



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA

Community Room - 100 Civic Center Drive, Newport Beach

Thursday, November 9, 2023 - 3:00 PM

Finance Committee Members:

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

Staff Members:

Grace K. Leung, City Manager
Jason Al-Imam, Finance Director/Treasurer
Michael Gomez, Deputy Finance Director
Brittany Cleberg, Administrative Assistant

NOTICE REGARDING PRESENTATIONS REQUIRING USE OF CITY EQUIPMENT

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

NOTICE REGARDING PUBLIC PARTICIPATION

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

NOTICE TO THE PUBLIC

The Finance Committee meeting is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that their agenda be posted at least twenty-four (24) hours in advance of each special meeting and that the public be allowed to comment on agenda items before the Committee and items not on the agenda but are within the subject matter jurisdiction of the Finance Committee. The Chair may limit public comments to a reasonable amount of time, generally three (3) minutes per person.

It is the intention of the City of Newport Beach to comply with the Americans with Disabilities Act ("ADA") in all respects. If, as an attendee or a participant at this meeting, you will need special assistance beyond what is normally provided, the City of Newport Beach will attempt to accommodate you in every reasonable manner. If requested, this agenda will be made available in appropriate alternative formats to persons with a disability, as required by Section 202 of the Americans with Disabilities Act of 1990 (42 U.S.C. Sec. 12132), and the federal rules and regulations adopted in implementation thereof. Please contact the City Clerk's Office at least forty-eight (48) hours prior to the meeting to inform us of your particular needs and to determine if accommodation is feasible at (949) 644-3127 or jalimam@newportbeachca.gov.

I. CALL MEETING TO ORDER

II. ROLL CALL

III. PLEDGE OF ALLEGIANCE

IV. PUBLIC COMMENTS

Public comments are invited on agenda and non-agenda items generally considered to be within the subject matter jurisdiction of the Finance Committee. Speakers must limit comments to three (3) minutes. Before speaking, we invite, but do not require, you to state your name for the record. The Finance Committee has the discretion to extend or shorten the speakers' time limit on agenda or non-agenda items, provided the time limit adjustment is applied equally to all speakers. As a courtesy, please turn cell phones off or set them in the silent mode.

V. **CONSENT CALENDAR**

A. **MINUTES OF OCTOBER 12, 2023**

Recommended Action:

Approve and file.

[MINUTES](#)

VI. **CURRENT BUSINESS**

A. **OPEB ACTUARIAL VALUATION REPORT UPDATE**

Summary:

Staff will provide the Committee with an overview of the Fiscal Year 2022-23 actuarial valuation report prepared by the City's actuary.

Recommended Action:

Receive and file.

[STAFF PRESENTATION](#)

B. **CALPERS UPDATE**

Summary:

Staff will provide the Committee with an update on the City's pension funded status based on the most recent actuarial valuation report provided by CalPERS in July 2023.

Recommended Action:

Receive and file.

[STAFF PRESENTATION](#)

C. **FISCAL SUSTAINABILITY PLAN REVIEW**

Summary:

Review the Fiscal Sustainability Plan.

Recommended Action:

Receive and file.

[STAFF REPORT](#)

[ATTACHMENT A](#)

D. FIRST QUARTER BUDGET UPDATE

Summary:

Staff will provide a presentation regarding the year-to-date and projected Fiscal Year 2023-24 budget performance through September 30, 2023.

Recommended Action:

Review and discuss the report on the first quarter of Fiscal Year 2023-24 and provide any recommendations for consideration by the City Manager and City Council.

[STAFF REPORT](#)

[STAFF PRESENTATION](#)

E. WORK PLAN REVIEW

Summary:

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

Recommended Action:

Receive and file.

[WORK PLAN](#)

VII. ADJOURNMENT

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
OCTOBER 12, 2023, REGULAR MEETING MINUTES**

I. CALL MEETING TO ORDER

The meeting was called to order at 3:00 p.m.

II. ROLL CALL

PRESENT: Noah Blom, Mayor
Joe Stapleton, Council Member
Allen Cashion, Committee Member
William Collopy, Committee Member
Nancy Scarbrough, Committee Member

ABSENT: Will O'Neill, Chair (excused)
Keith Curry, Committee Member (excused)

STAFF PRESENT: Grace K. Leung, City Manager; Jason Al-Imam, Finance Director/Treasurer; Michael Gomez, Deputy Finance Director; Shelby Burguan, Budget Manager; Jessica Nguyen, Budget Analyst; Eric Wilson, Budget Analyst; Abigail Marin, Budget Analyst; Jennifer Anderson; Purchasing & Contracts Administrator; Alan Rivera; Management Fellow; Jeff Boyles, Fire Chief; Brian McDonough, Battalion Chief; Brian O'Rourke, Assistant Chief, Lifeguards; Kristin Thompson, EMS Division Chief; Justin Carr, Assistant Chief; Raymund Reyes, Fire Administrative Manager and Brittany Cleberg, Administrative Assistant

MEMBERS OF THE PUBLIC: Jim Mosher
Charles Klobe
Larry Tucker

III. PLEDGE OF ALLEGIANCE

The Pledge of Allegiance was led by Council Member Stapleton.

IV. PUBLIC COMMENTS ON CONSENT CALENDAR

Acting Chair Blom opened public comments on the consent calendar and non-agenda items.

Jim Mosher requested clarification regarding City debt service obligations, referencing the Harbor and Beaches Master Plan, Facilities Finance Plan, and the City's finance dashboard, and noted it may be helpful to the various City Committees to have further clarification of same so as not to misinterpret the data.

Mr. Mosher also commented on the minutes, requesting a grammatical correction on page one and expanded detail in the minutes document to reference the names of the Committee Members who are providing discussion comments.

Acting Chair Blom closed public comments, seeing no other who indicated they would like to speak.

V. CONSENT CALENDAR

A. MINUTES OF SEPTEMBER 14, 2023

Recommended Action:

Approve and file.

MOTION: Committee Member Scarbrough moved to approve the minutes of September 14, 2023, seconded by Committee Member Collopy, as amended. The motion carried as follows:

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

VI. CURRENT BUSINESS

A. OVERVIEW OF FIRE DEPARTMENT BUDGET

Recommended Action:

Receive and file.

A presentation by Fire Chief Jeff Boyles and Administrative Manager Raymund Reyes provided an overview of the Fire Department Operations and Budget as detailed in the publicly noticed agenda report. Information presented included overview of the Department's organizational and asset structure, statistics for calls for emergency services, medical services, and medical transports, Fiscal Year 2023-24 approved budget enhancements including one new frontline ambulance, six new firefighter paramedic positions, conversion of part-time Recreation Coordinator to full-time, and conversion of part-time Life Safety Specialist III to full-time, overview of full-time and part-time positions and Firefighter to Firefighter-Paramedic conversions, breakdown of the Department's \$64,405,996 budget including divisional budgets and expenditures by category, contracts and services, Department overtime, and revenues.

Committee Member Collopy inquired as to why the Department contracts with MetroNet for dispatch center service. Chief Boyles responded it was a historical change dating back to the 1990's when the City broke away from the in-house combined Police and Fire dispatch center. Staff noted that it is more cost-effective to utilize the MetroNet joint powers authority.

Committee Member Scarbrough inquired as to the nature of the significant increases in calls for emergency services. Chief Boyles responded that the increases were not as much related to changes in population overall, but more as a result of the increasing numbers of residents who are "aging in place."

Acting Chair Blom noted for the record that the City has not seen a decrease in population, but rather a decrease in residency. Housing stock has not decreased. It was important to note that population data does not necessarily correlate with needs for emergency services.

Committee Member Collopy inquired if the Santa Ana Heights/Airport area station adequate to serve the number of residences in that area, particularly as related to calls related to actual fires. Chief Boyles responded the subject station was adequate and provided a summary of the station's current and projected future assets.

General discussion and comments ensued regarding the need for development agreements, as the proceeds are utilized to ensure the City has the appropriate complement of resources to provide for the community.

Committee Member Scarbrough inquired as to the breakdown of calls for resident versus non-residents. Chief Boyles responded that generally there are visitors and non-resident calls

during weekends and the summer season, but generally the majority of calls are for response into residential neighborhoods.

Committee Member Cashion inquired whether the displayed number for full-time Fire personnel reflected the total number of positions or whether there were other vacancies not included in that number. City staff confirmed the displayed number reflected the total number of budgeted positions, whether vacant or not.

Committee Member Collopy inquired as to why the displayed numbers for “Services Contract 811017” seem to fluctuate quite widely. Administrative Manager Reyes did not have an explicit answer, however, he stated he believed the fluctuations were due to the retention of nurse educator contractors utilized by the Department.

Committee and staff discussion ensued regarding minimum staffing level requirements and the related impacts on overtime costs to backfill positions and vacancies. It was noted that the State does reimburse the City in certain circumstances, including for some fuel costs and wear and tear on equipment. City staff confirmed it submits its own salary schedule to the State and is reimbursed based upon that information. It was also confirmed that City staff cannot “spike” their CalPERS pensions with overtime; pensions are based on the base salary.

Further discussion ensued regarding the relationship between full-staffing, with a minimum number of vacancies, and the impacts less than full-staffing has on the costs related to overtime due to minimum staffing level requirements. Chief Boyles stated that 35% of overtime was probably lower than industry standards for firefighters. Chief Boyles reported he is affirmatively pressing to get the Department fully staffed, and that only so many vacancies can be filled at one time due to training and supervision requirements.

Chief Boyles further elaborated that the Department would be close to fully staffed by January or February 2024. The Department has also been impacted due to the “Great Resignation” effect which began during the COVID-19 pandemic. Additionally, there are cost impacts due to resources required for new staff training “ramp up”, and he anticipates the overtime rate to remain consistent for the time being, with potential for reductions in Fiscal Year 2024-25.

Committee Member Collopy inquired as to the “right” number for overtime, relative to cost-effectiveness.

City staff confirmed all new employees hired in 2013 or after are considered “PEPRA” hires if they are not previous CalPERS members.

Committee Member Collopy expressed concern stating the amount of overtime appeared significantly large in comparison to the amounts budgeted each year. Finance Director/Treasurer Al-Imam indicated that the amount budgeted in prior years for overtime was based on anticipated savings from vacancies, which would offset budget overages incurred due to overtime. However, since 2023, the amount budgeted for overtime was increased to reflect the amount of anticipated overtime. It was noted that the implementation of PEPRA is resulting in overall decreases in costs.

Acting Chair Blom commented that Council policy and the City Manager have worked affirmatively to ensure there is appropriate recruitment and retention efforts throughout the organization while concurrently maintaining a balanced budget. He noted the City will still have to take the costs of living in California and other benefit package elements into consideration when reviewing and determining staffing needs for public safety. He reiterated the relationship between overtime costs and the challenges in filling public safety vacancies.

City Manager Leung also noted the City’s policy for accelerated hiring is helpful, but that Fire operations must plan for overtime due to the operational impacts of various factors such as minimum staffing levels, vacancies, vacations, emergencies, mutual aid, and injuries.

Acting Chair Blom stated the scope of this Committee is to generally focus on how the Departments are budgeting and how to respond to that financial budgeting. He commended the work of City staff in providing the appropriate budget adjustments in that regard. However, he did not believe it was within the scope of this Committee to get into the specifics of Fire operations and staffing.

Chief Boyles stated there were three elements contributing to the “sticker shock” of financial numbers from Fiscal Year 2021-22, including the impacts of COVID-19 illness quarantines, unprecedented back-to-back statewide fires, and the impacts of ambulance transport services during that time period.

Committee and staff discussion ensued regarding revenues, noting the City’s policy preference overall to employ conservative revenue projections. City staff confirmed that typically Fire Department revenues are not budgeted for, and then when received, the budget is amended to recognize the amount that is received. City Manager Leung confirmed staff will take a closer look at paramedic service fees as historical data is accumulated.

Acting Chair Blom opened public comment. Seeing no individuals who indicated they would like to speak, Acting Chair Blom closed public comment.

This item was received and filed. There was no further action taken.

B. YEAR END BUDGET RESULTS AND SURPLUS ALLOCATION

Recommended Action:

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

Budget Manager Burguan and Finance Director/Treasurer Al-Imam provided an overview of the Year End Budget Results. Information presented for the 2022-23 Fourth Quarter Financial report included actual General Fund revenues received, breakdowns for property tax, sales tax transient occupancy tax, other General Fund revenues, actual General Fund expenditures, General Fund Reserves, and Recommendations for allocations of the available surplus.

Committee Member Collopy inquired whether the City should continue to retain a sales tax consultant if in-house staff can provide the same knowledge and expertise as to sales tax information. City staff responded that their knowledge and insight is based upon the technical detail provided by the retained consultant.

Staff provided its recommendation for the allocation of the available \$11.6 million surplus, in a manner consistent with Council Policy F-5, which included an allocation of 50% of the surplus (\$5.8 million) toward the City’s OPEB liability and an allocation of 50% of the surplus (\$5.8 million) toward infrastructure or neighborhood capital improvements.

