CITY OF NEWPORT BEACH
FINANCE COMMITTEE AGENDA

Community Room
100 Civic Center Drive, Newport Beach, CA 92660
Thursday, January 15, 2026 - 3:00 PM

Finance Committee Members:

Joe Stapleton, Councilmember / Chair
Robyn Grant, Councilmember
Sara J. Weber, Councilmember
Allen Cashion, Committee Member
William Collopy, Committee Member
William Kenney, Committee Member
Kory Kramer, Committee Member

Staff Members:

Seimone Jurjis, City Manager
Jason Al-Imam, Administrative Services Director/Treasurer
Trevor Power, Acting Deputy Finance Director
Vicky Nguyen, Assistant Management Analyst

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 Administrative Services 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, Administrative Services 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 NOVEMBER 13, 2025

Recommended Action:
Approve and file.

DRAFT OF MINUTES - NOVEMBER 13, 2025

VI. CURRENT BUSINESS

A. REVIEW OF INVESTMENT POLICY

Summary:
In September 2025, the Finance Committee completed its annual review of Council Policy F-1, Statement of Investment Policy (the Policy), and identified pending legislation that could require future updates to the Policy. Since that time, California Senate Bill 595 has been signed into law and became effective January 1, 2026. This staff report recommends updates to the Policy to ensure compliance with SB 595, reflect industry best practices, and incorporate minor administrative and technical revisions. The proposed changes were reviewed in coordination with the City's independent investment advisor and are intended to maintain consistency with the California Government Code while supporting the City's investment objectives.

Recommended Action:
Review and discuss this report and recommend that the City Council formally approve the proposed changes to Council Policy F-1 by adopting a resolution.

STAFF REPORT

ATTACHMENT A

ATTACHMENT B

PRESENTATION

B. OPEB ACTUARIAL VALUATION REPORT UPDATE

Summary:
Staff will provide the Committee with an overview of the Fiscal Year 2024-25 actuarial valuation report prepared by the City's actuary.
Recommended Action:
Receive and file.

PRESENTATION

C. GENERAL FUND AND TIDELANDS FUND LONG RANGE FINANCIAL FORECAST UPDATE

Summary:
Staff will brief the Committee regarding the results of the updated LRFF.
Recommended Action:
Receive and file.

STAFF REPORT

ATTACHMENT A

ATTACHMENT B

PRESENTATION

D. BUDGET AMENDMENTS FOR QUARTER ENDING DECEMBER 31, 2025

Summary:
Staff will report on the budget amendments from the prior quarter.
Recommended Action:
Receive and file.

STAFF REPORT

ATTACHMENT A

E. INTERNAL AUDIT PROGRAM UPDATE

Summary:
Staff will report on internal audit activities from the Fiscal Year 2024-25 audit program.
Recommended Action:
Receive and file.

STAFF REPORT

ATTACHMENT A

ATTACHMENT B

ATTACHMENT C

F. WORK PLAN REVIEW

Summary:
Staff will report on the upcoming Finance Committee items.
Recommended Action:
Receive and file.

WORK PLAN

VII. ADJOURNMENT

CITY OF NEWPORT BEACH
FINANCE COMMITTEE
NOVEMBER 13, 2025 MEETING MINUTES

I. CALL MEETING TO ORDER

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

II. ROLL CALL

PRESENT: Mayor/Chair Joe Stapleton, Councilmember Robyn Grant, Councilmember Sara Weber, Committee Member William Collopy, Committee Member William Kenney

Committee Kory Kramer arrived at 3:23 p.m.

ABSENT: Committee Member Allen Cashion

STAFF PRESENT: City Manager Grace K. Leung, Finance Director/Treasurer Jason Al-Imam, Acting Deputy Finance Director Trevor Power, Assistant Management Analyst Vicky Nguyen, Assistant City Manager Seimone Jurjis, Senior Budget Analyst Abigail Marin, Budget Analyst Courtney Buck, Senior Accountant Jeremiah Lim, Finance Manager Jessica Kan, Library Services Manager Rebecca Lightfoot, Public Works Finance/Administrative Manager Theresa Schweitzer, Administrative Manager Raymund Reyes, Assistant Management Analyst Lili Banuelos

OTHER ENTITIES: Kerry Worgan, CalPERS
Alexandra Irving, Public Agency Retirement Services
Keith Stribling, Public Agency Retirement Services
Bobby Young, HdL Companies

MEMBERS OF THE PUBLIC: Jim Mosher, Nancy Scarbrough

III. PLEDGE OF ALLEGIANCE

Committee Member Kenney led the Pledge of Allegiance

IV. PUBLIC COMMENTS

Chair Stapleton opened the public comments. Hearing none, Chair Stapleton closed public comments.

V. CONSENT CALENDAR

A. MINUTES OF OCTOBER 16, 2025
Recommended Action:
Receive and file.

MOTION: Committee Member Kenney moved to approve the minutes of October 16, 2025, Finance Committee meeting, seconded by Councilmember Weber. The motion carried as follows:

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

There was no further discussion on the item.

VI. CURRENT BUSINESS

A. CALPERS UPDATE

Recommended action:
Receive and file.

Finance Director/Treasurer Jason Al-Imam introduced Senior Budget Analyst Abigail Marin and Kerry Worgan of CalPERS.

Mr. Worgan, Supervising Actuary with CalPERS, introduced himself, noting sixteen years with CalPERS, including about fifteen working with Newport Beach. He provided an overview of recent developments, including the Total Portfolio Approach (TPA), the quadrennial Asset Liability Management (ALM) study, the four-year experience study on demographic trends, and recent investment returns.

He reported strong investment performance. Valuation data as of June 30, 2024, showed CalPERS assets at approximately $563 billion, increasing to $592 billion as of June 30, 2025. Systemwide funded status improved from 79 percent (2024 valuation) to 82.7 percent. CalPERS earned net investment returns of 9.5 percent for FY 2023–24 and 12.1 percent for FY 2024–25, which will be reflected in future valuations.

Committee Member Collopy asked about the “pension buck.” Mr. Worgan explained that roughly 60 percent of each pension dollar is funded by investment returns, 29 percent by employer contributions, and 11 percent by employee contributions, noting these percentages vary with market performance.

Mr. Worgan discussed the CalPERS Experience Study, conducted every four years to evaluate retirement, mortality, terminations, disabilities, and other demographic factors. He noted that elevated mortality during COVID-19 was mostly excluded from long-term assumptions. The recent study produced no major changes from 2021, except for two assumption adjustments: inflation rose from 2.3 percent to 2.5 percent, affecting projected salary growth and benefits.

Committee Member Kenney asked about mortality assumptions. Mr. Worgan explained that CalPERS bases mortality on its own California-specific data, projecting forward to reflect longevity changes. COVID-19 disrupted prior trends, so mortality improvement adjustments have been paused since 2020–2021. He emphasized that accurate mortality assumptions are essential for estimating benefit costs.

Committee Member Kenney also asked about the “80 percent SOA mortality.” Mr. Worgan clarified that national SOA tables differ from CalPERS’ California-specific data, which shows lower mortality rates, limiting potential future improvement.

Committee Member Collopy inquired whether assumptions included investment returns. Mr. Worgan confirmed the assumptions discussed were demographic (retirement, termination, mortality), while the discount rate is tied to investment assumptions and informed by the ALM study. Current long-term discount rate is 6.8 percent.

Committee Member Weber asked if this acts as a hedge. Mr. Worgan noted a modest hedge effect exists, but the discount rate remains unbiased to protect contribution rates under PEPRA. He explained a reasonable expected return range of 6.5–7.5 percent over a 20-year outlook.

Finance Director/Treasurer Al-Imam asked if the 6.8 percent rate would remain. Mr. Worgan confirmed it is supported under current ALM recommendations.

Mr. Worgan reviewed the fund’s asset allocation as of June 30, 2025: 40 percent global equities, 18 percent private equity, 13 percent real assets, and 30 percent fixed income.

Committee Member Collopy asked if CalPERS plans to maintain return assumptions. Mr. Worgan stated detailed breakdowns are publicly available through Investment Committee materials. He explained private equity is independently valued, benchmarks are used, and deviations prompt further review.

Committee Member Weber asked about allocation stability over five years. Mr. Worgan noted overall allocation is stable with modest private equity increases. The TPA focuses on portfolio-wide management rather than fixed asset-class targets.

Mr. Worgan explained that CalPERS manages ~$590 billion, paying ~$3 billion per month. TPA evaluates the portfolio holistically to guide cash flow decisions and reallocation, supporting stronger overall returns.

Committee Member Collopy asked about legislative constraints. Mr. Worgan stated none specific, noting fiduciary duties guide allocations. Collopy emphasized liquidity and transparency concerns for private equity, which Mr. Worgan explained relies on projected cash flows and independent valuations, acknowledging volatility.

Committee Member Kenney noted similar dynamics for real assets. Mr. Worgan confirmed allocations have declined, with lower recent performance for real estate.

Mr. Worgan reported the June 30, 2024 valuation showed a 9.5 percent return, improving funded ratio from 72.5 percent to 75.9 percent, with further improvement expected to 82.4 percent after FY 2024–25 returns. Unfunded liability decreased from $341 million to $313 million (June 30, 2024) and projected $235 million (June 30, 2025).

Committee Member Kenney asked about Miscellaneous vs. Safety plans. Mr. Worgan explained Safety covers sworn/safety employees such as police officers, firefighters and lifeguards; Miscellaneous covers other non-safety employees. Plans differ in benefits and cost profiles.

He defined normal cost as the annual cost of benefits earned by active employees. Classic members generally have higher costs; PEPRA members lower. Normal costs for Miscellaneous are projected to fall ~30 basis points from FY 2025–26 to FY 2026–27; Safety declines more slowly. Contributions are shared between employees and employers per law.

Chair Stapleton asked about PEPRA vs. Classic. Mr. Worgan explained PEPRA applies to employees hired on/after January 1, 2013, providing lower benefit formulas.

Mr. Worgan compared Newport Beach’s pension status with other Orange County cities, noting Newport Beach is well-funded without issuing a Pension Obligation Bond (POB). He favors making regular Additional Discretionary Payments (ADPs), which have earned ~8.6 percent over five to six years.

Chair Stapleton observed that some cities are not full-service, making comparisons less comparable.

Mr. Worgan noted the City's funded ratio (~82 percent) and a $78 million reduction in unfunded liability. Year-to-date FY 2025–26 returns were ~6.2 percent.

Senior Budget Analyst Abigail Marin outlined the Pension Paydown Strategy: FY 2025–26 budgeted $40 million toward UAL, with year-end surplus allocated per Council Policy F-5 (50/50 split with Council approval). Projections show full payoff by FY 2032–33, updated to reflect recent 12.1 percent CalPERS return.

Committee Member Collopy asked if the payoff year changed after the 12.1 percent return. Ms. Marin and City Manager Leung confirmed it remains FY 2032–33.

Finance Director/Treasurer Al-Imam explained that new labor contracts partially offset investment gains, reinforcing the same projected payoff year. The City currently pays ~$45 million annually toward UAL and ~$12 million for normal cost, targeting full funding around 2033.

Al-Imam described the impact of different funding targets (100%, 95%, 90%, 85%) on required payments and potential savings, noting largest savings occur after full funding. He recommended maintaining $45 million annual UAL payments and, once 100% funded, redirecting excess into a Section 115 Pension Trust, which offers local control and investment flexibility. Ms. Marin highlighted benefits and limitations of the trust.

Committee Member Collopy noted the trust had been previously discussed but not pursued; the current recommendation reflects a more refined strategy.

Chair Stapleton and City Manager Leung emphasized timing and policy considerations, noting the largest savings occur once full funding is reached, and a 95 percent target could allow partial redirection into a Section 115 trust. Committee Member Weber supported early evaluation.

Finance Director/Treasurer Al-Imam suggested a subcommittee to review investment strategies; Alexandra Irving (PARS) confirmed the trust is administratively established and requires only portfolio selection to activate the pension side.

Councilmember Weber proposed a small initial contribution; discussion ensued about funding amounts relative to the $45 million annual UAL payment and minimum required contributions.

The Committee discussed potential trade-offs, benefits of flexibility, and comparisons to CalPERS returns. Chair Stapleton emphasized maintaining the $45 million payment while using surpluses to fund the trust and monitor performance. Committee Member Collopy and Councilmember Weber supported this approach, ensuring adherence to Council Policy F-5.

Discussions included market risks, liquidity, asset classes in the Section 115 trust, and comparisons to prior allocations. Finance Director/Treasurer Al-Imam noted subcommittee options, and Ms. Irving clarified reimbursement mechanisms for OPEB expenditures within the trust.

Committee Member Collopy asked if the OPEB trust is fully funded; Al-Imam confirmed the OPEB liability was fully funded and noted that a more detailed update on the status of funding progress would be provided at the January meeting.

The Committee reached general consensus to continue the $45 million annual payment, pursue the 95 percent funding model over the next seven years, maintain flexibility for surpluses, and evaluate contributions to a Section 115 Pension Trust at year-end.

Chair Stapleton opened public comments. Hearing none, Chair Stapleton closed public comments.

Chair Stapleton received and filed the item.

B. OVERVIEW OF SALES TAX ALLOCATIONS FOR AUTOMOBILE SALES
Recommended action:
Receive and file.

Finance Director/Treasurer Al-Imam explained that HdL Companies (HdL) provides the City with sales tax and property tax consulting services, with both contracts scheduled to expire at the end of December. He noted that HdL representatives were present to provide an overview of how sales tax allocations for automobile sales are calculated, including traditional dealerships and online models such as Tesla.

Bobby Young, HdL Client Services Director, provided a professional background, noting he has nearly 30 years of local government finance experience, including 13 years with HdL and 13 years as a City Finance Director. He stated that this depth of public-sector experience is typical across HdL's team.

Mr. Young explained that HdL has operated in California for over 40 years, initially focusing on sales tax and later expanding to property tax, business license tax, transient occupancy tax (TOT), cannabis excise tax, and other local revenues. He emphasized that HdL's mission is rooted in public service and that the company now works with agencies nationwide.

Mr. Young reviewed the City's sales tax composition, noting that auto dealerships generate approximately 24 percent of annual sales tax revenue, making it the largest category. Restaurants and hotels comprise about 23 percent, followed by general consumer goods. He explained that these percentages reflect Newport Beach's distinct sales tax base and spending patterns.

Compared with statewide trends, Newport Beach has a more diversified mix of sales tax sources. Mr. Young reviewed trends over the past thirteen quarters, noting that autos and transportation have softened due to higher interest rates, inflation, and reduced purchases of higher-priced vehicles. In contrast, general consumer goods have shown modest growth, aside from typical fourth-quarter holiday spikes. He added that other categories, particularly business and industry, and countywide and statewide pools, often prompt questions, which he would address later.

Mr. Young described county pool revenues, noting that statewide these pools now represent the largest single sales tax category, primarily from online purchases and goods shipped into California. While pool revenues are a smaller share of Newport Beach's total sales tax, they continue to grow.

Reviewing fiscal year trends, Mr. Young stated that FY 2022–23 showed minimal positive growth, essentially flat overall. The following year declined about 5.4 percent, driven mainly by autos and transportation. In the most recent fiscal year, sales tax recovered by about 3.9 percent, partially offsetting the prior year's decline.

Committee Member Kramer asked whether the data reflected inflation. Mr. Young clarified that figures are not inflation-adjusted and explained that HdL receives data from the California Department of Tax and Fee Administration (CDTFA) in cash receipts, reflecting actual distributions, and supplemental data.

Mr. Young also explained that HdL analyzes adjusted data, assigning tax receipts to the period in which they were earned rather than received. This removes anomalies and provides a clearer view of underlying trends. He emphasized that this adjusted data is for analytical purposes, while the City's general ledger reflects cash received.

Committee Member Kramer noted that a decline, even if concentrated in auto sales, is concerning. Mr. Young agreed, stating the trend is significant because of the City's reliance on auto-related revenues, and this concern was a key reason for the presentation.

Mr. Young reported that Newport Beach receives about 5.3 percent of the Orange County countywide use tax pool, based on its proportion of locally generated sales tax. On average, the City generates roughly 5 percent of Orange County's place-of-sale sales tax, corresponding to its pool allocation.

Chair Stapleton asked which city receives the largest pool allocation. Mr. Young replied that Anaheim, due to Disneyland and tourism, and Irvine receive the largest shares, while Newport Beach's 5 percent is consistent with expectations. He explained that compared with smaller residential jurisdictions, Newport Beach's share is relatively high.

Chair Stapleton asked about Anaheim and Irvine's exact percentages. Mr. Young responded that each typically receives 10–12 percent, reflecting larger economic bases. He emphasized that Newport Beach benefits from local purchases and the importance of continued local spending.

Committee Member Kramer asked how Newport Beach's population compares to the county total. Mr. Young estimated about 2.5 percent, meaning the City's pool share is proportionally higher.

Chair Stapleton asked whether this reflects high sales tax velocity. Mr. Young noted that Anaheim and Irvine have populations generally between 300,000–400,000, contributing to higher absolute allocations.

Mr. Young, a Costa Mesa resident, noted that both Costa Mesa and Newport Beach share similar retail and visitor profiles, including Fashion Island, South Coast Plaza, Pacific Coast Highway auto dealerships, and high-end retail. He said both cities benefit from destination-based spending, and that the current allocation methodology favors Newport Beach compared with a population-based system, which would benefit larger cities like Anaheim and Irvine.

Transitioning to online sales, Mr. Young explained that taxable transactions now occur through traditional retail and online platforms. For brick-and-mortar sales, the local sales tax is allocated to the jurisdiction where the store is located.

Online transactions, including automobile sales, are more complex. Mr. Young noted that allocation depends on the goods' location at the time of sale and fulfillment. Using Amazon as an example, goods shipped from outside California contribute to the countywide pool, while in-state fulfillment centers allocate tax to the city where the center is located.

Mr. Young noted that most fulfillment centers are in the Inland Empire, where large sites are available. Orange County has limited capacity, with Amazon operating only a 500,000-square-foot facility locally versus much larger Inland Empire centers.

Committee Member Kramer asked where the Amazon facility serving Newport Beach is located. Mr. Young confirmed it is in Irvine, north of John Wayne Airport.

Committee Member Collopy asked about Huntington Beach. Mr. Young explained it is a last-mile facility, not a fulfillment center, and cannot be disclosed in more detail due to taxpayer confidentiality.

Committee Member Kenney noted the inequity created when fulfillment centers are outside Orange County and asked about potential legislative changes. Mr. Young confirmed discussions in Sacramento, noting that a working group of city managers and officials is exploring changes to shift sales tax allocation from the location of goods to the purchaser's residence. He added that jurisdictions currently benefiting from fulfillment centers are unlikely to support such reforms.

Mr. Young reiterated that Newport Beach receives slightly over 5 percent of the pool while representing 2–2.5 percent of the population, raising the question of whether a population-based allocation or the current methodology is preferable.

Committee Member Kenney commented that Newport Beach is disadvantaged without fulfillment centers.

Councilmember Weber asked for confirmation that sales tax from fulfillment centers is allocated to the city, not the county. Mr. Young confirmed, noting exceptions for unincorporated areas.

Chair Stapleton asked whether large fulfillment facilities create significant financial windfalls. Mr. Young confirmed, stating they can generate tens of millions in sales tax revenue, sometimes funding civic projects such as city halls.

Mr. Young noted the financial impact of fulfillment centers should be considered when analyzing online automobile sales, even though rules for autos differ from general consumer goods.

Mr. Young provided background on legal authority for online sales tax collection, citing the Wayfair decision and California AB 147. Prior to AB 147, online vehicle sales, including CarMax, Carvana, and Tesla, were taxed largely based on point of first contact. After AB 147, the CDTFA now allocates tax based on the vehicle's final preparation location. This applies to Tesla, Rivian, VinFast, and other direct-to-consumer manufacturers.

Mr. Young acknowledged the complexity and regulatory gray area of online sales.

Councilmember Weber asked whether it is easier to allocate tax based on delivery or preparation center. Mr. Young explained this is tied to California revenue law; Newport Beach receives 1 percent of the 7.75 percent sales tax rate. He noted differences in additional local taxes such as Santa Ana's 1.5 percent add-on, with Bradley-Burns tax distributed locally and Transactions and Use Tax following the consumer.

Mr. Young explained that the city manager working group seeks changes to align the Bradley-Burns Sales Tax rules with Transaction and Use Tax law, but significant opposition exists. Vice Chair Grant asked about coordination with Cal Cities. City Manager Leung confirmed the group is operating through Cal Cities, noting not all cities support the proposed changes.

Mr. Young linked the decline in auto-related sales tax in Newport Beach to CDTFA's revised interpretation of Tesla allocations and the temporary closure of Newport Beach Porsche, which caused transactions to be processed at Costa Mesa, boosting Costa Mesa's auto revenue. He noted similar trends in cities like Beverly Hills and Walnut Creek, tracking broader economic conditions.

Vice Chair Grant asked whether there had been discussions with Tesla about a delivery area in Newport Beach. City Manager Leung stated Tesla typically does not collaborate with cities to structure delivery locations, focusing on locations that suit their operations.

Mr. Young explained that the key factor is the location where vehicles are delivered or prepared. Tesla now operates larger facilities resembling traditional dealerships. Limited space in Newport Beach and Costa Mesa constrains operations, while Irvine has larger facilities.

Chair Stapleton observed Newport Beach parking structures store many Tesla vehicles and emphasized attention to dealership trends. He noted the relocation of Newport Auto Group to Irvine, the rebuilding of Porsche Newport Beach, and ongoing performance of Fletcher Jones. He expressed concern about the status of Ferrari and Maserati dealerships.

Committee Member Kenney asked about Newport Lexus inventory. Chair Stapleton explained pre-order sales reduce visible inventory.

Mr. Young stated specific performance data cannot be publicly shared due to confidentiality, though dealerships may present voluntarily. Al-Imam confirmed sales data for businesses is confidential and cannot be disclosed.

Chair Stapleton emphasized the importance of auto dealerships to City revenue, noting declines during Porsche's temporary closure and the need to monitor brands such as Ferrari. Committee Member Kenney observed Newport Lexus is underutilized and suggested it could host additional luxury brands to increase revenue. Chair Stapleton offered to contact the new ownership to discuss plans. Mr. Young noted that in other cities, economic development staff routinely conduct outreach to understand market conditions and operator needs, which could be helpful here.

Chair Stapleton opened the public comments. Hearing none, Chair Stapleton closed public comments.

