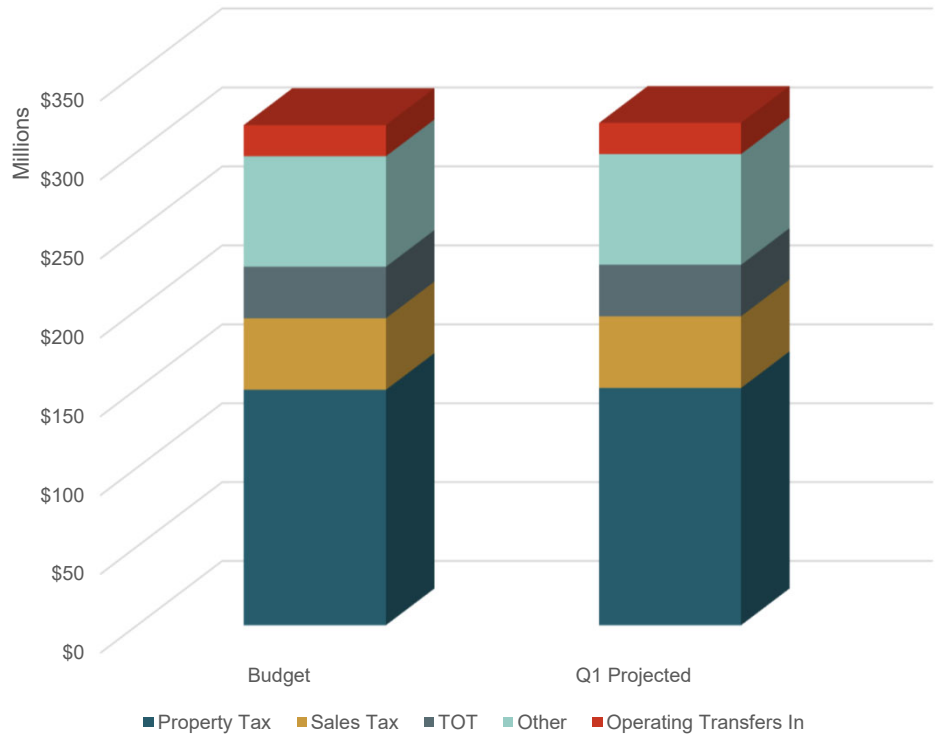


PROJECTED GENERAL FUND REVENUES

Budget \$ 317.0 million

First Quarter Projection \$ 318.3 million

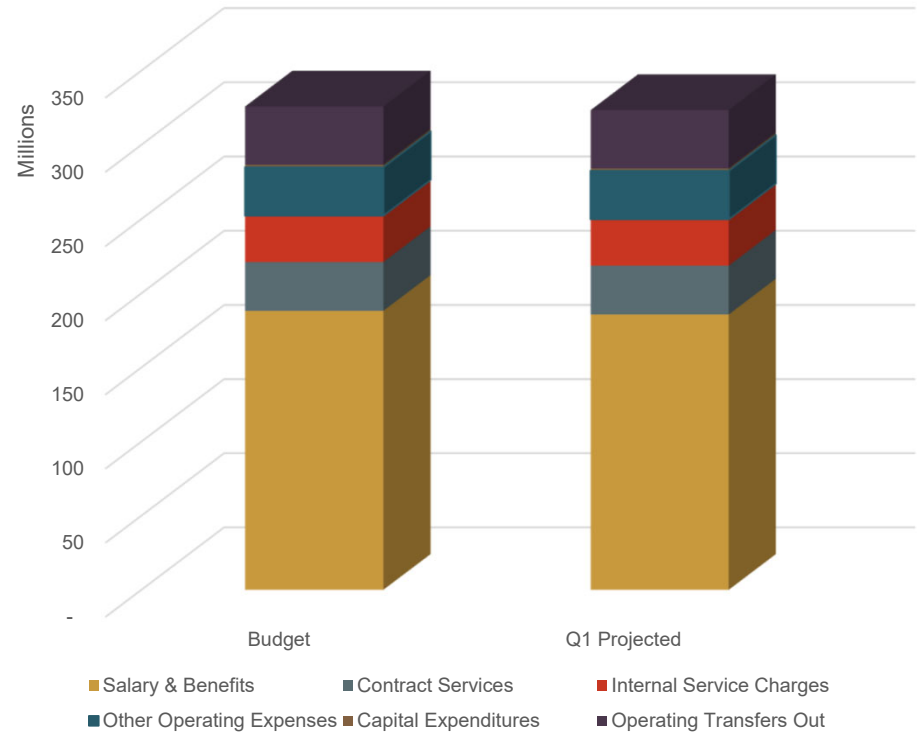
- Projections for Property Tax, Sales Tax, Service Fees and Charges, Intergovernmental revenues, and Donations and Contributions have been increased.



