



MINUTES

CITY OF DANA POINT

INVESTMENT REVIEW COMMITTEE

TUESDAY, MAY 27, 2014

10:00 AM

LOCATION: City Hall, Second Floor, Suite 212, Public Works Conference Room,
33282 Golden Lantern, Dana Point, CA 92629

CALL TO ORDER:

The meeting of the Investment Review Committee of the City of Dana Point was called to order by Chair Lisa Bartlett at 10:10 a.m.

ROLL CALL OF COMMITTEE MEMBERS:

Lisa A. Bartlett, Chair
J. Scott Schoeffel, Vice Chair
Doug Chotkevys, Committee Member
Mike Killebrew, Committee Member
Larry Rolapp, Public Member
Nancy Baumann, Public Member (teleconferenced)

Staff Present

Beverly Brion, Sr. Management Analyst
Kate Kholyvenko, Management Analyst
DyAnne Weamire, Administrative Secretary

APPROVAL OF MINUTES:

ITEM 1: Minutes of the Investment Review Committee of April 22, 2014.

DISCUSSION:

Public Member Larry Rolapp stated that the minutes of April 22, 2014 were correct with one exception. Member Rolapp recommended a change on page three, paragraph six, which

incorrectly stated that Vice Chair Schoeffel requested Committee Member Killebrew that he be provided a citation of legislation so he could review it. Mr. Rolapp commented that after reviewing his notes he indicated that Vice Chair Schoeffel had asked Member Rolapp to provide the citation and not Member Killebrew.

ACTION:

It was moved by Vice Chair Schoeffel, Seconded by Chair Bartlett, to approve minutes from the April 22, 2014 meeting with the noted correction.

The motion carried by the following vote:

AYES: Chair Lisa Bartlett, Vice Chair Scott Schoeffel, Committee Member Doug Chotkevys, Committee Member Mike Killebrew, Committee Member Larry Rolapp, Committee Member Nancy Baumann.

NOES: None

ITEM 2: City Financial Update

Member Killebrew gave a brief summary of the fund balances budgeted to this point. The City's current revenue projection for this year is \$33.8 million, and expenditures are \$37.9 million. The current amended fund balance for the end of next month is \$17.9 million, compared to \$13 million that was originally projected.

Vice Chair Schoeffel asked if the \$13 million included the sale of Via Canon property. Member Killebrew explained that it did not since the City was unaware of the prospective sale of the property at the time of the original budget projection.

Member Killebrew explained that current hotel Transient Occupancy Tax (TOT) collections are \$38 thousand under budget for the fiscal year, but that projected April hotel collections will do well. Member Chotkevys stated that the City expects that TOT collections for May will be good as well. Member Killebrew stated that the largest hotels set an all-time record in April, which has been fairly consistent up for 15 months and that some of the City's hotels are setting new records.

Member Killebrew stated that the City's revenue has been fairly consistent and the expenditures will come in under budget due to salary savings from vacant positions throughout the year. He also stated that the City will see savings in the amount of \$300K - \$400K from Police Services, as well as savings for storm drain related services not needed this year. He further stated that he believes the City will likely come in \$700K under budget on the expenditure side.

Member Killebrew brought to the Committee's attention new terminology as outlined by Governmental Accounting Standards. The Art in Public Places Fund is now categorized as Restricted Fund Balance, and currently has \$138K in that fund. The CIP Sinking Fund is now categorized as an Assigned fund balance, and currently has \$2.5 million. The Undesignated Reserve Fund is now categorized as Unassigned Fund Balance.

Member Killebrew shared with the Committee that the City's assessed property values did not drop much during the recession, so property taxes were not as negatively affected as other areas.

The Tourism Business Improvement District implementation has helped bring new business to the hotels and city, which in turn has expedited the recovery TOT revenues. In addition, the City has increased the amount and quality of community events which has had a positive impact on tourism. He continued that with regards to TOT, the City is currently at approximately 95% of the pre-recession high and staff is projecting that the City will either meet or exceed our TOT revenue projections.

Member Rolapp asked if the Headlands development helped with the assessed values. Member Killebrew responded that it helped; however, not significantly as the City receives only 7.4% of the 1% property tax. Member Chothevys stated there is currently over 400 active building permits, the City has responded well to the fiscal stress and has been proactive with a robust CIP and no deferred maintenance.