Chair Stapleton received and filed the item.

C. FIRST QUARTER BUDGET UPDATE

Recommended action:

Receive and file.

Finance Manager Jessica Nguyen presented the first-quarter financial report for FY 2025–26, focusing on General Fund revenues and expenditures. She reported that, after comparing sources and uses, the unrestricted General Fund balance shows a surplus of approximately $10.3 million. She added that staff will continue to monitor results and refine projections in subsequent quarters, consistent with past practice.

City Manager Leung added that the surplus reflects both higher-than-anticipated revenues and expenditure savings. She noted that roughly half of the surplus is attributable to additional revenues, primarily property tax, with some contribution from sales tax.

Finance Director/Treasurer Al-Imam explained that the City initially projected a $12 million structural surplus when the budget was adopted. He noted that after the approval and booking of labor contracts, that projection declined to about $2.5 million. Despite this reduction, the unrestricted General Fund surplus has now increased to roughly $10.3 million.

Committee Member Kenney asked about the updated year-end surplus forecast. Finance Director/Treasurer Al-Imam replied that it is still early in the fiscal year to provide a precise estimate but noted that the City has historically ended with an unrestricted General Fund surplus of $20–$25 million, and staff currently anticipates a similar outcome this year.

Committee Member Collopy asked whether the chart showing Transient Occupancy Tax (TOT) revenue activity reflected amounts net of payments to Visit Newport Beach (VNB), and if so, how much had been paid. Finance Director/Treasurer Al-Imam confirmed that the figures were net of payments to VNB and noted that VNB currently receives 23 percent of TOT from hotels. When Committee Member Collopy asked whether VNB's share had increased or decreased, City Manager Leung responded that it had increased.

Chair Stapleton opened, public comments. Hearing none, Chair Stapleton closed public comments.

Chair Stapleton received and filed the item.

D. WORK PLAN REVIEW
Recommended action:
Receive and file.

Chair Stapleton noted that the committee will not meet in December and will resume on January 15, with additional meetings scheduled for February 12 and March 12. He stated that upcoming agenda items include review of the financial statements, the external audit, an update on the internal audit program, and the General Fund long-range financial plan. City Manager Leung added that the budget development process typically begins with the long-range financial forecast.

City Manager Leung announced that this was her last Finance Committee meeting. Chair Stapleton stated that it was fitting to recognize her seven years of service to the community. He noted that she was originally recruited for both her strong financial background and exceptional leadership, and that she has helped guide the organization to its current strong financial position. He expressed the committee's appreciation for her dedication and contributions.

City Manager Leung thanked the Committee and stated that the Finance Committee has been one of her favorite assignments. She noted that several members have served throughout her tenure with the City and expressed appreciation for their support and collaboration.

With no further business to come before the committee, Chair Stapleton wished everyone happy holidays and adjourned the meeting.

Chair Stapleton opened public comments. Hearing none, Chair Stapleton closed public comments.

Chair Stapleton received and filed the item.

VII. AJOURNMENT

The Finance Committee adjourned at 4:48 p.m.

Attest:

______________________________ ____________________
Joe Stapleton, Chair Date
Finance Committee

CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT

Agenda Item No. 6A
January 15, 2026

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: REVIEW OF INVESTMENT POLICY

SUMMARY:

In September 2025, the Finance Committee completed its annual review of Council Policy F-1, Statement of Investment Policy (the Policy), and identified pending legislation that could require future updates to the Policy. Since that time, California Senate Bill 595 has been signed into law and became effective January 1, 2026.

This staff report recommends updates to the Policy to ensure compliance with SB 595, reflect industry best practices, and incorporate minor administrative and technical revisions. The proposed changes were reviewed in coordination with the City's independent investment advisor and are intended to maintain consistency with the California Government Code while supporting the City's investment objectives.

RECOMMENDED ACTION:

Review and discuss this report and recommend that the City Council formally approve the proposed changes to Council Policy F-1 by adopting a resolution.

DISCUSSION:

California Government Code Section 53600.5 mandates that the City Treasurer follow three objectives when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds. The primary objective is to safeguard the principal of the funds under his or her control. The secondary objective is to meet the liquidity needs of the City. The third objective is to achieve a market rate of return on the funds under his or her control. Guided by the Investment Policy and constrained by the California Government Code, the City's core investment objectives are to provide safety of principal by maintaining a well-diversified, high-quality portfolio of liquid assets while earning a market rate of return consistent with the conservative risk parameters prescribed by State law.

City staff and the City's independent investment advisor, Chandler Asset Management, reviewed the proposed updates to the Investment Policy and recommended several changes to ensure compliance with recent amendments to the California Government Code and to reflect industry best practices.

Key proposed changes include the following:

- Updates to authorized investments resulting from Senate Bill 595, effective January 1, 2026, including:
    - An extension of the maximum maturity for prime commercial paper. An extension of a provision increasing the allowable portfolio allocation for eligible commercial paper for qualifying agencies.
    - Extension of a provision permitting investments in U.S. Government securities with zero or negative interest accruals are permitted during periods of negative market interest rates.
- Updates to the glossary of investment terms to reflect current industry standards and the addition of new definitions.
- Minor administrative and technical revisions throughout the Policy.
- Conforming changes to replace references to the Finance Director with Administrative Services Director.

Redlined changes to the City's Investment Policy are attached.

A comparison of the City's Investment Policy with the restrictions imposed by the California Government Code is attached, demonstrating that the City's Investment Policy closely mirrors the Government Code.

Prepared and Submitted by:

/s/ Jason Al-Imam

____
Jason Al-Imam
Administrative Services Director/Treasurer

Attachment A – Redlined Changes to the City's Investment Policy

Attachment B – Comparison of Investment Restrictions Under the California Government Code and the City's Investment Policy

ATTACHMENT A
REDLINE CHANGES TO THE CITY'S INVESTMENT POLICY

STATEMENT OF INVESTMENT POLICY

Purpose

The City Council has adopted this Investment Policy (the Policy) in order to establish the scope of the investment policy, investment objectives, standards of care, authorized investments, investment parameters, reporting, investment policy compliance and adoption, and the safekeeping and custody of assets.

This Policy is organized in the following sections:

A. SCOPE OF INVESTMENT POLICY

1. Pooling of Funds
   All cash shall be pooled for investment purposes. The investment income derived from the pooled investment shall be allocated to the contributing funds, net of all banking and investing expenses, based upon the proportion of the respective average balances relative to the total pooled balance. Investment income shall be distributed to the individual funds not less than annually.

2. Funds Included in the Policy
   The provisions of this Policy shall apply to all financial assets of the City as accounted for in the City's Comprehensive Annual Financial Report, including;
   a) General Fund
   b) Special Revenue Funds
   c) Capital Project Funds
   d) Enterprise Funds
   e) Internal Service Funds
   f) Trust and Agency Funds
   g) Permanent Endowment Funds
   h) Any new fund created unless specifically exempted

   If the City invests funds on behalf of another agency and, if that agency does not have its own investment policy, this Policy shall govern the agency's investments.

3. Funds Excluded from the Policy
   Bond Proceeds – Investment of bond proceeds will be made in accordance with applicable bond indentures.

B. INVESTMENT OBJECTIVES

The City's funds shall be invested in accordance with all applicable City policies and codes, State statutes, and Federal regulations, and in a manner designed to accomplish the following objectives, which are listed in priority order:

1. Safety
   Preservation of principal is the foremost objective of the investment program. Investments of the City shall be undertaken in a manner that seeks to ensure the preservation of capital in the overall portfolio. The objective shall be to mitigate credit risk and interest rate risk. To attain this objective, the City shall diversify its investments by investing funds among several financial institutions and a variety of securities offering independent returns.

   a) <u>Credit Risk</u>
      The City shall minimize credit risk, the risk of loss due to the failure of the security issuer or backer, by:

- Limiting investments in securities that have higher credit risks, pre-qualifying the financial institutions, broker/dealers, intermediaries, and advisors with which the City will do business
- Diversifying the investment portfolio so as to minimize the impact any one industry/investment class can have on the portfolio

b) Interest Rate Risk

To minimize the negative impact of material changes in the market value of securities in the portfolio, the City shall:

- Structure the investment portfolio so that securities mature concurrent with cash needs to meet anticipated demands, thereby avoiding the need to sell securities on the open market prior to maturity
- Invest in securities of varying maturities

2. Liquidity

The City's investment portfolio shall remain sufficiently liquid to enable the City to meet all operating requirements which might be reasonably anticipated without requiring a sale of securities. Since all possible cash demands cannot be anticipated, the portfolio should consist largely of securities with active secondary or resale markets. A portion of the portfolio also may be placed in money market mutual funds or LAIF which offer same-day liquidity for short-term funds.

3. Yield

The City's investment portfolio shall be designed with the objective of attaining a benchmark rate of return throughout budgetary and economic cycles, commensurate with the City's investment risk constraints and the liquidity characteristics of the portfolio. Return on investment is of secondary importance compared to the safety and liquidity objectives described above. The core of investments is limited to relatively low risk securities in anticipation of earning a fair return relative to the risk being assumed.

C. STANDARDS OF CARE

1. Prudence

The standard of prudence to be used for managing the City's investment program is California Government Code Section 53600.3, the prudent investor standard, which states that "when investing, reinvesting, purchasing, acquiring, exchanging, selling, or managing public funds, a trustee shall act with care, skill, prudence, and diligence under the circumstances then prevailing, including, but not limited to, the general economic conditions and the anticipated needs of the agency, that a prudent person acting in a like capacity and familiarity with those matters would use in the conduct of funds of a like character and with like aims, to safeguard the principal and maintain the liquidity needs of the agency."

The City's overall investment program shall be designed and managed with a degree of professionalism that is worthy of the public trust. The City recognizes that no investment is totally without risk and that the investment activities of the City are a matter of public record. Accordingly, the City recognizes that occasional measured losses may occur in a diversified portfolio and shall be considered within the context of the overall portfolio's return, provided that adequate diversification has been implemented and that the sale of a security is in the best long-term interest of the City.

The ~~Finance Director~~ Administrative Services Director and authorized investment personnel acting in accordance with established procedures and exercising due diligence shall be relieved of personal responsibility for an individual security's credit risk or market price changes, provided that deviations from expectations are reported in a timely fashion to the City Council and appropriate action is taken to control adverse developments.

2. Ethics and Conflicts of Interest

Elected officials and employees involved in the investment process shall refrain from personal business activity that could conflict with proper execution of the City’s investment program or could impair or create the appearance of an impairment of their ability to make impartial investment decisions. Employees and investment officials shall subordinate their personal investment transactions to those of the City. In addition, City Council members, the City Manager, and the ~~Finance Director~~ Administrative Services Director shall file a Statement of Economic Interests each year as required by California Government Code Section 87203 and regulations of the Fair Political Practices Commission.

3. Delegation of Authority

Authority to manage the City’s investment program is derived from the Charter of the City of Newport Beach section 605 (j). The ~~Finance Director~~ Administrative Services Director shall assume the title of and act as City Treasurer and with the approval of the City Manager appoint deputies annually as necessary to act under the provisions of any law requiring or permitting action by the City Treasurer. The ~~Finance Director~~ Administrative Services Director may then delegate the authority to conduct investment transactions and to manage the operation of the investment portfolio to other specifically authorized staff members. No person may engage in an investment transaction except as expressly provided under the terms of this Policy.

The City may engage the support services of outside investment advisors with respect to its investment program, so long as it can be demonstrated that these services produce a net financial advantage or necessary financial protection of the City's financial resources. Such companies must be registered under the Investment Advisors Act of 1940, be well-established and exceptionally reputable. Members of the staff of such companies who will have primary responsibility for managing the City’s investments must have a working familiarity with the special requirements and constraints of investing municipal funds in general and this City's funds in particular. These firms must insure that the portion of the portfolio under their management complies with various concentration and other constraints specified herein, and contractually agree to conform to all provisions of governing law and

the collateralization and other requirements of this Policy. Selection and retention of broker/dealers by investment advisors shall be at their sole discretion and dependent upon selection and retention criteria as stated in the Uniform Application for Investment Advisor Registration and related Amendments (SEC Form ADV 2A).

4. Internal Controls

The ~~Finance Director~~ Administrative Services Director is responsible for establishing and maintaining a system of internal controls. The internal controls shall be designed to prevent losses of public funds arising from fraud, employee error, and misrepresentation by third parties, unanticipated changes in financial markets, or imprudent action by City employees and officers. The internal structure shall be designed to provide reasonable assurance that these objectives are met. The concept of reasonable assurance recognizes that (1) the cost of a control should not exceed the benefits likely to be derived, and (2) the valuation of costs and benefits requires estimates and judgments by management.

D. BANKING SERVICES

Banking services for the City shall be provided by FDIC insured banks approved to provide depository and other banking services. To be eligible, a bank shall qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5 and shall secure deposits in excess of FDIC insurance coverage in accordance with California Government Code Section 53652.

E. BROKER/DEALERS

In the event that an investment advisor is not used to purchase securities, the City will select broker/dealers on the basis of their expertise in public cash management and their ability to provide service to the City's account.

Each approved broker/dealer must possess an authorizing certificate from the California Commissioner of Corporations as required by Section 25210 of the California Corporations Code.

To be eligible, a firm must meet at least one of the following criteria:

1. Be recognized as Primary Dealers by the Federal Reserve Bank of New York or have a primary dealer within their holding company structure, or
2. Report voluntarily to the Federal Reserve Bank of New York, or
3. Qualify under Securities and Exchange Commission (SEC) Rule 15c3-1 (Uniform Net Capital Rule).

F. SAFEKEEPING AND CUSTODY OF ASSETS

The ~~Finance Director~~ Administrative Services Director shall select one or more banks to provide safekeeping and custodial services for the City. A Safekeeping Agreement approved by the City shall be executed with each custodian bank prior to utilizing that bank's safekeeping services.

Custodian banks will be selected on the basis of their ability to provide services for the City's account and the competitive pricing of their safekeeping related services.

The purchase and sale of securities and repurchase agreement transactions shall be settled on a delivery versus payment basis. All securities shall be perfected in the name of the City. Sufficient evidence to title shall be consistent with modern investment, banking and commercial practices.

All investment securities, except non-negotiable Certificates of Deposit, Money Market Funds and local government investment pools, purchased by the City will

be delivered by book entry and will be held in third-party safekeeping by a City approved custodian bank, its correspondent bank or its Depository Trust Company (DTC) participant account.

All Fed wireable book entry securities owned by the City shall be held in the Federal Reserve system in a customer account for the custodian bank which will name the City as "customer."

All DTC eligible securities shall be held in the custodian bank's DTC participant account and the custodian bank shall provide evidence that the securities are held for the City as "customer."

G. AUTHORIZED INVESTMENTS

All investments and deposits of the City shall be made in accordance with California Government Code Sections 16429.1, 53600-53609 and 53630-53686. Any revisions or extensions of these code sections will be assumed to be part of this Policy immediately upon being enacted. The City has further restricted the eligible types of securities and transactions. The foregoing list of authorized securities and transactions shall be strictly interpreted. Any deviation from this list must be pre-approved by resolution of the City Council. In the event an apparent discrepancy is found between this Policy and the Government Code, the more restrictive parameter(s) will take precedence.

Where this section specifies a percentage limitation or minimum credit rating for a particular security type, that percentage or credit rating minimum is applicable only at the date of purchase.

1. Investments Specifically Permitted

   a) United States Treasury bills, notes, or bonds with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the City's portfolio that may be invested in this category.

b) Federal Instrumentality (government-sponsored enterprise) debentures, discount notes, callable and step-up securities, with a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category. No more than thirty percent (30%) of the portfolio may be invested in any single Federal Instrumentality/GSE issuer. The maximum percentage of callable Federal Instrumentality/GSE securities in the portfolio will be twenty percent (20%.)

c) Federal Agency Obligations for which the full faith and credit of the United States are pledged for the payment of principal and interest and which have a final maturity not exceeding five years from the date of trade settlement. There is no limitation as to the percentage of the portfolio that can be invested in this category.

d) Mortgage-backed Securities, Collateralized Mortgage Obligation (CMO) and Asset-backed Securities from issuers not defined sections a, b and c of the Investments Specifically Permitted section of this investment policy are limited to bonds with a final maturity not exceeding five years from the date of trade settlement. The security itself shall be rated at least "AAA" or the equivalent by an NRSRO. No more than five percent (5%) of the City's total portfolio shall be invested in any one issuer of mortgage-backed and asset-backed securities listed above, and the aggregate investment in mortgage-backed and asset-backed securities shall not exceed twenty percent (20%) of the City's total portfolio.

e) Medium-Term Notes issued by corporations organized and operating within the United States or by depository institutions licensed by the United States or any state and operating within the United States, with a final maturity not exceeding five years from the date of trade settlement, and rated in at least the "A" category or the equivalent by an NRSRO. No more than five percent (5%) of the City's total portfolio shall be invested in any one issuer of medium- term notes, and the aggregate investment in medium-term notes shall not exceed thirty percent (30%) of the City's total portfolio.

f) Municipal Bonds including bonds issued by the City of Newport Beach, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the City or by a department, board, agency, or authority of the City.

State of California registered warrants or treasury notes or bonds, including bonds payable solely out of the revenues from a revenue- producing property owned, controlled, or operated by the state or by a department, board, agency, or authority of the state.

Registered treasury notes or bonds of any of the other 49 states in addition to California, including bonds payable solely out of the revenues from a revenue producing property owned, controlled, or operated by a state or by a department, board, agency, or authority of any of the other 49 states, in addition to California.

Bonds, notes, warrants, or other evidences of indebtedness of a local agency within California, including bonds payable solely out of the revenues from a revenue-producing property owned, controlled, or operated by the local agency, or by a department, board, agency, or authority of the local agency.

In addition, these securities must be rated in at least the "A" category or the equivalent by a NRSRO with maturities not exceeding five years from the date of trade settlement. No more than five percent (5%) of the City's total portfolio shall be invested in any one municipal issuer. In addition, the aggregate investment in municipal bonds may not exceed thirty percent (30%) of the portfolio.

g) Non-negotiable Certificates of Deposit and savings deposits with a maturity not exceeding two years from the date of trade settlement, in FDIC insured state or nationally chartered banks or savings banks that qualify as a depository of public funds in the State of California as defined in California Government Code Section 53630.5. Deposits exceeding the FDIC insured amount shall be secured pursuant to California Government Code Section 53652. No one issuer shall exceed more than five percent (5%) of the portfolio, and investment in negotiable and nonnegotiable certificates of deposit shall be limited to thirty percent (30%) of the portfolio combined.

h) Negotiable Certificates of Deposit only with a nationally or state- chartered bank, a savings association or a federal association (as defined by Section 5102 of the Financial Code), a state or federal credit union, or by a federally licensed or state-licensed branch of a foreign bank whose senior long-term debt is rated in at least the "A" category, or the equivalent, or short-term debt is rated at least "A-1" or the equivalent by an NRSRO and having assets in excess of $10 billion, so as to ensure security and a large, well-established secondary market. Ease of subsequent marketability should be further ascertained prior to initial investment by examining currently quoted bids by primary dealers and the acceptability of the issuer by these dealers. No one issuer shall exceed more than five percent (5%) of the portfolio, and maturity shall not exceed two years. Investment in negotiable and non- negotiable certificates of deposit shall be limited to thirty percent (30%) of the portfolio combined.

i) Prime Commercial Paper with a maturity not exceeding 397~~270~~ days from the date of trade settlement that is rated "A-1", or the equivalent, by an NRSRO. The entity that issues the commercial paper shall meet all of the following conditions in either sub- paragraph i. or sub-paragraph ii. below:

i. The entity shall (1) be organized and operating in the United States as a general corporation, (2) have total assets in excess of $500,000,000 and (3) have debt other than commercial paper, if any, that is rated in at least the "A" category or the equivalent by an NRSRO.

ii. The entity shall (1) be organized within the United States as a special purpose corporation, trust, or limited liability company, (2) have program wide credit enhancements, including, but not limited to, over collateralization, letters of credit or surety bond and (3) have commercial paper that is rated at least "A-1" or the equivalent, by an NRSRO.

iii. No more than five percent (5%) of the City's total portfolio shall be invested in the commercial paper of any one issuer, and the aggregate investment in commercial paper shall not exceed twenty-five percent (25%) of the City's total portfolio. Under a provision sunsetting on January 1, 2031~~26~~, no more than forty percent (40%) of the portfolio may be invested in commercial paper if the City's assets under management are~~ greater than~~ $100,000,000 or more.

j) Eligible Banker's Acceptances with a maturity not exceeding 180 days from the date of trade settlement, drawn on and accepted by a commercial bank whose senior long-term debt is rated in at least the "A" category or the equivalent by an NRSRO at the time of purchase. Banker's Acceptances shall be rated at least "A-1", or the equivalent at the time of purchase by an NRSRO. If the bank has senior debt outstanding, it must be rated in at least the "A" category or the equivalent by an NRSRO. The aggregate investment in banker's acceptances shall not exceed forty percent (40%) of the City's total portfolio, and no more than five percent (5%) of the City's total portfolio shall be invested in banker's acceptances of any one bank.

k) Repurchase Agreements and Reverse Repurchase Agreements with a final termination date not exceeding 30 days collateralized by U.S. Treasury obligations or Federal Instrumentality securities listed in items 1 and 2 above with the maturity of the collateral not exceeding ten years. For the purpose of this section, the term collateral shall mean purchased securities under the terms of the City's approved Master Repurchase Agreement. The purchased securities shall have a minimum market value including accrued interest of one hundred and two percent (102%) of the dollar value of the funds borrowed. Collateral shall be held in the City's custodian bank, as safekeeping agent, and the market value of the collateral securities shall be marked-to-the-market daily.

Repurchase Agreements and Reverse Repurchase Agreements shall be entered into only with broker/dealers and who are recognized as Primary Dealers with the Federal Reserve Bank of New York, or with firms that have a Primary Dealer within their holding company structure. Primary Dealers approved as Repurchase Agreement counterparties shall have a short-term credit rating of at least "A-1" or the equivalent and a long-term credit rating of at least "A" or the equivalent. Repurchase agreement counterparties shall execute a City approved Master Repurchase Agreement with the City. The ~~Finance Director~~ Administrative Services Director shall maintain a copy of the City's approved Master Repurchase Agreement and a list of the broker/dealers who have executed same.

