

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
JANUARY 21, 2021 MEETING MINUTES**

I. CALL MEETING TO ORDER

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

Chair O'Neill announced the resignation of Council Member Joy Brenner from the Finance Committee due to a scheduling conflict with the Orange County Mosquito and Vector Control Board. He noted the Mayor will select a new Council Member as a replacement and thanked Council Member Brenner for her service to the Finance Committee.

II. ROLL CALL

PRESENT: Chair Will O'Neill, Mayor Brad Avery, Committee Member William Collopy, Committee Member John Reed, Committee Member Joe Stapleton, and Committee Member Larry Tucker

ABSENT: Committee Member (VACANT POSITION)

STAFF PRESENT: City Manager Grace K. Leung, Finance Director/Treasurer Scott Catlett, Deputy Director/Finance Steve Montano, Administrative Specialist to the Finance Director Marlene Burns, Public Works Finance/Administrative Manager Angela Crespi, Budget Manager Shannon Espinoza; Senior Budget Analyst Amy Lewis, Payroll Specialist Rochelle Myers, Public Works Administrative Analyst Raymund Reyes, Public Works Director Dave Webb, Deputy Public Works Director/City Engineer Jim Houlihan, Human Resources Analyst Jyll Ramirez, and Recreation & Senior Services Director Laura Detweiler

MEMBERS OF THE PUBLIC: Brian Ouzounian, Charles Klobe, and Nancy Scarbrough

III. PUBLIC COMMENTS

Brian Ouzounian addressed the Finance Committee regarding his belief the City is charging ten times what the mooring rate should be based on information received from the State Lands Commission. He advised he has reached out to City Council and Harbor Commission on many occasions but has never received a reply. He encouraged the Finance Committee to look at the issue from a risk management standpoint.

IV. CONSENT CALENDAR

MINUTES OF NOVEMBER 19, 2020

Recommended Action:

Approve and file.

Chair O'Neill called for public comments and hearing none, closed the public comments.

MOTION: Mayor Avery moved to approve the minutes, as amended, seconded by Committee Member Stapleton. The motion carried 6 ayes – 0 noes, 1 Committee Member position vacant.

V. CURRENT BUSINESS

A. BUDGET AMENDMENTS FOR THE QUARTER ENDING DECEMBER 31, 2020

Summary:

Staff will report on the budget amendments for the prior quarter.

Recommended Action:

Receive and file.

There were no comments from the Finance Committee.

Chair O'Neill called for public comments and hearing none, closed public comments.

The item was received and filed.

B. CIP FUNDING STRATEGY NEXT YEAR BUDGET

Summary:

Staff will review actions taken to align the FY 2020-21 budget with reduced revenues, review the list of deferred CIP projects, and discuss the potential of restoring project funding should fiscal trends continue to improve.

Recommended Action:

Receive and file.

Public Works Director Dave Webb provided a brief update on upcoming funding strategies related to deferrals from last year. He reported the deferrals totaled \$20.2 million and noted staff is looking for direction on what deferred projects to program in the next year. He provided a brief overview of projects that will move forward with alternate funding sources. He recommends requesting \$3.5 million in suggested programming leaving \$14.5 million for deferrals which would allow time for discussion with City Council.

In response to Chair O'Neill's inquiries, Public Works Director Webb clarified the highlighted items in the Project Adjustment presentation represent conflicts with City Council. He clarified the first column signifies the deferrals from last year which total \$20.2 million and he is suggested returning \$3.5 million of those deferrals for possible projects. He further explained the items in column 2 denoted with an "X" have funding supplied by other sources.

In response to Chair O'Neill's inquiry, City Manager Grace Leung reported the City is still operating in a COVID environment and while the revenue estimates were conservative, they are still unknown for the full year. She noted the charge today is to determine which projects are the highest priority if Surplus Funds or One-Time Funds come available.

Chair O'Neill commented the Finance Committee does not normally make recommendations for prioritizing projects but makes recommendations to the City Council on how much funding is available. He noted the challenge is that the Finance Committee currently does not know how much funding is available for projects. Public Works Director Webb clarified the project list will be discussed during the planning sessions with City Council to determine the priority.

In response to Mayor Avery's inquiry, Public Works Director Webb clarified staff suggests which projects would take priority but ultimately it is City Council's position where best to put the money but believes each project would require some discussion. He noted some projects need attention but none of them are critical and could be deferred.

In response to Chair O'Neill's inquiry, Public Works Director Webb reported a portion of the Balboa Boulevard Median Improvement Project was partially funded by Balboa Village Advisory Committee (BVAC) funding.