Member Killebrew stated that he will be bringing a financial update for Fiscal Year 2014/2015 to Council at the next council meeting where we will be amending some revenues and expenditures for the upcoming second year of the two-year budget.

DISCUSSION:

ITEM 3: Review of General Fund Reserve Policy

Member Rolapp stated he had done some research on the history of investment and reserve policy. He indicated that the Orange County Bankruptcy event stimulated a lot of legislation in 1995 and 1996, resulting in many amendments that were made to government codes and specifically to investment policies. He further explained that if a presentation of investment policies were made to Council, copies of those policies would need to be presented to the State, however there is no requirement to have written reserve policies. It is Member Rolapp's opinion that although there is no obligation for the City to have a written reserve policy. It is good practice and highly recommended, not only because of bond ratings but because the State oversight committees do review such policies to ensure that cities are run well.

Member Killebrew proposes making changes to the current policy to include redefining definitions and making changes to update our City's policy to the current terminology found in Governmental Accounting Standards Board's Statement Number 54.

Member Rolapp asked why the City has an Undesignated Reserve Fund. Member Killebrew stated that the Undesignated Reserve Fund is in place to provide the City Council with modest resources to address emerging issues or opportunities without having to utilize the Emergency Reserve Fund. In the event of an emergency, any Undesignated Reserve would be used prior to utilizing the Emergency Reserve.

Member Killebrew stated that the City has the CIP Assigned fund balance of \$2.5 million, the Unassigned fund balance, and on top of those Designated Emergency and Cash Flow Reserves that combined contain 30% of the total General Fund Revenues. Member Killebrew proposed to have a discussion about clarifying the need for the Assigned and Designated reserves, the targeted amount that should be in them, as well as whether the amount in the Designated reserves should be based on revenues or expenditures. He indicated that the City's operating expenditures have been very consistent over the years, but during the past five years the revenues have decreased 40 percent.

Vice Chair Schoeffel believes the City is vulnerable from a revenue aspect because the City's majority of revenue is generated mostly by Transient Occupancy Tax, but the City can control expenditures. For these reasons, Vice Chair Schoeffel believes that the Reserve Policy should be based on the revenue side rather than the expense side.

Member Killebrew stated that he would like the committee to set a minimum reserve level for the Undesignated Reserve Fund and would also like some direction on when the City should make adjustments to these amounts. Member Chotkevys suggested the Council set the reserve fund levels every June as part of the budget process. Member Killebrew suggested that the Unassigned reserve be defined in the policy that these levels be calculated and set on July 1st of each year, and shall not be changed by budget adjustments made during the fiscal year. Members Bartlett, Schoeffel and Rolapp agreed.

Member Killebrew discussed Section IV. The Prioritized Replenishment of Reserves section of the policy. He suggests the City adopt a plan that outlines which reserve funds should be replenished first. He further suggested that the plan prioritize replenishment such as funding Cash Flow Reserve first, followed by Emergency Reserve and finally, Undesignated Reserve.

Member Rolapp stated that GASB 54 does not reference an Undesignated Reserve term and Member Killebrew stated that it is referenced as Undesignated in our current policy, but that the Undesignated Reserve has been changed to Unassigned Reserve in accordance with Accounting Standards. Member Rolapp suggested using Assigned Reserves to replace the Undesignated Reserve terminology. Member Killebrew explained that Cash Flow, Emergency, and Undesignated are all Unassigned Reserves per GASB 54.

Member Killebrew stated that he mistakenly deleted State Budget Impacts out of the redraft policy and would add it back into the redraft policy. During the last Committee meeting it was discussed by the members to keep the State Budget Impacts fund even if the City decides not to fund it. This fund would be committed to Unassigned Reserves in the Cash Flow Reserve.

Member Schoeffel commented that if the reserves fall below the minimum balances that there should also be a time limit set to replenish them. In addition, that the word "shall" should replace the word "should."