In addition, the City must own assets for more than 30 days before they can be used as collateral for a reverse repurchase agreement. No more than ten percent (10%) of the portfolio can be involved in reverse repurchase agreements.

l) State of California's Local Agency Investment Fund (LAIF), pursuant to California Government Code Section 16429.1.

m) California Asset Management Trust Cash Reserve Portfolio (CAMP): Investments in CAMP shall not exceed the same maximum limit established for LAIF.

n) Mutual Funds and Money Market Mutual Funds registered under the Investment Company Act of 1940, provided that:

   i. **MUTUAL FUNDS** that invest in the securities and obligations as authorized under California Government Code, Section 53601 (a) to (k) and (m) to (q) inclusive and that meet either of the following criteria:

      1) Attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or

      2) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience investing in the securities and obligations authorized by California Government Code, Section 53601 and with assets under management in excess of $500 million.

      3) No more than 10% of the total portfolio may be invested in shares of any one mutual fund.

ii. **MONEY MARKET MUTUAL FUNDS** registered with the Securities and Exchange Commission under the Investment Company Act of 1940 and issued by diversified management companies and meet either of the following criteria:

1) Have attained the highest ranking or the highest letter and numerical rating provided by not less than two (2) NRSROs; or

2) Have retained an investment adviser registered or exempt from registration with the Securities and Exchange Commission with not less than five years' experience managing money market mutual funds with assets under management in excess of $500 million.

3) No more than 20% of the total portfolio may be invested in Money Market Mutual Funds.

iii. No more than 20% of the total portfolio may be invested in these securities.

o) Supranationals which are United States dollar denominated senior unsecured unsubordinated obligations issued or unconditionally guaranteed by the International Bank for Reconstruction and Development (IBRD), International Finance Corporation (IFC), or Inter-American Development Bank (IADB), with a maximum remaining maturity of five years or less from the date of trade settlement, and eligible for purchase and sale within the United States. Investments under this paragraph shall be rated in the "AA" category, its equivalent, or better by at least one NRSRO.

No more than ten percent (10%) of the City's total portfolio shall be invested in any one issuer of supranational obligations. Purchases of supranational obligations shall not exceed twenty percent (20%) of the investment portfolio of the City.

2. Investments Specifically Not Permitted

Any security type or structure not specifically approved by this policy is hereby prohibited. Security types, which are thereby prohibited include, but are not limited to: "exotic" derivative structures such as range notes, dual index notes, inverse floating rate notes, leveraged or de-leveraged floating rate notes, interest only strips that are derived from a pool of mortgages and any security that could result in zero interest accrual if held to maturity, or any other complex variable or structured note with an unusually high degree of volatility risk.

Under a provision sunsetting on January 1, 2031~~26~~, securities backed by the U.S. Government that could result in a zero or negative interest accrual if held to maturity are permitted.

The City shall not invest funds with the Orange County Pool.

The purchase of a security with a forward settlement date exceeding 45 days from the time of the investment is prohibited.

3. Exceptions to Prohibited and Restricted Investments
The City shall not be required to sell securities prohibited or restricted in this policy, or any future policies, or prohibited or restricted by new State regulations, if purchased prior to their prohibition and/or restriction. Insofar as these securities provided no notable credit risk to the City, holding of these securities until maturity is approved. At maturity or liquidation, such monies shall be reinvested as provided by this policy.

H. INVESTMENT PARAMETERS

1. Diversification
The City shall diversify its investments to avoid incurring unreasonable risks inherent in over-investing in specific instruments, individual financial institutions or maturities. As such, no more than five percent (5%) of the City's portfolio may be invested in the instruments of any one issuer, except governmental issuers, supranationals, investment pools, mutual funds and money market funds, or unless otherwise specified in this investment policy. This restriction does not apply to any type of Federal Instrumentality or Federal Agency Security listed in Sections G1 b and G1 c above. Nevertheless, the asset allocation in the investment portfolio should be flexible depending upon the outlook for the economy, the securities markets and the City's anticipated cash flow needs.

2. Maximum Maturities
To the extent possible, investments shall be matched with anticipated cash flow requirements and known future liabilities. The City will not invest in securities maturing more than five years from the date of trade settlement, unless the City Council has by resolution granted authority to make such an investment at least three months prior to the date of investment.

3. Credit Quality
Each investment manager will monitor the credit quality of the securities in their respective portfolio. In the event a security held by the City is downgraded to a level below the requirements of this policy, making the security ineligible for additional purchases, the following steps will be taken:

- Any actions taken related to the downgrade by the investment manager will be communicated to the ~~Finance Director~~ Administrative Services Director in a timely manner.
- If a decision is made to retain the security, the credit quality will be monitored and reported to the City Council.

4. Competitive Transactions
Investment advisors shall make best effort to price investment transactions on a competitive basis with broker/dealers selected consistent with their practices disclosed in form ADV 2A filed with the SEC. Where possible, at least three broker/dealers shall be contacted for each transaction and their bid or offering prices shall be recorded. If there is no other readily available competitive offering, the investment advisor shall make their best efforts to document quotations for comparable or alternative securities. If qualitative characteristics of a transaction, including, but not limited to, complexity of the transaction, or sector expertise

of the broker, prevent a competitive selection process, investment advisors shall use brokerage selection practices as described above.

I. PORTFOLIO PERFORMANCE

The investment portfolio shall be designed to attain a market rate of return throughout budgetary and economic cycles, taking into account prevailing market conditions, risk constraints for eligible securities, and cash flow requirements. The performance of the City's investments shall be compared to the total return of a benchmark that most closely corresponds to the portfolio's duration, universe of allowable securities, risk profile, and other relevant characteristics. When comparing the performance of the City's portfolio, its rate of return will be computed consistent with Global Investment Performance Standards (GIPS).

J. REPORTING

Monthly, the ~~Finance Director~~ Administrative Services Director shall produce a treasury report of the investment portfolio balances, transactions, risk characteristics, earnings, and performance results of the City's investment portfolio available to City Council and the public on the City's Website. The report shall include the following information:

1. Investment type, issuer, date of maturity, par value and dollar amount invested in all securities, and investments and monies held by the City;
2. A description of the funds, investments and programs;
3. A market value as of the date of the report (or the most recent valuation as to assets not valued monthly) and the source of the valuation;
4. A statement of compliance with this Policy or an explanation for non-compliance

K. INVESTMENT POLICY COMPLIANCE AND ADOPTION

1. Compliance
Any deviation from the policy shall be reported to Finance Committee as soon as practical, but no later than the next scheduled Finance Committee meeting. Upon recommendation of the Finance Committee, the ~~Finance Director~~ Administrative Services Director shall review deviations from policy with the City Council.

2. Adoption
The ~~Finance Director~~ Administrative Services Director shall review the Investment Policy with the Finance Committee at least annually to ensure its consistency with the overall

objectives of preservation of principal, liquidity and return, and its relevance to current law and financial and economic trends.

The ~~Finance Director~~ Administrative Services Director shall review the Investment Policy with City Council at a public meeting if there are changes recommended to the Investment Policy.

History

Adopted F-1 – 4-6-1959
Reaffirmed F-1 – 8-15-1966
Reaffirmed F-1 – 11-12-1968
Reaffirmed F-1 – 3-9-1970
Amended F-1 – 11-9-1970
Reaffirmed F-1 – 2-8-1971
Reaffirmed F-1 – 2-14-1972
Reaffirmed F-1 – 12-10-1973
Amended F-1 – 2-11-1974
Amended F-1 –2-9-1981
Amended F-1 –10-27-1986
Rewritten F-1 – 10-22-1990
Amended F-1 – 1-28-1991
Amended F-1 – 1-24-1994
Amended F-1 – 1-9-1995
Amended F-1 – 4-22-1996
Corrected F-1 – 1-27-1997
Amended F-1 – 2-24-1997
Amended F-1 – 5-26-1998
Reaffirmed F-1 – 3-22-1999
Reaffirmed F-1 – 3-14-2000
Amended and Reaffirmed F-1 – 5-8-2001
Amended and Reaffirmed F-1 – 4-23-2002
Amended and Reaffirmed F-1 – 4-8-2003
Amended and Reaffirmed F-1 – 4-13-2004
Amended and Reaffirmed F-1 – 9-13-2005
Amended F-1 – 8-11-2009
Amended and Reaffirmed F-1 – 8-10-2010
Amended and Reaffirmed F-1 – 9-28-2010
Reaffirmed F-1 – 6-28-2011
Amended and Reaffirmed F-1 – 10-9-2012
Amended F-1 – 8-13-2013
Amended F-1 – 9-8-2015
Amended F-1 – 3-28-2017
Amended F-1 – 1-28-2020
Amended F-1 – 9-28-2021
Amended F-1 – 10-10-2023
Amended F-1 – 4-9-2024
Amended F-1 – 10-22-2024

GLOSSARY OF INVESTMENT TERMS

AGENCIES. Shorthand market terminology for any obligation issued by *a government-sponsored entity (GSE)*, or a *federally related institution*. Most obligations of GSEs are not guaranteed by the full faith and credit of the US government. Examples are:

FFCB. The Federal Farm Credit Bank System provides credit and liquidity in the agricultural industry. FFCB issues discount notes and bonds.

FHLB. The Federal Home Loan Bank provides credit and liquidity in the housing market. FHLB issues discount notes and bonds.

FHLMC. Like FHLB, the Federal Home Loan Mortgage Corporation provides credit and liquidity in the housing market. FHLMC, also called "Freddie Mac" issues discount notes, bonds and mortgage pass-through securities.

FNMA. Like FHLB and Freddie Mac, the Federal National Mortgage Association was established to provide credit and liquidity in the housing market. FNMA, also known as "Fannie Mae," issues discount notes, bonds and mortgage pass-through securities.

GNMA. The Government National Mortgage Association, known as "Ginnie Mae," issues mortgage pass-through securities, which are guaranteed by the full faith and credit of the US Government.

PEFCO. The Private Export Funding Corporation assists exporters. Obligations of PEFCO are not guaranteed by the full faith and credit of the US government.

TVA. The Tennessee Valley Authority provides flood control and power and promotes development in portions of the Tennessee, Ohio, and Mississippi River valleys. TVA currently issues discount notes and bonds.

ASKED. The price at which a seller offers to sell a security.

ASSET BACKED SECURITIES. Securities supported by pools of installment loans or leases or by pools of revolving lines of credit.

AVERAGE LIFE. In mortgage-related investments, including CMOs, the average time to expected receipt of principal payments, weighted by the amount of principal expected.

BANKER'S ACCEPTANCE. A money market instrument created to facilitate international trade transactions. It is highly liquid and safe because the risk of the trade transaction is transferred to the bank which "accepts" the obligation to pay the investor.

BENCHMARK. A comparison security or portfolio. A performance benchmark is a partial market index, which reflects the mix of securities allowed under a specific investment policy.

BID. The price at which a buyer offers to buy a security.

BROKER. A broker brings buyers and sellers together for a transaction for which the broker receives a commission. A broker does not sell securities from his own position.

CALLABLE. A callable security gives the issuer the option to call it from the investor prior to its maturity. The main cause of a call is a decline in interest rates. If interest rates decline since an issuer issues securities, it will likely call its current securities and reissue them at a lower rate of interest. Callable securities have reinvestment risk as the investor may receive its principal back when interest rates are lower than when the investment was initially made.

CERTIFICATE OF DEPOSIT (CD). A time deposit with a specific maturity evidenced by a certificate. Large denomination CDs may be marketable.

~~**CERTIFICATE OF DEPOSIT ACCOUNT REGISTRY SYSTEM (CDARS).** A private placement service that allows local agencies to purchase more than $250,000 in CDs from a single financial institution (must be a participating institution of CDARS) while still maintaining FDIC insurance coverage. CDARS is currently the only entity providing this service. CDARS facilitates the trading of deposits between the California institution and other participating institutions in amounts that are less than $250,000 each, so that FDIC coverage is maintained.~~

COLLATERAL. Securities or cash pledged by a borrower to secure repayment of a loan or repurchase agreement. Also, securities pledged by a financial institution to secure deposits of public monies.

COLLATERALIZED MORTGAGE OBLIGATIONS (CMO). Classes of bonds that redistribute the cash flows of mortgage securities (and whole loans) to create securities that have different levels of prepayment risk, as compared to the underlying mortgage securities.

COMMERCIAL PAPER. The short-term unsecured debt of corporations.

COST YIELD. The annual income from an investment divided by the purchase cost. Because it does not give effect to premiums and discounts which may have been included in the purchase cost, it is an incomplete measure of return.

COUPON. The rate of return at which interest is paid on a bond.

CREDIT RISK. The risk that principal and/or interest on an investment will not be paid in a timely manner due to changes in the condition of the issuer.

CURRENT YIELD. The annual income from an investment divided by the current market value. Since the mathematical calculation relies on the current market value rather than the investor's cost, current yield is unrelated to the actual return the investor will earn if the security is held to maturity.

DEALER. A dealer acts as a principal in security transactions, selling securities from and buying securities for his own position.

DEBENTURE. A bond secured only by the general credit of the issuer.

DELIVERY VS. PAYMENT (DVP). A securities industry procedure whereby payment for a security must be made at the time the security is delivered to the purchaser's agent.

DERIVATIVE. Any security that has principal and/or interest payments which are subject to uncertainty (but not for reasons of default or credit risk) as to timing and/or amount, or any security which represents a component of another security which has been separated from other components ("Stripped" coupons and principal). A derivative is also defined as a financial instrument the value of which is totally or partially derived from the value of another instrument, interest rate, or index.

DISCOUNT. The difference between the par value of a bond and the cost of the bond, when the cost is below par. Some short-term securities, such as T-bills and banker's acceptances, are known as discount securities. They sell at a discount from par, and return the par value to the investor at maturity without additional interest. Other securities, which have fixed coupons, trade at a discount when the coupon rate is lower than the current market rate for securities of that maturity and/or quality.

DIVERSIFICATION. Dividing investment funds among a variety of investments to avoid excessive exposure to any one source of risk.

DURATION. The weighted average time to maturity of a bond where the weights are the present values of the future cash flows. Duration measures the price sensitivity of a bond to changes in interest rates. (See Modified Duration).

FEDERAL FUNDS RATE. The rate of interest charged by banks for short-term loans to other banks. The Federal Reserve Bank through open-market operations establishes it.

FEDERAL OPEN MARKET COMMITTEE. A committee of the Federal Reserve Board that establishes monetary policy and executes it through temporary and permanent changes to the supply of bank reserves.

FIDUCIARY. A person or organization that acts on behalf of another person(s) or organization that puts their clients' interests ahead of their own as they are bound both legally and ethically to act in the best interest of their clients.

JOINT POWERS AUTHORITY (JPA). An entity created by two or more public agencies that share a common goal in order to jointly exercise powers common to all members through a joint powers agreement or contract.

LEVERAGE. Borrowing funds in order to invest in securities that have the potential to pay earnings at a rate higher than the cost of borrowing.

LIQUIDITY. The speed and ease with which an asset can be converted to cash.

LOCAL AGENCY INVESTMENT FUND (LAIF). A voluntary investment fund open to government entities and certain non-profit organizations in California that is managed by the State Treasurer's Office.

LOCAL GOVERNMENT INVESTMENT POOL. Investment pools that range from the State Treasurer's Office Local Agency Investment Fund (LAIF) to county pools, to Joint Powers Authorities (JPAs). These funds are not subject to the same SEC rules applicable to money market mutual funds.

MAKE WHOLE CALL. A type of call provision on a bond that allows the issuer to pay off the remaining debt early. Unlike a call option, with a make whole call provision, the issuer makes a lump sum payment that equals the net present value (NPV) of future coupon payments that will not be paid because of the call. With this type of call, an investor is compensated, or "made whole."

MARGIN. The difference between the market value of a security and the loan a broker makes using that security as collateral.

MARKET RISK. The risk that the value of securities will fluctuate with changes in overall market conditions or interest rates.

MARKET VALUE. The price at which a security can be traded.

MARKING TO MARKET. The process of posting current market values for securities in a portfolio.

MATURITY. The final date upon which the principal of a security becomes due and payable. An investment's term or remaining maturity is measured from the settlement date to final maturity.

MEDIUM TERM NOTES. Unsecured, investment-grade senior debt securities of major corporations which are sold in relatively small amounts on either a continuous or an intermittent basis. MTNs are highly flexible debt instruments that can be structured to respond to market opportunities or to investor preferences.

MODIFIED DURATION. The percent change in price for a 100 basis point change in yields. Modified duration is the best single measure of a portfolio's or security's exposure to market risk.

MONEY MARKET. The market in which short-term debt instruments (T-bills, discount notes, commercial paper, and banker's acceptances) are issued and traded.

MORTGAGE PASS-THROUGH SECURITIES. A securitized participation in the interest and principal cash flows from a specified pool of mortgages. Principal and interest payments made on the mortgages are passed through to the holder of the security.

MUNICIPAL SECURITIES. Securities issued by state and local agencies to finance capital and operating expenses.

MUTUAL FUND. An entity which pools the funds of investors and invests those funds in a set of securities which is specifically defined in the fund's prospectus. Mutual funds can be invested in various types of domestic and/or international stocks, bonds, and money market instruments, as set forth in the individual fund's prospectus. For most large, institutional investors, the costs associated with investing in mutual funds are higher than the investor can obtain through an individually managed portfolio.

NATIONALLY RECOGNIZED STATISTICAL RATING ORGANIZATION (NRSRO). A credit rating agency that the Securities and Exchange Commission in the United States uses for regulatory purposes. Credit rating agencies provide assessments of an investment's risk. The issuers of investments, especially debt securities, pay credit rating agencies to provide them with ratings. The three most prominent NRSROs are Fitch, S&P, and Moody's.

NEGOTIABLE CD. A short-term debt instrument that pays interest and is issued by a bank, savings or federal association, state or federal credit union, or state-licensed branch of a foreign bank. Negotiable CDs are traded in a secondary market.

PLACEMENT SERVICE DEPOSITS. A private service that allows local agencies to invest in FDIC-insured deposits with one or more banks, savings and loans, and credit unions located in the United States. IntraFi (formerly known as CDARS) is an example of an entity that provides this service.

PREMIUM. The difference between the par value of a bond and the cost of the bond, when the cost is above par.

PREPAYMENT SPEED. A measure of how quickly principal is repaid to investors in mortgage securities.

PREPAYMENT WINDOW. The time period over which principal repayments will be received on mortgage securities at a specified prepayment speed.

PRIMARY DEALER. A financial institution (1) that is a trading counterparty with the Federal Reserve in its execution of market operations to carry out U.S. monetary policy, and (2) that participates for statistical reporting purposes in compiling data on activity in the U.S. Government securities market.

PRUDENT PERSON (PRUDENT INVESTOR) RULE. A standard of responsibility which applies to fiduciaries. In California, the rule is stated as "Investments shall be managed with the care, skill, prudence and diligence, under the circumstances then prevailing, that a prudent person, acting in a like capacity and familiar with such matters, would use in the conduct of an enterprise of like character and with like aims to accomplish similar purposes."

REALIZED YIELD. The change in value of the portfolio due to interest received and interest earned and realized gains and losses. It does not give effect to changes in market value on securities, which have not been sold from the portfolio.

REGIONAL DEALER. A financial intermediary that buys and sells securities for the benefit of its customers without maintaining substantial inventories of securities and that is not a primary dealer.

REPURCHASE AGREEMENT. Short-term purchases of securities with a simultaneous agreement to sell the securities back at a higher price. From the seller's point of view, the same transaction is a reverse repurchase agreement.

SAFEKEEPING. A service to bank customers whereby securities are held by the bank in the customer's name.

STRUCTURED NOTE. A complex, fixed income instrument, which pays interest, based on a formula tied to other interest rates, commodities or indices. Examples include inverse floating rate notes which have coupons that increase when other interest rates are falling, and which fall when other interest rates are rising, and "dual index floaters," which pay interest based on the relationship between two other interest rates - for example, the yield on the ten-year Treasury note minus the Libor rate. Issuers of such notes lock in a reduced cost of borrowing by purchasing interest rate swap agreements.

SUPRANATIONAL. A Supranational is a multi-national organization whereby member states transcend national boundaries or interests to share in the decision making to promote economic development in the member countries.

TOTAL RATE OF RETURN. A measure of a portfolio's performance over time. It is the internal rate of return, which equates the beginning value of the portfolio with the ending value; it includes interest earnings, realized and unrealized gains, and losses in the portfolio.

U.S. TREASURY OBLIGATIONS. Securities issued by the U.S. Treasury and backed by the full faith and credit of the United States. Treasuries are considered to have no credit risk, and are the benchmark for interest rates on all other securities in the US and overseas. The Treasury issues both discounted securities and fixed coupon notes and bonds.

TREASURY BILLS. All securities issued with initial maturities of one year or less are issued as discounted instruments, and are called Treasury bills. The Treasury currently issues three- and six-month T-bills at regular weekly auctions. It also issues "cash management" bills as needed to smooth out cash flows.

TREASURY NOTES. All securities issued with initial maturities of two to ten years are called Treasury notes, and pay interest semi-annually.

TREASURY BONDS. All securities issued with initial maturities greater than ten years are called Treasury bonds. Like Treasury notes, they pay interest semi-annually.

VOLATILITY. The rate at which security prices change with changes in general economic conditions or the general level of interest rates.

YIELD TO MATURITY. The annualized internal rate of return on an investment which equates the expected cash flows from the investment to its cost.

