



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA - Final

Council Chambers

Thursday, May 21, 2020 - 3:00 PM

Finance Committee Members:

Will O'Neill, Chair / Mayor
Joy Brenner, Council Member
Diane Dixon, Council Member
William Collopy, Committee Member
John Reed, Committee Member
Joe Stapleton, Committee Member
Larry Tucker, Committee Member

Staff Members:

Grace K. Leung, City Manager
Dan Matusiewicz, Finance Director / Treasurer
Steve Montano, Deputy Director, Finance
Caitlin McCourt, Senior Pool Lifeguard

On March 4, 2020, Governor Newsom proclaimed a State of Emergency in California as a result of the threat of COVID-19. On March 12, 2020, Governor Newsom issued Executive Order N-25-20, which allows Finance Committee Members to attend Finance Committee meetings telephonically. Please be advised that to minimize the spread of COVID-19, some, or all, of the Newport Beach Finance Committee members may attend this meeting telephonically.

Also, please be advised that on March 17, 2020, Governor Newsom issued Executive Order N-29-20, which allows for the public to participate in any meeting of the Finance Committee telephonically or by other electronic means. Given the health risks associated with COVID-19, the City of Newport Beach has decided to not have the City Council Chambers open to the public for this meeting. As a member of the public, if you would like to participate in this meeting, you can participate via the following options:

1. You can submit your questions and comments in writing for Finance Committee consideration by sending them to the Finance Director dmatusiewicz@newportbeachca.gov. To give the Finance Committee adequate time to review your questions and comments, please submit your written comments by Wednesday, May 20, 2020, at 5:00 p.m.
2. In addition, members of the public can participate in this meeting in person in the Community Room. Specifically this meeting will be viewable via video feed in the Community Room. As a member of the public, during this meeting, you will be able to comment on specific agenda items in person from the Community Room.

Please know that it is important for the City to allow public participation at this meeting. If you are unable to participate in the meeting via the process set forth above, please contact the Dan Matusiewicz at (949-644-3123 or dmatusiewicz@newportbeachca.gov) and he will attempt to accommodate you. While the City does not expect there to be any changes to the above process for participating in this meeting, if there is a change, the City will post the information as soon as possible to the City's website.

The City of Newport Beach thanks you in advance for continuing to take precautions to prevent the spread of the COVID-19 virus.

The Finance Committee meeting is subject to the Ralph M. Brown Act. Among other things, the Brown Act requires that the Finance Committee agenda be posted at least seventy-two (72) hours in advance of each regular 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.

The City of Newport Beach's goal is 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, we will attempt to accommodate you in every reasonable manner. Please contact Dan Matusiewicz, Finance Director, 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) 644-3123 or dmatusiewicz@newportbeachca.gov.

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

I. **CALL MEETING TO ORDER**

II. **ROLL CALL**

III. **PUBLIC COMMENTS ON CONSENT CALENDAR**

Public comments are invited on agenda items. 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 [Board/Committee/Commission] has the discretion to extend or shorten the speakers' time limit on 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.

IV. **CONSENT CALENDAR**

All matters listed under CONSENT CALENDAR are considered to be routine and will all be enacted by one motion in the form listed below. [Board/Committee/Commission] Members have received detailed staff reports on each of the items recommending an action. There will be no separate discussion of these items prior to the time the [Board/Committee/Commission] votes on the motion unless members of the [Board/Committee/Commission] request specific items to be discussed and/or removed from the Consent Calendar for separate action. Members of the public who wish to discuss a Consent Calendar item should come forward to the lectern upon invitation by the Chair.

A. **MINUTES OF APRIL 16, 2020**

Recommended Action:

Approve and file.

[DRAFT MINUTES 04162020](#)

[PUBLIC COMMENTS](#)

V. **CURRENT BUSINESS**

A. **INTERNAL AUDIT PROGRAM UPDATE**

Summary:

Update on audit work performed to date by Moss Adams LLP (Moss Adams) that was retained to assess internal control risks, conduct performance audits and management consulting services.

Recommended Action:

Discuss and provide input for City Council consideration.

[STAFF REPORT](#)

[ATTACHMENT A](#)

B. PROPOSED FY2020-21 BUDGET OVERVIEW

Summary:

Staff will provide an overview of the Proposed FY 2020-21 Operating Budget.

Recommended Action:

Review the City Manager's proposed budget and give recommendations to the City Manager in advance of the budget's presentation to the City Council.

C. WORK PLAN REVIEW

Summary:

Staff will review with the Committee the agenda topics scheduled for the remainder of the calendar year.

Recommended Action:

Receive and file.

[ATTACHMENT A](#)

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

VII. ADJOURNMENT

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
APRIL 16, 2020 MEETING MINUTES**

I. CALL MEETING TO ORDER

The meeting was called to order at 3:08 p.m. via teleconference.