Acting Chair Blom opened public comment.

Charles Klobe inquired if the Porsche dealership is giving sales tax to Costa Mesa. City staff provided information regarding the allocation of sales tax, citing that the City of Costa Mesa receives the 1% sales tax if the contract was executed in Costa Mesa. City Manager Leung stated there was a general reduction in auto sales.

Jim Mosher stated he had no recommendations for Committee action and inquired as to the function of the City’s sales tax consultant, whether the consultant has special status to view sales tax information for specific businesses, and whether the City has access to that information separate from the consultant. City staff responded that certain sales tax information is protected by the State’s Revenue and Taxation Code, noting confidentiality provisions

related to how the information is aggregated when provided to the public. The consultant follows the same standards as City staff.

Larry Tucker inquired if City staff expected the budget surplus for next year would be in line with prior years. City Manager Leung responded that the size of the surplus is not yet known at this time.

Acting Chair Blom closed public comment.

Committee and staff discussion ensued regarding the proposal for allocation of 50% of the surplus (\$5.8 million) toward the City's OPEB liability versus toward pension liability, including the impacts of market conditions and trends.

MOTION: Committee Member Collopy moved to forward a recommendation to the City Council to allocate 50% of the \$11.6 million surplus (\$5.8 million) toward the City's OPEB liability and 50% of the surplus (\$5.8 million) toward infrastructure or neighborhood capital improvements, seconded by seconded by Committee Member Scarbrough. The motion carried as follows:

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

C. BUDGET AMENDMENTS FOR QUARTER ENDING SEPTEMBER 30, 2023

Recommended Action: Receive and file.

City staff provided a summary update of the information provided in the publicly noticed agenda report.

In response to an inquiry by a Committee Member, City staff noted that representatives from CalPERS would not be present during the CalPERS update scheduled for the November 9, 2023, meeting. There was general Committee consensus that a representative from CalPERS would not be required to be in attendance.

Acting Chair Blom opened public comment. Seeing none, Acting Chair Blom closed public comment.

This item was received and filed. There was no further action taken.

D. WORK PLAN REVIEW

Recommended Action: Receive and file.

A summary of items scheduled for upcoming meetings was provided as listed in the publicly noticed agenda report.

Acting Chair Blom opened public comment.

Jim Mosher expressed support for the Committee's upcoming review of the Fiscal Sustainability Plan and inquired as to whether there will be further review of the Financial Strategic Plan, as it was to be reviewed by the City every year. After dissolution of the City's Economic Development Committee, the plan has not been reviewed subsequent to the one review previously completed.

Acting Chair Blom closed public comment.

This item was received and filed. There was no further action taken.

VII. ADJOURNMENT

The Finance Committee meeting adjourned at 4:31 p.m.

Attest:

Will O'Neill, Chair
Finance Committee

Date

DRAFT

**ITEM NO. 6A1 OPEB ACTUARIAL VALUATION
REPORT UPDATE
ATTACHMENT A
STAFF PRESENTATION – ADDITIONAL MATERIALS RECEIVED**

Other Post-Employment Benefits Actuarial Valuation Report Update

Item No. 6A1
OPEB Actuarial Valuation Report Update
Additional Materials Received
November 9, 2023



**Finance
Committee**

November 9, 2023



Background

- The City provides eligible retirees and surviving spouses with certain retiree medical benefits, also known as other post-employment benefits (OPEB).
- Benefits vary by hire date, employment status and classification. Benefits generally fall into the following categories:
 - **Legacy Defined Benefit Plan** – up to \$450 per month is provided for eligible healthcare expenses. The legacy plan is a closed plan, which generally includes employees and retirees who were active and enrolled in the defined benefit plan as of 12/31/2005.
 - **Defined Contribution Retiree Health Savings Plan** – employee and employer contributions are required to be made to the employee’s Retiree Health Savings (RHS) account, which generally includes new hires on or after 1/1/2006. The City has no further funding obligation to the RHS plan once the City has made the required contributions.
 - **CalPERS Minimum Required Contribution (MRC)** – agencies that contract with CalPERS for health insurance coverage are required under the Public Employees’ Medical and Hospital Care Act (PEMHCA) to contribute a minimum amount for retiree health insurance (\$151/month in 2023).



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.



2023 Actuarial Valuation Report



2023 Actuarial Valuation Report

- An actuarial valuation is completed once every two years. The most recent actuarial valuation was completed in 2022, which had a measurement date of June 30, 2021.
- An interim actuarial report is updated between valuations. In 2023 an interim valuation report with a measurement date of June 30, 2022 was completed for inclusion in the City's financial statements for the fiscal year ending June 30, 2023.
- The City has set-aside funds in an OPEB trust with the California Employers' Retiree Benefit Trust (CERBT), which is managed by CalPERS. The OPEB Trust is invested in CERBT Strategy 1.
 - In 2022 CalPERS updated its Capital Market Assumptions for CERBT Strategy 1, which has a long-term expected rate of return of 6.0% whereas in 2018 the expected return was 6.50%.
- The interim actuarial valuation report reflects a decrease in the discount rate from 6.50% to 6.00% based on the revised expected return.



Summary of Valuation Results

- The City’s total OPEB liability increased by \$2.6 million, which is largely due to the impact from the decrease in the discount rate and an increase in health insurance premiums, which increased at a rate that was higher than projected.
- Assets on hand with CERBT as of the measurement date of June 30, 2023 relates to balances as of June 30, 2022, which were \$3.4 million lower due to a \$4.8 million unrealized loss on investments (14%), which was partially offset with a \$1.4 million City contribution to the Trust.

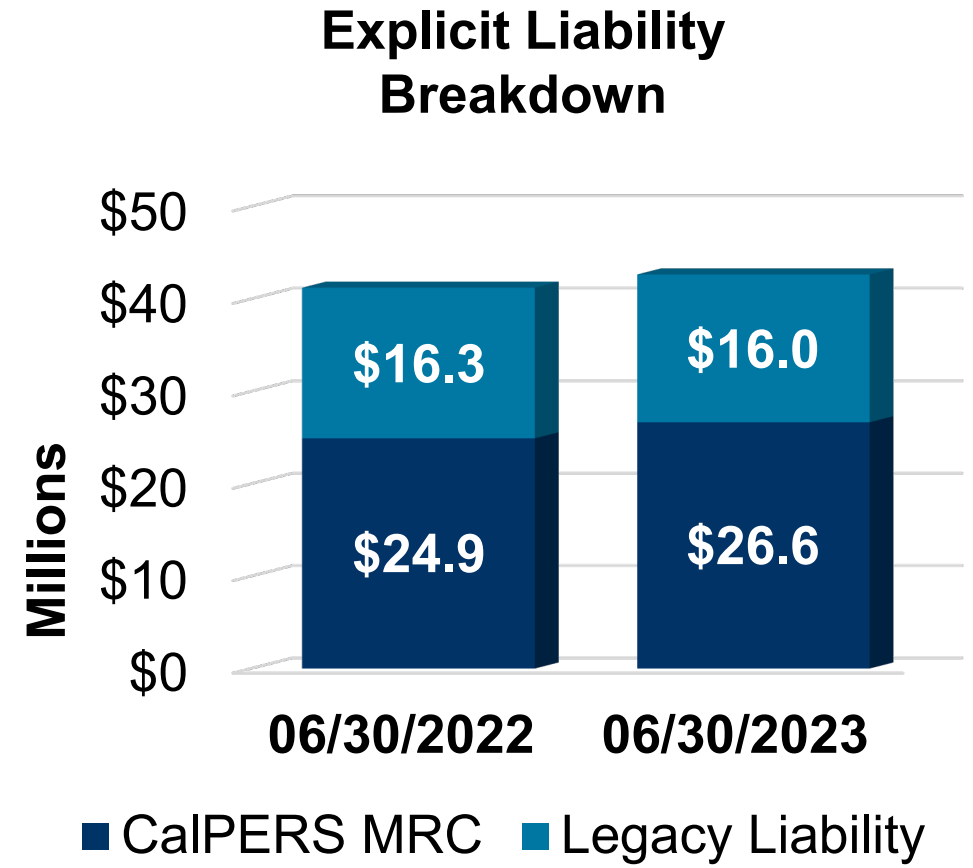
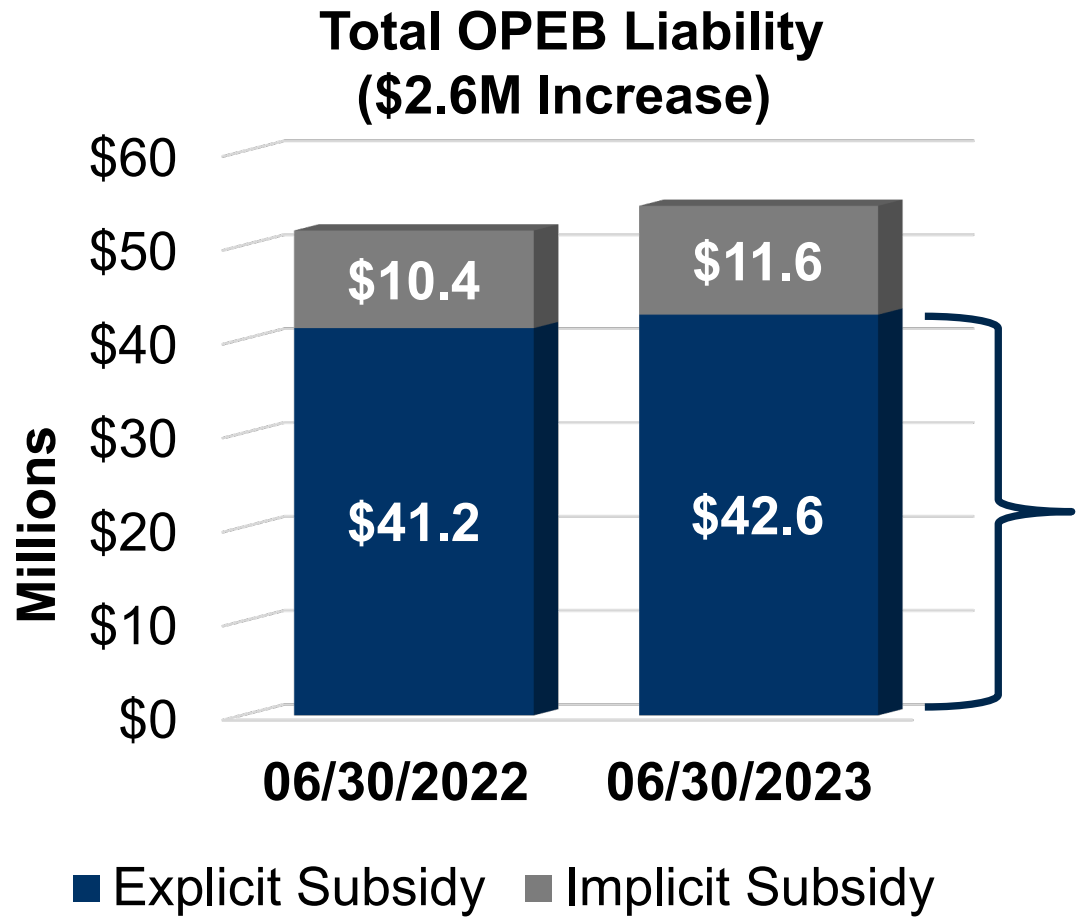
	June 30, 2022 ¹	June 30, 2023 ²
Total OPEB Liability	\$ 51,603,833	\$ 54,234,204
Trust Assets	<u>(\$ 34,969,715)</u>	<u>(\$ 31,569,252)</u>
Net OPEB Liability	\$ 16,634,118	\$ 22,664,952
Funded Percentage	67.8%	58.2%

¹ June 30, 2021 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2022.

² June 30, 2022 measurement date for inclusion in the Financial Statements for the Fiscal Year Ending June 30, 2023.



Changes in the OPEB Liability





Targeted Funding Level

- City Council Policy F-2 (Reserve Policy) requires the “new plan” be 100% funded and that the explicit portion of the “old plan” be funded over a 20-year amortization period (or less) based on the annual required contribution determined by a biennial actuarial review. Council Policy F-2 does not directly address whether funds should be set-aside for the implicit subsidy.
- Since the cost associated with the implicit subsidy is covered by the City’s cafeteria plan contribution and is paid from the City’s operating budget, the targeted funding level has been based on the value of the explicit subsidy associated with the legacy defined benefit plan and the CalPERS MRC.
- In October 2023, the City Council approved allocating \$5.8 million of the General Fund’s operating surplus for Fiscal Year 2022-23 towards paying down the City’s OPEB liability.
- The explicit subsidy is projected to be 98% funded as of June 30, 2024, which includes the \$5.8 million contribution from the FY 2022-23 operating surplus and an annual contribution to the Trust based on the annual required contribution determined by the actuarial review.
- The explicit subsidy is projected to be 100% funded in Fiscal Year 2024-25.