ATTACHMENT B

COMPARISON OF INVESTMENT RESTRICTIONS UNDER THE CALIFORNIA GOVERNMENT CODE AND THE CITY'S INVESTMENT POLICY

Comparison of Investment Restrictions Under the California Government Code and the City's Investment Policy - 2025

	City of Newport Beach Investment Policy				California Government Code			
Investment Type	Maximum Maturity	Maximum % of Portfolio	% Issuer	Minimum Rating Category	Maximum Maturity	Maximum % of Portfolio	% Issuer	Minimum Rating Category
US Treasury	5 years	100%	100%	None	5 years	None	None	None
Federal Agency	5 years	100%	30%	None	5 years	None	None	None
Agency MBS/CMO	5 years	100%		None	5 years	None	None	None
Municipal Bonds	5 years	30%	5%	None	5 years	None	None	None
Negotiable CD	2 years	30%	5%	A-1 or A by an NRSRO	5 years	30%	None	None
Non-Negotiable CD	2 years			FDIC insured/collateralized	5 years	None	None	None
Placement Service Deposits	Not Authorized				5 years	50%	None	None
Repurchase Agreement	30 days	30%	5%	A-1 and A by an NRSRO	1 year	None	None	None
Reverse Repurchase Agreement	30 days	10%	5%	A-1 and A by an NRSRO	1 year	20%	None	None
Banker's Acceptances	180 days	40%	5%	A-1 and A by an NRSRO	180 days	40%	30%	None
Commercial Paper	270 days	40%	5%	A-1, A by an NRSRO, if long-term ratings	270 days	40%*	10%	A-1, A by an NRSRO, if long-term ratings
Corporate Medium Term Notes	5 years	30%	5%	A by an NRSRO	5 years	30%		A by an NRSRO
Non-Agency ABS/MBS/CMO	5 years	20%	5%	AAA by an NRSRO	5 years	20%	5%	AA by an NRSRO
Mutual Funds	N/A	20%	10%	Multiple***	N/A	20%	10%	Multiple***
Money Market Mutual Funds	N/A		20%	Multiple****	N/A		20%	Multiple****
Local Agency Investment Fund	N/A	Maximum permitted by LAIF	None	None	N/A	Maximum permitted by LAIF	None	None
California Asset Management Program	N/A	Maximum permitted by LAIF	None	Multiple**	N/A	None	None	Multiple**
Orange County Investment Pool	Not Authorized				N/A	Maximum permitted by County Treasurer	None	None
Supranationals	5 years	20%	10%	AA category by an NRSRO	5 years	30%	30%	AA category by an NRSRO

*40% maximum for public agencies with assets under management >$100 million, otherwise 25%.

**Investment advisor for the JPA must be registered or exempt from SEC registration, AUM >$500 million, and at least 5 years investing in instruments authorized by Section 53601 (a) to (0).

***Highest ranking by at least 2 NRSROs, investment advisor for the fund must be registered or exempt from SEC registration, AUM >$500 million, and at least 5 years investing in instruments authorized by Section 53601 and 53635.

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FINANCE COMMITTEE MEETING

City of Newport Beach | January 15, 2026

CHANDLER ASSET MANAGEMENT | chandlerasset.com

Chandler Team:

For questions about your account, please call (800) 317-4747,
or contact clientservice@chandlerasset.com

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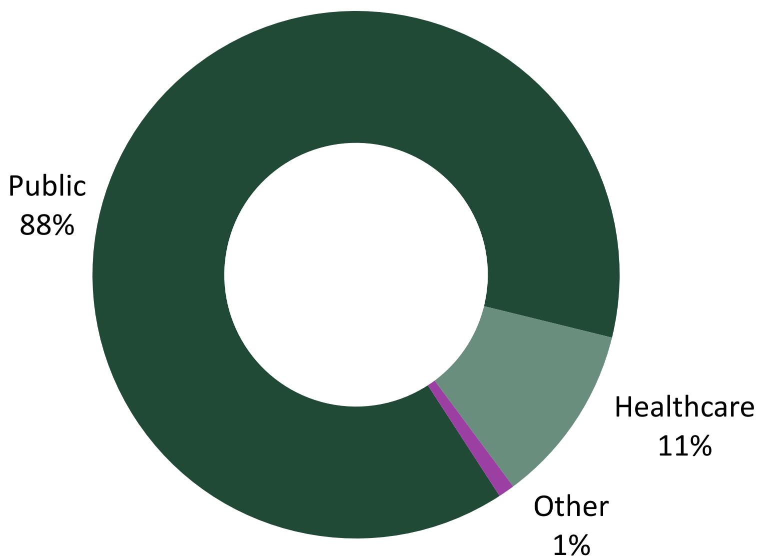
CHANDLER ASSET MANAGEMENT

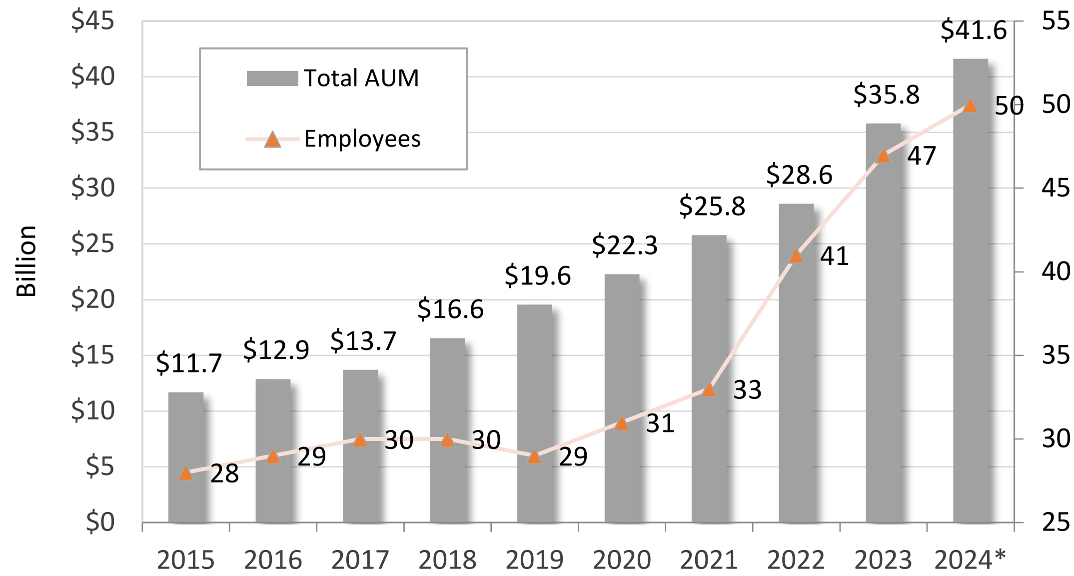
"We believe if we do what is right for our clients, our own success will follow."

Assets Under Management: $43.4 Billion

As of September 30, 2025



Chandler's AUM ($ billions) 2015-2024



All data as of December 31 of each year.

Independent & Employee-Owned

- Fixed income investment specialist since 1988
- SEC-Registered Investment Adviser
- Fiduciary management
- Founded by public agency investment professionals
- Serving over 200 local government clients
- Headquartered in San Diego, CA with offices in Ventura, CA; Oakland, CA; Marin County, CA; Seattle, WA; Denver, CO; and Clearwater, FL

Customized Investment Program

- Tailored investment solutions based on individual risk profiles and return goals
- Direct access to the investment management team
- Strategies for operating, short- and long-term reserves, and bond proceeds
- Large enough to aggregate orders and access primary markets, but right-sized to provide customized consultative services

Stable Team of Investment Professionals

- Tenured team of investment professionals with decades of portfolio management experience
- Continuity provided through team approach
- Disciplined, repeatable investment process
- Proprietary investment analysis

CHANDLER ASSET MANAGEMENT

Chandler's California AUM | $33.9 Billion as of 9/30/2025

Inland Area Clients	Los Angeles Clients	Orange County Clients	San Diego Clients
City of Riverside	City of Bell	City of Brea	City of Chula Vista
City of Chino Hills	City of Beverly Hills	City of Buena Park	City of Imperial Beach
Coachella Valley Water District	City of Camarillo	City of Costa Mesa	City of National City
City of Corona	Crescenta Valley Water District	East Orange County Water District	City of Oceanside
Beaumont Cherry Valley Water	City of El Monte	City of Fountain Valley	County of San Diego - Advisory
Elsinore Valley Muni Water Dist.	City of Gardena	City of La Habra	San Diego County Regional Airport
City of Indio	City of La Mirada	City of Mission Viejo	San Diego County Water Authority
Jurupa Valley	LA County Metro. Trans. Authority	Moulton Niguel Water District	City of San Marcos
City of Menifee	City of Monterey Park	City of Newport Beach	City of Solana Beach
City of Moreno Valley	City of Pico Rivera	City of Orange	San Diego Community Power
City of Murrieta	City of Pomona	OC Transportation Authority	San Diego Unified School District
City of Palm Springs	City of Port Hueneme	City of San Clemente	
City of Perris	Three Valleys Muni Water District	City of San Juan Capistrano	
Rancho California Water District	Upper San Gabriel Muni Water District	Santa Ana Watershed Project Authority	
San Bernardino Muni Water Department	Walnut Valley Water District	South Coast Water District	
City of San Jacinto	West Basin Muni Water District	City of Stanton	
Temescal Valley Water District		Transportation Corridor Agencies	
West Valley Water District		City of Tustin	
		City of Westminster	

Chandler has served clients throughout our state since 1988.

A listing of the firm's clients in the State of California's Inland area, Los Angeles, Orange County and San Diego County as of 9/30/2025. This list only includes clients that have given permission to be listed. It is not known whether the clients listed approve or disapprove of Chandler Asset Management and the advisory services provided. Includes discretionary and non-discretionary relationships.

INVESTMENT POLICY COMPARISON

INVESTMENT POLICY COMPARISON

CHANDLER
ASSET MANAGEMENT

Comparison of Investment Restrictions Under the California Government Code and the City's Investment Policy

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Commercial Paper	270 days	40%	5%	A-1, A by an NRSRO, if long-term ratings	397 days	40%*	10%	A-1, A by an NRSRO, if long-term ratings
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Non-Agency ABS/MBS/CMO	5 years	20%	5%	AAA by an NRSRO	5 years	20%	5%	AA by an NRSRO
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*****Highest ranking by at least 2 NRSROs, investment advisor for the fund must be registered or exempt from SEC registration, AUM >$500 million, and at least 5 years investing in money market instruments.*

CHANDLER ASSET MANAGEMENT

INVESTMENT POLICY RECOMMENDATIONS

Authorized Investments

- SB 595 was signed into law on 10/3/25 to become effective 1/1/26.
  - Extended the maximum maturity date for prime commercial paper from 270 days to 397 days.
  - For California local agencies with assets under management of at least $100 million, up to 40% of the portfolio can be invested in eligible commercial paper. The expiration of this provision was extended from 1/1/26 to 1/1/31.
  - Local agencies can invest in securities issued by the US Government that may result in a zero interest accrual. The expiration of this provision was extended from 1/1/26 to 1/1/31.

Glossary of Investment Terms

- Recommend replacing the definition for CDARS with a more general definition for Placement Service Deposits to reflect changes in the industry.
- Added definitions for Fiduciary and Joint Powers Authority (JPA).

Other

- References to the Finance Director have been replaced with Administrative Services Director.
- There are other minor revisions in the investment policy as well.

Sources: City of Newport Beach and California Government Code. Please see disclosures at the end of this presentation.

IMPORTANT DISCLOSURES

Information contained herein is confidential. Prices are provided by ICE Data Services Inc ("IDS"), an independent pricing source. In the event IDS does not provide a price or if the price provided is not reflective of fair market value, Chandler will obtain pricing from an alternative approved third party pricing source in accordance with our written valuation policy and procedures. Our valuation procedures are also disclosed in Item 5 of our Form ADV Part 2A.

Performance results are presented gross-of-advisory fees and represent the client's Total Return. The deduction of advisory fees lowers performance results. These results include the reinvestment of dividends and other earnings. Past performance may not be indicative of future results. Therefore, clients should not assume that future performance of any specific investment or investment strategy will be profitable or equal to past performance levels. All investment strategies have the potential for profit or loss. Economic factors, market conditions or changes in investment strategies, contributions or withdrawals may materially alter the performance and results of your portfolio.

Index returns assume reinvestment of all distributions. Historical performance results for investment indexes generally do not reflect the deduction of transaction and/or custodial charges or the deduction of an investment management fee, the incurrence of which would have the effect of decreasing historical performance results. It is not possible to invest directly in an index.

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This report is provided for informational purposes only and should not be construed as a specific investment or legal advice. The information contained herein was obtained from sources believed to be reliable as of the date of publication, but may become outdated or superseded at any time without notice. Any opinions or views expressed are based on current market conditions and are subject to change. This report may contain forecasts and forward-looking statements which are inherently limited and should not be relied upon as indicator of future results. Past performance is not indicative of future results. This report is not intended to constitute an offer, solicitation, recommendation or advice regarding any securities or investment strategy and should not be regarded by recipients as a substitute for the exercise of their own judgment.

Fixed income investments are subject to interest, credit and market risk. Interest rate risk: the value of fixed income investments will decline as interest rates rise. Credit risk: the possibility that the borrower may not be able to repay interest and principal. Low rated bonds generally have to pay higher interest rates to attract investors willing to take on greater risk. Market risk: the bond market in general could decline due to economic conditions, especially during periods of rising interest rates.

Ratings information have been provided by Moody's, S&P and Fitch through data feeds we believe to be reliable as of the date of this statement, however we cannot guarantee its accuracy.

Security level ratings for U.S. Agency issued mortgage-backed securities ("MBS") reflect the issuer rating because the securities themselves are not rated. The issuing U.S. Agency guarantees the full and timely payment of both principal and interest.

OTHER POST-EMPLOYMENT BENEFITS ACTUARIAL VALUATION REPORT UPDATE

Finance Committee

January 15, 2026

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.

  - **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 ($158/month in 2025).

  - **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.

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

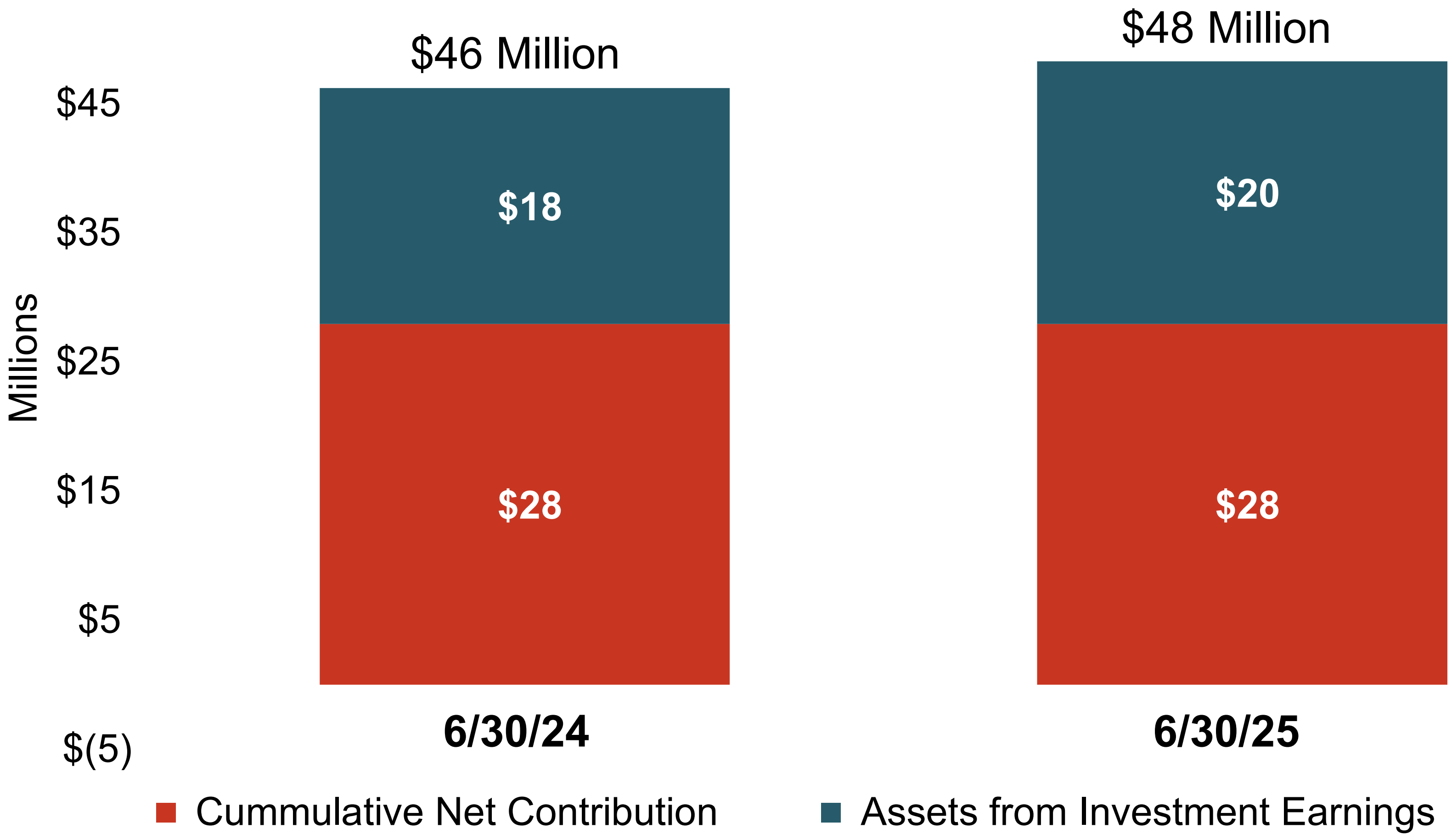
- In March of 2024, the City Council approved establishing an OPEB Trust with Public Agency Retirement Services (PARS)
- Funds were transferred from the prior trust with California Employers' Retiree Benefit Trust (CERBT), which is managed by CalPERS
- The PARS OPEB Trust has an expected rate of return of 6.74%

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 investment earnings (net of fees) of $20.3 million since 2008
- Total assets of $48.3 million at 6/30/25
- Annualized net rate of return of 11.56% since inception with PARS (March 2024)



Note: The City's trust balance was transferred from CERBT to PARS in March 2024.

2025 ACTUARIAL VALUATION REPORT

2025 ACTUARIAL VALUATION REPORT

- A full actuarial valuation is completed once every two years. The most recent actuarial valuation was completed in 2025, which had a measurement date of June 30, 2024.
- The actuarial valuation report reflects a discount rate of 6.40%, net of fees
- City's OPEB liability decreased by $1.4 million dollars
- The numbers presented in the Actuarial Report are on a one fiscal year lag and do not represent current trust performance.

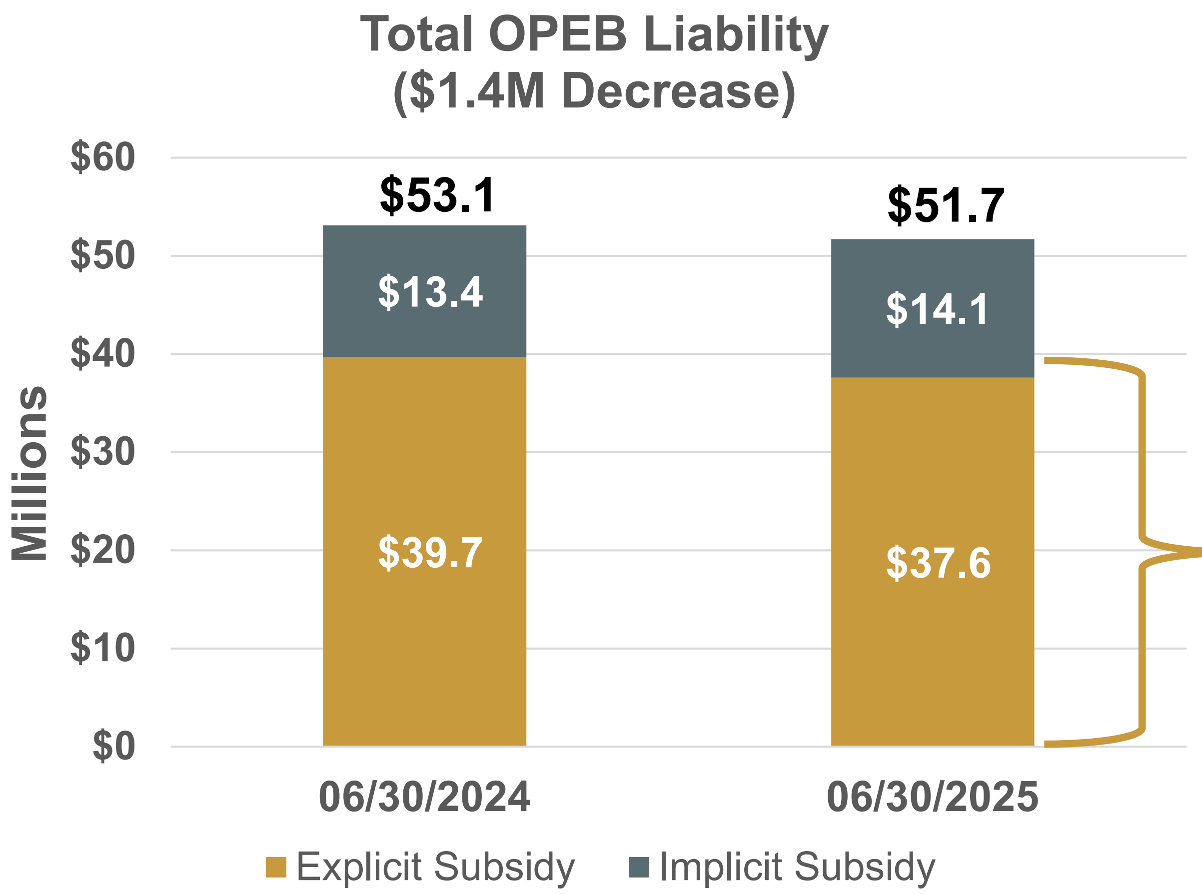
SUMMARY OF VALUATION RESULTS – INCLUDING IMPLICIT LIABILITY

- The City's total OPEB liability decreased by $1.4 million, primarily because benefit payments exceeded interest costs and the discount rate decreased.
- The trust assets reflected in the valuation report dated June 30, 2025, are based on balances as of June 30, 2024. These balances were $11 million higher than the prior year, due in part to a $5.8 million contribution from the FY 2022-23 year-end surplus.

	June 30, 2024 [1]	June 30, 2025 [2]
Trust Assets	$ 35,166,853	$ 46,207,675
Total OPEB Liability	($ 53,136,842)	($ 51,722,347)
Net OPEB Liability	($ 17,969,989)	($ 5,514,672)
Funded Percentage	66.2%	89.3%

[1] June 30, 2023 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2024.
[2] June 30, 2024 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2025.

CHANGES IN THE OPEB LIABILITY



The Explicit Liability is comprised of amounts related to the Legacy Defined Benefit Plan (52%) and the CalPERS Minimum Required Contribution (48%).

SUMMARY OF VALUATION RESULTS – EXCLUDING IMPLICIT LIABILITY

- The City's total OPEB liability decreased by $2.1, which is largely due to benefit payments and a change in the discount rate.
- Assets on hand with PARS as of June 30, 2025 amounted to $48.3 million, which were $2.1 million higher due to investment income less benefit payments.

	June 30, 2024	June 30, 2025
Trust Assets	$ 46,207,675	$ 48,295,888
Total OPEB Liability*	($ 39,727,418)	($ 37,632,003)
Excess Assets	$ 6,480,257	$ 10,663,885
Funded Percentage	116.3%	128.3%

**Excluding Implicit 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.

- 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.