II. ROLL CALL

PRESENT: Mayor Pro Tem/Chair Will O'Neill, Council Member Joy Brenner, Council Member Diane Dixon, Committee Member John Reed, Committee Member Joe Stapleton, Committee Member Larry Tucker

STAFF PRESENT: City Manager Grace K. Leung, Finance Director/Treasurer Dan Matusiewicz, Deputy Director/Finance Steve Montano, Senior Accountant Theresa Schweitzer, Budget Analyst Amy Lewis, Budget and Payroll Supervisor Shannon Espinoza, Public Works Director Dave Webb, Liz McKibbin, Library Clerk

MEMBERS OF THE PUBLIC: Jim Mosher

III. PUBLIC COMMENTS

Mr. Mosher reemphasized his written comment on the agenda suggesting the Finance Committee considered changing the hour of its meetings during the COVID-19 Stay at Home Order. He added the City's website advises the public meetings will be live-streamed during this time but there is only one (1) channel. He reported the City cannot fulfill its promise since the Zoning Administrator meeting is held at the same time as the Finance Committee meeting. He recommended the Finance Committee change its meeting time to allow for public viewing of both meetings.

IV. CONSENT CALENDAR

MINUTES OF MARCH 12, 2020
Recommended Action:
Approve and file.

MOTION: Chair O'Neill moved to approve the minutes inclusive of Mr. Mosher's comments, Committee Member Stapleton seconded. The motion carried 5 ayes – 0 noes by acclamation, 1 abstention (Collopy)

V. CURRENT BUSINESS

A. PRELIMINARY COVID-19 FISCAL IMPACT ESTIMATE ON FY 2019-20 ADOPTED BUDGET

Summary:
Staff will summarize the COVID19 fiscal impact estimate on FY 2019-20 adopted budget.
Recommended Action:
Discuss and provide input for City Council consideration.

The meeting was recessed at 3:30 P.M. due to technical difficulty and resumed via Webex at 4:00 p.m.

Chair O'Neill reminded the Committee they will summarize the COVID-19 impact on the Fiscal Year 2019-2020 adopted budget. Due to the technical difficulty, Chair O'Neill requested Finance Director/Treasurer Dan Matusiewicz provide his presentation orally.

Director/Treasurer Matusiewicz provided a brief overview and stressed there is much economic uncertainty in the forecast especially as it relates to Sales Tax and Governor Newsom's Executive Order. He explained the Executive Order allows businesses to defer up to \$50,000 worth of Sales Tax in the next 12 months. He reported employment and revenue has dropped more sharply than any recession he has seen. He reported the Federal Government has stepped in to help capital markets by infusing liquidity and this action is good for equity.

Senior Accountant Theresa Schweitzer provided a brief overview of General Fund Revenues by category and stated the budget is \$231 million. Year-to-date (YTD) Actual Revenue is \$158 million which is approximately 68.6% of the budget. She reported the projected loss of revenue is \$13.5 million which is a 6% decrease in the budget.

Senior Accountant Schweitzer reported Secured Property Taxes comprise the bulk of the revenue which accounts for 85% of City property tax revenue. She noted the largest payments are received in December and April and staff will have a better calculation when the numbers are received next week. She projected property tax revenues will remain steady, however staff has included a \$900,000 reduction from the budget in the event all payments are not received in April. She explained property tax revenues were coming 5.4% higher than the prior year.

Senior Accountant Schweitzer provided a brief overview of Sales Tax Revenue and reported it is largely generated from three (3) main industry categories including Autos and Transportation, General Consumer Goods, and Restaurants/Hotels. In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz advised the Property Tax Revenue forecast is due to delinquent payments. He also explained that Governmental Funds can only accrue for 60-days and further explained delinquent payments would not start until fall 2020.

Senior Accountant Schweitzer reported the sales revenue projections provided by the City's Sales Tax consultant were modeled for statewide revenues and did not apply to the City so an internal model was developed by looking at the top 120 Sales Tax paying businesses. She reported restaurants are incurring revenue losses of 45-75% and Auto and Transportation businesses incurring a revenue loss of 70%-80%. She reported the California Department of Tax and Fee Administration (CDTFA) has allowed small businesses with less than \$5 million in annual revenue to defer payments of up to \$50,00 in Sales/Use Tax which will be repaid in 12 equal installments likely starting in August 2020. She forecasted a \$1.3 million reduction in Sales Tax Revenue for the City.

Senior Accountant Schweitzer reported the COVID-19 pandemic has significantly impacted the travel and leisure industry of Newport Beach with 11 of 21 hotels completely closed. She stated hoteliers are reporting occupancy of 2%-10% and room rate reductions of 40%. She forecasted a revenue loss of \$5.4 million in TOT.

Senior Accountant Schweitzer reported "other" General Fund categories are being hit hard and projects a \$5.9 million revenue loss in those categories. She projected the Gas Tax (Fund 121) will have a revenue loss of \$500,000, Measure M (Fund 122) will have a revenue loss of \$330,000, SB1 RMRA (Fund 126) will have a loss of \$150,000. She does not project a material impact on Water and Wastewater (Funds 701 and 711).

Director/Treasurer Matusiewicz reported there are some natural savings in General Fund Expenditures due to vacancies and noted there is a hiring freeze in place. He provided a brief overview of areas of savings in General Fund Expenditures including a \$3 million reduction in Salary & Benefits, a \$2.6 million reduction in Professional & Contract Services and a \$.5 million in Maintenance & Repair, \$.5 million in Supplies & Materials, \$.6 million in Utilities, \$.2 million

in General Expenses, \$.2 million in Travel & Training, and \$.2 million in Capital (outlay). He also recommends eliminating the \$3 million transfer from the General Fund to the Workers Compensation Fund and retaining \$2 million in the General Fund. Lastly, he reminded the Finance Committee to expect some volatility with the \$13.7 million but feels it is a conservative estimate.

