



CITY OF NEWPORT BEACH FINANCE COMMITTEE AGENDA - Final

Council Chambers

Thursday, June 4, 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, June 3, 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

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 Finance Committee 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. Finance Committee 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 Finance Committee votes on the motion unless members of the Finance Committee 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 MAY 21, 2020

Recommended Action:

Approve and file.

[DRAFT MINUTES 05212020](#)

[PUBLIC COMMENTS](#)

V. CURRENT BUSINESS

A. RECOMMENDATION FY 2020-21 BUDGET

Summary:

Make final recommendation to the City Council on the City Manager's Proposed FY 2020-21 Operating and CIP Budgets.

Recommended Action:

Review, discuss, and make a recommendation to the City Council regarding the City Manager's Proposed FY 2020-21 Budget.

[STAFF REPORT](#)

B. 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. PUBLIC COMMENTS ON NON-AGENDA ITEMS

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.

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

VIII. ADJOURNMENT

**CITY OF NEWPORT BEACH
FINANCE COMMITTEE
MAY 21, 2020 MEETING MINUTES**

I. CALL MEETING TO ORDER

The meeting was called to order at 3:02 p.m. via teleconference.

II. ROLL CALL

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

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 Acting Budget Manager Shannon Espinoza, Administrative Specialist for Finance Director Caitlin McCourt

MEMBERS OF THE PUBLIC: Jim Mosher

III. PUBLIC COMMENTS

None

IV. CONSENT CALENDAR

MINUTES OF MAY 14, 2020
Recommended Action:
Approve and file.

MOTION: Committee Member Reed moved to approve the minutes, Committee Member Collopy seconded. The motion carried unanimously by acclamation.

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:
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.

Deputy Director/Finance Steve Montano reported the City's Internal Control Auditor, Moss Adams recently completed its first draft of the Enterprise Risk Assessment which assessed the City's operating environment from a risk and performance perspective to develop the Internal Audit Plan. He advised that City Manager Grace Leung and staff would be meeting with Moss Adams to discuss the findings and determine next steps. He also reported Moss Adams is

reviewing the City's internal controls to identify opportunities for strengthening and will help form the City's long-term Audit Plan.

Deputy Director/Finance Montano advised this phase of the project began in May with expected completion of both the Risk Assessment and the Internal Controls review by the end of June. He advised that at once completed the Internal Audit Plan will be formulated and will guide the City's audit activities moving forward. He reported the project is on time and within budget and will continue to provide updates as work progresses.

City Manager Leung reported the first draft was delivered a month ago but was slowed by the COVID-19 response. She hopes to use Moss Adams to review the City's operating efficiencies and activities as the City moves into the next phase of the budgeting process.

In response to Committee Member Collopy's inquiry, Deputy Director/Finance Montano clarified the Enterprise Risk Assessment and Enterprise Internal Controls Assessment will be completed in June at which time work will begin to develop the Internal Audit Plan at the end of June.

In response to Committee Member Collopy's inquiry, Deputy Director/Finance Montano and City Manager Leung advised Moss Adams is setting up the framework of the actual Work Plan of the audit which will be ongoing and the size of the audit will vary.

In response to Committee Member Larry Tucker's inquiry, Director/Treasurer Dan Matusiewicz advised the Enterprise Risk Assessment was mostly high-level interviews with department heads and the subsequent phase consisted of high-level assessment on the internal controls. He hopes to receive a road map in June from Moss Adams that identifies the most vulnerable areas for review.

City Manager Leung reported Moss Adams is looking broadly at External Risk, Organizational Structure and Staffing, Risk Programs, Capital Resources, and Leadership to complete their assessment of the organization. Committee Member Tucker requested to see a more granular Internal Controls Plan once completed. He expressed his support for the assessment of the organizational structure.

Chair O'Neill opened public comments.

Jim Mosher inquired if the Moss Adams report would be made public at the June 11th meeting. City Manager Leung responded she hopes to deliver the document by June or shortly thereafter but could not promise a specific date.

Chair O'Neill closed public comments.

There was no further action taken on this item.

B. PROPOSED FY2020-21 BUDGET OVERVIEW

Summary:

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

Recommended Action:

Receive and file.