Overview of the CERBT Trust



CERBT Overview

- CERBT has three investment strategies that provide for three alternative levels of tolerance for investment volatility risk.
- CERBT investments are managed by State Street Global Advisors in lieu of CalPERS investment staff with investment criteria dictated by an investment policy adopted by the CalPERS Board.
- Participating agencies own units of the portfolio rather than having direct ownership of securities.
- All-inclusive charge of 10 basis points for administrative, custodial, and investment fees.

Asset Class	Strategy 1	Strategy 2	Strategy 3
Global Equity	49%	34%	23%
Fixed Income	23%	41%	51%
Global Real Estate	20%	17%	14%
Treasury Inflation Protected Securities	5%	5%	9%
Commodities	3%	3%	3%



2022 Capital Market Assumptions

- In March 2022, CalPERS approved changes to the asset class allocations for the OPEB Pre-Funding Candidate Portfolios based on the 2022 Capital Market Assumptions.
- The changes to the Strategy 1 Candidate Portfolio resulted in a shift from global equities to global real estate to provide for diversification. However, it resulted in lower returns (7.59% to 6.0%) that are expected over the long-term and an increase in volatility (11.8% to 12.1%).

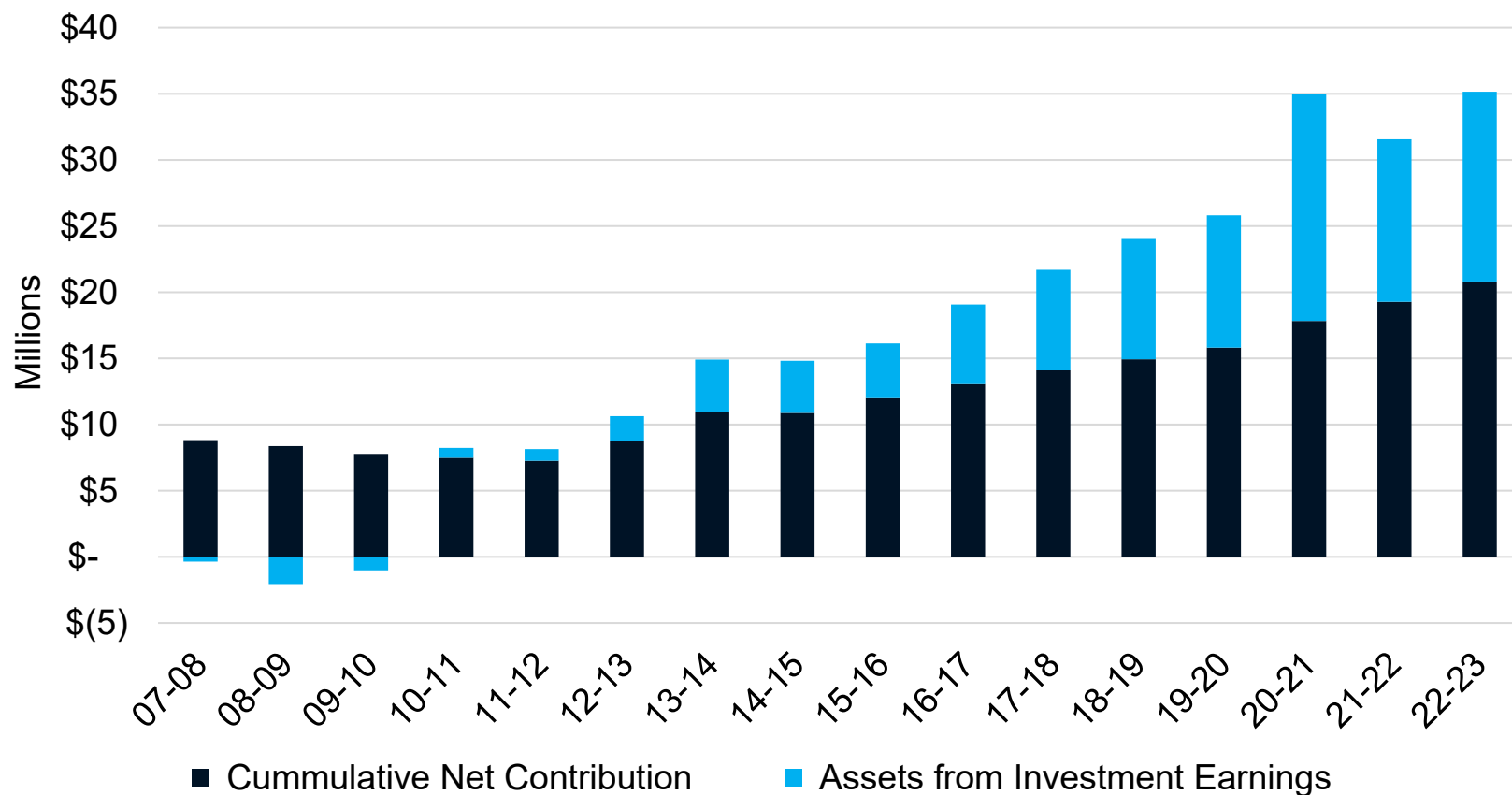
Strategy 1 Portfolio Asset Allocation, Volatility and Expected Returns

Asset Class	2018	2022
Global Equity	59%	49%
Fixed Income	25%	23%
Global Real Estate	8%	20%
Treasury Inflation Protected Securities	5%	5%
Commodities	3%	3%
Volatility	11.8%	12.1%
Expected Return, Net of Fees	7.59%	6.0%



Historical Performance of the City's Trust Account

- Total contributions in excess of withdrawals of \$20.8 million
- Total investment earnings (net of fees) of \$14.4 million
- Total assets of \$35.2 million at 6/30/23
- Annualized net rate of return of 5.52% from 2008-2023





Public Agency Retirement Services

- Approximately 500 public agencies prefund pension and other post-employment benefits through trusts administered by Public Agency Retirement Services (PARS).
- PARS has five investment strategies that provide for alternative levels of tolerance for investment volatility risk. PARS also allows agencies to create a customized investment strategy, which allows for greater investment flexibility and risk diversification.
- HighMark Capital Management provides investment advisory and management services.
- Participating agencies have direct ownership of securities, which are held in individual custodial accounts with US Bank.
- The administrative, trustee and investment management fees are assessed based on the value of assets held in the Trust. The fee structure decreases as the asset balances increase. For example, total fees equate to 29 basis points for a Trust with \$35 million in assets whereas the fees equate to 25 basis points for a Trust with \$50 million in assets.



PARS Compared to CERBT

- The PARS moderate and custom strategies provide for investment returns (net of fees) that are comparable to CERBT. However, the PARS strategies have less volatility than CERBT.

Asset Class	CERBT Strategy 1	PARS Moderate Strategy	PARS Custom Strategy
Global Equity	49%	50%	55%
Fixed Income	23%	45%	40%
Global Real Estate	20%	0%	0%
Treasury Inflation Protected Securities	5%	0%	0%
Commodities	3%	0%	0%
Cash	0%	5%	5%
Volatility	12.1%	8.75%	9.43%
Expected Return, Net of Fees	6.0%	5.87%	6.07%



Summary

- It is recommended that the city continue with the current paydown strategy, which is projected to result in fully paying down the explicit subsidy in Fiscal Year 2024-25.
- Staff is seeking input from the Finance Committee on whether all or a portion of the OPEB Trust assets should be transferred from CERBT to PARS, which would allow for greater investment flexibility and risk diversification.



Questions?

**ITEM NO. 6B1 CALPERS UPDATE
ATTACHMENT A
STAFF PRESENTATION – ADDITIONAL MATERIALS RECEIVED**

CalPERS Update

Item No. 6B1
CalPERS Update
Additional Materials Received
November 9, 2023



Finance Committee

November 9, 2023



CalPERS News

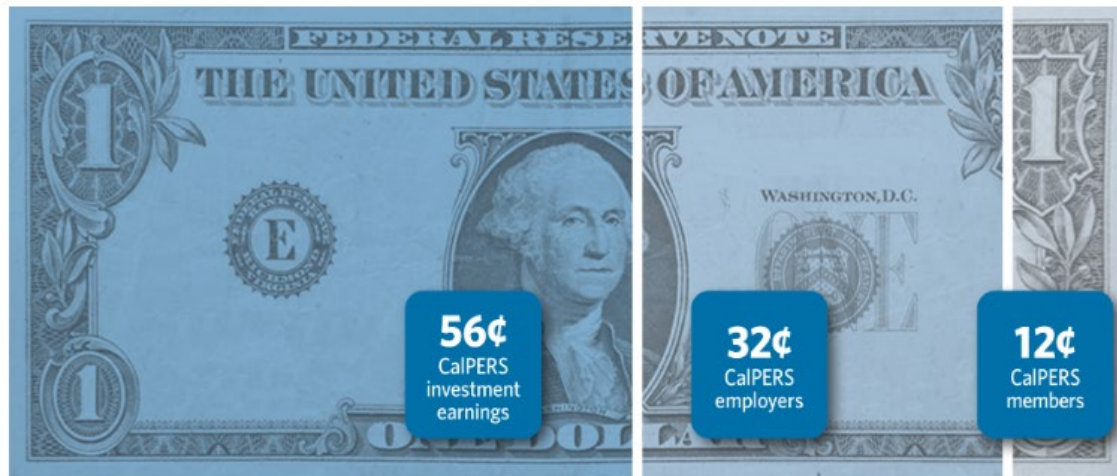
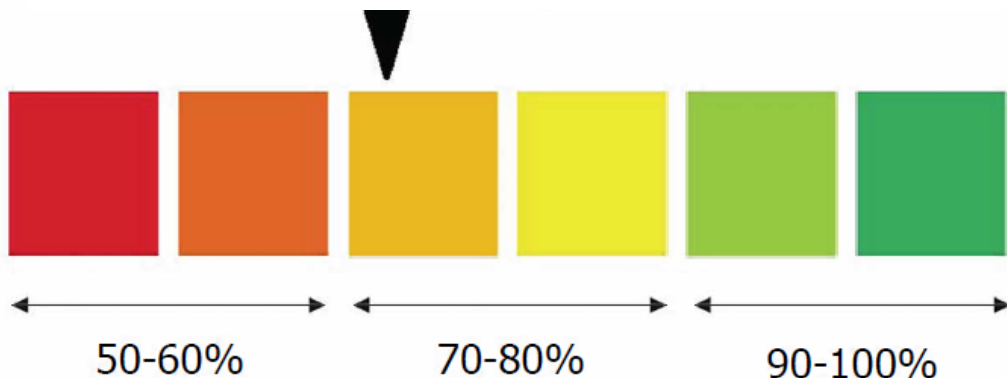


Fiscal Year 2022-23 CalPERS Fiscal Status

\$462.8 billion in assets

6.1% net return on investments

72% funded status



Preliminary



June 30, 2022 Actuarial Valuation Reports (Published in July 2023)



June 30, 2022 Actuarial Valuation Reports

- 2022 valuation reports set the contribution rates for FY 2024-25.
- FY 2021-22 investment return was -7.5%, underperforming the 6.8% target
- Total unfunded liability increased from \$223.4 million to \$347.8 million, total funded ratio decreased from 80.5% to 70.9%

	June 30, 2022			June 30, 2021
	Miscellaneous	Safety	Total	Total
Accrued Liability	\$ 511,530,090	\$ 685,323,004	\$ 1,196,853,094	\$1,144,847,841
Market Value of Assets	\$ 378,762,975	\$ 470,257,945	\$ 849,020,920	\$ 921,409,397
Unfunded Liability	\$ 132,767,115	\$ 215,065,059	\$ 347,832,174	\$223,438,444
Funded Ratio	74.0 %	68.6 %	70.9%	80.5%



CalPERS Funding Risk Mitigation Policy

- Uses a portion of unexpected gains to de-risk the portfolio



If investment returns outperform discount rate by:

+2 pp → 8.8% →

+7 pp → 13.8% →

+10 pp → 16.8% →

+13 pp → 19.8% →

+17 pp → 23.8% →



then resulting discount rate will be:

6.75%

6.70%

6.65%

6.60%

6.55%



Comparison to Other Orange County Agencies

- The funded percentage for every non-pooled plan in the County decreased in part to the investment loss in FY 2021-22, except for the following cities that issued Pension Obligation Bonds in FY 2021-22: Buena Park, La Habra & Santa Ana.