In response to Council Member Dixon's inquiry, City Manager Grace Leung confirmed there is a hiring freeze in place with the exception of Life/Safety positions. She also reported the City is not currently looking at furloughs or requiring employees to use their accrued time off. She noted many part-time employees, particularly in Library and Recreation, are not working due to canceled programming and have been offered other employment opportunities within the City.

Committee Member Collopy commended the extraordinary effort of staff to absorb the revenue loss of \$13.7 million.

Committee Member Stapleton thanked City staff for reaching out to the local businesses to better understand the financial impact.

Committee Member Tucker noted this would be an on-going effort to identify cost-savings and re-evaluate the budget.

Chair O'Neill encouraged City staff to continue to identify additional cost-savings in order to avoid tapping into City Reserves or requiring services cuts. City Manager Leung advised the item will be presented to City Council as a Budget Amendment.

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

Chair O'Neill reported the financial impact on other local cities and expressed concern regarding those who heavily rely on Sales Tax and Tourism. He expressed concern with the City being able to continue with the same levels if the COVID-19 pandemic continues. He empathized with residents and local businesses and thanked City staff for identifying cost-savings.

There was no further action taken on this item.

B. COVID-19 FISCAL IMPACT ESTIMATE ON THE FY 2020-21 PROPOSED BUDGET

Summary:

Staff will summarize the COVID-19 fiscal impact estimate on the FY 2020-21 proposed budget.

Recommended Action:

Discuss and provide input for City Council consideration.

Chair O'Neill reminded the public they may call into the meeting for public comment at (949) 270-8165.

Director/Treasurer Matusiewicz provided an overview of the COVID-19 fiscal impact estimate and noted forecasting revenues will be exceptionally challenging due to widespread uncertainty of how long the virus will last, when a vaccine will be developed and when will widespread testing for occur for antibodies. He provided a brief recap of the Great Recession impact to the City but feels COVID-19 will have a deeper impact. He projected a Revenue Shortfall of \$35-38 million for FY 2020-21.

Director/Treasurer Matusiewicz presented the Morgan Stanley Data and Project model and noted there will be some ongoing impact beyond the current crisis as there may be reluctance in consumer behavior.

Senior Accountant Schweitzer provided a brief overview of the financial impacts to the FY 2020-21 General Fund Revenues due to the COVID-19 pandemic and projected a \$24-\$30 million loss in revenue based on two (2) separate scenarios.

Senior Accountant Schweitzer reported Property Tax in Scenario 1 keeps Property Tax at original FY21 Budget Projection and estimates 5% growth in Secured Property taxes and Scenario 2 reduces the estimated growth to 4% and accounts for potential unpaid taxes if there is a recession. She advised the variance of Scenario 2 to Scenario 1 is \$1.58 million.

Senior Accountant Schweitzer reported Sales Tax Scenario 1 decreases the Sales Tax by 15.5% and Scenario 2 decreases the Sales Tax by 28.4% which is the combined decrease of the entirety of the Great Recession. She advised the variance of Scenario 2 to Scenario 1 is \$2.28 million.

Senior Accountant Schweitzer reported Transient Occupancy Tax (TOT) was calculated using the same impact for both Residential and Hotel TOT. She estimates TOT will be down 90% through the summer, 80% in the fall, 65% in the winter, and 50% in spring 2021.

Senior Accountant Schweitzer reported an across the board revenue decrease in Other Revenue with Scenario 1 being 20% and Scenario 2 being 25%. She reported the combined revenue decrease of the Great Recession was 22%.

Director/Treasurer Matusiewicz reported General Fund Expenditures for FY 2020-21 reductions are projected to be \$37 million. He presented a summary of cuts the City may be able to make for FY 2020-21 and noted an additional \$3 million in cuts were derived from Professional & Contract Services, Maintenance & Repair, Supplies & Materials, and Utilities. He reported additional savings of \$239,000 were found in General Expenses, Travel & Training, and Capital (outlay).

Director/Treasurer Matusiewicz explained the Expenditure Reduction Tiers which includes a Temporary Hiring Freeze (Tier 1), Deferred Capital Spending (Tier 2), Savings Plan Reduction (Tier 3), Contingency Reserve (Tier 4), Discretionary Trust Contributions (Tier 5) and Service Level Cuts (Tier 6). He also reported the City will investigate financing the building of a fire station instead of spending \$10 million of cash. He noted Tier 4 would use \$8 million from the Contingency Reserve which was saved for an event of this magnitude.

In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz reported after using \$5 million from the Discretionary Trust it would leave the account with \$5.8 million. He would like to stick to the plan of continuing to pay down the pension obligation to CalPERS but acknowledged it is a balancing act that requires input from the public, the Finance Committee, and the City Council. Council Member Collopy expressed concern with taking the \$5 million from Contingency Reserves if Discretionary Unfunded Accrued Liability (UAL) payments were made to CalPERS as planned but acknowledged that is a decision for the City Council.