FY 2025-26 IMPACT

- Since the OPEB liability is fully funded, contributions to the OPEB Trust are no longer required and Trust assets are utilized to fund future benefit payments.
- Therefore, annual savings totaling approximately $4 million continue to accrue due to the elimination of the OPEB liability.

QUESTIONS?

CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT

Agenda Item No. 6C
January 15, 2026

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: GENERAL FUND AND TIDELANDS FUND LONG RANGE FINANCIAL FORECAST UPDATE

EXECUTIVE SUMMARY

The City is projected to remain financially sound over the next 20 years, with a strong revenue base and healthy reserves. The forecast anticipates a surplus each year during this period. Any short-term deficits resulting from economic downturns or unforeseen events are expected to be absorbed without long-term reliance on the Contingency Reserve, and no structural deficit is apparent.

DISCUSSION

Strategic planning begins by determining the City's fiscal capacity, based on long-term financial forecasts of recurring revenues and future financial obligations. Before adopting the annual budget, staff prepares a Long-Range Financial Forecast (LRFF) each year for the General Fund to evaluate internal and external factors affecting the City's financial condition. Staff also prepared an LRFF for the Tide and Submerged Land Operating Fund, known as the Tidelands Fund. The LRFF aims to help the City achieve and maintain financial sustainability, provide long-term guidance for financial decisions, and ensure sufficient resources to deliver programs and services to the community.

Methodology

The Finance Department prepares the LRFF in three steps. First, a baseline growth scenario for revenues and expenditures is developed by analyzing historical growth rates and incorporating the latest data from consultants and other sources, with adjustments for lower near-term growth, particularly in sales and transient occupancy taxes. Next, line items that deviate from typical patterns, such as pension payments, interest income, ground lease revenue, and transfers for master financing plans, are adjusted based on their specific schedules. Finally, the model remains flexible, allowing for alternative scenarios or fiscal impact analyses as needed.

Major Assumptions

Major assumptions used in the model include the following:

The Fiscal Year (FY) 2025-26 adopted budget, excluding one-time items, served as the base for developing growth assumptions except in personnel related costs which considered the amended budget to factor in recently approved labor MOUs. To refine near-term projections, the methodology for revenue and expenditure growth assumptions was updated, incorporating the revised budget and the latest actual data. Additional details are summarized below.

Annual General Fund transfers-out in support of:

- FFP & Debt Service – $15.5 million annually, representing not less than 3% of general fund revenues as outlined in Council Policy F-28
- CIP – $6.5 million annually
- Facilities Maintenance – $2.5 million annually
- Tidelands Harbor Capital – $6.1 million, indexed at 2.5% annually, through FY 2032-33, and reduced to $4.5 million thereafter
- Parks Maintenance Fund - $2.3 million annually

Although year-end surpluses have exceeded $10 million in recent years, future surpluses were not assumed in the projections. Any surpluses shown reflect the net difference between projected revenues and expenditures. The forecast does not assume expenditure savings or revenues above budget and is therefore based on conservative revenue projections and liberal expenditure estimates.

Revenue Assumptions

Revenue changes from FY 2026–27 to 2045–46 are initially based on historical trends using either CAGR or average annual growth, as appropriate for each revenue category. These trends are adjusted for known one-time events and other extraneous factors. An economic outlook is then applied to reflect the cyclical nature of expansions and contractions, resulting in a dynamic forecast rather than linear growth assumptions and reducing the risk of distorted long-term projections.

The General Fund's top three revenue sources—property tax, sales tax, and transient occupancy tax—account for about 72% of total revenues and therefore have a significant impact on the twenty-year forecast. Growth assumptions for these revenues are based on the latest economic data and the updated projections in the FY 2025–26 revised budget.

General Fund Revenue Forecast FY2026-27– FY2030-31

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Property Tax	$ 170,469,309	$ 177,288,081	$ 184,379,604	$ 189,910,993	$ 195,608,322
Growth Rate	4.5%	4.0%	4.0%	3.0%	3.0%
Sales Tax	$ 49,743,581	$ 51,318,651	$ 52,345,024	$ 53,915,375	$ 55,532,836
Growth Rate	5.2%	3.2%	2.0%	3.0%	3.0%
Transient Occupancy Tax	$ 32,521,034	$ 33,496,665	$ 34,166,598	$ 34,508,264	$ 35,198,429
Growth Rate	-4.3%	3.0%	2.0%	1.0%	2.0%
Other Revenues	$ 74,228,060	$ 76,069,885	$ 77,965,886	$ 79,347,877	$ 81,281,874
Growth Rate	4.5%	2.5%	2.5%	1.8%	2.4%
Transfers In	$ 22,997,553	$ 23,326,639	$ 23,571,979	$ 24,264,138	$ 24,477,062
Growth Rate	6.4%	1.4%	1.1%	2.9%	0.9%
Total General Fund Revenue	**$ 349,959,537**	**$ 361,499,921**	**$ 372,429,092**	**$ 381,946,646**	**$ 392,098,524**
Growth Rate	3.8%	3.3%	3.0%	2.6%	2.7%

<u>Property Taxes</u>
These revenues largely depend on assessed property values set each January. Newport Beach's assessed values rose 5.8% in FY 2025–26, driven mainly by ownership changes and new construction. For FY 2026–27, assessed values are projected to increase 4.5%, reflecting home sales from January through September 2025, the two-percent Proposition 13 inflation adjustment, and continued, albeit slower, growth from ownership changes and new construction due to higher interest rates.

In the outer years of the forecast, staff expect continued strong demand for Newport Beach property. Property tax revenues tend to be less volatile than other sources due to assessment and collection lags of 12–18 months and the City's high assessed values. Although growth slowed during the Great Recession, assessed values in Newport Beach did not decline and have increased in each of the past 20 years. This sustained demand has supported long-term growth, with an average annual increase of 5.6% over the past two decades. Beyond FY 2026–27, staff conservatively assumes 3–4% annual growth in property taxes, including supplemental and property transfer taxes.

<u>Sales Tax</u>
Sales tax is the General Fund's second-largest revenue source and is driven primarily by autos and transportation, general consumer goods, and restaurants and hotels. Revenue increased 5.7% in FY 2024–25 and is projected to increase by 3% in FY 2025–26, reflecting growth in autos and transportation. Looking ahead, sales tax is expected to grow throughout the forecast, with a 5.2% increase (about $2.4 million) projected in FY 2026–27. Beyond that, staff conservatively assumes average annual growth of 2.6%.

Transient Occupancy Tax (TOT)
The third largest General Fund revenue source is transient occupancy tax (TOT), which accounts for nearly 10% of revenues. Commercial properties—21 hotels and resorts—generate about 74% of TOT, while approximately 1,550 vacation rentals account for the remaining 26%. Although the FY 2025–26 adopted budget assumed 4% growth, TOT revenue projections have been revised based on first quarter results which indicates a softening in demand particularly from international travel. As a result, TOT revenues are projected to decline 4.3% to $32.5 million in FY 2026–27, followed by average annual growth of 2.9% consistent with historical trends.

Other revenues (service fees and charges, fines and penalties, property income, transfers in, and other miscellaneous revenues) which make up 28% of the City's total revenues are projected to grow modestly at 3% on average over the next 20 years. This assumption is based on the average growth from the preceding 20 years. Service fees and charges are projected to grow by an average of 2% annually each year and property income, which includes leases and parking revenue, is projected to grow by an average of 4% annually over the next 20 years. Transfers in, which represents the Tidelands payment to the General Fund for the Cost Allocation Plan are estimated to grow at 3% annually.

Expenditure Assumptions

Regular salaries for miscellaneous and public safety employees reflect approved adjustments through the current MOU agreements and are assumed to grow 2% annually thereafter, with no increase in headcount. Special and other pays (e.g., certification, bilingual, motor officer, scholastic achievement) are projected to grow 2% annually. Benefits—including life insurance, Medicare, retiree health contributions, and CalPERS pension contributions—are also projected to grow 2% annually; however, certain items in this category have alternate growth rates, resulting in an overall average year-over-year change of 0%.

The forecast assumes an annual baseline pension funding of $40 million, with $37 million from the General Fund. Under this plan, the pension liability is projected to be fully paid off by FY 2032–33, assuming CalPERS achieves a 6.8% average investment return and there are no major changes to experience studies or the discount rate. The baseline payment exceeds the required CalPERS contribution by about $6 million, with an additional $5 million expected annually from year-end surpluses, bringing total payments to $45 million, assuming continued Council authorization of additional contributions.

Non-personnel costs—including contract services, utilities, supplies, and maintenance—are projected to grow an average of 5.2% annually. While some costs may rise with the consumer price index (CPI), many contracts cap increases at CPI, so high CPI rates were not broadly applied to these projections. The FY 2026-27 growth in this category is higher than the average due to increase in rates related to City refuse contracts. Transfers out cover General Fund contributions to other funds for future capital improvement projects and support for Tidelands Fund operations.

General Fund Expenditure Forecast FY2026-27– FY2030-31

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Regular Salaries	$ 104,573,983	$ 108,443,220	$ 110,612,085	$ 112,824,326	$ 115,080,813
Growth Rate	4.0%	3.7%	2.0%	2.0%	2.0%
Special and Other Pays	$ 20,908,662	$ 21,326,835	$ 21,753,372	$ 22,188,439	$ 22,632,208
Growth Rate	2.5%	2.0%	2.0%	2.0%	2.0%
Benefits [1]	$ 75,171,175	$ 75,739,894	$ 76,819,803	$ 77,939,693	$ 79,096,328
Growth Rate	1.1%	0.8%	1.4%	1.5%	1.5%
Non-Personnel Costs	$ 97,563,944	$ 102,459,521	$ 108,043,496	$ 113,639,918	$ 119,878,047
Growth Rate	6.2%	5.0%	5.4%	5.2%	5.5%
Transfers Out [2]	$ 45,986,928	$ 46,625,011	$ 47,028,378	$ 47,506,205	$ 49,854,740
Growth Rate	-5.6%	1.4%	0.9%	1.0%	4.9%
Total General Fund Expenditures	**$ 344,204,691**	**$ 354,594,481**	**$ 364,257,133**	**$ 374,098,582**	**$ 386,542,136**
Growth Rate	2.4%	3.0%	2.7%	2.7%	3.3%

Tidelands Fund Forecasting

The Tidelands Fund transfers roughly $20 million annually to the General Fund to cover costs for Tidelands-area activities supported by General Fund services. These include public safety—Police patrols, traffic operations, Fire Department services, emergency medical services, and marine safety—as well as public facilities, including Public Works maintenance of public spaces and Finance Department management of parking.

Tidelands Fund revenues are insufficient to cover all operating costs, requiring a General Fund subsidy estimated at $10.6 million for FY 2025–26. Accordingly, the General Fund's performance and the long-range financial plan must account for Tidelands Fund revenue and expenditure projections, including the associated subsidy.

The Tidelands LRFF uses the same methodology as the General Fund LRFF. The FY 2025-26 adopted budget, excluding one-time items, was used as a base from which forward growth assumptions were developed.

Tidelands Revenue Assumptions

The Tidelands Fund generates revenue from tidelands operations, including rents from moorings, piers, and leases, as well as parking and oil sales. Its top three sources of revenue – property income, parking revenue, and the General Fund subsidy—account for about 99% of total revenue, making their growth assumptions critical to the twenty-year forecast. Projections for these sources are based on the latest economic data and the FY 2025–26 revised budget.

Property Income
Property income is the primary revenue source for the Tidelands Fund. For FY 2025-26, Tide and Submerged Land Operating income is projected to generate $8.4 million from leases and an additional $1.4 million from oil sales. Looking ahead to FY 2026-27, property income revenues are expected to grow by 3.5%, or $355,771.

Parking Revenue
Parking revenue is made up of $2.7 million from the Balboa Parking Lot, $1.5 million from the Ocean Front Lot, and $881,669 from a combination of smaller lots. In FY 2026-27, parking revenues are projected to increase by 4%, or $195,250.

General Fund Subsidy
Historically, the Tidelands Fund has not generated enough revenue to cover operating costs, primarily due to public safety expenses like lifeguarding, EMS, and police services at ocean beaches. To cover the gap, the General Fund provides an annual subsidy, which fluctuates with Tidelands revenues and expenditures. For FY 2025–26, the subsidy totaled $10.6 million.

Tidelands Expenditure Assumptions

Regular salaries are reflective of the approved adjustments through the end of the current MOU agreements. Thereafter, regular salaries are assumed to grow at 2% annually. The forecast assumes no growth in personnel headcount. Non-personnel costs include contract services, utilities, supplies and materials, and maintenance and repair. These expenditures are projected to grow an average of 4.5% annually.

The largest expense in the Tidelands Fund is the transfer out to the General Fund to cover the allocated costs, which are the Citywide expenditures that support the management and operation of the Tidelands that are accounted for in the General Fund. Assumptions for these costs are based on the current Cost Allocation Plan and are escalated each year by an average of 3%.

CONCLUSION
The City is in a strong financial position. The General Fund LRFF projects a surplus balance (revenues net of expenditures) of approximately $5.8 million in FY 2026-27. Surpluses are also projected for the remaining years of the model.

The City currently has a contingency reserve of $71.5 million, which represents 25% of operating expenditures. This reserve serves as a means of responding to unexpected deviations in operating trends over the 20-year term of the forecast.

Although it is unlikely the City would need to access the reserve for unforeseen circumstances, it still faces fiscal challenges. While revenues have improved significantly since the Great Recession, future downturns or shifts in consumer behavior—particularly in spending and travel—could affect revenues in ways that differ from past trends.

The City faces significant financial pressures, including rising CalPERS pension costs, unfunded state mandates, and the need to fund near-term facilities maintenance and replacement under long-term infrastructure plans. Its robust revenue base, however, enables strategic allocation of resources each year to address the most critical needs of residents.

In summary, the General Fund is projected to remain in a financially sound position over the next 20 years. Any short-term deficits that may arise can be absorbed without long-term reliance on the Contingency Reserve—no structural deficit is apparent.

Submitted by:

/s/ Jessica Nguyen

Jessica Nguyen
Budget Manager

Attachments:

A. 20-Year Long-Range Financial Forecast for the General Fund
B. 20-Year Long-Range Financial Forecast for the Tidelands Fund

ATTACHMENT A
20-YEAR LONG-RANGE FINANCIAL FORECAST FOR THE GENERAL FUND

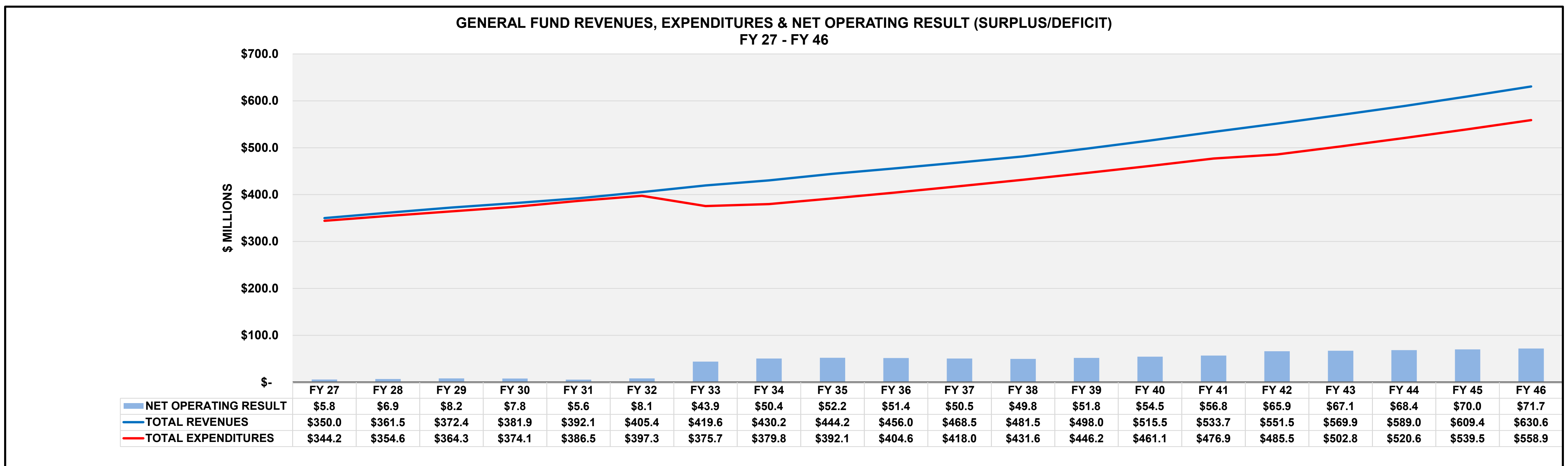
CITY OF NEWPORT BEACH GENERAL FUND LONG-RANGE FISCAL FORECAST
FY 2027 - FY 2046

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35	FY 2035-36	FY 2036-37	FY 2037-38	FY 2038-39	FY 2039-40	FY 2040-41	FY 2041-42	FY 2042-43	FY 2043-44	FY 2044-45	FY 2045-46
Property Tax	$ 170,469,309	$ 177,288,081	$ 184,379,604	$ 189,910,993	$ 195,608,322	$ 203,432,655	$ 211,569,961	$ 220,032,760	$ 228,834,070	$ 235,699,092	$ 242,770,065	$ 250,053,167	$ 260,055,294	$ 270,457,506	$ 281,275,806	$ 292,526,838	$ 304,227,912	$ 316,397,028	$ 329,052,909	$ 342,215,025
Growth Rate	4.5%	4.0%	4.0%	3.0%	3.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Sales Tax	$ 49,743,581	$ 51,318,651	$ 52,345,024	$ 53,915,375	$ 55,532,836	$ 57,198,821	$ 58,914,786	$ 60,682,229	$ 61,895,874	$ 63,133,791	$ 65,027,805	$ 66,978,639	$ 68,987,998	$ 71,057,638	$ 73,189,367	$ 74,653,155	$ 76,146,218	$ 77,669,142	$ 79,999,216	$ 82,399,193
Growth Rate	5.2%	3.2%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	3.0%	3.0%	3.0%	3.0%	3.0%	2.0%	2.0%	2.0%	3.0%	3.0%
Transient Occupancy Tax	$ 32,521,034	$ 33,496,665	$ 34,166,598	$ 34,508,264	$ 35,198,429	$ 36,254,382	$ 37,704,557	$ 39,212,740	$ 40,389,122	$ 41,196,904	$ 41,608,873	$ 42,441,051	$ 43,714,282	$ 45,462,854	$ 47,281,368	$ 49,172,623	$ 51,139,527	$ 53,185,109	$ 54,780,662	$ 56,424,082
Growth Rate	-4.3%	3.0%	2.0%	1.0%	2.0%	3.0%	4.0%	4.0%	3.0%	2.0%	1.0%	2.0%	3.0%	4.0%	4.0%	4.0%	4.0%	4.0%	3.0%	3.0%
Other Revenues	$ 74,228,060	$ 76,069,885	$ 77,965,886	$ 79,347,877	$ 81,281,874	$ 83,338,762	$ 85,456,825	$ 83,565,894	$ 85,576,450	$ 87,644,271	$ 89,847,231	$ 91,882,034	$ 94,207,395	$ 96,601,485	$ 99,066,551	$ 101,246,858	$ 103,479,573	$ 105,766,024	$ 108,556,313	$ 111,430,820
Growth Rate	4.5%	2.5%	2.5%	1.8%	2.4%	2.5%	2.5%	-2.2%	2.4%	2.4%	2.5%	2.3%	2.5%	2.5%	2.6%	2.2%	2.2%	2.2%	2.6%	2.6%
Transfers In	$ 22,997,553	$ 23,326,639	$ 23,571,979	$ 24,264,138	$ 24,477,062	$ 25,211,374	$ 25,967,716	$ 26,746,747	$ 27,549,149	$ 28,375,624	$ 29,226,893	$ 30,103,699	$ 31,006,810	$ 31,937,015	$ 32,895,125	$ 33,881,979	$ 34,898,438	$ 35,945,391	$ 37,023,753	$ 38,134,466
Growth Rate	6.4%	1.4%	1.1%	2.9%	0.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total General Fund Revenue	**$ 349,959,537**	**$ 361,499,921**	**$ 372,429,092**	**$ 381,946,646**	**$ 392,098,524**	**$ 405,435,995**	**$ 419,613,845**	**$ 430,240,370**	**$ 444,244,665**	**$ 456,049,683**	**$ 468,480,867**	**$ 481,458,590**	**$ 497,971,780**	**$ 515,516,498**	**$ 533,708,217**	**$ 551,481,452**	**$ 569,891,668**	**$ 588,962,694**	**$ 609,412,853**	**$ 630,603,586**
Growth Rate	3.8%	3.3%	3.0%	2.6%	2.7%	3.4%	3.5%	2.5%	3.3%	2.7%	2.7%	2.8%	3.4%	3.5%	3.5%	3.3%	3.3%	3.3%	3.5%	3.5%

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35	FY 2035-36	FY 2036-37	FY 2037-38	FY 2038-39	FY 2039-40	FY 2040-41	FY 2041-42	FY 2042-43	FY 2043-44	FY 2044-45	FY 2045-46
Regular Salaries	$ 104,573,983	$ 108,443,220	$ 110,612,085	$ 112,824,326	$ 115,080,813	$ 117,382,429	$ 119,730,078	$ 122,124,679	$ 124,567,173	$ 127,058,516	$ 129,599,686	$ 132,191,680	$ 134,835,514	$ 137,532,224	$ 140,282,869	$ 143,088,526	$ 145,950,296	$ 148,869,302	$ 151,846,688	$ 154,883,622
Growth Rate	4.0%	3.7%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Special and Other Pays	$ 20,908,662	$ 21,326,835	$ 21,753,372	$ 22,188,439	$ 22,632,208	$ 23,084,852	$ 23,546,549	$ 24,017,480	$ 24,497,830	$ 24,987,787	$ 25,487,542	$ 25,997,293	$ 26,517,239	$ 27,047,584	$ 27,588,535	$ 28,140,306	$ 28,703,112	$ 29,277,174	$ 29,862,718	$ 30,459,972
Growth Rate	2.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Benefits [1]	$ 75,171,175	$ 75,739,894	$ 76,819,803	$ 77,939,693	$ 79,096,328	$ 80,285,441	$ 48,476,256	$ 45,100,895	$ 46,411,324	$ 47,771,739	$ 49,177,575	$ 50,622,857	$ 52,124,100	$ 53,675,889	$ 55,271,163	$ 56,929,136	$ 58,659,722	$ 60,438,579	$ 62,288,071	$ 64,200,615
Growth Rate	1.1%	0.8%	1.4%	1.5%	1.5%	1.5%	-39.6%	-7.0%	2.9%	2.9%	2.9%	2.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.1%	3.1%
Non-Personnel Costs	$ 97,563,944	$ 102,459,521	$ 108,043,496	$ 113,639,918	$ 119,878,047	$ 126,236,294	$ 135,515,351	$ 142,586,191	$ 149,784,445	$ 154,858,677	$ 163,022,506	$ 171,636,842	$ 180,721,040	$ 190,306,963	$ 200,422,884	$ 211,091,661	$ 222,346,698	$ 234,229,388	$ 246,965,916	$ 260,405,011
Growth Rate	6.2%	5.0%	5.4%	5.2%	5.5%	5.3%	7.4%	5.2%	5.0%	3.4%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.3%	5.4%	5.4%
Transfers Out [2]	$ 45,986,928	$ 46,625,011	$ 47,028,378	$ 47,506,205	$ 49,854,740	$ 50,345,259	$ 48,444,832	$ 45,961,989	$ 46,796,946	$ 49,939,998	$ 50,676,542	$ 51,181,608	$ 51,957,040	$ 52,497,922	$ 53,312,296	$ 46,292,380	$ 47,162,845	$ 47,782,369	$ 48,497,398	$ 48,951,855
Growth Rate	-5.6%	1.4%	0.9%	1.0%	4.9%	1.0%	-3.8%	-5.1%	1.8%	6.7%	1.5%	1.0%	1.5%	1.0%	1.6%	-13.2%	1.9%	1.3%	1.5%	0.9%
Total General Fund Expenditures	**$ 344,204,691**	**$ 354,594,481**	**$ 364,257,133**	**$ 374,098,582**	**$ 386,542,136**	**$ 397,334,275**	**$ 375,713,066**	**$ 379,791,235**	**$ 392,057,717**	**$ 404,616,717**	**$ 417,963,852**	**$ 431,630,280**	**$ 446,154,933**	**$ 461,060,582**	**$ 476,877,747**	**$ 485,542,008**	**$ 502,822,674**	**$ 520,596,813**	**$ 539,460,792**	**$ 558,901,075**
Growth Rate	2.4%	3.0%	2.7%	2.7%	3.3%	2.8%	-5.4%	1.1%	3.2%	3.2%	3.3%	3.3%	3.4%	3.3%	3.4%	1.8%	3.6%	3.5%	3.6%	3.6%
Surplus (Deficit)	**$ 5,754,845**	**$ 6,905,439**	**$ 8,171,958**	**$ 7,848,065**	**$ 5,556,388**	**$ 8,101,719**	**$ 43,900,779**	**$ 50,449,135**	**$ 52,186,948**	**$ 51,432,966**	**$ 50,517,015**	**$ 49,828,310**	**$ 51,816,848**	**$ 54,455,916**	**$ 56,830,470**	**$ 65,939,444**	**$ 67,068,994**	**$ 68,365,881**	**$ 69,952,062**	**$ 71,702,510**

[1] Assumes CalPERS unfunded liability payment of $40 million citywide (General Fund portion is ~$37 million) per year through 2033.