Agency	June 30, 2021, Valuation		June 30, 2022, Valuation		Change		
	UAL	Funded %	UAL	Funded %	UAL \$	UAL %	Funded %
City of Anaheim	625,854,522	79.0%	949,449,263	69.4%	323,594,741	51.7%	-9.6%
City of Brea*	28,478,757	82.8%	46,963,473	72.4%	18,484,716	64.9%	-10.4%
City of Buena Park*	33,064,905	79.4%	19,507,957	88.1%	(13,556,948)	-41.0%	8.7%
City of Costa Mesa	189,671,106	71.5%	252,732,874	63.0%	63,061,768	33.2%	-8.5%
City of Fullerton	211,231,609	77.9%	297,398,482	68.7%	86,166,873	40.8%	-9.2%
City of Garden Grove	257,363,315	74.8%	354,421,833	65.8%	97,058,518	37.7%	-9.0%
City of Huntington Beach	(41,599,178)	102.9%	169,269,371	89.2%	210,868,549	-506.9%	-13.7%
City of Irvine	71,891,554	91.4%	158,911,735	82.5%	87,020,181	121.0%	-8.9%
City of La Habra*	20,859,964	84.8%	15,280,503	89.3%	(5,579,461)	-26.7%	4.5%
City of Laguna Beach*	18,034,222	86.9%	34,010,475	76.1%	15,976,253	88.6%	-10.8%
City of Mission Viejo*	13,408,809	87.6%	26,319,323	76.7%	12,910,514	96.3%	-10.9%
City of Newport Beach	223,438,444	81.0%	330,756,428	72.4%	107,317,984	48.0%	-8.6%
City of Orange	(76,384,628)	107.8%	54,922,279	95.3%	131,306,907	-171.9%	-12.5%
City of Santa Ana	574,282,144	75.4%	357,327,134	85.2%	(216,955,010)	-37.8%	9.8%
City of Tustin*	19,141,426	86.8%	35,632,178	76.4%	16,490,752	86.2%	-10.4%
City of Westminster*	33,948,569	77.7%	49,586,575	68.4%	15,638,006	46.1%	-9.3%
City of Yorba Linda*	16,703,379	81.0%	26,204,122	71.4%	9,500,743	56.9%	-9.6%
Irvine Ranch Water District*	52,029,692	84.5%	89,994,629	74.2%	37,964,937	73.0%	-10.3%
Santa Margarita Water District*	25,311,966	79.3%	36,471,768	71.5%	11,159,802	44.1%	-7.8%



Pension Paydown Strategy



Pension Paydown Strategy

- The pension paydown strategy is revisited each year.
- In 2023, the Finance Committee and City Council approved the continuation of an aggressive pension paydown strategy, and approved staff's recommendation to make a payment of \$40 million to CalPERS as part of the budget with the intent to allocate an additional \$5 million from the operating surplus at the time of adoption of the budget.
- The previous forecast projected the City's pension liability being paid off in FY 2032-33, which was dependent on CalPERS earning 6.8% over the long-term. The expected investment gain for FY 2022-23 is 6.1%, which is less than the 6.8% expected rate of return.



Roll-Forward of Valuations to June 30, 2022

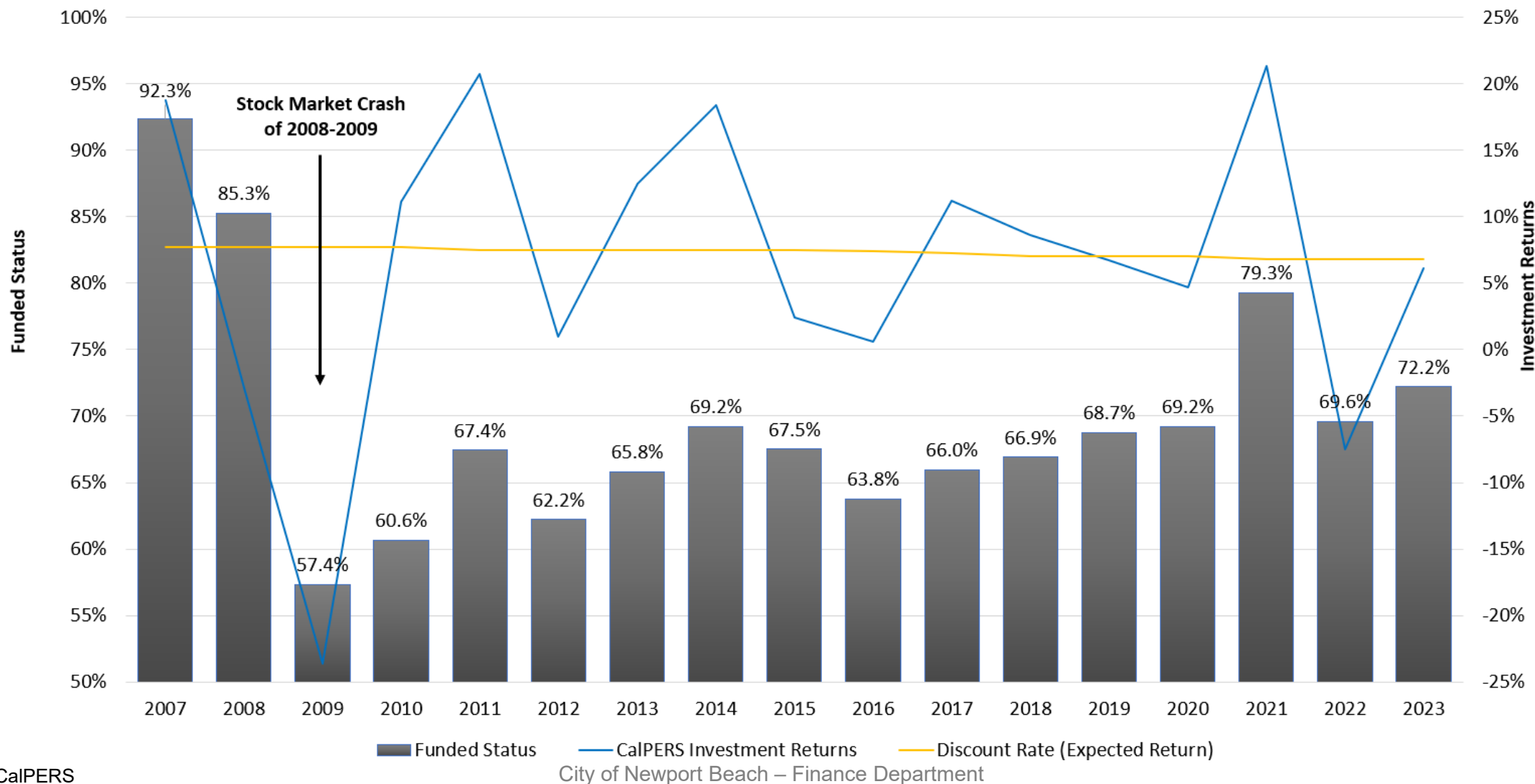
- It is expected that CalPERS will announce a 6.1% investment return for FY 2022-23 on November 14th.
- The Actuarial Valuation at June 30, 2023 will not be available until August 2024. However, the CalPERS Pension Outlook tool has been utilized to estimate the City’s projected funded status as of June 30, 2023, which reflects the impact associated with the 6.1% investment gain.

	June 30, 2019	June 30, 2020	June 30, 2021	June 30, 2022	June 30, 2023*
Unfunded Liability	\$ 326,289,861	\$ 333,046,257	\$ 223,438,444	\$347,832,174	\$332,814,000
Funded Percentage	68.7 %	69.2 %	79.3 %	69.6%	72.2%
Investment Return	6.7 %	4.7 %	21.3 %	-7.5%	6.1%

* Projected



Historical Investment Returns & the City's Funded Status



Source: CalPERS



Projections for the Future

- Using the CalPERS Pension Outlook tool, staff modeled the impact of the 6.1% return for FY 2022-23 and the impact of continuing the current payment strategy
 - The FY 2022-23 rate of return was 0.7% lower than expected, resulting in extending the paydown schedule to the latter part of FY 2032-33
 - Current projection shows the liability will be eliminated in FY 2032-33
 - FY 2023-24 projected to pay approximately \$17 million more than required by CalPERS

	2023-24	2024-25	2025-26	2026-27	2027-28	2028-29	2032-33
Planned Payment	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 45,000,000	\$ 23,997,965
Beginning Unfunded Liability	\$ 332,814,000	\$ 293,578,000	\$ 267,036,000	\$ 238,690,000	\$ 208,415,000	\$ 176,083,000	\$ 23,221,000
Beginning Funded Percentage	72.2 %	79.6 %	82.4 %	85.1 %	87.8 %	90.5 %	100 %
Investment Return	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %	6.8 %



Normal Cost for Active Employees

Total Normal Cost Rates (as a % of Payroll)

	Miscellaneous	Safety
Tier 1 "Legacy"	20.1%	30.6%-38.0%
Tier 2 "Classic"	19.9%	24.5%-34.0%
Tier 3 "PEPRA"	15.5%	25.0%-35.4%

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



Active Employees by Benefit Tier

Tier 1 (Classic)

2.5% @ 55 formula

3.0% @ 50 formula

Tier 2 (Classic)

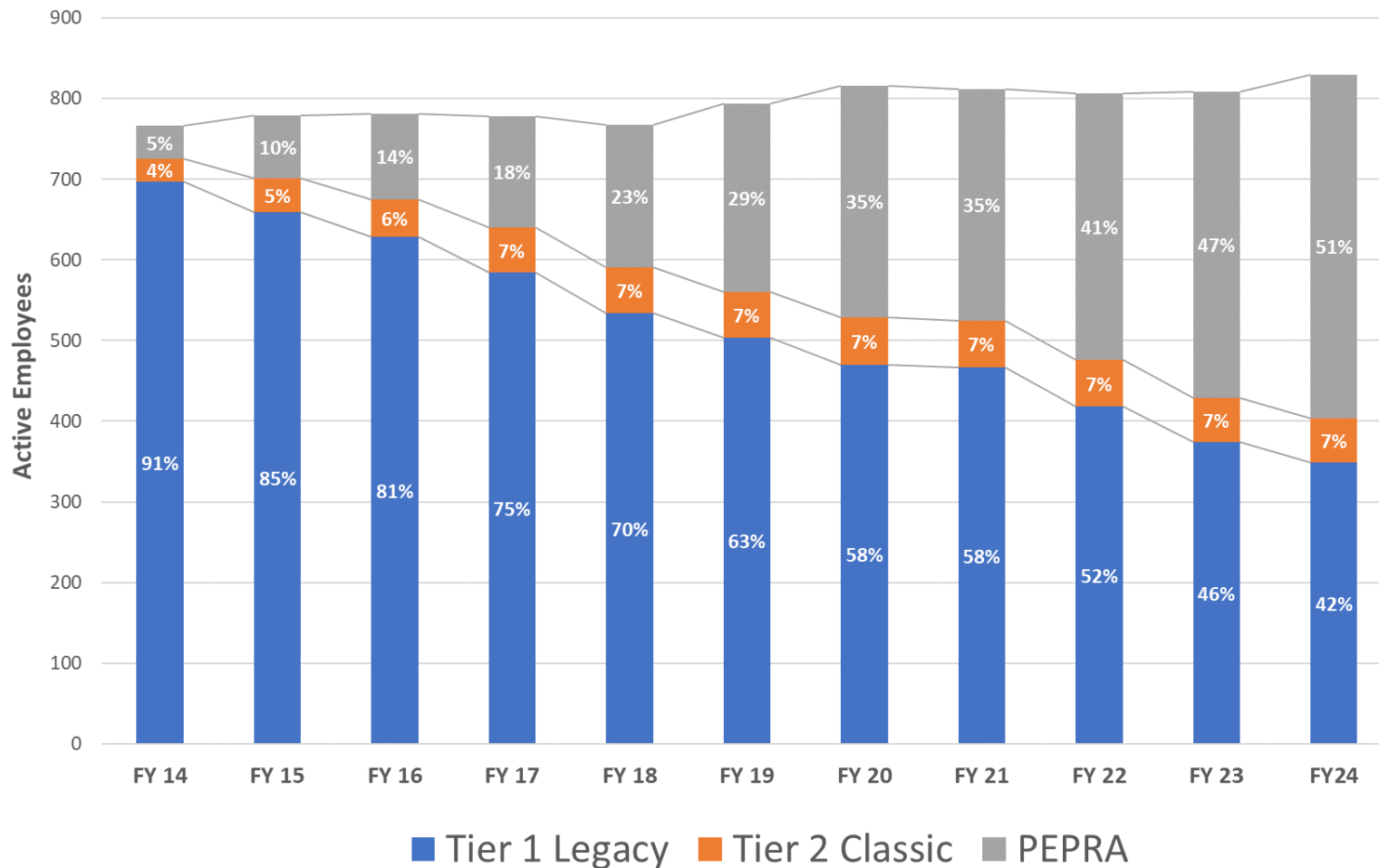
2.0% @ 60 formula

3.0% @ 55 formula

Tier 3 (PEPRA)

2.0% @ 62 formula

2.7% @ 57 formula





Impact of Investment Return and Additional Payments

- Last year's CalPERS update projected the pension liability to be paid off in FY 2032-33
- FY 2022-23 investment shortfall pushed the payoff timeline out a few months
- It is currently projected that the pension liability will be paid off in FY 2032-33 if CalPERS can obtain a 6.8% return on investments on average over the next 10 years



Summary

- It is recommended that the city continue with the current paydown strategy by allocating \$45 million each year towards the unfunded pension liability
- The continuation of the \$45 million pension paydown plan is based on a dollar cost averaging approach where consistent contributions over the long-term are intended to minimize the risk from market fluctuations.



Questions?