Director/Treasurer Matusiewicz reported the City's portfolio has a duration of two (2) years so the Contingency Reserve only has the potential to grow .25% over time.

In response to Committee Member Tucker's inquiry, Director/Treasurer Matusiewicz clarified the \$5 million payment to CalPERS was intended to protect the City from future experience losses. He acknowledges the City Council has not approved the \$5 million contribution to the CalPERS pension obligations. Committee Member Tucker clarified the \$5 million Director/Treasurer Matusiewicz recommended the City spend towards unfunded liability was to protect the City from another unfunded liability scenario. Director/Treasurer Matusiewicz

clarified the minimum required payment grows each year and the Additional Discretionary Payments (ADP) shrinks.

In response to Committee Member Tucker's inquiry, Director/Treasurer Matusiewicz clarified the ADP remaining less the \$5 million is \$5.8 million the total payment on the unfunded liability would be \$35 million if the City stayed the prior course or \$40 million if the City tries to protect itself from future experience losses. He hopes there will be future experience gains to offset the losses but noted there was some trepidation due to uncertainty if CalPERS could reach 7% consistently.

Director/Treasurer Matusiewicz reported the Hiring Freeze (Tier 1) consists of 23 vacant positions which would be frozen for six (6) months and would reflect a cost-savings of \$1 million. City Manager Leung explained the City will assess those positions in six (6) months to determine if the budget needs to be adjusted.

Director/Treasurer Matusiewicz reported the Deferred Capital (Tier 2) reduction would be achieved by reducing contributions to the Harbor Capital and Facilities Maintenance plans and by deferring and/or canceling some or all of the General Fund pending projects. He also advised the City could reduce the annual contribution to the Facilities Financial Plan (FFP), Tideland Harbor Capital Fund, Neighborhood Enhancement Fund, and Facilities Maintenance Fund.

In response to Chair O'Neil's inquiry, Director/Treasurer Matusiewicz confirmed the draw of \$8.5 million from the cash value from the FFP. He reported there is \$20 million in the FFP for projects that are design but the debt service would be drawing down the fund balance in the FFP. Chair O'Neill noted it is important fact for City Council to understand the impact and recommended Director/Treasurer Matusiewicz dedicate an entire slide to this topic when it is presented to City Council as it is complicated for those who do not serve on the Finance Committee. Director/Treasurer Matusiewicz reminded the Finance Committee the Library Bonds that were refinanced with the Fire Station would end and the debt service payment would be reduced by \$1 million.

Director/Treasurer Matusiewicz reported the Savings Plan Reduction (Tier 3) would reduce intended savings for Worker's Compensation, Uninsured Claims, Equipment Maintenance, Information Technology, and 800MHz radio replacement.

Director/Treasurer Matusiewicz reported the Contingency Reserve (Tier 4) would reduce the funded status by \$8 million with a total of \$44.6 million remaining. He believes it is appropriate timing to use the Contingency Reserves.

Director/Treasurer Matusiewicz reported the Discretionary Trust Contributions would reduce the CalPERS discretionary Unfunded Accrued Liability (UAL) payment by \$5 million. He reported the City will receive the results of the fiscal year from CalPERS on June 30, 2020, and the City would need to start paying on that amount in FY 2022-23 unless the City electively pays for it sooner.

Committee Member Collopy explained it is not reducing the Contingency Reserves by \$8 million, it is \$13 million with the combination of the \$5 million from the Discretionary Trust Contribution. In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz clarified it is not a foregone conclusion the \$5 million would be drawn from the Contingency Reserves, it simply means the City would send CalPERS \$5 million less.

Chair O'Neill explained if the \$5 million was built into the General Fund in Discretionary Trust Contributions and the City chose not to make that \$ 5 million payment, the City would only owe \$3 million from the Contingency Reserve because expenses would be coming down and it would not be the contribution into the Contingency Reserve. He explained if the City makes a

drawdown of \$8 million from Tier 4, the City still has the expenditure of \$5 million extra dollars for the Discretionary Trust Contributions unless the City chose not to make the payment. In that event, he explained, the City is not drawing down its Contingency Reserves of an extra \$5 million, it is simply making a budget amendment to lessen expenditures to reflect the revenue which is the point of doing this in tiers. He anticipates the City adopting a fairly austere budget that has fairly conservative projections and advised it is up to the City Council to determine how many of the tiers it would like to trip. However, he also anticipates the budget will be reviewed in three (3) months at which time can be amended and potential draw from each tier. He explained the importance of tripping four (4) or five (5) tiers because the City will need to pay those back in the future and because it pushes issues into future budgets because there is no backfill. He also explained the City would have to backfill on the Contingency Reserves and the Discretionary Trust Contribution from the General Fund.

In response to Committee Member Tucker's inquiry, Chair O'Neill explained the General Fund is looking at a reduction of \$24.5 million in Scenario 1 and \$35 million in Scenario 2. He clarified the Contingency Reserve is currently at approximately \$50 million.

Committee Member Tucker noted with the reduction in the General Fund there would need to be less funding in Contingency Reserves to comply with the City's policy, but it depends on whether or not this is a one-time scenario. Chair O'Neill acknowledged Committee Member Tucker's point.