Director/Treasurer Matusiewicz reported that COVID-19 dealt a significant blow to the global economy and the City is in the initial phases of administering financial first aid. He acknowledged the City was in a better financial position than other cities but stressed there is much work to be done if the pandemic persists beyond the next fiscal year.

Director/Treasurer Matusiewicz presented the Fiscal First Aid Roadmap which was developed by the Government Finance Officers Association (GFOA) after the last recession and reported the City is in the Bridging Stage where short-term generic solutions are used. He advised starting July 1, the City will need to look at long-term solutions for the COVID-19 Recovery stage.

Director/Treasurer Matusiewicz reported the City is still relying on strong Property Tax growth in this current year and continues to focus on the City's Quality of Life and Infrastructure. He reported the City is aggressively pursuing paying down its Unfunded Liability which represents a significant risk to the City's financial health. He provided a review of the budget in its totality including new Capital Improvement Plan (CIP).

Director/Treasurer Matusiewicz presented on the overall Revenue and reported the City is still looking at a 4.2% increase in Property Tax revenue and a 20% decrease in Sales Tax revenue. In response to Committee Member Collopy, Director/Treasurer Matusiewicz explained the budget was down \$1 million for FY 19/20 Property Tax and the City was accounting for potential additional Property Tax delinquencies but acknowledged that has not happened at this time. He advised there was a slowdown in the 7th installment of Property Taxes but hopes to make up the difference on the 8th installment. Senior Accountant Theresa Schweitzer confirmed the 8th installment is July 14th, 2020.

Director/Treasurer Matusiewicz reported Transient Occupancy Tax (TOT) shows an overall 63% decrease over the next four (4) quarters and confirmed future projections is an educated guess based on conversations with hoteliers.

Chair O'Neill clarified due the variances the TOT is down almost 75% which is significant and the same is true for Sales Tax which is down \$7 million. Chair O'Neill requested City Council be presented the variance numbers as compared to the original FY 19/20 Budget or the Actual FY 19/20 Budget as it shows the more severe drop. Committee Member Collopy suggested the variances be shown by Quarter.

Director/Treasurer Matusiewicz stated General Fund revenues were projected to be \$242 million but is now projected to be \$199 million. He reported a \$5 million transfer to the Capital Program and various transfers in and out of the General Fund left an approximately \$33 million shortfall but various short-term remedies have been used to close that gap.

Director/Treasurer Matusiewicz reported the budget includes built-in Internal Service Charges to set aside monies for future use. He reported it was initially thought \$10 million would need to be taken from Contingency Reserves but was lowered to \$2.3 million which includes the additional \$5 million payment to CalPERS. He reported the City is proposing to use \$2.3 million of the Contingency Reserve and there is another \$50 million available to bridge the gap or buy the City time if the pandemic continues into the future.

In response to Chair O'Neill's inquiry, Director/Treasurer Matusiewicz explained the \$52.4 million is 25% of the Operating Budget less the Discretionary Payments Fund and clarified how the \$52.4 million was calculated for Committee Member Tucker.

In response to Chair O'Neill's inquiry, Director/Treasurer Matusiewicz clarified the Contingency Reserved is based on the General Fund Operating Budget. Acting Budget Manager Shannon Espinoza clarified FY 20/21 General Fund Expenditures by Department is \$219.8 million. Chair O'Neill clarified the proposed General Fund Revenue is \$199.5 million but the proposed General Fund Expenditures is \$219.8 million but does not include transfers out to other Master Plans and requested clarification.

In response to Chair O'Neill's inquiry, Director/Treasurer Matusiewicz explained the \$20 million gap. He explained the proposed General Fund Revenue is \$199.5 million and if all of the

transfers and Internal Service Fund were included, General Fund Expenditures would be \$240 million. He reported the transfers have been reduced as well as some savings plans and in some cases money has been transferred back to the General Fund. Chair O'Neill noted he needs to be able to explain the \$20 million gap.

Director/Treasurer Matusiewicz reported on solutions for bridging the \$20 million gap which would include \$2.9 million netted from operating cuts in Tier 1, \$2 million in hiring freezes from Tier 2, and a \$21 million reduction in deferred Capital spending from Tier 3 which is almost \$25 million.