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

Agenda Item No. 6C
November 9, 2023

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: REVIEW OF FISCAL SUSTAINABILITY PLAN

SUMMARY:

The Finance Committee has requested a review of the City's Fiscal Sustainability Plan. This report provides a forum to discuss the Fiscal Sustainability Plan's elements established by the City Council.

RECOMMENDED ACTION:

Review and discuss the Fiscal Sustainability Plan elements set forth in the City Council Resolution 2015-47 and provide any recommendations for consideration by the city manager and City Council.

DISCUSSION:

The Great Recession that negatively impacted the City's General Fund began in 2007 and ended in 2009. On January 9, 2010, the City Council held a planning workshop that included a discussion for a Fiscal Sustainability Plan (FSP). On January 12, 2010, the City Council adopted Resolution No. 2010-4 establishing 15 items that the City Council would follow to address the then-current economic situation. On June 9, 2015, the City Council adopted a new FSP resolution. The original resolution was amended to include a new element regarding capital infrastructure and revising an element regarding General Fund contributions to the Facilities Financial Planning reserve.

At the May 11, 2023, Finance Committee Meeting there was public comment regarding FSP and staff were asked to bring back to the Finance Committee a discussion regarding the FSP.

The following table provides the elements of the FSP and outlines the strategies that have been used to implement these initiatives.

Elements	Strategies
The City will proactively seek to protect and expand its tax base by encouraging a healthy underlying local economy.	<ul style="list-style-type: none"> • Maintenance of a business-friendly city government • Partnerships with businesses and non-profits to support the local economy
The City will work to enhance and protect the property values of all Newport Beach residents and property owners.	<ul style="list-style-type: none"> • First class city services • Beautification projects
The City will work to enhance and protect the City’s quality of life through strategic and sustained investment in quality capital infrastructure improvements that are both long lasting and fiscally responsible.	<ul style="list-style-type: none"> • Annual review and allocation of resources as reflected in the City’s Capital Improvement Program, Facilities Financial Plan and Harbor & Beaches Master Plan
The City will encourage shopping, dining and visiting at Newport Beach stores, restaurants and hotels.	<ul style="list-style-type: none"> • Shop Local, Shop Newport Beach
The City will establish and maintain appropriate cash reserves.	<ul style="list-style-type: none"> • Annual Review of Investment Policy, Investment Performance & Long-Range Financial Forecast • Periodic Review of City Council Policy F-2 (Reserve Policy)
The City will manage its Facilities Financial Planning Reserve so that General Fund contributions to the reserve shall not be less than three percent (3%) of the total General Fund Revenue Budget.	<ul style="list-style-type: none"> • Annual Review of Facilities Financial Plan
City revenue performance will be reviewed no less than quarterly and appropriate budget adjustments will be made in advance of the end of a budget year if revenue performance is not meeting projections.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ Quarterly budget report
The City will initiate a “results-based budgeting” approach that allows the public and City Council to prioritize City expenditures strategically rather than simply adjusting legacy expenditures to reflect inflation.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ Annual budget ○ Annual Planning Session (City Council)

Elements	Strategies
The City will implement a Performance Measurement/Management Strategy as part of an ongoing effort to ensure high-quality and efficient performance	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ Annual budget
The City will consider competitive contracting of services and equipment when appropriate and where clear, cost-effective alternatives exist.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ Homeless shelter agreement with Costa Mesa (City Council) ○ Ambulance purchase through Houston-Galveston cooperative purchasing agreement (City Council)
The City will make it a priority to be energy efficient in its provision of public services.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ As needed LED light conversions; fuel efficient vehicle replacement
The City will establish appropriate cost-recovery targets for its fee structure and will annually adjust its fee structure to ensure that the fees continue to meet cost-recovery targets.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ Annual user fee update
The City will oppose efforts of the State and County governments to divert revenues from the City or to increase the unfunded service mandate of City taxpayers.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ Townsend Public Affairs advocacy consultant for State and County matters (City Council)
The City will work in partnership with its employees to ensure fair compensation and that costs related to pension and other benefits are appropriately allocated between employer and employees.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ As needed employee and employer negotiations (City Council)
The City will vigorously defend itself and its taxpayers against frivolous lawsuits.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ As needed (City Council)
The City will seek additional intergovernmental funding and grants, with a priority on funding one-time capital projects. Grant-funded projects that require multi-year support will be reviewed by the Finance Committee.	<ul style="list-style-type: none"> • Reports <ul style="list-style-type: none"> ○ As needed (City Council)

Prepared and Submitted by:

/s/ Michael Gomez

Michael Gomez
Deputy Finance Director

ATTACHMENT:

Attachment A – City Council Resolution No. 2015-47

ATTACHMENT A
CITY COUNCIL RESOLUTION NO. 2015-47

RESOLUTION NO. 2015-47

A RESOLUTION OF THE CITY COUNCIL OF THE CITY OF NEWPORT BEACH, CALIFORNIA, AMENDING THE FISCAL SUSTAINABILITY PLAN FOR NEWPORT BEACH CITY GOVERNMENT

WHEREAS, the City of Newport Beach ("City") has remained a fiscally responsible municipality since its inception in 1906, carefully balancing its budget year-to-year despite changes in the regional and national economy;

WHEREAS, the City and the region have slowly returned to a period of economic growth, the City is cognizant of its responsibility to continuously improve the organization and its services to maximize efficiency and cost-effectiveness;

WHEREAS, as the region may see new economic growth, the City faces significant and costly obligations in the future, including rapid increases in retirement costs and the maintenance, repair, and replacement of City facilities via the Facilities Financial Planning Program and the City's Capital Improvement Program;

WHEREAS, in 2010 the City Council adopted the fifteen (15) elements of a Fiscal Sustainability Plan ("Plan") and directed that the Plan be the policy of the City Council going forward into 2010 and beyond;

WHEREAS, contemporaneous with the amendment to the Fiscal Sustainability Plan, the City Council is amending City Council Policy F-28 to require an annual contribution from the General Fund to the Facilities Financial Planning Reserve Fund to reflect a three percent (3%) minimum contribution of the Total General Fund Revenue Budget rather than the Total General Fund Operating Budget; and

WHEREAS, maintaining a high-quality natural and physical environment by creating aesthetically pleasing places to live, work, recreate, and visit shall remain a key goal of the City.

NOW, THEREFORE, the City Council of the City of Newport Beach resolves as follows:

Section 1: The City Council of the City of Newport Beach hereby adds Element 3 to the City's Fiscal Sustainability Plan to ensure that infrastructure funding is made an explicit priority and amends Element 6 to maintain consistency with the changes to Council Policy F-28. The following elements of the Fiscal Sustainability Plan shall be amended to read:

ELEMENTS OF THE CITY'S FISCAL SUSTAINABILITY PLAN

1. The City will proactively seek to protect and expand its tax base by encouraging a healthy underlying local economy.
2. The City will work to enhance and protect the property values of all Newport Beach residents and property owners.
3. The City will work to enhance and protect the City's quality of life through strategic and sustained investment in quality capital infrastructure improvements that are both long lasting and fiscally responsible.
4. The City will encourage shopping, dining, and visiting at Newport Beach stores, restaurants, and hotels.
5. The City will establish and maintain appropriate cash reserves.
6. The City will manage its Facilities Financial Planning Reserve so that General Fund contributions to the reserve shall not be less than three percent (3%) of the total General Fund Revenue Budget.
7. City revenue performance will be reviewed no less than quarterly and appropriate budget adjustments will be made in advance of the end of a budget year if revenue performance is not meeting projections.
8. The City will initiate a "results-based budgeting" approach that allows the public and the City Council to prioritize City expenditures strategically rather than simply adjusting legacy expenditures to reflect inflation.
9. The City will implement a Performance Measurement/Management Strategy as part of an ongoing effort to ensure high-quality and efficient performance.
10. The City will consider competitive contracting of services and equipment when appropriate and where clear, cost-effective alternatives exist.
11. The City will make it a priority to be energy efficient in its provision of public services.
12. The City will establish appropriate cost-recovery targets for its fee structure and will annually adjust its fee structure to ensure that the fees continue to meet cost recovery targets.
13. The City will oppose efforts of the State and County governments to divert revenues from the City or to increase the unfunded service mandate of City taxpayers.
14. The City will work in partnership with its employees to ensure fair compensation and that costs related to pension and other benefits are appropriately allocated between employer and employees.
15. The City will vigorously defend itself and its taxpayers against frivolous lawsuits.
16. The City will seek additional intergovernmental funding and grants, with a priority on funding one-time capital projects. Grant-funded projects that require multi-year support will be reviewed by the Finance Committee.

Section 2: All prior versions of the City's Fiscal Sustainability Plan that are in conflict with the amendments adopted by this resolution are hereby repealed.

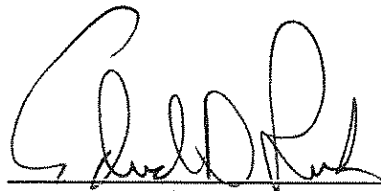
Section 3: If any section, subsection, sentence, clause or phrase of this resolution is for any reason held to be invalid or unconstitutional, such decision shall not affect the validity or constitutionality of the remaining portions of this resolution. The City Council hereby declares that it would have passed this resolution and each section, subsection, sentence, clause or phrase hereof, irrespective of the fact that any one or more sections, subsections, sentences, clauses and phrases be declared unconstitutional.

Section 4: The recitals provided in this resolution are true and correct and are incorporated into the substantive portion of this resolution.

Section 5: The City Council finds the adoption of this resolution and the amendment of the City's Fiscal Sustainability Plan is not subject to the California Environmental Quality Act ("CEQA") pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

Section 6: This resolution shall take effect immediately upon its adoption by the City Council, and the City Clerk shall certify the vote adopting this resolution.

ADOPTED this 9th day of June, 2015.



Edward D. Selich
Mayor

ATTEST:



Leilani I. Brown
City Clerk

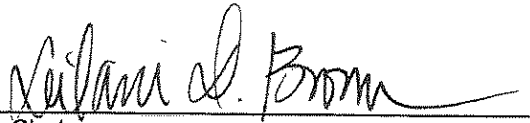


STATE OF CALIFORNIA }
COUNTY OF ORANGE }
CITY OF NEWPORT BEACH } ss.

I, Leilani I. Brown, City Clerk of the City of Newport Beach, California, do hereby certify that the whole number of members of the City Council is seven; that the foregoing resolution, being Resolution No. 2015-47 was duly and regularly introduced before and adopted by the City Council of said City at a regular meeting of said Council, duly and regularly held on the 9th day of June, 2015, and that the same was so passed and adopted by the following vote, to wit:

AYES: Council Member Curry, Council Member Duffield, Council Member Muldoon,
 Mayor Pro Tem Dixon, Mayor Selich
NAYS: Council Member Peotter
ABSENT: Council Member Petros

IN WITNESS WHEREOF, I have hereunto subscribed my name and affixed the official seal of said City this 10th day of June, 2015.



City Clerk
Newport Beach, California

(Seal)





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

Agenda Item No. 6D
November 9, 2023

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

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

SUBJECT: FIRST QUARTER BUDGET UPDATE

SUMMARY:

The Finance Department prepares quarterly financial reports to review the status of revenues and expenditures for the City's General Fund and to monitor budgetary trends in other City funds. This report contains information on revenues, expenditures, and estimated fund balance for the first quarter of Fiscal Year 2023-24.

The FY 2023-24 first quarter financial report provides an analysis of the City's financial activity from July through September 2023. A \$4.6 million unrestricted General Fund operating surplus is projected for FY 2023-24 based on information currently available for the end of the first quarter. Recommended budget adjustments for revenues and expenditures are outlined in this report and will be reflected in the proposed first quarter budget amendment.

RECOMMENDED ACTION:

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

DISCUSSION:

Economic Overview

The City's assessed property values continue to increase providing a strong revenue base for the City. Recent trends in inflation and the inverted Treasury yield curves have caused concern in the broader economy and financial markets. Additionally, sales tax growth has slowed, which is discussed later in this report. Transient occupancy tax (TOT) continues to grow, and the opening of the Pendry hotel in September 2023 should further bolster the City's TOT revenues. The City is well positioned to withstand the impacts of a

potential recession and is expected to maintain long-term fiscal sustainability.

General Fund Revenues

Most revenue categories performed at or higher than their budgeted levels last year due to more favorable economic conditions than what was originally anticipated in the adopted budget. Growth in many areas has led to a \$3.5 million projected increase in General Fund revenues than what was estimated in the adopted budget. Projections for property taxes, other taxes, and service fees are offset by a decrease in sales tax projections.

The following table summarizes the changes to projected General Fund revenues versus the revised budget for FY 2023-24. Details highlighting the reasons for the material variances follow.