Director/Treasurer Matusiewicz emphasized the City has been very good funding its Contingency Reserves which puts the City in a very flexible position, well ahead of any service level reductions.

Director/Treasurer Matusiewicz reported Service Level Cuts (Tier 6) expenditures have been identified as zero (0) and hopes the City does not need to get to this level.

Chair O'Neill emphasized if the City does get to Tier 6 it would need to look at reopening some of the discussions with the City's Bargaining Associations regarding Cost of Living Adjustments (COLA) and pay freezes. Council Member Dixon agreed.

Committee Member Tucker recapped the Subcommittee Report requested assurance the City was right-sized. He suggested this may be an opportunity to revisit the topic and ensure the City is as efficient as possible.

Council Member Brenner expressed her hesitancy in reducing workforce personnel when the City often tells the public there is not enough personnel for such things as enforcement and street closures.

Committee Member Larry Tucker explained he was not suggesting a level of service decrease but wants to ensure the City's workforce is efficient. He expressed his hesitation to continue the City's UAL payments as expected given the current crisis and would like to see it further reviewed. Chair O'Neill reported the Senate Finance Committee is currently meeting about their projected losses and does not foresee a bailout for any cities.

Director/Treasurer Matusiewicz reported on General Fund Expenditures including all five (5) tiered reductions shows the City would likely have a deficit of \$30,000 based on conservative projections and feels it is inconsequential. He reported the next budget milestone dates are the City Council consideration of the City Manager's proposed amendments to the FY 2019-20 budget on April 28th, Finance Committee's 1st review of the FY 2020-21 budget on May 14th, Finance Committee's 2nd review of the FY 2020-21 budget on May 21st, City Council Study Session for 1st review of the proposed budget on May 26th, Finance Committees written comments in response to the City Manager's proposed FY 2020-21 budget and City Council Budget Adoption and GANN limit public hearing on June 9th.

In response to Director/Treasurer Matusiewicz' and Council Member Dixon's inquiry, Chair O'Neill noted the April 30th meeting of the Finance Committee was already reserved but does not need to take place since City Council will be discussing the budget amendments for the FY 2019-20 budget. The Finance Committee has already heard the topics to be discussed.

Committee Member Tucker explained the Finance Committee makes a formal recommendation to the City Council before final budget adoption and will offer comments during the meeting, as necessary. Chair O'Neill agreed.

Chair O'Neill opened public comments.

Mr. Mosher commented the Expenditure Reductions are segregated into tiers which present the implication that one tier is completely exhausted before moving to the next. He feels it may be too rigid as there may be some low-hanging fruit in each of the tiers.

Chair O'Neill closed public comments.

In response to Council Member Tucker's inquiry, Director/Treasurer Matusiewicz confirmed the Property Tax increase of 5% is due to the assessment date for the tax bills was January 1st. At that time, the COVID-19 crisis had not yet developed. He noted Property Tax decline will probably impact the City in FY 2022-23.

There was no further action taken on this item.

C. WORKPLAN REVIEW AND REVISED FY 2020-21 BUDGET CALENDAR

Summary:

Staff will review with the committee the agenda topics scheduled for the remainder of the fiscal year and as well as the revised Fiscal Year 2020-21 Budget Calendar.

Recommended Action:

Receive and file.

In response to Committee Member Collopy's inquiry, Chair O'Neill confirmed the dates previously noted by Director/Treasurer Matusiewicz are required for the Finance Committee.

In response to Council Member Brenner's inquiry, Chair O'Neill clarified there is no Ad-Hoc Committee meeting for local business advancement, only for bids. City Manager Leung commented the committee title has changed and she will have to report back to the Finance Committee on this inquiry.

Chair O'Neill opened public comments and hearing none closed public comments.

There was no further action taken on this item.

D. BUDGET AMENDMENTS FOR QUARTER ENDING MARCH 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 on this item.

Chair O'Neill opened public comments and, hearing none, closed the public comment period.

There was no further action taken on this item.

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 4:30 p.m. to the next regular meeting of the Finance Committee on May 14, 2020 at 4:00 p.m.