In response to Chair O'Neill's inquiry, Acting Budget Manager Espinoza clarified the \$219 million in General Fund Expenditures includes Tier 1, Tier 2 and Tier 3 already being reduced. She clarified the transfer's in and out on Page 45 of the Proposed Budget is included in the tiers Director/Treasurer Matusiewicz referenced to bridge the gap.

In response to Chair O'Neill's inquiry, Director/Treasurer Matusiewicz clarified \$5 million of funding to the General Fund Capital Projects Program was included and any transfers to the Master Plans are not included for the Operating Expenditures. Director/Treasurer Matusiewicz further clarified if Tier 1 through Tier 4 were combined and \$2.3 million was used from Tier 5, it would total \$32.3 million.

In response to Chair O'Neill's inquiry, Director/Treasurer Matusiewicz clarified the Operating Expenditures are deceiving because they do not include the traditional transfers to the Master Plans necessitating the \$33 million. Director/Treasurer Matusiewicz commented he would be working on developing a better plan.

Chair O'Neill explained when trying to bridge the gap between budgets the summary of all funds must be taken into account. Director/Treasurer Matusiewicz explained the confusion may be the transfers in and out as they show a net. He further explained the difference between Revenues and Operating Revenue is \$20 million and if the transfers to the other funds are included, it is an additional \$20 million.

Committee Member Tucker explained paying Operating Expenses is not optional. He explained the report is using margin for things that would normally be funded by the General Fund. Director/Treasurer Matusiewicz responded these are short-term savings and not long-term remedies. Committee Member Tucker hoped to better understand what the City's long-term sustainable numbers would be in the next couple of months.

Chair O'Neill commented the report shows FY 18/19 Revenues as \$229.8 million and the General Expenditures and \$208 million but knows there was not a \$21 million surplus for that year. Acting Budget Manager Espinoza clarified the \$229.8 million represents all funds and the \$208 million represents General Fund Only Expenditures. Committee Member Tucker agrees there is additional General Fund monies that were spent but are not in the report.

Budget Analyst Amy Lewis clarified Page 37 does not include the transfers, but Page 40 reflects like-for-like General Fund Revenue at \$214 million. Chair O'Neill commented the report needs a better break down which explains how the gap is broken down in detail. He advised this is the first time he has ever seen a Proposed General Fund Expenditure that is higher than the General Fund Revenue. Director/Treasurer Matusiewicz explained the target differential is \$30 million.

City Manager Leung explained FY 19/20 Actual General Fund Revenues were \$230 million and the proposed General Fund Revenue for FY 20/21 is \$200 million which leaves a \$30 million loss and the Operating Budget is only being cut by \$5 million. She explained it is being shored up by transfers until there is a full understanding of the financial impact.

Council Member Dixon suggested presenting two (2) different schedules; one that includes the transfers and one that does not. Chair O'Neill requested the Proposed Budget be made less difficult to interpret for the City Council and the public. Director/Treasurer Matusiewicz explained there are many moving parts with this Proposed Budget and will work to develop a better interpretation.

Director/Treasurer Matusiewicz presented the proposed Capital Project that would continue and be placed on hold until FY 21/22. In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz confirmed City Council has already reviewed the list of proposed CIPs. He explained the Proposed Budget includes transfers of \$1 million to the Facilities Maintenance Plan (FMP), zero allocation to the Facilities Financial Plan (FFP), \$5 million to Capital Improvement Program (CIP), and advised these transfers are not reflected as an operating expenditure.

Director/Treasurer Matusiewicz reported on Savings Reductions and noted Internal Service Charges are reflected in the Operating Budget. He reported \$5 million of the Savings Reduction would be returned to the General Fund. Lastly, he reported the Proposed Budget reflects \$50 million in Contingency Reserves which is within \$2.3 million of its target.

Director/Treasurer Matusiewicz reported on Department Expenditures has increased mainly due to the Flores vs. City of San Gabriel case which increased overtime. He reported an increase of one (1) Police Officer position is also reflected and happened in FY 19/20.

In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz reported the Police Department staffing level fluctuates every fiscal year. Acting Budget Manager Espinoza clarified there were many vacancies in FY 19/20 but the Police Department is now almost fully staffed.