Member Killebrew asked Vice-Chair Schoeffel for a suggested timeframe for City staff to construct and adopt a plan setting time limits on replenishing reserves following a catastrophic event. Member Schoeffel deferred the question back to the committee for suggestions. Member Chotkevys suggested that the staff present a plan to the City Council within 30 days and that Council take action within 45 days from the date the reserves fall below their minimums. Chair Bartlett and Vice-Chair Schoeffel concurred. Member Killebrew suggested that the statement should be tailored to the Emergency Reserves and not all Unassigned Reserves. Vice-Chair Schoeffel stated that a mechanism should additionally be put into place for tapping into the reserves in the first place. It also makes the 4/5 votes a more definitive statement of the legislative intent.

Member Killebrew presented a comparison of General Fund Reserves for comparable coastal and tourist destination-type cities. His findings showed that there is no consistency between cities in terms of reserve percentages. He emphasized the City of San Luis Obispo's General Fund Reserves were in the 20-percent range and reiterated his suggestion that the City of Dana Point not have reserves more than 50-percent. He also found that the City of Mission Viejo has

General Fund Reserves set at 15-percent and is evaluated every two years. In addition, the City of Mission Viejo does not have a Cash Flow Reserve but rather an Undesignated Reserve at a sufficient level to provide an adequate working capital or cash flow, and confirmed that these funds were 15-percent of revenues.

Member Killebrew recalled three credit rating scenarios provided in the document entitled “2014 Lease Revenue Bonds” based on an “AA”, “AA-“ and “A+” rating over a 30 year term and the implication to debt related interest rates for the City. The interest rate is 5 to 8 basis points different, and therefore not a substantial amount between interest rates: 4.33% to 4.38% to 4.46% over a 30-year bond issue.

Member Rolapp commented that if the City were to issue bonds, the City’s reserves will determine whether it receives a “AA”, “AA-“ or “A+” rating and there would be a debt service of approximately \$20K to \$25K difference between the “AA” to the “A+” categories. Creditors would also consider the City’s Transient Occupancy Tax and the City’s two-year budget when considering its rating.

During the preceding IRC meeting on April 22, 2014, Vice-Chair Schoeffel requested Member Killebrew research how the City of Dana Point compares financially to other cities since the recession. Member Killebrew explained that the GFOA annually compiles financial reports of every city and creates a database of the information. In this case, two totals are compared: Pre-recession data from 2007 and post-recession data from 2012. Member Killebrew concedes that in his opinion you cannot compare financial performance to other cities in a meaningful way because there are too many variable regarding operations, like how much is invested in public safety, capital, etc.; different communities set different priorities on the level of service, particularly in response to an economic crisis. Plus factoring in the recent dissolution of redevelopment in California cities creates issues with making accurate comparisons.

Member Killebrew wrapped up the meeting by discussing the 10-year history of the City’s Fund Balance. He stated that the City’s balances have been consistent since pre-recession. A spreadsheet provided to the committee shows the Assigned and Unassigned reserves at 60.3 percent of the City’s General Fund.

Member Killebrew reiterated that he will work on changing the terminology discussed earlier would like to continue the discussion and add the Capital Improvement Program in the next meeting as well.

PUBLIC COMMENTS:

There were no Public Comments.

ADJOURNMENT:

Chair Bartlett declared the meeting adjourned at 11:38am.

CERTIFICATION:

I, Kathy M. Ward, City Clerk of the City of Dana Point, do hereby certify that a copy of the foregoing Agenda was posted at Dana Point City Hall, the Dana Point Post Office, the Capistrano Beach Post Office and the Dana Point Library, on Thursday, May 22, 2014 in accordance with law.

KATHY M. WARD, CITY CLERK

DATE

PURSUANT TO THE AMERICANS WITH DISABILITIES ACT, PERSONS WITH A DISABILITY WHO REQUIRE A DISABILITY-RELATED MODIFICATION OR ACCOMMODATION IN ORDER TO PARTICIPATE IN A MEETING, INCLUDING AUXILIARY AIDS OR SERVICES, MAY REQUEST SUCH MODIFICATION OR ACCOMMODATION FROM THE CITY CLERK AT (949) 248-3500 (TELEPHONE) OR (949) 248-9920 (FACSIMILE). NOTIFICATION 48 HOURS PRIOR TO THE MEETING WILL ENABLE THE CITY TO MAKE REASONABLE ARRANGEMENTS TO ASSURE ACCESSIBILITY TO THE MEETING.