In response to Chair O'Neill's inquiry, Public Works Director Webb advised he is working with Deputy Public Works Director/City Engineer Jim Houlihan to prioritize the list of major facility improvements but does not see any becoming more expensive if they are deferred. He did note there are opportunities to build facilities at a cheaper cost now than in the future. Deputy Public

Works Director/City Engineer Houlihan concurred with Public Works Director Webb's findings. Chair O'Neill commented the discussion will need to take place at the Budget Planning Session.

In response to Committee Member Collopy's inquiry, City Manager Leung reported staff will have full sales tax results through December at the February 18 meeting of the Finance Committee. She acknowledged it is difficult to talk through the expenditures without knowing the revenue.

Committee Member Larry Tucker commented the City Council will need to prioritize the projects. He believes projects that have potential liability associated with not doing them should be at the top of the list. Lastly, he commented the pandemic has created a unique situation that will require the City Council to make some last-minute decisions.

In response to Committee Member Collopy's inquiry, Public Works Director Webb clarified the Cliff Drive Mobility Improvements Project is related to congestion and since the school is currently not being used due to the pandemic there is no immediate liability but the City should wait for at least a year before everything is settled to determine the choke points. Mayor Avery concurred.

Committee Member Joe Stapleton commented he believes the Balboa Boulevard Median Improvement is a need to have for residents of the west side.

Chair O'Neill opened public comments.

Charles Klobe inquired about the source of alternate funds for the Cliff Drive Park Clubhouse. He reported residents are not in support of the idea of widening Cliff Drive in the area and agrees with Public Works Director Webb's suggestion to revisiting the project when school resumes.

In response to Nancy Scarborough's inquiry, Public Works Director Webb's clarified the project lists are from May and at that time there was no action on the Dover Shores Traffic Study. He reported the \$130,000 was part of General Fund money that was taken out but will be put back in the future budget when it comes back to the City Council per their recent direction.

In response to Ms. Scarborough's inquiry, Public Works Director Webb reported staff is not being reduced because there is no shortage in the workflow. He noted the City historically uses consultants to deliver the CIP projects. He confirmed some consultant contracts have been cut back or delayed due to delays in the projects but noted there is no shortage of workflow at this time.

Chair O'Neill closed public comments.

The item was received and filed.

C. FACILITIES FINANCIAL PLAN UPDATE

Summary:

Staff will present a draft of Facilities Financial Plans reviewing the timing, means of financing, and fiscal impacts associated with funding Council prioritized capital projects.

Recommended Action:

Receive and file.

Public Works Director Webb reported the plan forecasts the timeline when major facilities need to be designed and constructed so the City can plan its financing. He reported some adjustments have been made to the useful life of buildings as they are lasting longer. He reported Fire Station 2 has been bid and the report change to reflect that a new station should be built in 2080.

Public Works Director Webb reported staff will recommend two major changes in the FFP plan to City Council which are the 15th Street Beach Restrooms and Newport Coast Pickleball Court. He explained the 15th Street Beach Restrooms will take a few years because it is in a coastal zone and there are potential design and permitting issues. He noted the Newport Coast Pickleball Court is a Community Request Project and the homeowner's association in that area is willing to donate the land to the City.

Deputy Director/Finance Steve Montano provided a brief overview FY 2020-21 Multi-Tiered Balancing Budget Strategy. He reported in planning the FY 2020-21 Budget there were plans to transfer \$22.6 million of the City's General Fund for Capital Funding, but due to COVID, \$16.6 million was deferred to balance the General Fund Operating Budget for FY 2020-21. He reported \$5 million was transferred to the General Fund CIPS and \$1 million to Facilities Maintenance Plan (FMP).

Deputy Director/Finance Montano presented an updated version of the General Fund Sources and Uses that summarize the net result between all General Fund Sources and Uses which indicates \$8.4 million in Unrestricted Resources or Surplus. He noted the City is only halfway through its fiscal year and only at the beginning stages of developing the FY 2021-22 Budget, but the City is likely to realize higher revenue than budgeted in certain areas.

City Manager Leung commented she anticipates the Operating Revenues totals to be revised to a higher number in February. She noted the Operating Expenditures are listed at \$228 million which includes a \$5 million additional payment to CalPERS. Lastly, she reported departments are submitting their baseline budgets.

In response to Committee Member Collopy's inquiry, Deputy Director/Finance Montano clarified the \$19 million Transfers-In was another tier of the City's Budget Balancing Strategy. City Manager Leung clarified there are some Transfers-In from various funds and noted that the entire amount was not just due to COVID-19.

In response to Mayor Avery's inquiry, Deputy Director/Finance Montano clarified Unrestricted Resources mainly come from carrying forward encumbrances for projects and tasks that were not complete the prior year.