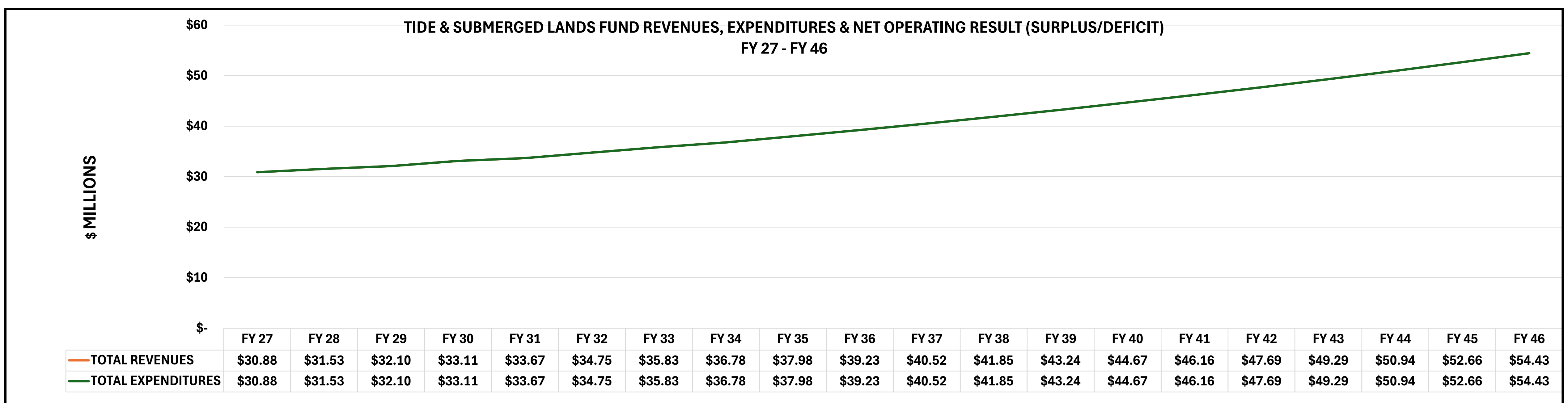
[2] Assumes transfer out to CIP remains flat and transfer out to HBMP and FFP is indexed per policy plus additional transfer amounts included in the FY27 budget plus an additional $5 million (reallocated from UAL payment).



ATTACHMENT B
20-YEAR LONG-RANGE FINANCIAL FORECAST FOR THE TIDELANDS FUND

CITY OF NEWPORT BEACH TIDE & SUBMERGED LANDS FUND FORECAST
FY 2027 - FY 2046

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31	FY 2031-32	FY 2032-33	FY 2033-34	FY 2034-35	FY 2035-36	FY 2036-37	FY 2037-38	FY 2038-39	FY 2039-40	FY 2040-41	FY 2041-42	FY 2042-43	FY 2043-44	FY 2044-45	FY 2045-46
Property Income	$ 10,411,627	$ 10,707,645	$ 11,015,505	$ 11,335,679	$ 11,668,659	$ 12,014,959	$ 12,375,111	$ 12,749,669	$ 13,139,209	$ 13,544,331	$ 13,965,658	$ 14,403,838	$ 14,859,545	$ 15,333,480	$ 15,826,373	$ 16,338,981	$ 16,872,094	$ 17,426,531	$ 18,003,146	$ 18,602,825
Growth Rate	3.5%	2.8%	2.9%	2.9%	2.9%	3.0%	3.0%	3.0%	3.1%	3.1%	3.1%	3.1%	3.2%	3.2%	3.2%	3.2%	3.3%	3.3%	3.3%	3.3%
Parking Revenue	$ 5,076,499	$ 5,279,559	$ 5,490,741	$ 5,710,371	$ 5,938,786	$ 6,176,337	$ 6,423,391	$ 6,680,327	$ 6,947,540	$ 7,225,441	$ 7,514,459	$ 7,815,037	$ 8,127,639	$ 8,452,744	$ 8,790,854	$ 9,142,488	$ 9,508,188	$ 9,888,515	$ 10,284,056	$ 10,695,418
Growth Rate	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%	4.0%
Other Revenue	$ 390,483	$ 396,611	$ 404,734	$ 413,060	$ 419,588	$ 426,230	$ 435,073	$ 444,137	$ 453,428	$ 460,675	$ 468,049	$ 477,922	$ 488,046	$ 498,426	$ 509,070	$ 519,985	$ 528,431	$ 537,026	$ 548,633	$ 560,538
Growth Rate	-3.6%	1.6%	2.0%	2.1%	1.6%	1.6%	2.1%	2.1%	2.1%	1.6%	1.6%	2.1%	2.1%	2.1%	2.1%	2.1%	1.6%	1.6%	2.2%	2.2%
Transfers In	$ 14,997,494	$ 15,142,808	$ 15,184,498	$ 15,653,591	$ 15,638,245	$ 16,137,043	$ 16,592,241	$ 16,906,076	$ 17,442,800	$ 17,997,927	$ 18,569,906	$ 19,157,013	$ 19,762,182	$ 20,386,123	$ 21,029,584	$ 21,693,353	$ 22,381,004	$ 23,090,799	$ 23,820,802	$ 24,574,700
Growth Rate	9.2%	1.0%	0.3%	3.1%	-0.1%	3.2%	2.8%	1.9%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Total Revenues	**$ 30,876,103**	**$ 31,526,624**	**$ 32,095,479**	**$ 33,112,700**	**$ 33,665,279**	**$ 34,754,569**	**$ 35,825,815**	**$ 36,780,208**	**$ 37,982,977**	**$ 39,228,375**	**$ 40,518,072**	**$ 41,853,810**	**$ 43,237,410**	**$ 44,670,773**	**$ 46,155,881**	**$ 47,694,807**	**$ 49,289,717**	**$ 50,942,872**	**$ 52,656,636**	**$ 54,433,481**
Growth Rate	6.2%	2.1%	1.8%	3.2%	1.7%	3.2%	3.1%	2.7%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.4%	3.4%	3.4%
	FY 2026-27	**FY 2027-28**	**FY 2028-29**	**FY 2029-30**	**FY 2030-31**	**FY 2031-32**	**FY 2032-33**	**FY 2033-34**	**FY 2034-35**	**FY 2035-36**	**FY 2036-37**	**FY 2037-38**	**FY 2038-39**	**FY 2039-40**	**FY 2040-41**	**FY 2041-42**	**FY 2042-43**	**FY 2043-44**	**FY 2044-45**	**FY 2045-46**
Regular Salaries	$ 1,211,439	$ 1,259,897	$ 1,297,694	$ 1,323,648	$ 1,350,121	$ 1,377,123	$ 1,404,665	$ 1,432,759	$ 1,461,414	$ 1,490,642	$ 1,520,455	$ 1,550,864	$ 1,581,881	$ 1,613,519	$ 1,645,789	$ 1,678,705	$ 1,712,279	$ 1,746,525	$ 1,781,455	$ 1,817,084
Growth Rate	5.0%	4.0%	3.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Special and Other Pays	$ 4,182	$ 4,266	$ 4,351	$ 4,438	$ 4,527	$ 4,618	$ 4,710	$ 4,804	$ 4,900	$ 4,998	$ 5,098	$ 5,200	$ 5,304	$ 5,410	$ 5,519	$ 5,629	$ 5,742	$ 5,856	$ 5,974	$ 6,093
Growth Rate	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Benefits	$ 627,615	$ 640,167	$ 652,971	$ 666,030	$ 679,351	$ 692,938	$ 650,627	$ 452,144	$ 461,187	$ 470,411	$ 479,819	$ 489,415	$ 499,203	$ 509,188	$ 519,371	$ 529,759	$ 540,354	$ 551,161	$ 562,184	$ 573,428
Growth Rate	13.0%	2.0%	2.0%	2.0%	2.0%	2.0%	-6.1%	-30.5%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%	2.0%
Non-Personnel Costs	$ 6,065,314	$ 6,326,555	$ 6,600,311	$ 6,887,228	$ 7,187,983	$ 7,503,295	$ 7,833,918	$ 8,180,650	$ 8,544,330	$ 8,925,843	$ 9,326,124	$ 9,746,158	$ 10,186,984	$ 10,649,697	$ 11,135,454	$ 11,645,474	$ 12,181,045	$ 12,743,524	$ 13,334,343	$ 13,955,015
Growth Rate	5.4%	4.3%	4.3%	4.3%	4.4%	4.4%	4.4%	4.4%	4.4%	4.5%	4.5%	4.5%	4.5%	4.5%	4.6%	4.6%	4.6%	4.6%	4.6%	4.7%
Transfers Out	$ 22,967,553	$ 23,295,739	$ 23,540,152	$ 24,231,357	$ 24,443,297	$ 25,176,596	$ 25,931,894	$ 26,709,851	$ 27,511,146	$ 28,336,481	$ 29,186,575	$ 30,062,172	$ 30,964,038	$ 31,892,959	$ 32,849,748	$ 33,835,240	$ 34,850,297	$ 35,895,806	$ 36,972,680	$ 38,081,861
Growth Rate	6.3%	1.4%	1.0%	2.9%	0.9%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%	3.0%
Total Expenditures	**$ 30,876,103**	**$ 31,526,624**	**$ 32,095,479**	**$ 33,112,700**	**$ 33,665,279**	**$ 34,754,569**	**$ 35,825,815**	**$ 36,780,208**	**$ 37,982,977**	**$ 39,228,375**	**$ 40,518,072**	**$ 41,853,810**	**$ 43,237,410**	**$ 44,670,773**	**$ 46,155,881**	**$ 47,694,807**	**$ 49,289,717**	**$ 50,942,872**	**$ 52,656,636**	**$ 54,433,481**
Growth Rate	6.2%	2.1%	1.8%	3.2%	1.7%	3.2%	3.1%	2.7%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.3%	3.4%	3.4%	3.4%
Surplus (Deficit)	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -	$ -



LONG RANGE FINANCIAL FORECAST
FISCAL YEARS 2027-2046

January 15, 2026

Finance Committee

METHODOLOGY

	FY 26 Projected
LICENSES PERMITS	2.0%
INTERGOVTAL REVENUES	1.0%
PROPERTY TAXES	4.0%
SALES TAX	3.0%
TRANSIENT OCCUPANCY	2.0%
OTHER TAXES	
MISC	
SERV	
FINE	
INVE	
PROP	

Establish baseline growth scenario for major revenue and expenditure categories

Baseline growth projections are based on historical CAGR, averages, and adjustments based on known one-time events.

Growth Methods

(FD) = Flat - Fixed Dollar

(CP) = Customized - Variable Percentage Growth

(DS)

(PF)

and

Develop unique growth factors for rev/exp items that vary from baseline

Unique growth projections allow us to model the fiscal impact of any projected deviation from the baseline on $ or % basis

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aseline Growth

lternate Growth

aseline Growth

Create alternate baseline scenarios to model potential fiscal impacts (if needed)

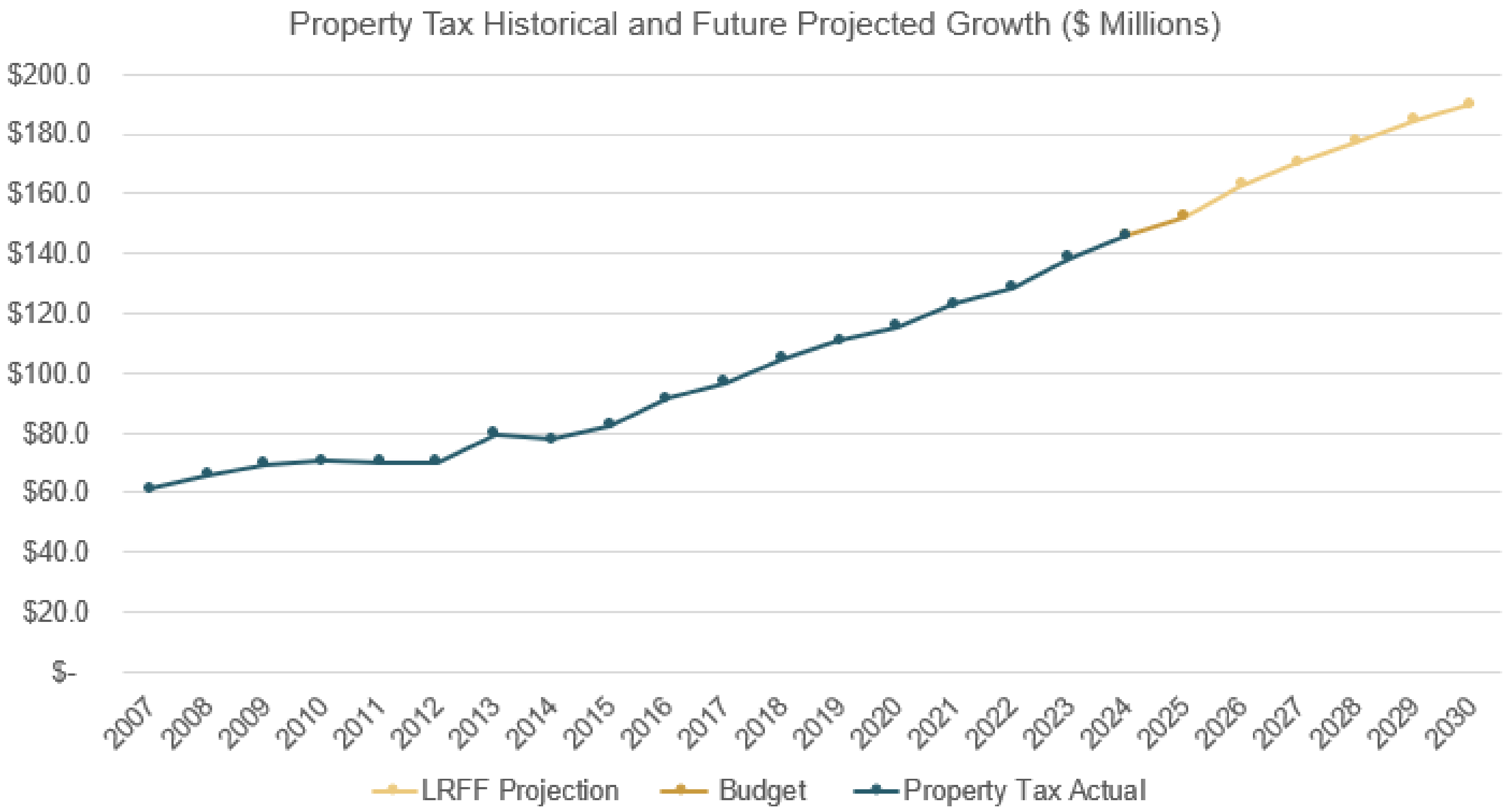
Any combination of alternate baselines and impacts can be packaged and organized into scenarios

MAJOR ASSUMPTIONS

- The FY 2025-26 budget, excluding one-time items, served as a base budget from which forward growth assumptions were developed.
- Personnel related costs used the amended budget for growth assumptions due to recently approved labor MOUs.
- Annual General Fund transfers-out in support of:
  - FFP & Debt Service – $15.5m annually, representing not less than 3% of General Fund revenues, as outlined in Council Policy F-28
  - CIP – $6.5m annually
  - Facilities Maintenance – $2.5m annually
  - Tidelands Harbor Capital – $6.1m, indexed at 2.5% annually through FY 2032-33, and reduced to $4.5m thereafter
  - Parks Maintenance Fund - $2.3m annually
- No programing of future surpluses in projections – the forecast assumes all revenues and expenditures are fully realized as presented.

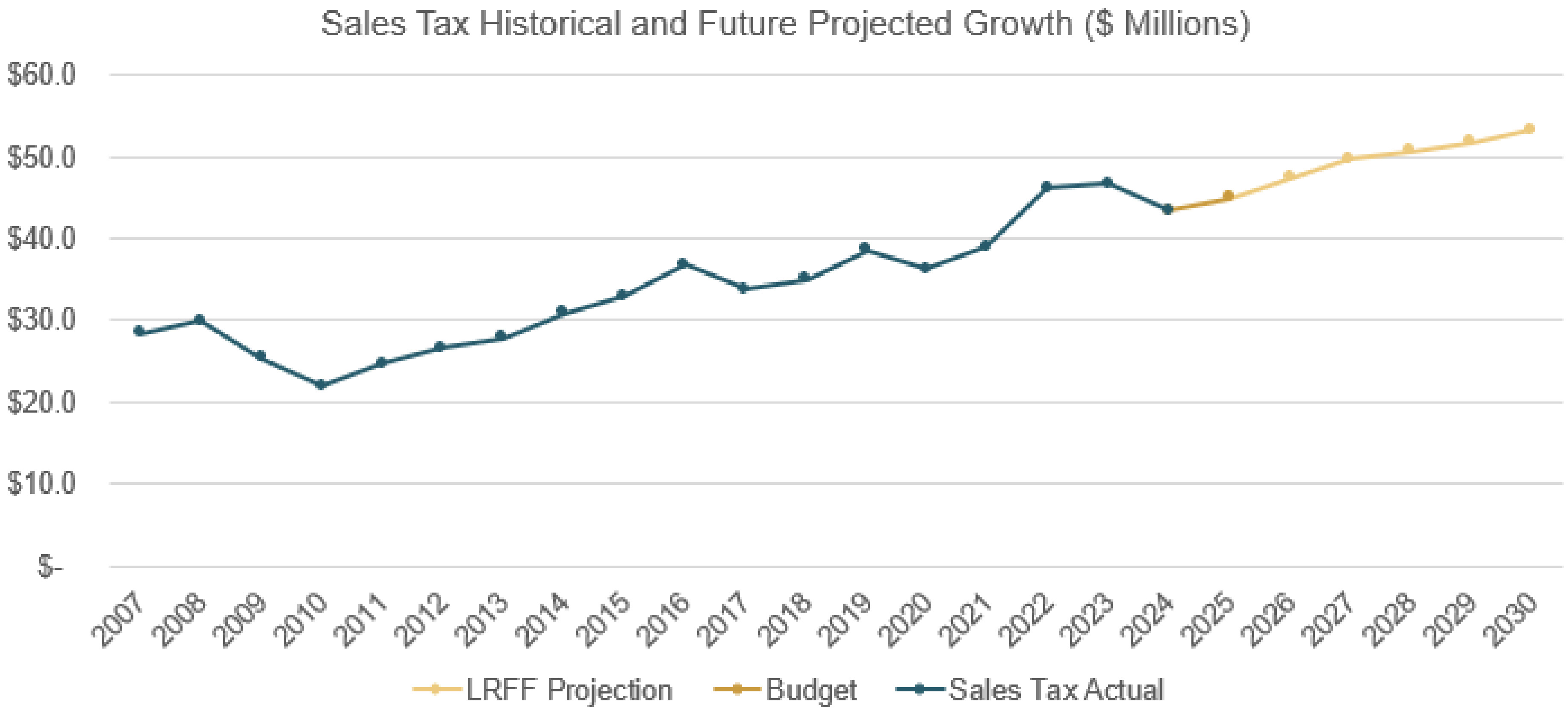
REVENUE ASSUMPTIONS – PROPERTY TAX

- 19-year average annual historical growth: 5.8%
- FY 2026-27 projected growth: 4.5%
- Projected future growth beyond FY 2026-27: 3-4%