FY 2023-24 Projected General Fund Revenues

Revenues by Category	PY Actual	Adopted Budget	A	B	C = B-A	D = C/A
			Revised Budget	Q1 Projected Actual	Variance	% Variance
Property Taxes	138,358,730	141,373,233	141,373,233	142,715,981	1,342,748	1%
Sales Tax	46,552,459	48,532,772	48,532,772	45,257,551	(3,275,221)	-7%
Transient Occupancy Tax	30,201,648	31,986,150	31,986,150	31,986,150	-	0%
Other Taxes	10,079,710	8,937,999	8,937,999	9,922,292	984,293	11%
Service Fees & Charges	25,187,124	24,429,291	24,429,291	25,029,291	600,000	2%
Parking Revenue	7,420,314	7,900,099	7,900,099	7,900,099	-	0%
Licenses and Permits	5,676,619	5,746,027	5,746,027	5,746,027	-	0%
Property Income	7,530,393	8,125,682	8,125,682	9,425,682	1,300,000	16%
Fines & Penalties	3,838,752	3,799,784	3,799,784	3,799,784	-	0%
Intergovernmental	4,379,680	2,289,407	2,382,767	2,382,767	-	0%
Investment Earnings	1,690,399	1,750,000	1,750,000	1,750,000	-	0%
Misc Revenues	3,394,938	167,293	425,362	435,362	10,000	2%
Operating Transfers In	18,428,263	19,020,967	21,251,267	21,251,267	-	0%
Total Revenues	302,739,030	304,058,704	306,640,433	307,602,252	961,820	0%

Property Tax - Property taxes are the City’s single largest General Fund revenue and represent approximately 50% of all General Fund revenues. Property tax revenue was projected to increase approximately 3% from \$136.9 million in FY 2022-23 to \$141.4 million in FY 2023-24, largely due to the inflation adjustment indexed at the 2% cap allowed by Proposition 13 and due to changes in ownership — which was partially offset with an anticipated decrease in property transfer tax revenue as home sales continue to slow due to rising interest rates. Property tax revenue for FY 2022-23 totaled \$138.4 million, which is \$1.5 million higher than previously projected. The higher-than-projected revenue in FY 2022-23 is largely due to supplemental property tax revenue, which was aided by increases in assessed values related to changes in ownership and new construction. Therefore, property tax revenue for FY 2023-24 is projected to be \$1.3 million higher than previously projected due to the increase in assessed values. Staff is recommending a budget amendment to align the revised budget with updated projections.

Sales Tax - The second largest funding source for the General Fund is sales tax revenue, making up more than 15% of General Fund revenues. The City's sales tax base is largely generated from three industry groups — autos and transportation; general consumer goods; and restaurants/hotels. Sales tax in FY 2022-23 came in at \$46.6 million, which was lower than what was predicted in prior quarters. The FY 2023-24 budget was developed before the trend in sales tax began declining. Staff is therefore lowering the FY 2023-24 to \$45.3 million — a decrease of \$3.3 million from the FY 2023-24 adopted budget projection. The decrease in the sales tax projection is primarily attributable to a 5.5% projected decrease in sales from autos and transportation over the prior year compared to the previously projected decrease of 1.4% over FY 2022-23. This equates to a \$1.7 million decrease in projected sales tax revenue over what was previously projected. Moreover, sales tax revenue is projected to be lower than the prior year due to decreases in sales from most industry groups except for restaurants and hotels. The projected decrease in sales tax revenue from these other industry groups is largely due to a shift in consumer spending to nontaxable items, such as travel, leisure, and entertainment. However, sales from restaurants and hotels remain strong with patrons allocating around 40% of their food budget to dining out. A budget amendment is recommended to align the revised budget with updated projections.

Transient Occupancy Tax – The third largest funding source for the General Fund is TOT, making up more than 10% of General Fund revenues. The City has seen record high TOT revenues in the wake of the pandemic: FY 2022-23 saw growth rates of 10% and 24% for hotel TOT and residential TOT respectively. Staff's projection for Q1 is in line with the budgeted revenues, and no adjustment is recommended. Staff will continue to monitor TOT trends and will provide additional updates to projections as necessary in future quarterly financial reports.

All Other Revenue – This category includes all other revenue sources other than the top three (property tax, sales tax and TOT). All other revenue is made up of the following:

- **Other Taxes** – real property transfer taxes, business license taxes, marine charter taxes and franchise fees. This category is anticipated to have increased revenues of \$984,000 from business licenses and franchise fees, which will align projections with actual revenues received in the prior FY.
- **Service Fees and Charges** – plan check fees, recreation classes, emergency medical services fees and numerous other cost-of-service fees. It is anticipated that fees will bring in an additional \$600,000 in revenue above the adopted budget, largely from paramedic service fees, as well as other fees that were increased in the latest fee study approved by Council after the budget was adopted.
- **Parking Revenue** – all General Fund-related metered parking fees that are assessed throughout the various parking zones of the City.
- **Licenses and Permits** – fees charged to process building related permits, street closure permits, dog licenses and police tow franchise fees.

- Property Income – City-owned and -managed, income-producing properties; long-term ground leases to concessions, restaurants, hotels and other businesses and organizations; and rental of City facilities to the public. As was reported in the FY 2022-23 Fourth Quarter Budget Update, revenues and expenses for the Dove Street property must be accounted for at their gross amount in our general ledger, resulting in additional revenues and expenses that net out in the General Fund. A budget amendment is recommended to increase the revenues and expenses by \$1.3 million to account for this activity.
- Fines and Penalties – parking citation fines collected by the City, administrative citation fines, fines remitted to the City from the County for vehicle code violations, and false alarm penalties.
- Intergovernmental Revenues – federal, state and local grant revenues, which includes, but is not limited to, the City’s portion of the half cent sales tax revenue paid to the County for public safety, state mandate reimbursements, reimbursement for strike teams sent to assist with fires, and revenue sharing with the County of Orange under the Waste Disposal Agreement (WDA).
- Investment Earnings – revenue generated from the investment of City funds.
- Miscellaneous Revenues – restricted revenue, damage to City property, bad debt, donations and contributions, non-operating revenues such as proceeds from the sale of materials and equipment, and other miscellaneous revenues. A budget amendment increasing revenues and expenses by \$10,000 is included to accept a donation from the Dorothy Ressel trust and appropriate it in the Fire Department’s expenditure budget.

General Fund Expenditures

The FY 2023-24 General Fund revised expenditure budget totals \$308 million. Spending trends in FY 2023-24 are generally consistent with prior years and do not indicate any cause for concern. Total expenditure savings of \$1.4 million are projected at this time due to year-to-date savings from vacancies and savings from transferring the purchase of an ambulance to a different funding source, offset by expenses that are addressed in Budget Amendment No. 24-027 (to be attached to this report when it is presented to the City Council) and are explained in detail below.

The following table summarizes the changes to the adopted expenditure budget for FY 2023-24, as well as expenditure savings by budget category. Details highlighting the reasons for the material variances follow.

FY 2023-24 Projected General Fund Expenditures

Expenditures by Category	Adopted Budget	A Revised Budget	B Q1 Projected Actual	C = A-B Savings (Overage)	D = C/A % Variance
Salary & Benefits	\$173,678,368	\$178,930,368	\$176,906,515	\$2,023,853	1.1%
Contract Services	28,455,395	33,959,690	33,959,690	-	0.0%
Grant Operating	490,000	799,298	799,298	-	0.0%
Utilities	4,365,888	4,365,888	4,365,888	-	0.0%
Supplies & Materials	3,990,531	4,721,943	4,721,943	-	0.0%
Maintenance & Repair	13,884,795	15,223,086	15,223,086	-	0.0%
Travel & Training	840,151	888,771	868,771	20,000	2.3%
General Expenses	2,455,445	2,639,158	3,939,158	(1,310,000)	-49.6%
Internal Svc Charge	29,463,973	29,422,570	29,422,570	-	0.0%
Capital Expenditures	1,803,666	2,625,489	1,975,489	650,000	24.8%
Operating Transfers Out	34,489,271	34,489,271	\$34,489,271	-	0.0%
Total Expenditures	\$293,917,485	\$308,065,533	\$306,671,680	\$ 1,383,853	0.4%

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$178.9 million, an increase of \$5.3 million over the adopted budget. The increase is primarily due to the appropriation of \$5.0 million from the FY 2023-24 structural budget surplus as an additional discretionary payment to CalPERS to further reduce the City’s unfunded pension liability. An analysis of salary and benefit activity for quarter one indicates that \$2 million in personnel savings have been captured to date. These savings are offset by three proposed budget increases. The adopted budget should have included \$40 million for the CalPERS UAL payment but erroneously was missing the UAL budgets in one program, in the Fire Department, leaving the total adopted UAL budget \$215,000 short. A budget amendment is requested to fully fund the UAL payment at the level that Council directed. It is recommended to transfer one maintenance aide position, a position within the Public Works Department, from the Equipment Maintenance Fund to the General Fund, as the responsibilities and needs of the department more accurately should be funded from the General Fund.
- The travel and training budget will be decreased by \$20,000 as the budget intended for Certified Access Specialist (CASp) training should be funded from Fund 180, the Restricted Programs Fund, and was erroneously included in the General Fund budget in FY 2023-24, despite this program being transferred to Fund 180 in the prior FY. A budget amendment is recommended to transfer \$20,000 from the General Fund to the Restricted Programs Fund.
- The budget amendment that Council approved when the Dove Street property was purchased accounted for only the net activity of revenues and expenses. As was reported in the FY 2022-23 Fourth Quarter Budget Update, revenues and expenses must be accounted for at their gross amount in our general ledger,

resulting in additional revenues and expenses that net out in the General Fund. A budget amendment is recommended to increase the revenues and expenses by \$1.3 million to account for this activity on a gross basis.

- The capital expenditures budget will be decreased by \$650,000 as the purchase of the ambulance unit that was approved in the FY 2023-24 budget is proposed to be transferred to the Fire Equipment Fund to utilize funding from development agreements, which is described in more detail in the Fire Equipment Fund section of this report.

General Fund Sources, Uses, and Projected Surplus

The City continues to be in excellent financial health. Conservative budgeting and sound financial policies have resulted in a trend of General Fund operating surpluses and strong reserve levels for several years. The City is well positioned to continue delivering high levels of services to the community while targeting surplus resources to key priorities each year. It is currently projected that unrestricted General Fund resources will total \$4.6 million at the end of FY 2023-24. As is the case each year, staff anticipate that additional budget savings will be realized, and the final year-end budget surplus will exceed this amount.

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

FY 2023-24 Projected General Fund Sources, Uses, and Budget Surplus

Category	A Revised Budget	B Q1 Projection	C=B-A Variance	D=C/A % Variance
Beginning Fund Balance Reserves	\$ 15,254,999	\$ 15,254,999	\$ -	0.0%
Operating Resources:				
Operating Revenues	285,389,166	286,350,985	961,819	0.3%
Prior Year Resources Carried Forward	5,465,426	5,465,426	-	0.0%
Transfers In from Other Funds	21,251,267	21,251,267	-	0.0%
Repayment of Advances	1,250,000	1,250,000	-	0.0%
Total Operating Resources	313,355,859	314,317,678	961,819	0.3%
Operating Uses:				
Operating Expenditures	273,576,262	272,182,409	(1,393,853)	-0.5%
Transfers Out	34,489,271	34,489,271	-	0.0%
Total Operating Uses	308,065,533	306,671,680	(1,393,853)	-0.5%
Net Operating Surplus	5,290,326	7,645,998	2,355,672	44.5%
Non-Operating Resources & Uses				
Transfers Out for Prior Year Surplus Allocation to Paydown OPEB and to Capital Project Funds	(13,270,950)	(13,270,950)	-	0.0%
Transfers Out to Capital Project Funds	(5,005,300)	(5,005,300)	-	0.0%
Total Non-Operating Resources & Uses	(18,276,250)	(18,276,250)	-	0.0%
Net Change in Fund Balance	(12,985,924)	(10,630,252)	-	0.0%
Ending Fund Balance Reserves	\$ 2,269,075	\$ 4,624,747	\$ 2,355,672	103.8%

Facility Financing Plan

Per the City's Municipal Code, park dedication and in-lieu fees provide for the dedication of land, the payment of fees in lieu thereof or a combination of both, for park or recreational purposes in conjunction with the approval of residential development. Park zone fees in Park Zone 9 are anticipated to total \$976,701 in FY 2023-24. A budget amendment is recommended to align the budgeted revenues in this fund with current projections by increasing revenues in account 51303-422105.

IT Replacement Fund

The IT Replacement Internal Service Fund (ISF) was established in 2012 to set aside funds for large technology purchases and implementations, which has over \$8 million in reserves. This fund accumulates reserves over the useful life of crucial City technology assets so that sufficient resources are available for its eventual replacement. Typical assets that are budgeted for replacement are enterprise business applications, PCs, mobile devices, networking equipment, phone systems, data center servers and hardware, as well as specialized systems like library self-checkout stations. There are two necessary system replacements that will be included as part of the budget amendment when this report goes before the City Council, the Fire Records Management System (RMS) and the Lifeguard Computer Aided Dispatch (CAD) system. The evaluation of these systems was completed after the budget was adopted.