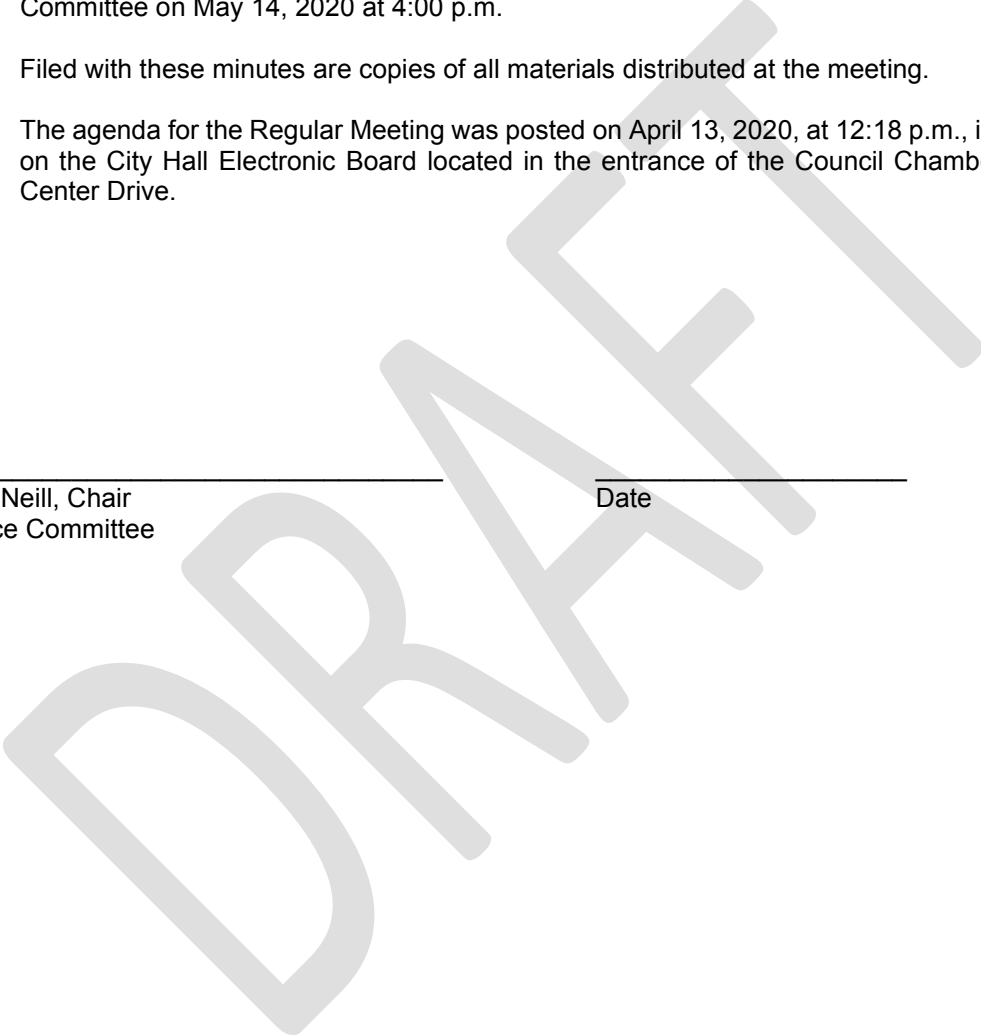
Filed with these minutes are copies of all materials distributed at the meeting.

The agenda for the Regular Meeting was posted on April 13, 2020, at 12:18 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



May 21, 2020, Finance Committee Agenda Comments

These comments on an item on the Newport Beach City Council Finance Committee agenda are submitted by: Jim Mosher (jimmosher@yahoo.com), 2210 Private Road, Newport Beach 92660 (949-548-6229)

Item IV.A. MINUTES OF APRIL 16, 2020

Changes to the draft minutes passages shown in *italics* are suggested in **strikeout underline** format.

Page 1, Item II. ROLL CALL -- PRESENT: “Mayor ~~Pro-Tem~~/Chair Will O’Neill, ...”

Page 1, Item III. PUBLIC COMMENTS: “Mr. Mosher reemphasized his written comment on the agenda suggesting the Finance Committee **considered consider** changing the hour of its meetings during the COVID-19 Stay at Home Order.” [Note: Although the Finance Committee meetings remain at 3:00 p.m., the Zoning Administrator hearings were subsequently shifted to 10:00 a.m. to make it possible to broadcast both live.]

Page 2, paragraph 1: “Due to the technical difficulty, Chair O’Neill requested Finance Director/Treasurer Dan Matusiewicz provide his presentation orally.” [I recall this direction being given, but I also seem to recall that after emailing the presentation to the committee members as a work-around, the technical difficulty was solved, so the slides were visible to all during the broadcast.]

Page 2, last sentence: “He provided a brief overview of areas of savings in General Fund Expenditures including a \$3 million reduction in Salary & Benefits, a \$2.6 million reduction in Professional & Contract Services ~~and a~~ \$.5 million in Maintenance & Repair, \$.5 million in Supplies & Materials, \$.6 million in Utilities, ...” [Wouldn’t these normally be written “\$0.5 million,” “\$0.6 million,” etc.??]

Page 3, paragraph 2 from end, sentence 1: “Director/Treasurer Matusiewicz provided an overview of the COVID-19 fiscal impact estimate and noted forecasting revenues will be exceptionally challenging due to widespread uncertainty of how long the virus will last, when a vaccine will be developed and when ~~will~~ widespread testing ~~for~~ **will** occur for antibodies.”

Page 3, last paragraph: “Director/Treasurer Matusiewicz presented the Morgan Stanley Data and **Project Projections** model and noted there will be some ongoing impact beyond the current crisis as there may be reluctance in consumer behavior.”

Page 4, paragraph 2: “Senior Accountant Schweitzer reported Property Tax ~~in~~ Scenario 1 keeps Property Tax at **the** original FY21 Budget Projection and estimates 5% **grown growth** in Secured Property taxes; ~~and~~ Scenario 2 reduces the estimated growth to 4% and accounts for potential unpaid taxes if there is a recession.”

