

**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE  
MAY 27, 2021 MEETING MINUTES**

**I. CALL MEETING TO ORDER**

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

**II. ROLL CALL**

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

**ABSENT:** None

**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, Senior Accountant Theresa Schweitzer, Budget Analyst Lisa Abbaszadeh, and Fire Administrative Manager Mary Locey

**MEMBERS OF THE PUBLIC:** Esther Chang, Charles Klobe, Jim Mosher, and Nancy Scarbrough

**OTHER ENTITY:** Marc Davis, Partner, Davis Farr LLP

**III. PUBLIC COMMENTS**

Jim Mosher advised he was misquoted in the minutes as praising the staff for placing a link to the City's proposed budget on the City's homepage and noted the link is still not listed on the site. He noted it would be helpful to bring to the public attention that there is a City's budget so they may provide comment. He requested a link or a notice be placed on the City's homepage.

**IV. CONSENT CALENDAR**

**MINUTES OF MAY 13, 2021**

**Recommended Action:**  
Approve and file.

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

**MOTION:** Committee Member Collopy moved to approve the minutes as amended, seconded by Council Member Blom. The motion carried 7 ayes – 0 noes

**V. CURRENT BUSINESS**

**A. FINANCIAL STATEMENT AUDITOR'S COMMUNICATION WITH THE FINANCE COMMITTEE ACTING AS THE CITY'S AUDIT COMMITTEE**

**Summary:**

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.

**Recommended Action:**  
Receive and file

Finance Director/Treasurer Scott Catlett reported the City recently completed a Request for Proposals (RFP) for a new audit firm. He advised the City has utilized White Nelson Diehl Evans LLP for the last 10 years and noted they did a great job. He explained City Council Policy F-15 requires the City to rotate auditors every 10 years. He reported Davis Farr LLP was selected as the City's new external auditor.

Marc Davis, Partner, Davis Farr LLP noted he wanted to take this opportunity to open the lines of communication between his firm and the Finance Committee. He provided a brief overview of the scope and timing of this year's audit which will include an audit of the City's federal expenditures under the Single Audit Act, performing some agreed-upon procedures applied to the City's Gann limit, and conducting the audit in two phases. He advised the interim portion of the audit will happen in June and the final portion will happen in early October.

Mr. Davis reported the interim audit will primarily focus on internal controls to gain a better understanding of the City's controls as it relates to financial reporting. He advised an IT Audit Specialist will be brought on board to review the City's information systems and underlying controls around those systems to assess risk. He advised they will also be conducting preliminary work related to the Single Audit of federal expenditures. He advised a number of fraud inquiries will be conducted to help them assess the risk within the organization as a whole. He advised they will be sending a survey to a select number of management, staff, City Council members, and Finance Committee members to help conduct the fraud inquiry.

Mr. Davis reported the final audit will take a deep dive into the numbers that will be appearing on the City's financial statements. He reported General Accounting Standards Board (GASB) Statement No. 84 is a new requirement for the City's financial statements, which has to do with Fiduciary Activities for Agency Funds. He advised they will be reviewing the Agency Funds to determine if they will continue to be reported as they are or if the reporting needs to change to comply with GASB 84.

Mr. Davis reported draft audit reports will be made available by mid-November for the City's review and comments and noted a final report will be issued by December 1, 2021. He noted their results will be presented to the Finance Committee at that time. He encouraged the Finance Committee to reach out regarding any inquiries they may have.

Chair O'Neill noted he looks forward to working with Davis Farr LLP through the process and thanked them in advance for their efforts.

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

The item was received and filed.

**B. COMMITTEE RECOMMENDATION TO COUNCIL FOR THE FISCAL YEAR 2021-22  
BUDGET**

**Summary:**

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.

**Recommended Action:**

Receive and file.

Chair O'Neill introduced the item and thanked the Committee Members who were able to attend the Special Joint Session of the City Council and Finance Committee on May 25, 2021. He thanked the Finance Committee for their work over the past difficult year and in trying to determine how to provide services in a very uncertain world. He noted the City will be looking towards the next year with some cautious optimism. He welcomed Finance Director/Treasurer Catlett to his first City budget and thanked him for all that he has done.

Chair O'Neill explained the primary purpose of the Finance Committee is to make a recommendation to the City Council regarding its budget. He reminded residents it is the responsibility of the City Manager to present a budget to the City Council and it is ultimately their decision to adopt the budget as a whole or make modifications as they see fit. He advised it is the responsibility of the Finance Committee to make recommendations to the City Council and is the purpose of this item.