In response to Committee Member Collopy inquiry, Acting Budget Manager Espinoza was unable to determine if there were 231 or 232 staffed positions in the Police Department and advised she will follow up with Human Resources. He suggested staffing below 100% given the current situation. Chair O'Neill clarified the Police Department is usually staffed at 100% but all vacancies are not always filled. Director/Treasurer Matusiewicz reported \$2 million in salary savings was included in the Proposed Budget.

City Manager Leung advised departments were beginning to prepare budgets when COVID-19 struck which resulted in a hard stop of the budget process in order to begin the enhancement process. She reviewed the required items in the Proposed Budget which includes adjustments for overtime pay due to the verdict in the Flores vs. City of San Gabriel case and Paramedic School for the Fire Department. She also explained there are some necessary positions that are part-time or funded through specialized funds and are required due to the nature of the work. Lastly, she reported a new 10-year Street Sweeping contract was included in the budget.

Director/Treasurer Matusiewicz reported there is still a robust Capital Improvement Program (CIP) in the proposed budget and recapped several projects included the construction of Fire Station 2 and Grant Howald Park. He advised Fire Station 2 will be financed to give the City much needed breathing room. Chair O'Neill reported City Council approved the concept of financing Fire Station 2 by a vote of 6-0.

Director/Treasurer Matusiewicz reported there were other funds which reflect reduced revenue estimates. He noted that some Master Plans had reduced revenues but also had reduced project expenditures. He reported the transfer into the Master Plans was decreased by \$1 million. He noted the graph reflects Master Plan funds pre- and post- COVID-19 and explained there is \$13 million more in Harbor and Beaches Master Plan than what is reflected in the report. He noted the budget is being balanced by reducing Capital funding and reducing Capital spending. Chair O'Neill requested a simplified report be prepared for City Council review.

Committee Member Collopy requested Director/Treasurer Matusiewicz develop a simplified report quickly so it can be reviewed.

Director/Treasurer Matusiewicz discussed the Additional Discretionary Payment (ADP) to CalPERS and explained the City likes to keep the payment below \$35 million and recapped discussions to use Surplus Revenue to pay down the debt. He hopes to send CalPERS the first \$5 million in the next six (6) months and revisit the additional payments down the road.

In response to Chair O'Neill's inquiry, Director/Treasurer Matusiewicz explained the \$5 million ADP will come from reserved funds but still requires City Council approval. Chair O'Neill recapped the report and noted the Proposed Budget shows expenditures of \$219.8 million and a \$5 million CIP transfer which is \$224.8 million. Director/Treasurer Matusiewicz explained how the \$5 million ADP and is entered in the Proposed Budget. Chair O'Neill requested Director/Treasurer Matusiewicz be prepared to explain he used Generally Accepted Accounting Principles (GAAP) properly when reconciling the \$5 million.

Committee Member Collopy suggested reporting on All Funds to make the report easier to understand. In response to Committee Member Collopy's inquiry, Director/Treasurer Matusiewicz reported the ADP in FY 19/20 is \$8.8 million based on an expected 7% rate of return for future years. He further explained the ADP in FY 20/21 is \$5.246 million to cover past liabilities and the \$5 million is anticipatory of future capital market losses. He advised CalPERS has projected investment returns for the next 10-years to be approximately 6%.

Director/Treasurer Matusiewicz clarified the outlook was discussed in a November Finance Committee meeting and it was agreed up to review annually but is based on a five (5) year outlook. He explained CalPERS new amortization assumes 20 years repayment starting three (3) years out.

In response to Committee Member Collopy's inquiry, \$5.3 million from the Proposed Budget is allocated to ADP payments and the additional \$5 million is being reserved. He clarified the ADP of \$10.3 million only includes \$2.5 million from actual reserves.

Director/Treasurer Matusiewicz recapped the next milestones which includes creating a new presentation by May 26, 2020 for City Council review. Chair O'Neill suggested rescheduling the next meeting to June 4th to allow additional time for Finance Committee to review the Proposed Budget and was agreed upon by all.

In response to Committee Member Stapleton, Director/Treasurer Matusiewicz explained the he is unsure if the COVID-19 pandemic will financially similarly to the Great Recession of 2008.

In response Committee Member Reed, Director/Treasurer Matusiewicz was unable to answer if City Council would provide any financial assistant to local small businesses.