PROJECTED GENERAL FUND EXPENDITURES

Budget \$ 325.8 million
 First Quarter Projection \$ 323.4 million

- \$2.5 million savings projected in salaries and benefits due to vacancies and lower than budgeted costs for employee benefits
- Various budget amendments are recommended when the First Quarter Budget Update is presented to the City Council



GENERAL FUND SOURCES AND USES

- \$5 million ending unrestricted General Fund resources
- As is the case each year, staff anticipate that additional budget savings will be realized, and the final year-end budget surplus will exceed this amount



Category	A Revised Budget	B Q1 Projection	C=B-A Variance	D=C/A % Variance
Beginning Fund Balance Reserves	\$ 15,752,275	15,752,275	-	0.0%
Operating Resources:				
Operating Revenues	297,188,885	298,558,663	1,369,778	0.5%
Prior Year Resources Carried Forward	6,786,845	6,786,845	-	0.0%
Transfers In from Other Funds	19,767,775	19,767,775	-	0.0%
Repayment of Advances	1,250,000	1,250,000	-	0.0%
Total Operating Resources	324,993,505	326,363,283	1,369,778	0.4%
Operating Uses:				
Operating Expenditures	286,568,630	284,141,455	(2,427,175)	-0.8%
Transfers Out	39,255,611	39,255,611	-	0.0%
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Net Operating Surplus	(830,736)	2,966,217	3,796,953	-457.1%
Non-Operating Resources & Uses				
Transfers Out	(13,680,159)	(13,685,648)	(5,489)	0%
Total Non-Operating Resources & Uses	(13,680,159)	(13,685,648)	(5,489)	0.0%
Net Change in Fund Balance	(14,510,895)	(10,719,431)	3,791,464	-26.1%
Ending Fund Balance Reserves	\$ 1,241,380	5,032,844	3,791,464	305.4%

RECOMMENDED ACTION

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



Questions?