Chair O'Neill opened the item for discussion.

Finance Director/Treasurer Catlett provided a brief overview of the FY 2021-22 Budget revisions made as a result of feedback received at the joint meeting of the Finance Committee and the City Council. He also made a clarification to his comments at the joint meeting that the City's assessed valuation for FY 2020-21 was \$63.7 million, which is the second largest in Orange County behind Irvine at \$90.1 billion and ahead of Anaheim at \$51.1 billion. He reported the City has the largest amount of General Fund property tax revenue in the County but is the second largest in assessed valuation.

Finance Director/Treasurer Catlett reported there was a \$112,000 addition to the General Fund expenditure budget for the Better Beaches Initiative per City Council's request. He advised the dissolution of the Balboa Village Area benefit District was approved by City Council and the second reading will happen at the same meeting as the budget is presented. He noted that the net effect of those changes on the General Fund budget resulted in a small budget surplus of \$32,000. Lastly, he advised the unrestricted fund balance is expected to be \$11 million.

In response to Committee Member Collopy's inquiry regarding the timeline for knowing the final surplus amount, Finance Director/Treasurer Catlett advised it would likely be known in September as it takes approximately 60 days to close out accounts payable and make other closing entries. He noted that the final year-end results should be before the City Council at the first meeting in October along with recommendations to put an additional \$5 million towards the pension liability with CalPERS. Lastly, he advised the first Finance Committee meeting after the recess will be in September.

Chair O'Neill opened public comments.

Jim Mosher inquired if the Finance Committee was not making the recommendation to put the \$5 million towards the unfunded liability with CalPERS at this time. He requested clarification from Finance Director/Treasurer Catlett regarding his comment that Irvine has a substantially larger assessed valuation, but their revenue is less than that of Newport Beach. He inquired if that was presumably because Irvine's tax rate areas are providing a smaller percentage of the 1%.

In response to Mr. Mosher's inquiry regarding the property taxes, Finance Director/Treasurer Catlett explained the reason why Irvine's revenue is less, is that their percentage of the property tax is 9% compared to Newport Beach's 17% and the main reason is that their fire service is provided by the Orange County Fire Authority (OCFA). He noted part of their property taxes go directly to OCFA where Newport Beach's go directly to the City since it provides its own fire service.

In response to Mr. Mosher's inquiry regarding the pension liability, Finance Director/Treasurer Catlett explained the budget as proposed has \$35 million towards the pension liability, which is consistent with the City Council's direction last year. He advised the \$5 million more would come from the year-end surplus and formal approval would come as a formal budget amendment in October.

Chair O'Neill thanked Mr. Mosher for his understanding of how important these meetings are, for his attendance, and for providing comments.

Chair O'Neill closed public comments.

**MOTION:** Committee Member Stapleton moved to make the recommendation that the City Council adopt the Fiscal Year 2021-22 Budget as proposed, seconded by Committee Member Reed. The motion carried 7 ayes – 0 noes

**C. 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.

Chair O'Neill reported the Finance Committee has accomplished its goals for the remainder of the fiscal year and the proposal is to meet again in September. He noted the Finance Committee membership ends at the end of this fiscal year and is renewed at the beginning of the next fiscal year which means all citizen members would need to be re-nominated by their respective City Council member who originally nominated them if they wish to continue serving on the Finance Committee.

Chair O'Neill reported this will be Committee Member Tucker's last year of service on the Finance Committee and thanked him for his sound advice and years of dedicated service.

Committee Member Tucker remarked his life has had a great turn since moving to Newport Beach. He thanked his fellow Committee members for their efforts and thanked Chair O'Neill for his dedication to the Finance Committee. He thanked the staff for their service to the Finance Committee.

Chair O'Neill opened public comments.

Mr. Mosher complimented the staff on the very detailed layout they presented for the next year's agenda items and noted it was a great improvement from last year.

Chair O'Neill closed public comments and noted this would be the last meeting for the fiscal year.

Chair O'Neill thanked the Finance Committee and staff for their service.

Hearing no objections, Chair O'Neill recessed the Finance Committee until September.

**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 3:27 p.m. to the next regular meeting of the Finance Committee on September 16, 2021 at 3:00 p.m.

The agenda for the Regular Meeting was posted on May 21, 2021, at 3:23 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:

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Will O'Neill, Chair  
Finance Committee

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Date

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