In response to Council Member Dixon's inquiry, City Manager Leung reported COVID-19 related expenses are reimbursable from the Federal Emergency Management Agency (FEMA). She reported the Orange County Board of Supervisor allocated Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to reimburse City's from that funding and are in current discussions to determine what would be reimbursable. She also explained any expense not reimbursed through FEMA or CARES would be an additional expense for the City.

Committee Member Tucker thanked staff for their report and is hopeful the next revision of the report is easier to follow.

Chair O'Neill opened public comments.

Jim Mosher commented it would be helpful to the public if the Finance Committee had explained the budget had been posted. He also reported the agenda overlooked public comments on non-agenda items and needs to be added into future agendas.

Chair O'Neill closed public comments.

There was no further action taken on this item.

C. WORKPLAN REVIEW

Summary:

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

Recommended Action:

Receive and file.

Chair O'Neill reported there may be a Finance Committee on June 11th and 25th but is dependent on budget review.

Chair O'Neill opened public comments.

Mr. Mosher inquired if the Finance Committee will be taking their usual break during the summer given the review of the Revised Budget in July. Chair O'Neill responded that the topic will be discussed at the next Finance Committee.

Chair O'Neill closed public comments.

Chair O'Neill acknowledged there was no public comment period for non-agenda items and opened public comments.

Mr. Mosher commented the meeting was not live-streamed although he believed that was the original intention. He also commented there was confusion regarding the meeting location which was not noted on the agenda.

Chair O'Neill closed public comments.

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 4:53 p.m. to the next regular meeting of the Finance Committee on June 4, 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 Thursday, May 14th, at 4:20 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

DRAFT

June 4, 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 MAY 21, 2020

Changes to the [draft minutes](#) passages shown in *italics* are suggested in **strikeout underline** format.

Page 1, Item I: “*The meeting was called to order at 3:02 p.m. **in the City Council Chambers with some members attending** via teleconference.”*”

Page 1, Item II. ROLL CALL – STAFF PRESENT: “... , Budget **and Payroll Supervisor** and Acting Budget Manager Shannon Espinoza, ...” [?]

Page 1, Item V.A – Summary: “Update on audit work performed to date **my by** Moss Adams ...”

Page 1, Item V.A – 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 Discuss and provide input for City Council consideration.**”

Page 2, first full paragraph, sentence 2: “He advised that **at** once completed, the Internal Audit Plan will be formulated and will guide the City’s audit activities moving forward.”

Page 3, paragraph 2, last sentence: “He provided a review of the budget in its totality including **the** new Capital Improvement Plan (CIP).”

Page 3, paragraph 5, first sentence: “Chair O’Neill clarified due **to** the variances the TOT is down almost 75% which is significant and the same is true for Sales Tax which is down \$7 million.” [or “**from** the variances”?]

Page 3, paragraph 7, sentence 2: “He reported it was initially thought \$10 million would need to be taken from Contingency Reserves but was lowered to \$2.3 million **which includes without suspending** the additional \$5 million payment to CalPERS.” [\$2.3 million could not, mathematically, “include” \$5 million. I assume the statement was that \$2.3 million was the projection with the \$5 million item left in the budget?]

Page 3, paragraph 10: “In response to Chair O’Neill’s inquiry, Director/Treasurer Matusiewicz explained the \$52.4 million **of General Fund Discretionary Reserves** is 25% of the Operating Budget less the Discretionary Payments Fund and clarified how the \$52.4 million was calculated for Committee Member Tucker.” [This seems to have been a reference to the item so-labeled in the “Tiered Short-term Budgetary Solutions” slide.]

Page 3, paragraph 11, sentence 1: “In response to Chair O’Neill’s inquiry, Director/Treasurer Matusiewicz clarified the Contingency **Reserved Reserve** is based on the General Fund Operating Budget.” [alternatively, if the verb was intended: “contingency reserved” (lower case)]

Page 4, complete paragraph 2, sentence 2: “She clarified **the transfer’s transfers** in and out on Page 45 of the Proposed Budget is included in the tiers Director/Treasurer Matusiewicz referenced to bridge the gap.”

Page 4, complete paragraph 7, sentence 1: “Chair O’Neill commented **the report Proposed Budget** shows FY 18/19 **General Fund** Revenues as \$229.8 million and the General **Fund Expenditures** **and as** \$208 million but knows there was not a \$21 million surplus for that year.”