Page 4, paragraph 4, last sentence: “She estimates TOT will be down 90% through the summer, 80% in the fall, 65% in the winter, and 50% in spring 2021.” [?? I don’t recall what words were spoken. The seasons stated make some sense and correspond to FY20-21, but they could be wrong. The slide used in the presentation says “-90% 3Q2020, -80% 4Q2020, -65% 1Q2021, -50% 2Q2021” without specifying if those are calendar or fiscal years. The

transcriber takes them to be calendar year quarters (Q1 = winter). But the Finance Department normally reports in fiscal years (Q1 = summer).]

Page 4, paragraph 6, sentence 1: “*Director/Treasurer Matusiewicz reported General Fund Expenditures expenditure reductions for FY 2020-21 reductions are projected to be \$37 million.*”

Page 5, paragraph 4, sentence 3: “*Chair O’Neill noted it is important fact for City Council to understand the impact and recommended Director/Treasurer Matusiewicz dedicate an entire slide to this topic when it is presented to City Council as it is complicated for those who do not serve on the Finance Committee.*”

Page 5, paragraph 5, last sentence: “*Director/Treasurer Matusiewicz reminded the Finance Committee the Library Bonds that were refinanced with the Fire Station Civic Center would end and the debt service payment would be reduced by \$1 million.*” [? It looks like “Fire Station” is what was said, but I suspect “Civic Center” or “City Hall” was intended. I do not believe there have ever been any fire station bonds (although an earlier paragraph suggests there could be in the future).]

Page 6, sentence 2: “*In that event, he explained, the City is not drawing down its Contingency Reserves of an extra \$5 million, it is simply making a budget amendment to lessen expenditures to reflect the revenue which is the point of doing this in tiers.*”

Page 6, sentence 4: “*However, he also anticipates the budget will be reviewed in three (3) months at which time it can be amended and potential draw from each tier.*”

Page 6, last paragraph, sentence 1: “*Director/Treasurer Matusiewicz reported on that General Fund Expenditures including all five (5) tiered reductions shows the City would likely have a deficit of \$30,000 based on conservative projections and feels it is inconsequential.*”

Page 7, paragraph 6, sentence 1: “*In response to Council Member Tucker’s inquiry, Director/Treasurer Matusiewicz confirmed the Property Tax increase of 5% is due to the assessment date for the tax bills was being January 1st.*”

Page 7, Item C, middle paragraph: “*In response to Council Member Brenner’s inquiry, Chair O’Neill clarified there is no Ad-Hoc Committee meeting for local business advancement, only for bids BID’s (Business Improvement Districts).*”

Page 8, Item VII, paragraph 1: “*The Finance Committee adjourned at 4:30 p.m. to the next regular meeting of the Finance Committee on May 14, 2020 at 4:00 p.m.*” [?? Since the April 16 meeting didn’t really get underway until 4:00 p.m., it seems unlikely it ended at 4:30. It would also be unusual for the May 14 meeting (which was ultimately canceled) to have been called for 4:00 p.m., since the normal starting time of Finance Committee meetings is 3:00 p.m.]



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

Agenda Item No. 5A
May 21, 2020

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
Dan Matusiewicz, Finance Director and City Treasurer
949-644-3123, dmatusiewicz@newportbeachca.gov

SUBJECT: Internal Audit Update

SUMMARY:

In the spirit of continuous improvement and with support and direction from the City Manager's office, the Finance Department has been charged to develop a comprehensive internal audit program. This report summarizes all internal audit activities to date.

RECOMMENDED ACTION:

Receive and file.

DISCUSSION:

Background

While the City has managed a great many financial statement and compliance audits over the years, the City has never had a robust internal audit program. The program will be initiated with an enterprise risk assessment and initial evaluation of internal control risks. These processes will serve as the primary building block to inform and develop workplans to further assess and test internal controls, conduct performance audits and provide management consulting services when appropriate. Each project will take three to four months to complete and can be performed in parallel or in series. After the initial projects are complete, it is anticipated that internal audit and performance review work will ensue on a continuous basis with a few areas of focus each year.

Project Scope

Initial discovery work will be divided into two major projects that will be conducted in parallel, in series, or partially overlapped (see below).

Project 1: Enterprise Risk Assessment Work Plan

- Phase 1: Confirm process, deliverable, and interviewees. Interviewees to focus on Council members, City Manager's Office, and Department Heads.
- Phase 2: Perform fact finding, including submittal of document request, review documents, schedule and conduct interviews, develop and administer a confidential survey (manager/supervisor level and up), and develop preliminary risk ratings.
- Phase 3: Prepare risk assessment, including functional descriptions, risk profile, mitigating activities, and residual risks.
- Phase 4: Prepare draft and final risk reports and presentation.
- Duration: Approximately three to four months.

Project 2: Enterprise Internal Controls Review Work Plan

- Phase 1: Confirm process, deliverable, and interviewees. Interviewees to focus on functional leaders for key controls such as AP, AR, Payroll, close and reconciliation, cash handling, revenue, procurement, grants management, and technology.
- Phase 2: Perform fact-finding, including submittal of document request, review documents, schedule and conduct interviews and walkthroughs, and develop preliminary findings.
- Phase 3: Prepare controls matrix, including control objectives, findings, and recommendations.
- Phase 4: Prepare draft and final controls reports and presentation.
- Duration: Approximately three to four months.