The Fire Department, along with support from IT, requests funding to upgrade the department's existing Records Management System (RMS) for the Fire Operations Division to match the County's reporting portal. In doing so, the City will centralize its records data under one system, modernize its records management and have the ability to access additional software system features. A budget amendment for \$118,695 will cover the implementation and three years of licensing of the application.

The Fire Department's Lifeguard Division has relied on a modified version of the Computer Aided Dispatch (CAD) System used by the Police Department. However, it is limited in capability due to its design as a police Department-specific program. Transitioning to a new lifeguard -specific software will allow for greater operational use and flexibility for the division and provide for better coordination with the City's IT team. A budget amendment for \$119,511 will cover the implementation and five years of licensing of the application.

Fire Equipment Fund

The FY 2023-24 adopted budget includes \$650,000 in the General Fund for the purchase of a new ambulance unit. It was anticipated that funding from two development agreements that total \$1 million would fund this purchase. However, due to uncertainty in the timing of receiving those funds, the General Fund was positioned to front the cost of purchasing the unit, with the understanding that the General Fund would be reimbursed once the developer funds had been received. Now that a portion of developer funds have been received for the Newport Crossings and Harbor Pointe projects, it is recommended that the budget for the purchase and outfitting of the new ambulance be transferred to the

Fire Equipment Fund where it will be fully offset by the additional revenues.

Other Funds

Staff have evaluated the fiscal condition of the City's other major operating funds (Tidelands and Water). An analysis of the budget performance for these funds indicates that no budget adjustments are necessary and variances between budgeted and actual amounts are within reason.

Personnel Changes

The departure of City personnel in the Human Resources Department provided an opportunity to evaluate the staffing structure within the department. In this analysis, inconsistencies in job titles for the analyst series were found. To align positions within the series and across the organization, the city manager recommends changes to the following job classifications to expand the existing analyst series:

- Management Assistant to Assistant Management Analyst
- Human Resources Specialist I to Human Resources Specialist
- Human Resources Specialist II to Assistant Human Resources Analyst.

These changes will create a pathway for career development and are expected to assist with succession planning and recruitment. No changes are proposed to the related pay rates. The proposed changes will impact certain employee benefits, as some positions are moving from the Newport Beach Professional and Technical Employees Association to the Key and Management employee group, however, these changes result in nominal cost adjustments and can be absorbed in the current fiscal year.

Conclusion

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

Prepared and Submitted by:

/s/ Shelby Burguan

Shelby Burguan
Budget Manager

**ITEM NO. 6D1 FIRST QUARTER BUDGET
UPDATE
ATTACHMENT A
STAFF PRESENTATION – ADDITIONAL MATERIALS RECEIVED**

2023-24 First Quarter Financial Report

Item No. 6D1
First Quarter Budget Presentation
Additional Materials Received
November 9, 2023



Finance Committee

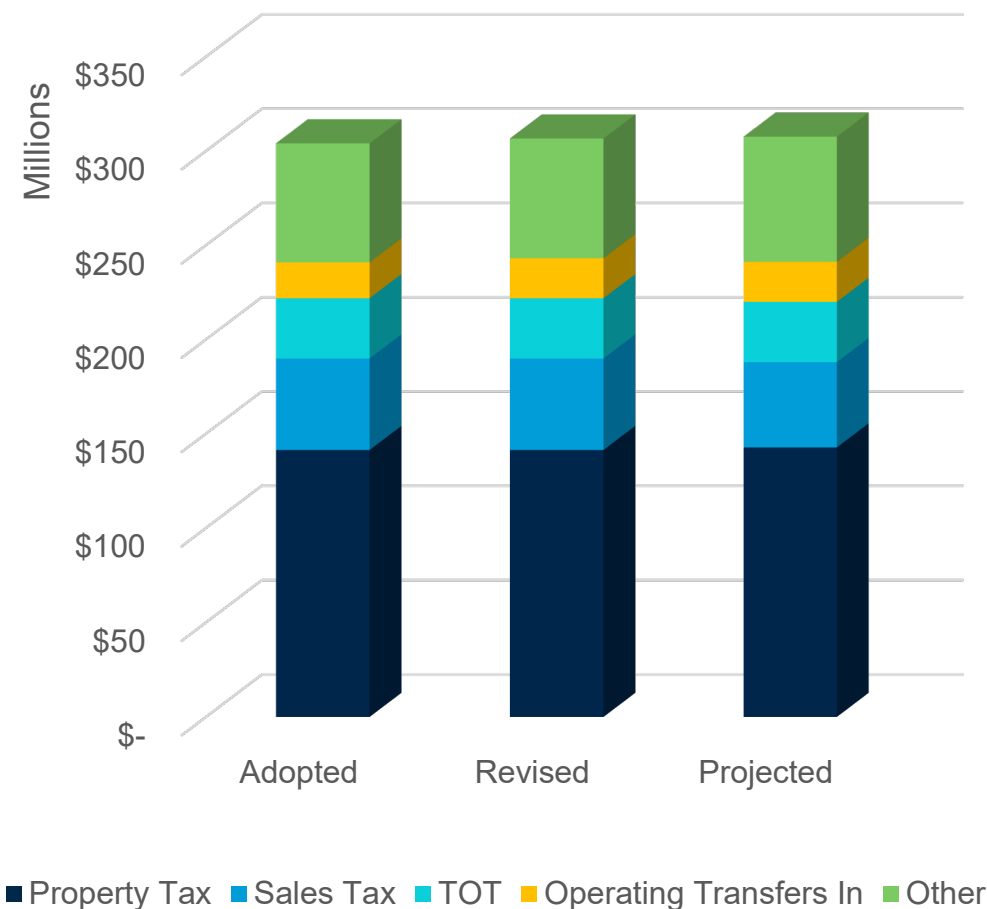
November 9, 2023



Projected General Fund Revenues

Adopted Budget	\$ 304.1 million
Revised Budget	\$ 306.6 million
First Quarter Projection	\$ 307.6 million

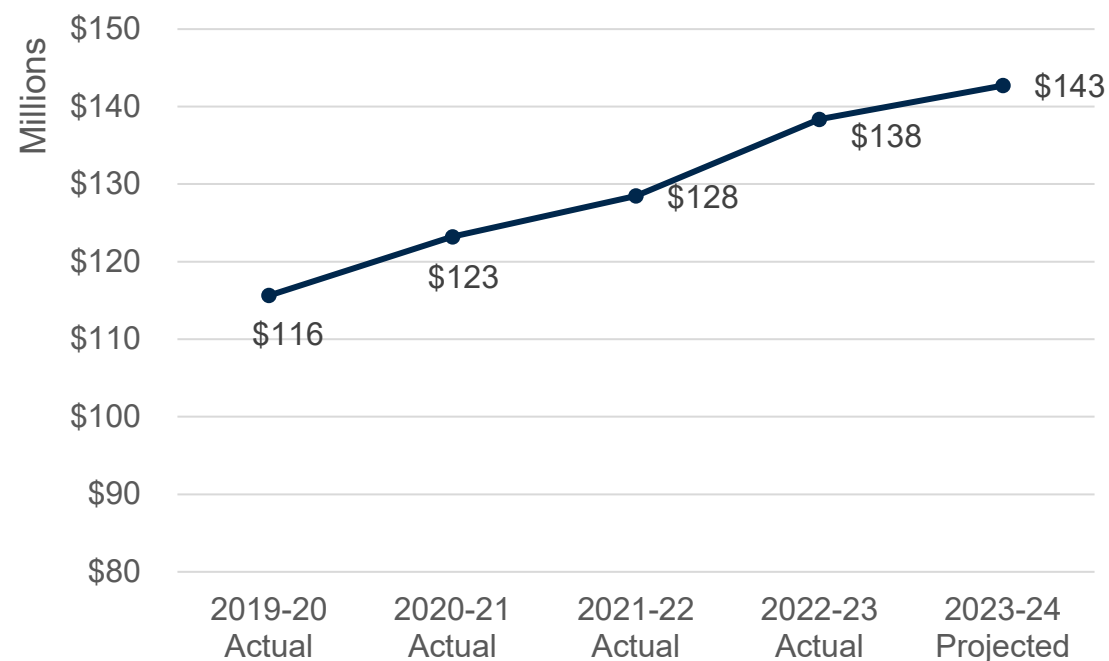
- \$961,820 of projected positive variance
- Revised estimates for Property Tax, Sales Tax, other taxes, paramedic service fees, and revenue from the Dove Street property, as was reported on the FY 2022-23 Q4 Report.





Property Tax

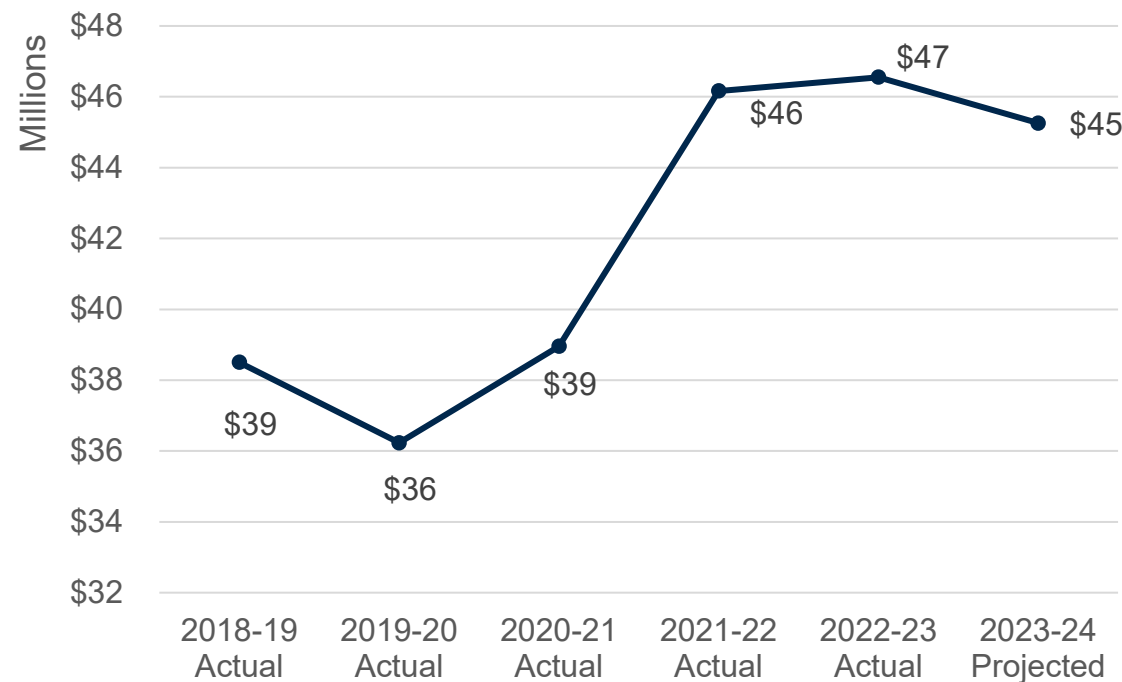
- Represents approximately 50% of General Fund revenues
- On track to exceed the adopted budget based on strong assessed value growth reflected in the final tax roll
- \$1.3 million upward adjustment to the revenue estimate





Sales Tax

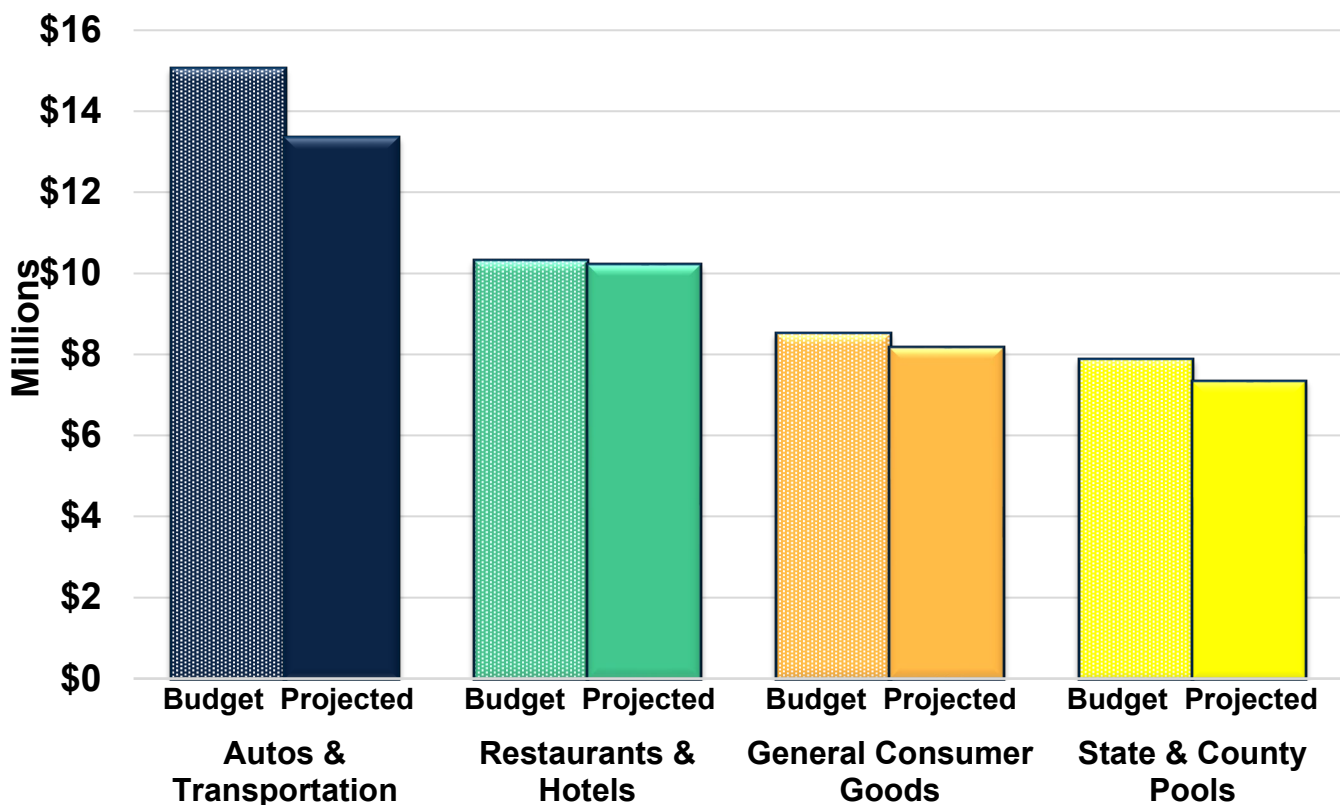
- Slow down in growth due to decreases in sales tax revenue from most major industry groups except for restaurants and hotels
- Shift in consumer spending to nontaxable items
- Recommended to reduce the budget to align with new projections, decrease of \$3.3 million.