Deputy Director/Finance Montano noted there are two main objectives when reviewing the FFP each year which are to review any fiscal impacts associated with funding high-priority projects and to develop a consistent level of funding to minimize peaks and valleys of General Fund support levels. He presented the FFP Dashboard to the Finance Committee and reported the \$8.0 million FFP Reserve Fund minimum target fund balance is maintained above the Maximum Annual Debt Service (MADS) of \$8.7 million over the 30-year planning period and debt service will be maintained at less than 8% of General Fund revenues, consistent with City Council (F-6) Debt Management Policy.

In response to Committee Member Collopy's inquiry, Deputy Director/Finance Montano reported the interest rates are at 4% for debt service for the Fire Station and the Civic Center.

Deputy Director/Finance Montano reported that over the 30-year planning period, the maximum annual General Fund contribution to the FFP Reserve Fund is 3.5% and averages 2.9% of General Fund revenues. Lastly, he reported \$66 million in private contributions to the FFP are expected between 2021 and 2031 with the largest contribution coming from the Uptown Newport Development which makes up 63% of the total.

In response to Chair O'Neill's inquiry, Deputy Director/Finance Montano recommends continuing the fiscal discipline of setting aside \$8.5 million to keep pace with the FFP as it is currently constituted. He advised it is an important element of the General Fund covering the Debt Service.

In response to Committee Member Tucker's inquiries, Deputy Director/Finance Montano reported the Park In-Lieu fees are dedicated to park projects. He also confirmed the \$8.5 million is unrestricted and the funds from the Uptown Newport Development are not expected until the 2030s. Mayor Avery commented the \$66 million is pretty speculative.

In response to Committee Member Collopy's inquiry, Committee Member Tucker reported Tower Jazz would like to stay longer than the lease expiry date in 2027 which could impact the Development Agreement timeframe.

In response to Mayor Avery's inquiry, Committee Member Tucker reported former Mayor Ed Selich and former Council Member Steve Rosansky negotiated the \$41 million. He also noted the City was trying to get a fair amount while not putting the project in jeopardy. Mayor Avery expressed concern that the timeframe is so far out the City may not see the entire \$41 million.

In response to Committee Member John Reed's inquiry, Chair O'Neill confirmed the Newport Coast Pickleball Court would be open to the public. He explained one of the negotiating points is to dedicate one or two courts to the HOA.

In response to Committee Member Reed's inquiry, Deputy Director/Finance Montano reported he would send details on the revenue per unit for the Park In-Lieu to Committee Member Reed as he did not have it offhand.

Chair O'Neill called for public comments and hearing none, closed public comments.

In response to Committee Member Tucker's inquiry, Deputy Director/Finance Montano confirmed no additional dollar amounts concerning the City's Housing Element numbers were included in the FFP. Chair O'Neill commented those funds should not be programmed in yet as part of the problem will be to determine what portion will need to be programmed for affordable housing.

The item was received and filed.

D. WORK PLAN REVIEW

Summary:

Staff and Finance Committee to review the proposed work plan and adjust as necessary.

Recommended Action:

Receive and file.

Chair O'Neill reported there will be a City Council Planning Session on January 30, 2021, at 9:00 a.m. but Finance Committee members are not required to attend. He advised the Finance Committee will meet on February 18, 2021, to review the Quarterly Budget Update, Fee Study Update, Long Range Fiscal Forecast (LRFF), and a deep dive of the Utilities Department Budget.

Chair O'Neill reported the City Council is quickly getting into the budget cycle. He advised attendance for the Finance Committee is optional at the March 9, 2021, City Council Study Session. He noted the Finance Committee will start wrapping up non-budget items on March 11, 2021.

Chair O'Neill called for public comments and hearing none, closed public comments.

City Manager Leung introduced Finance Director/Treasurer Scott Catlett to the Finance Committee. Finance Director/Treasurer Catlett commented he is looking forward to working with the Finance Committee and taking a more active role in the Finance Committee in the future.

VI. FINANCE COMMITTEE ANNOUNCEMENTS ON MATTERS WHICH MEMBERS WOULD LIKE PLACED ON A FUTURE AGENDA FOR DISCUSSION, ACTION OR REPORT (NON-DISCUSSION ITEM)

None

VII. ADJOURNMENT

The Finance Committee adjourned at 4:11 p.m. to the next regular meeting of the Finance Committee.

The agenda for the Regular Meeting was posted on January 15, 2021, at 2:21 p.m., in the binder and on the City Hall Electronic Board located in the entrance of the Council Chambers at 100 Civic Center Drive.

Attest:

Will O'Neill, Chair
Finance Committee

Date