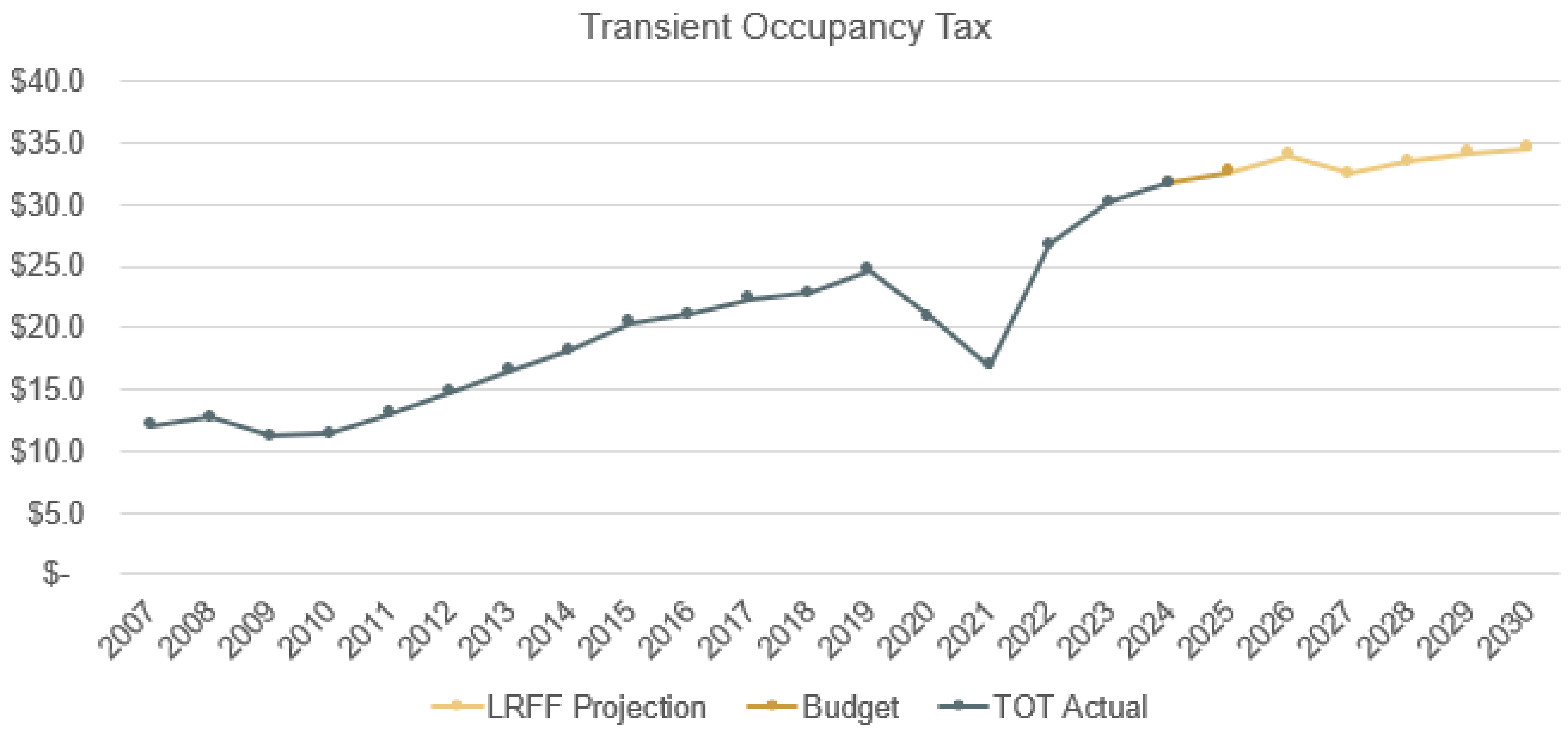
REVENUE ASSUMPTIONS – SALES TAX

- 19-year average annual historical growth: 3.1%
- FY 2026-27 projected growth: 5.2%
- Projected future growth beyond FY 2026-27: 2.6%



REVENUE ASSUMPTIONS – TRANSIENT OCCUPANCY TAX

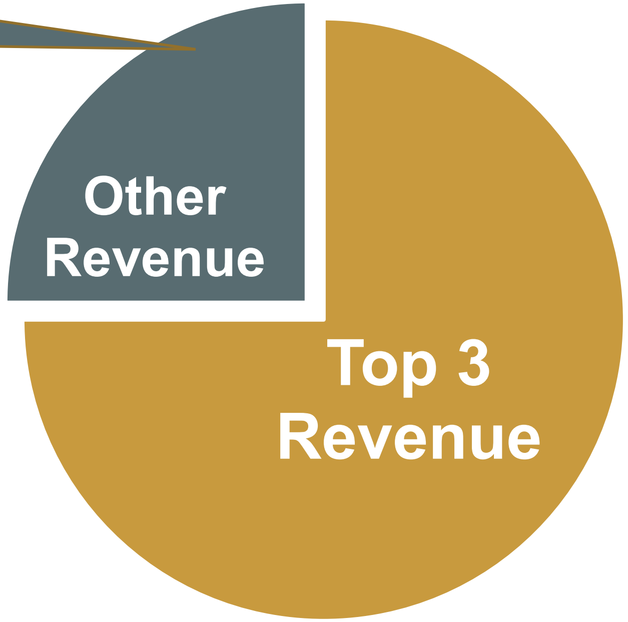
- 19-year average annual historical growth: 6.7%
- FY 2026-27 projected growth: -4.3%
- Projected future growth beyond FY 2026-27: 2.9%



*This chart shows TOT revenue net of the amounts remitted to VNB

REVENUE ASSUMPTIONS – OTHER REVENUE

Projected to grow modestly at 3% on average over the next 20 years



- Service Fees & Charges are projected to grow at 2% annually.
- Property Income, which includes leases and parking revenue is projected to grow by an average of 3-4% annually.

CITY OF NEWPORT BEACH CALIFORNIA

EXPENDITURE ASSUMPTIONS

- Regular salaries for both miscellaneous and public safety are based on negotiated MOU increases and then grow at 2% annually thereafter
- The forecast assumes no growth in personnel headcount
- Benefits (stipends, life insurance, Medicare fringes, retiree health plan contribution, CalPERS contributions, etc.) are projected to grow at 2% annually, but have alternate growth rates resulting in an overall average of 0% year-over-year
- Funding of the City’s unfunded actuarial liability at the $40 million level citywide ($37 million GF portion)
- Non-personnel costs (contract services, utilities, supplies and materials, maintenance and repair) are projected to grow on average at 5.2% annually

EXPENDITURE GROWTH ASSUMPTIONS

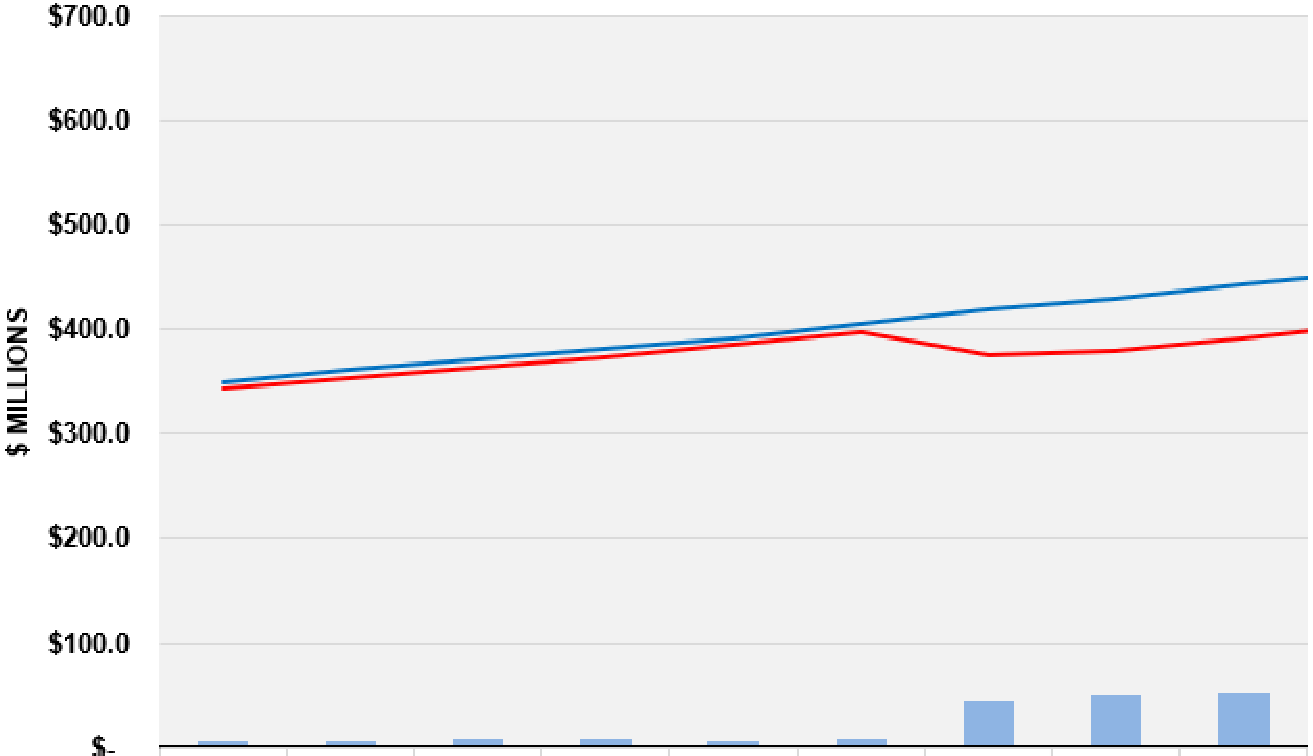
	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Regular Salaries	$ 104,573,983	$ 108,443,220	$ 110,612,085	$ 112,824,326	$ 115,080,813
Growth Rate	4.0%	3.7%	2.0%	2.0%	2.0%
Special and Other Pays	$ 20,908,662	$ 21,326,835	$ 21,753,372	$ 22,188,439	$ 22,632,208
Growth Rate	2.5%	2.0%	2.0%	2.0%	2.0%
Benefits [1]	$ 75,171,175	$ 75,739,894	$ 76,819,803	$ 77,939,693	$ 79,096,328
Growth Rate	1.1%	0.8%	1.4%	1.5%	1.5%
Non-Personnel Costs	$ 97,563,944	$ 102,459,521	$ 108,043,496	$ 113,639,918	$ 119,878,047
Growth Rate	6.2%	5.0%	5.4%	5.2%	5.5%
Transfers Out [2]	$ 45,986,928	$ 46,625,011	$ 47,028,378	$ 47,506,205	$ 49,854,740
Growth Rate	-5.6%	1.4%	0.9%	1.0%	4.9%
Total General Fund Expenditures	**$ 344,204,691**	**$ 354,594,481**	**$ 364,257,133**	**$ 374,098,582**	**$ 386,542,136**
Growth Rate	2.4%	3.0%	2.7%	2.7%	3.3%

TIDELANDS FUND FORECAST

- The Tidelands Fund transfers approximately $20 million to the General Fund to cover costs associated with activities in the Tidelands areas supported by General Fund services.
  - Police Department operations, Fire Department operations, emergency medical services, marine safety, Public Works Department maintenance of public spaces etc.
- Revenue in the Tidelands Fund is insufficient to fully cover the costs of Tidelands operations. As a result, the General Fund must subsidize these operations.
- Consequently, the performance of the General Fund and the long-range financial plan must account for projections related to the Tidelands Fund's revenues, expenditures, and the related subsidy from the General Fund.
- Projections from the Tidelands Fund Forecast were used to improve assumptions in the General Fund LRFF as it relates to transfers to and from the General Fund and Tidelands Fund.

GENERAL FUND REVENUES, EXPENDITURES & NET RESULT

- The preparation of the FY 2026-27 budget is underway.
- Projected surplus of $5.8 million for the upcoming fiscal year is preliminary.
  - Revenue projections continue to be honed
  - Departmental enhancement requests not included



	FY 27	FY 28	FY 29	FY 30	FY 31	FY 32	FY 33	FY 34	FY 35
NET OPERATING RESULT	$5.8	$6.9	$8.2	$7.8	$5.6	$8.1	$43.9	$50.4	$52.2
TOTAL REVENUES	$350.0	$361.5	$372.4	$381.9	$392.1	$405.4	$419.6	$430.2	$444.2
TOTAL EXPENDITURES	$344.2	$354.6	$364.3	$374.1	$386.5	$397.3	$375.7	$379.8	$392.1

CONCLUSION AND OTHER CONSIDERATIONS

- The General Fund is projected to be in a financially sound position over the next 20-year period.
- Any short-term deficits can be absorbed without long-term reliance on Contingency Reserve – No structural deficit is apparent.
- The City is not without its fiscal challenges. Potential challenges facing the City include:
  - Rising CalPERS costs
  - Future recessions or shifts in consumer spending
  - Growing costs of health care, education, and housing are reducing discretionary spending for taxable goods
  - Near-term facilities maintenance and replacement obligations in accordance with long-term infrastructure financing plans
  - Increasing costs for construction projects and other capital needs

Questions?

CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT

Agenda Item No. 6D
January 15, 2026

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

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

SUBJECT: **BUDGET AMENDMENTS FOR QUARTER ENDING DECEMBER 31, 2025**

EXECUTIVE SUMMARY

The purpose of this memorandum is to report on the budget amendments for the second quarter of Fiscal Year 2025-26. All budget amendments are in compliance with City Council Policy F-3, Budget Adoption and Administration.

DISCUSSION

City Council Policy F-3, Budget Adoption and Administration, identifies how appropriations can be transferred, increased or reduced. The Finance Committee reviews a quarterly report of City Council and City Manager budget amendments including their effect on fund balance. Please find the list of budget amendments included as Attachment A.

Prepared by:	Submitted by:
/s/ Courtney Buck	/s/ Jason Al-Imam
Courtney Buck Budget Analyst	Jason Al-Imam Administrative Services Director/Treasurer

Attachment:

A. Budget Amendments Fiscal Year 2025-26 Quarter Ending December 31, 2025

ATTACHMENT A
BUDGET AMENDMENTS FISCAL YEAR 2025-26 QUARTER ENDING DECEMBER 31, 2025

City of Newport Beach
Fiscal Year 2025-26 Budget Amendments
Quarter Ending December 31, 2025

BA #	Date	Amendment Type	Fund	Revenues	Expenditures	Net Effect on Fund Balance Increase/ (Decrease)	Net Transfer	Department	Explanation
26	09/03/2025	City Council	GENERAL FUND	217,800.00	217,800.00	-	-	RSS	Accepting grant funds from OCTA reimbursing the City for the purchase of a new transit van for OASIS Senior Center transportation. Related to the 2024 Enhanced Mobility for Seniors and Individuals with Disabilities Grant Program.
27	Quarter 1								
28	Quarter 1								
29	09/26/2025	City Council	CONTRIBUTIONS FUND	100,000.00	100,000.00	-	-	Harbor	To increase revenue estimates and expenditure appropriations with the approval and acceptance of the State of California's Division of Boating and Waterways SAVE grant. The Save Grant requires a 10% match from the City.
			TIDE & SUBMERGED LANDS FUND	10,000.00	10,000.00	-	-		
			GENERAL FUND	-	10,000.00	(10,000.00)	-		
30	Quarter 1								
31	Quarter 1								
32	10/11/2025	City Council	EQUIPMENT FUND	-	1,570,065.69	(1,570,065.69)	-	Fire	Appropriate funds for the purchase of 3 new Horton 623FL Type 1 2WD Ambulances from Professional Sales and Services, LC. Using cooperative selection and pricing under Sourcewell Contract #122123-RVG.
33	10/01/2025	City Council	TIDELANDS HARBOR CAP FUND	-	2,049,344.00	(2,049,344.00)	-	PW	To increase budget appropriations for construction on the Balboa Yacht Basin Maintenance Dredging project (26H13). The project involves dredging the access channels within the Balboa Yacht Basin marina and disposing that material within the Port of Long Beach's Pier G Slip Fill Project.
34	Blank - This number was never used								
35	10/28/2025	City Council	WATER CAPITAL FUND	-	-	-	1,902,859.88	Public Works	To transfer budget from 70201931-980000-26W12 and 70201931-980000-16W12 to 70201931-980000-24W11 for the Cathodic Protection Upgrades Project.
36	10/15/2025	City Manager	GENERAL FUND	12,901.00	12,901.00	-	-	Police	To increase revenue estimates and expenditure appropriations to accept grant funds from the Emergency Management Performance Grant (EMPG) program for 2023. This will provide funding for local emergency management programs and will be used to support overtime for emergency management staff. The allocation for this grant is based on the population size in 2023.
37	11/04/2025	City Council	FACILITIES FINANCING PLAN	13,777,588.00	-	13,777,588.00	-	Finance	To appropriate the FY 2024-25 year-end unrestricted surplus. Funds will be allocated to the Facilities Financing Plan Fund (FFP) to be used for future capital projects.
			GENERAL FUND	-	13,777,588.00	(13,777,588.00)	-		
38	11/04/2025	City Council	GENERAL FUND	-	189,000.00	(189,000.00)	-	Public Works	To appropriate additional budget in the Parks Turf Renovation account for Amendment No. Two to Maintenance & Repair Services Agreement with Merchants Landscape Services, Inc. (Contract No. 8772-1) for sports field re-sodding at Buffalo Hills Park.
39	11/04/2025	City Council	MEASURE M-COMPETITIVE FUND	2,624,060.00	2,624,060.00	-	-	Public Works	To appropriate additional revenue and expenditures related to the purchase of six new trolley vehicles and operational expenses for the Balboa Island/Corona del Mar Local Area Transit Service. The City secured a grant from Measure M2 Project V funding in the amount of $2,624,060 from the Orange County Transportation Authority (OCTA). A local match component is required.
			GENERAL FUND CAPITAL PROJECTS	612,521.14	1,012,521.14	(400,000.00)	-		
			EQUIPMENT FUND	-	612,521.14	(612,521.14)	-		
40	Going to Coucil on January 13, 2026 (Q3)								

BA #	Date	Amendment Type	Fund	Revenues	Expenditures	Net Effect on Fund Balance Increase/ (Decrease)	Net Transfer	Department	Explanation
41	12/09/2025	City Council	GENERAL FUND	-	512,236.20	(512,236.20)	-	HR	To increase expenditure appropriations to fund the agreement with The Newport Beach City Employees Association (CEA) for FY 2025-26.
			WATER ENTERPRISE FUND	-	11,368.84	(11,368.84)	-		
42	11/18/2025	City Council	GENERAL FUND CAPITAL PROJECTS	250,000.00	250,000.00	-	-	CDD	To increase expenditure appropriations to fund a cooperative agreement with OCTA for a feasibility study.
			GENERAL FUND	-	250,000.00	(250,000.00)	-		
43	11/24/2025	City Council	NEWPORT UPTOWN UNDERGROUNDING	1,918,000.00	1,918,000.00	-	-	Public Works	To increase revenue and expenditure appropriations to fund the Facility Relocation Agreement with Southern California Edison for the Uptown Newport undergrounding project.
44	12/09/2025	City Council	GENERAL FUND	-	45,642.61	(45,642.61)	-	HR	To increase expenditure appropriations to fund positions in the Part-Time Newport Beach (PTNEAB) group that are aligned with the City Employees Association (CEA) group's MOU adjustments, reference BA-041-CC.
45	12/09/2025	City Council	GENERAL FUND	-	14,856.00	(14,856.00)	-	HR	To increase expenditure appropriations to fund newly converted positions.

CITY OF NEWPORT BEACH
FINANCE COMMITTEE
STAFF REPORT

Agenda Item No. 6E
January 15, 2026

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Administrative Services Department
Jason Al-Imam, Administrative Services 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 support management in maintaining a comprehensive framework of internal controls. Internal audits are conducted annually as part of an internal control risk assessment. This report provides an update on internal audit activities over the past year.

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 March 13, 2025, the Finance Committee reviewed and approved the enterprise risk assessment and initial evaluation of internal control risk, which informed the development of the internal audit work plan. The work plan includes twelve areas of focus to be reviewed over a four-year period, from 2025 through 2028. The following outlines the progress on the internal audit work plan.

2025-2028 Internal Audit Work Plan

	Key Control	Progress	Task Resource
1	Long-Term Funding Strategies & Cost Recovery	Complete	Eide Bailly
2	Risk Management	Complete	Eide Bailly
3	Grant Management	Complete	The Pun Group
4	Cash & Investments		
5	Special District Administration		
6	Post-Issuance Debt Compliance		
7	Disbursement Cycle		
8	Payroll		
9	Inventory Management		
10	Financial Reporting		
11	Billing & Collections		
12	Budget Administration		

Audit firms Eide Bailly and The Pun Group have recently completed work in areas 1-3 listed in the table above. Staff continue to complete tasks that resolve and incorporate the findings from prior audit reports.

Current Progress
Items 1 and 2 of the workplan were evaluated by Eide Bailly, while Item 3 was evaluated by The Pun Group. The corresponding audit reports are attached to this staff report. Management's responses to each internal audit, along with the related findings, are included in the respective audit reports. A summary of each internal audit report is provided below.

Long-Term Funding Strategies & Cost Recovery

City Staff retained Eide Bailly to complete a review and assessment of the City's Long-Term Funding Strategies and Cost Recovery practices. Eide Bailly's objective was to assess the adequacy of the City's current practices used to identify and evaluate areas requiring long-term financial planning or cost recovery. Additionally, they were asked to review actions taken by the City to determine if those practices align with the adopted funding policies and recommendations developed for each long-term funding strategy. Eide Bailly also assessed the extent to which the City's practices reflect best practices in public financial management.

As part of this assessment, Eide Bailly developed a comprehensive understanding of the City's practices regarding its long-term funding objectives as well as the methodologies used to allocate and recover costs from various other City funds or third-party entities. This was done through thorough examination and review of relevant policy and procedure documents. Additionally, Eide Bailly conducted interviews with City staff to better understand the City's approach and actions taken to identify its long-term funding needs.

As outlined in the final summary report, the assessment resulted in recommendations for improvement as follows:

- **Presentation of the Facilities Finance Plan ('FFP'):** Consider presenting information to the Finance Committee that includes the full 40-year analysis of the FFP. Doing so would provide the Finance Committee with a longer-term view of the City's facilities planning. Currently, Finance Committee is presented with a five-year outlook of the Facilities Finance Plan.