Sales Tax Revenue Major Industry Groups

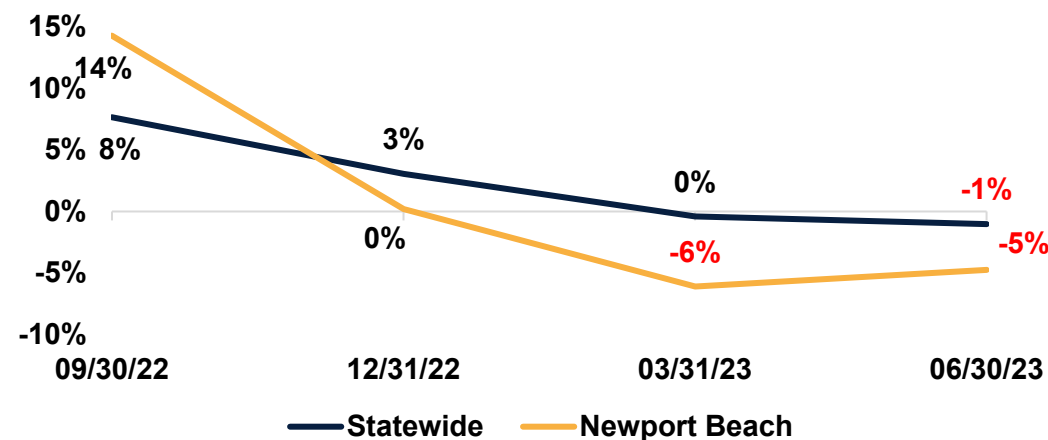
FY 2023-24 Budget Vs. Projected Amounts



**Revised Industry Group Projections Based on Q1
Compared to Budgeted Amounts and Prior Year Actuals**

	FY 22-23 Actual	FY 23-24 Budget	FY 23-24 Projected
Autos & Transportation	(5.5%)	(1.4%)	(5.5%)
Restaurants & Hotels	6.2%	5.7%	7.5%
General Consumer Goods	5.3%	(3.3%)	(5.2%)
State & County Pools	(0.9%)	3.0%	(1.8%)

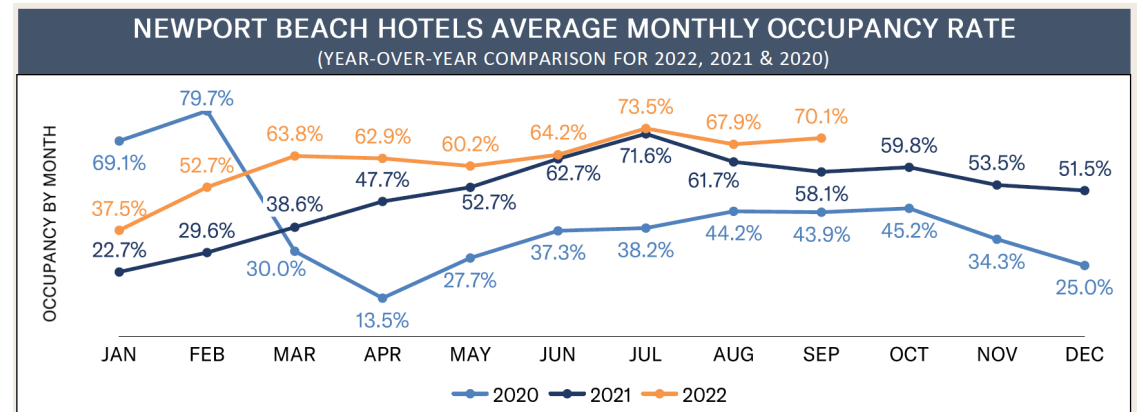
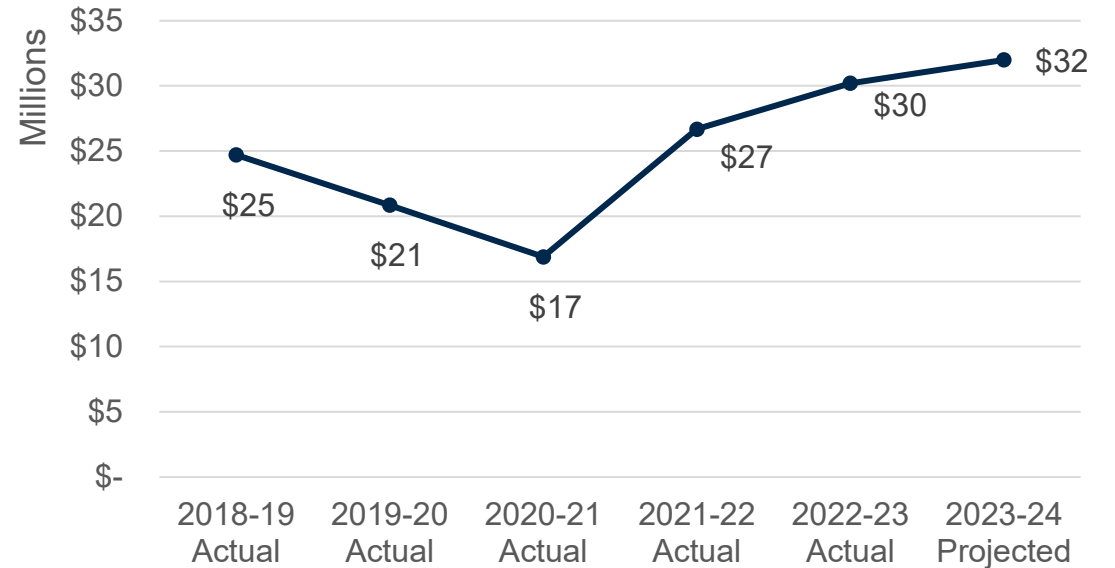
Quarterly Sales Tax Trends





Transient Occupancy Tax

- Transient occupancy tax (TOT) makes up more than 10% of General Fund revenues
- FY 2022-23 saw growth rates of 10% and 24% for hotel TOT and residential TOT, respectively
- Pendry reopened on September 25th
- Current projections in line with budget, no adjustment recommended.





Other General Fund Revenues

- Other general fund revenues projected to exceed budget by \$2.9 million
 - Approximately \$1 million from other taxes
 - Business licenses and franchise fees
 - \$0.6 million adjustment to service fees & charges for increases included in fee study
 - Increases included in fee study
 - \$1.3 million adjustment to Property Income for Dove Street Property
 - Increasing both revenues and expenses to reflect the gross amounts, rather than reflecting revenues net of expenses



Projected General Fund Expenditures

Adopted Budget \$ 293.9 million

Revised Budget \$ 308.1 million

First Quarter Projection \$ 306.7 million

- \$5.0 million additional payment to CalPERS included in revised budget
- \$5.5 million of budget carryovers
- Budget amendment to be included with the City Council staff report to appropriate:
 - \$215k to fully fund CalPERS UAL in Fire Department
 - \$20k decrease travel and training budget in General Fund and move to Restricted Programs Fund
 - \$1.3M in expenses for Dove Street Property Activity
 - \$650k decrease in Capital Expenditures as ambulance unit to be purchased from Fire Equipment Fund



General Fund Sources and Uses

- Current projection of \$4.6 million surplus, likely to grow in future quarters
- Budget savings will likely be identified as the year progresses, as is usually the case

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Ending Fund Balance Reserves	\$ 2,269,075	\$ 4,624,747	\$ 2,355,672	103.8%



Recommended Action

Staff recommends that the Finance Committee:

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



Questions?

Newport Beach Finance Committee Work Plan

Scheduled Date	Agenda Title	Report Type	Agenda Description
January 2024			
Thursday, January 11, 2024			
	Financial Statement Audit Results and Related Communication	Presentation	The City's external auditors will meet with the Finance Committee to discuss the results of their audit for the fiscal year ending June 30, 2023.
	Long Range Financial Forecast (LRFF) Update	Presentation	Staff will brief the Committee regarding the results of the updated LRFF analysis.
	Review of the Los Angeles County & Orange County Investment Pools	Presentation	Staff will provide the Committee with an assessment of the Los Angeles County & Orange County Investment Pools.
	Budget Amendments for Quarter Ending December 31, 2023	Receive and File	Staff will report on the budget amendments from the prior quarter.
	Workplan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
February 2024			
Thursday, February 15, 2024			
	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 FY 2023-24 budget performance.
	Workplan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
March 2024			
Thursday, March 14, 2024			
	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 FY 2024-25 budget preparation process.
	Workplan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
April 2024			
Thursday, April 11, 2024			
	Proposed FY 2024-25 Budget Overview	Presentation	Staff will provide the Committee with an overview of the expenditure budget for FY 2024-25 that will be presented to the City Council in May.
	Budget Amendments for Quarter Ending March 31, 2024	Receive and File	Staff will report on the budget amendments from the prior quarter.
	Workplan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
May 2024			
Thursday, May 9, 2024			
	Third Quarter Budget Update	Presentation	Staff will provide a presentation regarding the year-to-date and projected Fiscal Year 2023-24 budget performance.

Newport Beach Finance Committee Work Plan

Scheduled Date	Agenda Title	Report Type	Agenda Description
Tuesday, May 28, 2024	Follow-Up Discussion of Proposed FY 2024-25 Budget	Discussion	Staff will provide the Committee with a copy of the Fiscal Year 2024-25 proposed budget document. Should the Committee wish to continue April's discussion of the Fiscal Year 2024-25 budget, this is also an opportunity to do so.
	Joint City Council and Finance Committee Study Session	Presentation	Staff will present the FY 2024-25 proposed budget to the City Council and Finance Committee.
	Financial Statement Auditor's Communication with the Finance Committee acting as the City's Audit Committee	Presentation	The City's external auditors, Davis Farr LLP, will provide an overview presentation regarding the audit process and request feedback from the Committee regarding any information that may assist them in their audit of the City's financial statements.
Thursday, May 30, 2024	Committee Recommendation to Council for the FY 2024-25 Budget	Discussion	Discussion of the Study Session earlier in the week and formulation of any recommendations to be presented to the City Council at the budget public hearing in June.
	Workplan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
June 2024			
	Committee Recess		
July 2024			
	Committee Recess		
August 2024			
	Committee Recess		
September 2024			
Thursday, September 12, 2024	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, 2024.
	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.
	Internal Audit Program Update	Presentation	Presentation of internal audit reports, findings, and recommendations from the FY 2023-24 audit program.
	Budget Amendments for Quarter Ending June 30, 2024	Receive and File	Staff will report on the budget amendments from the prior quarter.
	Workplan Review	Receive and File	Staff will report on the upcoming Finance Committee items.
October 2024			
Thursday, October 10, 2024	Budget Amendments for Quarter Ending September 30, 2024	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 FY 2023-24 and recommendations for allocation of any year-end budget surplus.
	Workplan Review	Receive and File	Staff will report on the upcoming Finance Committee items.

Newport Beach Finance Committee Work Plan

Scheduled Date	Agenda Title	Report Type	Agenda Description
November 2024			
Thursday, November 14, 2024			
	First Quarter Budget Update	Presentation	Staff will provide a presentation regarding the year-to-date and projected FY 2024-25 budget performance.
	OPEB Actuarial Valuation Report Update	Presentation	Staff will provide the Committee with an overview of the Fiscal Year 2023-24 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.
December 2024			
Committee Recess			