Newport Beach Finance Committee Work Plan

Scheduled Date	Agenda Title	Report Type	Agenda Description
January 2025			
Thursday, January 9, 2025			
	Overview of Utilities Department Budget	Presentation	Staff will provide the Committee with a presentation covering the budget for the Utilities Department.
	Financial Statement Audit Results and Related Communication	Presentation	The City's external auditors will meet with the Finance Committee to discuss the results of their audit for the fiscal year ending June 30, 2024.
	Long Range Financial Forecast (LRFF) Update	Presentation	Staff will brief the Committee regarding the results of the updated LRFF.
	Budget Amendments for Quarter Ending December 31, 2024	Receive and File	Staff will report on the budget amendments from the prior quarter.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
February 2025			
Thursday, February 13, 2025			
	Facilities Financial Plan (FFP) and Harbor & Beaches Master Plan (HBMP)	Presentation	Staff will provide an update on the current status of FFP and HBMP.
	Second Quarter Budget Update	Presentation	Staff will provide a presentation regarding the year-to-date and projected Fiscal Year 2024-25 budget performance.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
March 2025			
Thursday, March 13, 2025			
	Overview of Revenue Projections	Presentation	Staff will provide the Committee with an overview of the assumptions utilized to prepare revenue projections for the City's major funds as part of the Fiscal Year 2025-26 budget preparation process.
	Fiscal Year 2024-25 Fee Study Update	Presentation	Review and discuss the proposed fee updates for Fiscal Year 2024-25
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
April 2025			
Thursday, April 10, 2025			
	Proposed FY 2025-26 Budget Overview of Expenditures	Presentation	Staff will provide the Committee with an overview of the expenditure budget for Fiscal Year 2025-26 that will be presented to the City Council in May.
	Budget Amendments for Quarter Ending March 31, 2025	Receive and File	Staff will report on the budget amendments from the prior quarter.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
May 2025			
Thursday, May 8, 2025			
	Follow-Up Discussion of Proposed FY 2025-26 Budget	Discussion	Staff will provide the Committee with a copy of the Fiscal Year 2025-26 proposed budget document. Should the Committee wish to continue April's discussion of the Fiscal Year 2025-26 budget, this is also an opportunity to do so.
	Financial Statement Auditor's Communication with the Finance Committee acting as the City's Audit Committee	Presentation	The City's external auditors, Davis Farr LLP, will provide an overview presentation regarding the audit process for Fiscal Year 2024-25 and request feedback from the Committee regarding any information that may assist them in their audit of the City's financial statements.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.

Newport Beach Finance Committee Work Plan

Scheduled Date	Agenda Title	Report Type	Agenda Description
Tuesday, May 27, 2025	Joint City Council and Finance Committee Study Session	Presentation	Staff will present the Fiscal Year 2025-26 proposed budget to the City Council and Finance Committee.
Thursday, May 29, 2025	Committee Recommendation to Council for the FY 2024-25 Budget	Discussion	Discussion of the Study Session earlier in the week and formulation of any recommendations to be presented to the City Council at the budget public hearing in June.
	Third Quarter Budget Update	Presentation	Staff will provide a presentation regarding the year-to-date and projected Fiscal Year 2024-25 budget performance.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
June 2025			
<i>Committee Recess</i>			
July 2025			
<i>Committee Recess</i>			
August 2025			
<i>Committee Recess</i>			
September 2025			
Thursday, September 11, 2025	Annual Review of Investment Performance	Presentation	The City's investment advisor, Chandler Asset Management, will report on the performance of the City's investment portfolio for the fiscal year ending June 30, 2025.
	Annual Review of Investment Policy	Presentation	Staff will provide a presentation regarding any proposed changes to the City's Investment Policy prior to the Investment Policy being approved by the City Council.
	Budget Amendments for Quarter Ending June 30, 2025	Receive and File	Staff will report on the budget amendments from the prior quarter.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
October 2025			
Thursday, October 9, 2025	Budget Amendments for Quarter Ending September 30, 2025	Receive and File	Staff will report on the budget amendments from the prior quarter.
	Year-End Budget Results and Surplus Allocation	Presentation	Staff will provide a presentation regarding the year-end budget results for Fiscal Year 2024-25 and recommendations for allocation of any year-end budget surplus.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.

Newport Beach Finance Committee Work Plan

Scheduled Date	Agenda Title	Report Type	Agenda Description
November 2025			
Thursday, November 13, 2025			
	First Quarter Budget Update	Presentation	Staff will provide a presentation regarding the year-to-date and projected Fiscal Year 2025-26 budget performance.
	OPEB Actuarial Valuation Report Update	Presentation	Staff will provide the Committee with an overview of the Fiscal Year 2024-25 actuarial valuation report prepared by the City's actuary.
	CalPERS Update	Presentation	Staff will provide the Committee with an overview of the data from the latest actuarial reports from CalPERS as well as their impact on prior projections of the paydown of the City's unfunded pension liability.
	Internal Audit Program Update	Presentation	Presentation of internal audit reports, findings, and recommendations from the Fiscal Year 2024-25 audit program.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
December 2025			
<i>Committee Recess</i>			