- **Updating Equipment Maintenance Rates:** Consider periodically performing an analysis comparing the rates user departments are charged against the actual costs incurred. This analysis would ensure that rates remain equitable and reflective of true operating costs.

While identifying opportunities for improvement, Eide Bailly concluded that the City's cost allocation and recovery efforts are well managed and consistent with best practices among local government agencies with strong financial management practices.

Risk Management

City staff retained Eide Bailly to conduct a review of the City's risk management program. The assessment examined claims processing, insurance coverage and renewals, self-insurance reserve adequacy, and recovery of damages related to City property losses.

As part of this assessment, Eide Bailly conducted interviews with staff from City Attorney's Office, Human Resources and the Finance Department. Additionally, Eide Bailly reviewed policies, procedures, forms and documents associated with the City's risk management program. As outlined in the final summary report, the assessment resulted in recommendations for improvement as follows:

- **Policy and Procedure Documentation:** Consider developing a written policy and procedure document for claims administration that, in addition to existing practices, clearly defines respective roles, responsibilities, and authority of the Human Resources Department, the City Attorney's Office, and any third-party administrator in the handling of claims.

- **Damage Recovery / Annual Write-Off:** Consider referring uncollected balances to a collection agency more frequently than once a year. As balances age, they become increasingly difficult to collect.

- **Annual Claims Analysis Memoranda to the City Manager / Departments:** Consider adding historical trend information in the annual claim analysis memorandum sent to the City Manager and departments. This information may be helpful in identifying opportunities to reduce the number of claims or their related fiscal impact.

- **General Liability Cost per Claim Increasing:** Consider conducting a comprehensive analysis of general liability claim history to identify the underlying drivers of rising claim costs.

While Eide Bailly identified opportunities for improvement, they also noted that the City has well-established processes that effectively address its risk exposures as a full-service municipality.

Grant Management

City Staff retained The Pun Group to complete a review and assessment of grant-related policies, procedures, and supporting systems for effective grant management and compliance. Among other things, The Pun Group reviewed the City's processes for grant reimbursement and expenditure tracking, subrecipient monitoring activities, and periodic financial and performance reviews.

As part of this assessment, The Pun Group conducted interviews, reviewed documentation, tested internal controls and assessed the City's processes. As outlined in the final summary report, the assessment resulted in recommendations for improvement as follows:

- **Department Grant Expenditure Review, Approval, Monitoring and Tracking:** Departments should collaborate more closely with the Finance Department for review and consultation prior to submitting financial reports or making budget reallocations to help ensure accuracy and compliance with grant terms.

- **Subrecipient Monitoring:** Consider updating the City's Grant Administration Policy F-25 to include formal procedures for subrecipient monitoring. At a minimum, the policy should define roles and responsibilities, outline required monitoring activities and establish documentation requirements.

- **Training:** Consider implementing a formal grant management training program for all departmental grant administrators. Training should cover grant administration policies, internal controls, and compliance requirements.

The Pun Group identified opportunities for improvement and also recognized that the City has established an effective grant management framework. This framework operates within a decentralized environment and incorporates appropriate controls and segregation of duties to support compliance with grant terms and conditions.

Prepared and Submitted by:

/s/ Jason Al-Imam

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Jason Al-Imam
Administrative Services Director/Treasurer

ATTACHMENTS:

Attachment A – Internal Audit Report on Long Term Funding Strategies and Cost Recovery

Attachment B – Internal Audit Report on Risk Management

Attachment C – Internal Audit Report Grant Management

ATTACHMENT A

INTERNAL AUDIT REPORT ON LONG TERM FUNDING STRATEGIES AND COST RECOVERY

Consulting Report

October 24, 2025

CITY OF NEWPORT BEACH, CALIFORNIA

LONG-TERM FUNDING STRATEGIES AND COST RECOVERY ASSESSMENT

Submitted By:

Eide Bailly LLP

Dr. Bradford Rockabrand, CPA, CIA | Partner

Brent Mason, CPA | Senior Manager

Sadye Greenwalt, CIA | Manager

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CONSULTING REPORT

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

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

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

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

OBSERVATIONS

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

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

In performing our work, we made minor observations regarding:

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

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

SUGGESTED RECOMMENDATIONS

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

Recommendation 1 - Presentation of the Facilities Finance Plan

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

Management Response:

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

Recommendation 2 - Updating Equipment Maintenance Rates

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

Management Response:

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

APPENDIX A

The documents examined during this engagement are listed below.

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

ATTACHMENT B

INTERNAL AUDIT REPORT ON RISK MANAGEMENT

Consulting Report

November 12, 2025

NEWPORT BEACH, CALIFORNIA

RISK MANAGEMENT PROGRAM ASSESSMENT

Submitted By:

Eide Bailly LLP

Dr. Bradford Rockabrand, CPA, CIA | Partner

Brent Mason, CPA | Senior Manager

Sadye Greenwalt, CIA | Manager

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CONSULTING REPORT

Our assessment of the risk management program of the City of Newport Beach, California (City) involved developing a comprehensive understanding of the City's practices regarding:

- Processing workers' compensation and general liability claims
- Breadth of coverage over risk exposures faced as a full-service municipality
- Practices for the annual renewal of insurance policies
- Sufficiency of reserves to fund claim costs associated with general liability and workers' compensation self-insurance programs
- Recovery of damages associated with losses related to City property

To establish a well-informed perspective of the City's current practices, we discussed the full range of these subjects with the staff who perform these tasks within the Human Resources (HR) Department, the City Attorney's Office (CAO), and the Finance Department. We examined various documents associated with the risk management program, which helped to form the bases for the conclusions developed about the current approach to managing the City's risk management program.

We developed an understanding of the current practices and procedures, gathered statistical data, and analyzed the information from the perspective of our experience managing risk programs over the past three decades. We assembled various statistical information and evaluated the results for relevant trends associated with workers' compensation and general liability claims. A high-level summary of themes from our findings and observations is provided below.

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

OBSERVATIONS

Our assessment of the City's risk management program demonstrated that the City has well-established processes in place that effectively address the risks to which the City is exposed as a full-service municipality. A comprehensive system of risk management solutions is in place and is used to protect the City's assets. These solutions consist of a combination of various insurance coverages procured for risk exposures and participation in a risk pool (the California Insurance Pool Authority) for workers' compensation risk and general liability risk for tort claims. The City has chosen to retain risk for these two programs at a $500,000 self-insured retention (SIR). The SIR has been re-evaluated recently, and it was determined that the current level should remain unchanged based on the costs and benefits related to a higher or lower SIR.

The City engages third-party specialists to support these efforts, including a third-party administrator (TPA) that assists with claim processing. Adminsure is a widely used TPA throughout California and received very high scores on its most recent audit associated with its processing of workers' compensation claims for its clients. The City uses AON as its broker to assist with the placement of all its insurance coverage. Discussions with staff revealed that the annual renewal process is a complex effort requiring coordination by HR staff, with multiple City departments, to execute the insurance renewals each year. We found renewals have been completed and coverage has been bound timely without the City being exposed to any uncovered risks. The City uses Bickmore Actuarial to complete annual calculations of its retained exposure to loss for the two programs for which an SIR is maintained. The actuarial report calculates the estimated liability for the outstanding workers' compensation and general liability claims. We found that the City uses an 80% confidence level to record the liability in its accounts to ensure that sufficient resources are available to fund claims as they develop to maturity and payments are necessary.

We noted in our assessment that the City has an established process to fund the cash reserves necessary to meet the actuarially calculated claim liability and to allocate those costs appropriately across the organization. The self-insured components of both the workers' compensation and general liability programs use an internal service fund accounting mechanism to collect and hold the resources to meet these obligations. We observed that both funds have surplus balances, meaning that the City has cash in excess of its calculated claim costs.

We discussed the City's damage recovery process with the Finance department staff who are responsible for this function. The City has a thorough process in place to pursue these recoveries and has recently adopted a new policy (AP-017) that will give it additional leverage to enhance collection performance. The policy grants the ability to negotiate settlements where appropriate within established authorization limits.

We conducted an analysis of the historical claim experience for both the workers' compensation and general liability programs. Our analysis found that the City has a strong history of addressing these matters when they arise. This is evidenced by a small number of remaining open claims in relation to the total number of claims that have been incurred over the decades each program has existed. We observed that the overall number of annual claims reported has remained stable with typical fluctuations occurring from year to year. We observed that the workers' compensation program had moderate increases in costs. However, the average cost per claim in the general liability program increased by 43.6% in the last five years.

In performing our work, we made detailed recommendations about the following items, which follow this report:

- Documentation of the procedures associated with the risk management program
- The timing of sending uncollectible amounts associated with damage recoveries to a collection agency
- Expanding the scope of the annual summary memoranda prepared by HR staff for the City Manager and individual departments for the workers' compensation and general liability programs
- Additional analysis of the average cost per claim in the general liability program

FINDINGS AND RECOMMENDATIONS

The following suggested recommendations are offered for consideration based on the results of our assessment of the risk management program and practices utilized by the City.

Recommendation 1 – Policy and Procedure Documentation

In our discussions with the Human Resources staff, we inquired about the availability of documented policies or procedures related to the handling of workers' compensation and general liability claims. Although the procedures for claims administration for both programs are well established and functioning, they are not formally documented.

The City should consider developing a written policy and procedures document for claims administration that, in additional to documenting existing practices, clearly defines the respective roles, responsibilities, and authority of the Human Resources Department, the City Attorney's Office, and any third-party administrator (e.g., Adminsure) in the handling of claims. The document should specify:

- The criteria or thresholds that determine when and how responsibility for a claim transition from Human Resources/Adminsure to the City Attorney's Office
- The communication, documentation, and coordination protocols between departments to ensure efficient and consistent handling of claims
- Procedures for resolving questions regarding ownership or authority when responsibilities overlap

Management Response:

Agreed, this would assist in less confusion with the departments.

Recommendation 2 – Damage Recovery / Annual Write-Off

Our conversation with Finance department staff regarding the collection of outstanding damage recoveries included a discussion of the City's annual write-off process for amounts deemed uncollectible and then sent to a collection agency. The City should consider separating those functions into two steps and provide staff with the authority to send amounts to collections prior to the annual write-off process. The objective would be to send items for which the City is unable to successfully collect to the collection agency significantly sooner than currently happens. It is well-accepted that amounts become less likely to be recovered as they age, and accessing the resources of a collection agency sooner in the life of a receivable amount increases the likelihood of collection from the responsible party.

Management Response:

Finance staff agree that amounts become more difficult to collect as they age and recognize the benefit of referring uncollected balances to a collection agency sooner. Beginning with write-offs for delinquent receivables as of December 31, 2025, the Revenue Manager will ensure that write-offs are performed at least semi-annually, or quarterly if practical.

Recommendation 3 – Annual Claims Analysis Memoranda to the City Manager / Departments

The Human Resources department prepares an annual claim analysis memorandum for the workers' compensation program and for the general liability program. These are sent to the City Manager and individual, department specific, memoranda are prepared and distributed to the respective departments relative to the claims associated with their activities or employees. We read these reports and found them to be detailed and helpful. What we did not find in them was any historical or trend information that might also be helpful with identifying opportunities to focus efforts on reducing the number of claims or the related fiscal impact. Information on trends in the number of claims, and by type, as well as the costs associated with that trend data, may be useful information to consider adding to these reports.

Management Response:

Agreed; future memoranda will provide trend data that identifies opportunities where departments can incorporate additional training or awareness to help alleviate future claims.

Recommendation 4 – General Liability Cost Per Claim Increasing

In performing our trend analysis as requested in the scope of services, it was determined that the average cost of general liability claims is $29,600 over the last 10 years, but when looking at only the last 5 years, that number rises to $42,500. This is after removing the impact of one exceptional claim settled in 2024. It is recommended that the City spend time analyzing why this is happening and, if related to specific type(s) of claims, to determine whether there is an opportunity to take any remedial actions that may help avoid or reduce the increase in the average cost currently being experienced with general liability claims.

Management Response:

Agreed; this type of information will be added to the annual claim analysis memorandums.

APPENDIX A

The documents examined during this engagement are listed below.

NO.	DOCUMENT
1	Workers' Compensation Claims Analysis Reports – Calendar Year 2024
2	General Liability Claims Analysis Reports – Calendar Year 2024
3	AP-017 Damage to City Property Billing Settlement & Recovery
4	Newport Beach GL Loss Run as of 06.30.2025
5	Newport Beach WC Loss Run as of 06.30.2025
6	Fiscal Year 2023/24 Financial Statement
7	General Liability Actuarial Valuation Report from Bickmore dated February 2025
8	Workers' Comp Actuarial Valuation Report from Bickmore dated February 2025
9	General Liability and Workers' Compensation Reserves Analysis as of June 30, 2025
10	Damage recovery aging reports for fiscal year 2023/24 and 2024/25

ATTACHMENT C

INTERNAL AUDIT REPORT GRANT MANAGEMENT

City of Newport Beach

Newport Beach, California

Internal Audit Report on Grant Management

November 7, 2025

THE PUN GROUP
ACCOUNTANTS & ADVISORS

City of Newport Beach
Internal Audit Report

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Santa Ana, California 92707

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EXECUTIVE SUMMARY

The Pun Group LLP ("the Pun Group", "We", "Ours", or "Us") was engaged by the City of Newport Beach, California (the "City") to perform an internal audit of the City's grant management function. The purpose of the audit was to evaluate related processes and controls.

This engagement encompassed a review of the City's grant-related policies and procedures, organizational structure, and supporting systems for effective grant management and compliance. The scope also included processes for grant reimbursement and expenditure tracking, subrecipient monitoring activities, and periodic financial and performance reviews. The City operates in a decentralized grant management environment, with responsibilities distributed across departments to ensure compliance with grantor requirements. Each grant-receiving department is accountable for its respective responsibilities and collaborates with the Finance Department to strengthen internal controls and ensure effective oversight of the City's grant management function. The review work was conducted between August and September 2025.

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 extend our sincere appreciation to the dedicated team members across the City who contributed their time, effort, and expertise. Special recognition goes to the Accounting Manager and Budget Analyst from Finance; the Fire Administrative Manager from Fire; the Real Property Administrator; the Library Service Manager from Library; the Harbormaster from Harbor; the Senior Management Analysts from Community Development, Public Works and Utilities; the Police Support Services Administrator and the Fiscal Services/Facilities Manager from Police; the Management Analyst from both the City Manager's Office and Harbor; and the Budget Analyst from Recreation and Senior Services. Their collaboration, professionalism, and commitment have been instrumental in moving this effort forward, and their contributions are deeply valued.

FINDINGS AND RECOMMENDATIONS

Overall, our review provided evidence that the City has established an effective grant management framework that operates within a decentralized environment and incorporates reasonable controls and segregation of duties to support compliance with grant terms and conditions. However, we identified the following areas where the City could further strengthen internal controls and enhance the effectiveness of its grant management processes:

Finding #1 Departmental Grant Expenditure Review, Approval, Monitoring and Tracking

Condition

Grant management activities within the City are decentralized among departments in accordance with the Council-adopted policy. This structure enables each department to maintain a detailed understanding of its specific grant requirements and to allocate resources based on program needs and priorities.

During our testing of grant-related expenditures and reimbursements, we noted the following exceptions:

- For the Senior Mobility Program (SMP), the responsible department did not include one expenditure accrual in the report submitted to the grantor. The department subsequently corrected the omission by submitting a revised report to the grantor.

- For the California Library Literacy Services Annual Grant (CLLS), the responsible department reallocated funding from the original spending categories of supplies and materials and services to salaries, as the department had reached the contracted amount. The department subsequently requested a contract amendment request to the grantor.

Effect

Variations in departmental grant management practices indicate a need for additional training and stronger collaboration with the Finance Department. Without consistent understanding of reporting and expenditure requirements, departments may experience errors in grant reporting, delays in reimbursement, or the need for subsequent corrections.

Recommendation

We recommend that the City provide periodic training and guidance to departments involved in grant management to ensure consistent understanding of grant reporting, expenditure classification, and compliance requirements. (also refer to Finding #3 – Training). In addition, departments should collaborate more closely with the Finance Department for review and consultation prior to submitting financial reports or making budget reallocations, to help ensure accuracy and compliance with grant terms.

Management Response:

Regarding the Senior Mobility Program, the department submitted the required reports to the grantor by the August deadline. Due to an accrual, the department also submitted a correction to align the most recent report with the proper fiscal years.

Library staff contacted the Literacy & Grants Analyst at the California State Library, who assists in managing the grant program, to report that one of the program's supporting organizations had disbanded. As a result, additional funding was needed to cover salaries, wages, and benefits for the literacy program. The Grants Analyst confirmed that these additional salary expenses are eligible, although a budget amendment was required. Staff submitted the amendment, albeit after the reporting deadline, and it was approved in October 2025.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding #1 Departmental Grant Expenditure Review, Approval, Monitoring and Tracking (Continued)

Management Response (Continued):

The City recognizes that periodic training and guidance for departments involved in grant management could be beneficial and support improved practices. The Finance Department continues to encourage departments to seek assistance, particularly regarding any financial aspects of grants.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding #2 Subrecipient Monitoring

Condition

During our review of the City's Grant Administration Policy F-25, we noted that the policy does not include procedures for subrecipient monitoring. Although currently only one grant involves pass-through funding to subrecipients, departments rely on the respective grant terms and conditions to carry out subrecipient monitoring responsibilities.

Effect

Even with a limited number of subrecipient grants, the absence of formalized subrecipient monitoring procedures increases the risk of inconsistent oversight practices across departments. This may result in noncompliance with federal or state grant requirements, delayed detection of subrecipient performance issues, or potential questioned costs if adequate monitoring is not documented.

Recommendation

We recommend that the City update its Grant Administration Policy F-25 to include formal procedures for subrecipient monitoring. At a minimum, the policy should define roles and responsibilities, outline required monitoring activities (e.g., risk assessments, financial and programmatic reviews, site visits, and follow-up on findings), and establish documentation requirements. Implementing standardized procedures will help ensure consistent oversight, strengthen compliance with applicable grant requirements, and reduce the risk of questioned costs.

Management Response:

The City's only grant that involves pass-through funding to subrecipients is the CDBG program grant. The Community Development Department's subrecipient monitoring procedures comply with HUD regulations and guidelines.

Grant Administration Policy F-25 could benefit from the inclusion of formal procedures for subrecipient monitoring. The City is open to clarifying language regarding roles, responsibilities, and monitoring activities to strengthen compliance with applicable grant requirements.

FINDINGS AND RECOMMENDATIONS (CONTINUED)

Finding #3 Training

Condition

During our review of supporting documentation and interviews with responsible personnel, we noted that the City does not provide formal training on grant management. Instead, the City relies on each departmental grant administrator to obtain training directly from grantors or to follow the specific terms and conditions of individual grants.

Effect

This approach may lead to inconsistent practices across departments and increase the risk of noncompliance with grant requirements.

Recommendation

We recommend that the City implement a formal grant management training program for all departmental grant administrators. Such training should cover grant administration policies, internal controls, and compliance requirements to ensure consistent practices across departments and reduce the risk of noncompliance with grant terms and conditions.

Management Response

The City acknowledges that a formal grant management training program could benefit staff responsible for administering grants within their respective departments. Staff are also strongly encouraged to continue participating in training courses that are offered by granting agencies, as the terms and conditions for grant compliance vary by agency and by grant.

COMMENDATIONS

Although the primary focus of this internal audit was to identify opportunities for improvement, it is also important to highlight areas of commendable operations.

- The City has initiated the development of a comprehensive grant list and works closely with each department to ensure compliance with grant requirements, adherence to the City's financial practices, and effective oversight of the grant management process.

- Staff Responsibility: The Finance Department team demonstrated responsibility and responsiveness in coordinating with multiple departments to collect all requested supporting information. Furthermore, the team actively facilitated interviews with various departments throughout the project, providing oversight and ensuring that all inquiries were thoroughly addressed from initiation to closeout.

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

01/15/26

Newport Beach Finance Committee Work Plan

Scheduled Date	Agenda Title	Report Type	Agenda Description
February 2026			
Thursday, February 12, 2026			
	Financial Statement Audit Results and Related Communication for the Fiscal Year Ending June 30, 2025	Presentation	Davis Farr, an independent public accounting firm of licensed public accountants, has completed its audit for the fiscal year ending June 30, 2025. Marc Davis, the audit partner, will meet with the Finance Committee to discuss the results of the audit.
	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 2025-26 budget performance.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
March 2026			
Thursday, March 12, 2026			
	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 2026-27 budget preparation process.
	Fiscal Year 2025-26 Fee Study Update	Presentation	Review and discuss the proposed fee updates for Fiscal Year 2025-26
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
April 2026			
Thursday, April 9, 2026			
	Proposed FY 2026-27 Budget Overview of Expenditures	Presentation	Staff will provide the Committee with an overview of the expenditure budget for Fiscal Year 2026-27 that will be presented to the City Council in May.
	Budget Amendments for Quarter Ending March 31, 2026	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 2026			
Thursday, May 14, 2026			
	Follow-Up Discussion of Proposed FY 2026-27 Budget	Discussion	Staff will provide the Committee with a copy of the Fiscal Year 2026-27 proposed budget document. Should the Committee wish to continue April's discussion of the Fiscal Year 2026-27 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 will discuss with the Audit Committee the planned scope and timing of the financial statement audit for the Fiscal Year Ending June 30, 2026.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
Tuesday, May 26, 2026	Joint City Council and Finance Committee Study Session	Presentation	Staff will present the Fiscal Year 2026-27 proposed budget to the City Council and Finance Committee.
Thursday, May 28, 2026	Committee Recommendation to Council for the FY 2026-27 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 2025-26 budget performance.
	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
June 2026			
	Committee Recess		
July 2026			
	Committee Recess		
August 2026			
	Committee Recess		
September 2026			
Thursday, September 10, 2026			
	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, 2026.
	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, 2026	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 2026			
Thursday, October 15, 2026			
	Budget Amendments for Quarter Ending September 30, 2026	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 2025-26 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.
November 2026			
Thursday, November 12, 2026			
	First Quarter Budget Update	Presentation	Staff will provide a presentation regarding the year-to-date and projected Fiscal Year 2026-27 budget performance.
	OPEB Actuarial Valuation Report Update	Presentation	Staff will provide the Committee with an overview of the Fiscal Year 2025-26 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 2025-26 audit program.
	Work Plan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
December 2026			
	Committee Recess		