Moss Adams will translate the risk assessment and internal controls review into an internal audit plan, which will guide future internal audit activities. It is anticipated that risk assessment and audit work will be conducted on a continuous (annual) basis as other areas are reviewed. Future areas of focus may include accounting and financial reporting, asset management, capital programs, policy compliance, governance, human resources, maintenance and operations, management, operations and service delivery, organization and staffing, process and procedures, procurement, public safety, and risk management. After Projects 1 and 2 are completed, Moss Adams will examine the practices of the departments or programs to determine if they are achieving economy, efficiency and effectiveness in the employment of available resources.

Current Progress

Please see Attachment A.

Prepared and Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

Attachment:

A. Internal Audit Status Report February 1, 2020 through April 30, 2020

ATTACHMENT A
INTERNAL AUDIT UPDATE



Date: May 4, 2020
To: City of Newport Beach Finance Committee
From: Moss Adams LLP
Subject: Internal Audit Status Report February 1, 2020 through April 30, 2020

MEMORANDUM

Enterprise Risk Assessment

- Objective: Assess the City's operating environment from risk and performance perspectives to identify opportunities for reducing risks and enhancing performance and inform an internal audit plan.
- Schedule: February 2020 through May 2020
- Budget: Invoiced \$42,893 compared to a budget of \$44,000.
- Activities for This Period: Gathered documents, performed interviews, administered an employee survey, assessed risks and performance, and delivered the draft report.
- Activities for Next Period: Finalize the report and present to the Finance Committee and City Council.
- Issues: none

Internal Controls Review

- Objective: Assess the City's operating environment from an internal controls perspective to identify opportunities for strengthening controls and inform an internal audit plan.
- Schedule: April 2020 through June 2020
- Budget: Invoiced \$6,700 compared to a budget of \$44,000.
- Activities for This Period: Initiated project, identified interview participants, and schedule interviews.
- Activities for Next Period: Submit document request, review documents, conduct interviews, and assess controls.
- Issues: none

Internal Audit Plan

- Objective: Formulate an internal audit plan to guide internal audit activities and enhance City operations.
- Schedule: May 2020 through June 2020
- Budget: No charge.
- Activities for This Period: None.
- Activities for Next Period: Prepare draft internal audit plan for Finance Committee review and City Council approval.
- Issues: none

Program Management

- Objective: Manage internal audit program activities to ensure work is performed on time, within budget, and to the satisfaction of the City.
- Schedule: February 2020 through June 2020
- Budget: Invoiced \$5,800.00 compared to a budget of \$12,000.
- Activities for This Period: Directed projects, conducted client status meetings, and provided status reports.
- Activities for Next Period: Continue to direct projects, conduct client status meetings, and prepare status reports.
- Issues: none

City of Newport Beach Finance Committee Work Plan 2020

Scheduled Date	Agenda Title	Agenda Description
April		
Thursday, April 16, 2020	Preliminary COVID-19 Fiscal Impact Estimate on the FY 2019-20 Adopted Budget	Staff will summarize the COVID19 fiscal impact estimate on the FY 2019-20 adopted budget.
	Preliminary COVID-19 Fiscal Impact Estimate on the FY 2020-21 Proposed Budget	Staff will summarize the COVID19 fiscal impact estimate on the FY 2020-21 proposed budget
	Workplan Review and Revised FY 2020-21 Budget Calendar	Staff will review with the committee the agenda topics scheduled for the remainder of the fiscal year and as well as the revised Fiscal Year 2020-21 Budget Calendar.
	Budget Amendments for Quarter Ending March 31, 2020	Staff will report on the budget amendments for the prior quarter.
Tuesday, April 28, 2020	City Council Amends FY 2019-20 Budget to Reflect the Financial Impact of COVID-19 <i>Finance Committee Attendance Optional</i>	Review current year budget with recommendations for revenue and expenditure adjustments.
Thursday, April 30, 2020	Reserved if Necessary	
May		
Thursday, May 14, 2020	Internal Audit Program Update	Update on audit work performed to date by Moss Adams LLP (Moss Adams) that was retained to assess internal control risks, conduct performance audits and management consulting services.
MEETING CONTINUED TO MAY 21, 2020	Finance Committee review of FY 2020-21 budget. Finance Committee to develop written comment on City Manager's Proposed FY 2020-21 Budget. Recommendations for changes to Proposed budget will be presented via PBR.	Pursuant to Budget Policy F-3.
Thursday, May 21, 2020	Finance Committee review of FY 2020-21 budget. Finance Committee to develop written comment on City Manager's Proposed FY 2020-21 Budget. Recommendations for changes to Proposed budget will be presented via PBR.	Pursuant to Budget Policy F-3.
Tuesday, May 26, 2020	Council Study Session - Council Review of Proposed Budget (Joint Council/Finance Committee)	Review Proposed FY 2020-21 Budget
Thursday, May 28, 2020	Finance Committee Meets to Formulate Budget Recommendation prior to the June 9, 2020 Budget Adoption	Pursuant to Budget Policy F-3.
June		
Tuesday, June 09, 2020	City Council Budget Adoption <i>Finance Committee Attendance Optional</i>	
Thursday, June 11, 2020	Internal Audit Program Update	Auditors to provide an overview of enterprise risk assessments and discuss next steps
Thursday, June 25, 2020	Reserved if Necessary	