Page 4, complete paragraph 7, sentence 2: “Acting Budget Manager Espinoza clarified the \$229.8 million represents all funds and the \$208 million represents General Fund Only Expenditures.” [note: the 229,812,593 appears on page 24 of the [Proposed Budget book](#) and is labeled “TOTAL GENERAL FUND” revenue. The 208,164,257 is from page 40 and labeled “General Fund Operating Budget”. Both are labeled “2018-19 Actual”.]

Page 5, paragraph 1, sentence 2: “Director/Treasurer Matusiewicz explained there are many moving parts with this Proposed Budget and **he** will work to develop a better interpretation.”

Page 5, paragraph 2, sentence 1: “Director/Treasurer Matusiewicz presented the proposed **Capital Project capital projects** that would continue and **those that would** be placed on hold until FY 21/22.”

Page 5, paragraph 2, sentence 3: “He explained the Proposed Budget includes transfers of \$1 million to the Facilities Maintenance Plan (FMP), zero allocation to the Facilities Financial Plan (FFP), \$5 million to **the** Capital Improvement Program (CIP), and advised these transfers are not reflected as an operating expenditure.”

Page 5, paragraph 4, sentence 1: “Director/Treasurer Matusiewicz reported **on** Department Expenditures has increased mainly due to the Flores vs. City of San Gabriel case which increased overtime.”

Page 5, paragraph 6, sentence 1: “In response to Committee Member **Collopy-Collopy’s** inquiry, ...”

Page 6, paragraph 3, sentence 3: “Director/Treasurer Matusiewicz explained how the \$5 million ADP **and** is entered in the Proposed Budget.”

Page 6, paragraph 5, sentence 1: “Director/Treasurer Matusiewicz clarified the outlook was discussed in a November Finance Committee meeting and it was agreed **up** to review annually but is based on a five (5) year outlook.”

Page 6, paragraph 7, sentence 2: “Chair O’Neill suggested rescheduling the next meeting to June 4th to allow additional time for **the** Finance Committee to review the Proposed Budget and **it** was agreed upon by all.”

Page 6, paragraph 8: “In response to Committee Member Stapleton, Director/Treasurer Matusiewicz explained **the** he is unsure if the COVID-19 pandemic will **be** financially **similarly similar** to the Great Recession of 2008.”

Page 6, paragraph 9: “In response Committee Member Reed, Director/Treasurer Matusiewicz was unable to answer if City Council would provide any financial **assistant assistance** to local small businesses.”

Page 6, paragraph 10, sentence 2: “She reported the Orange County Board of Supervisor allocated Coronavirus Aid, Relief, and Economic Security (CARES) Act funding to reimburse

***City's cities** from that funding and are in current discussions to determine what would be reimbursable."*

Page 7, Item C, paragraph 1 of text: *"Chair O'Neill reported there may be a Finance Committee **meeting** on June 11th and 25th but **that** is dependent on budget review."*

Page 7, paragraph 3, sentence 2: *"Chair O'Neill responded that the topic will be discussed at the next Finance Committee **meeting**."*

Page 7, Item VII, paragraph 1: *"The Finance Committee adjourned at 4:53 p.m. to the next regular meeting of the Finance Committee on June 4, 2020 at ~~4:00~~ **3:00** p.m." [?]*



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

Agenda Item No. 5A
June 4, 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: Final Recommendation to the City Council Regarding the City Manager's Proposed FY 2020-21 Operating and CIP Budgets

SUMMARY:

Per Council Resolution No. 2018-71, the Finance Committee is responsible for reviewing and recommending the operating portion of the City Manager's proposed budget, excluding the Proposed Budget Revisions (formerly called the budget checklist) to the City Council for approval. The Finance Committee members sought to gain context and understanding of the City's financial position.

RECOMMENDED ACTION:

Review, discuss, and make a recommendation to the City Council regarding the City Manager's Proposed FY 2020-21 Budget.

DISCUSSION:

The annual budget serves as the foundation for financial planning and control and allows the City Council to prioritize expenditures in alignment with community values. The budget as submitted includes:

- The FY 2020-21 Proposed Budget is balanced and relies on a number of short term tiered budgetary solutions.
- The Proposed Budget assumes strong property tax growth rate while most other revenue is flat or significantly reduced.
- Budget maintains current service levels - continued focus on enhancing the community's quality of life and safety to the extent possible.

- Temporary suspension of funding infrastructure master plans and neighborhood enhancement projects.
- Continued aggressive payment schedule of unfunded pension liability, still a significant risk to financial health.

The City Manager's FY 2020-21 Proposed Budget assumes that the decline in revenues will be significantly impaired for the entire fiscal year. Due to the significant uncertainty, the proposed budget has tried to build in flexibility through a "tiered" budget solution approach should assumptions prove too optimistic.

Prior to making any recommended budget adjustments, we anticipate a budgetary shortfall of approximately \$33.2 million. To balance the projected deficit, a short-term or "bridge" solution was developed that relies on a combination of targeted reductions in operating accounts with underutilization trends, deferred capital project spending, reduced transfers to other funds and a partial suspension of the City's discretionary pension payment to CalPERS, pending Council reinstatement if the fiscal outlook improves. This approach has been developed in recognition of an abrupt budget chasm that we do not yet know the depth and length. Due to the City's long-term planning practices, short-term adjustments are available to provide us time to determine the longer-term impacts and develop service level adjustments, including changes to personnel and service delivery models, if necessary. This will prevent us from having to make unnecessarily deep City service cuts in the near-term that severely impact the community and the organization.

While some budgetary challenges can be absorbed by temporary cost cutting, opportunities to cut such things as salaries and benefits, and professional contract services expenditures, take time to evaluate, prioritize and implement, especially in order to understand the full-service level impacts of these actions. Barring a structural deficit that would necessitate a permanent shift in the City's service delivery model, the Contingency Reserve, upon Council direction, is recommended to be used in lieu, or in concert with, spending cuts in this extreme event we find ourselves in. However, this strategy will be reevaluated as the year progresses.

Pursuant to Section 1102 of the Newport Beach City Charter, and Council Policy F-3 titled Budget Adoption and Administration, the Proposed CIP and Operating Budget for the 2020-21 fiscal year was first submitted to the City Council and made available to the public on May 21, 2020. Per Council Resolution No. 2018-71, the Finance Committee is responsible for reviewing and recommending the operating portion of the City Manager's proposed budget, excluding the Proposed Budget Revisions (formerly called the budget checklist) to the City Council for approval. The Finance Committee members sought to gain context and understanding of the City's financial position.

The Finance Committee reviewed the funded status of the City's pension plan, its latest valuation and considered pension funding recommendations for Fiscal Year 2020-21 on

November 24, 2019; reviewed the City's Other Post-Employment Benefit (OPEB) plan valuation and recommended funding on January 16, 2020; reviewed the City's Long Range Financial Forecast update on February 13, 2019; reviewed the contours of the Public Works Department FY 2019-20 budget to inform the Committee's understanding of its operation in advance of the FY 2020-21 budget presentation on February 13, 2020; reviewed a draft of the Facilities Financial Plan on February 13, 2020; reviewed a draft the Harbor and Beaches Master plan on March 12, 2020; received an overview of revenue assumptions for the FY 2020-21 Proposed Budget on March 12, 2020; reviewed a summary of the COVID-19 fiscal impact estimate on the FY 2019-20 and FY 2020-21 budgets on April 16, 2020; reviewed the FY 2020-21 Proposed budget on May 14 and 21, 2020; and participated in a joint meeting with the City Council on May 26, 2020 to review the proposed budget.

The Finance Committee is encouraged to offer any comments, perspectives and recommendations on the upcoming decision(s) of the City Council relating to the Budget.

Prepared and Submitted by:

/s/ Steve Montano

Steve Montano
Deputy Finance Director

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	Review current year budget with recommendations for revenue and expenditure adjustments.
	<i>Finance Committee Attendance Optional</i>	
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		
Thursday, June 04, 2020	Recommendation FY 2020-21 Budget	Make final recommendation to the City Council on the City Manager's proposed FY 2020-21 Operating and CIP Budgets.
	Work Plan Review	Staff will review with the Committee the agenda topics scheduled for the remainder of the calendar year.
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
MEETING CONTINUED TO JUNE 25, 2020		
Thursday, June 25, 2020	Reserved if necessary	