



CITY OF

NEWPORT BEACH

City Council Staff Report

June 11, 2019
Agenda Item No. 21

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Resolution No. 2019-54: Fiscal Year 2019-20 Budget Adoption; City Budget Hearing; Recommendations from the Finance Committee; and Proposed Budget Revision Items

ABSTRACT:

The City's Charter requires the City Council to adopt an annual budget by resolution each year prior to June 30.

RECOMMENDATION:

- a) Conduct a public hearing on the City Manager's Proposed Budget for Fiscal Year 2019-20. After taking public input, discuss Council member recommendations for additions, deletions, or modifications to the proposed budget via the Proposed Budget Revisions (formerly the "Budget Checklist");
- b) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly;
- c) Review and consider the Finance Committee's budget recommendations;
- d) Review and consider the City Manager's recommended list of City position classifications and their salary ranges;
- e) Conduct a straw vote on the Proposed Budget Revisions, including those items added, changed or removed during the public hearing. Based on the straw vote, Proposed Budget Revision items approved will be included in the City's Fiscal Year 2019-20 Approved Budget; and
- f) Adopt Resolution No. 2019-54, *A Resolution of the City Council of the City of Newport Beach, California, Adopting the Budget for the 2019-20 Fiscal Year*, as amended by Items (a) and (e) above.

FUNDING REQUIREMENTS:

The proposed budget is comprised of the City Manager's proposed Detail Operating Budget and the proposed Capital Improvement Project (CIP) budget. A third component of the budget includes proposed revisions to the initial proposed budget documents released in April. The proposed revisions have historically been referred to as the "Budget Checklist" but are now referred to as the "Proposed Budget Revisions" and may represent revisions to either the Detail Operating or the CIP budgets.

The City Council, upon adoption of the Proposed Budget Revisions as indicated on Attachment A and the originally proposed Fiscal Year 2019-20 Budget Resolution as indicated on Attachment B, will be authorizing the total appropriations for Fiscal Year 2019-20. Projected revenues are expected to balance the proposed operating budget including the attached Proposed Budget Revisions. If the Proposed Budget Revisions are approved in their entirety, General Fund sources will exceed operating expenditures by \$676,640.

DISCUSSION:

Budget Priorities

The proposed budget furthers the same core budget priorities that have served the community well in recent years.

Maintaining a Prosperous, Fiscally Sustainable, and Economically Viable City

This ongoing priority is to maintain the City's financial health by managing resources as efficiently as possible, responsibly managing debt, and working collaboratively with employees to share in the costs of pension obligations. The City Council has adopted prudent fiscal policies concerning its investments, reserves, budget administration, revenue initiatives, competitive contracting, facility replacement planning, and more. Financial operations produced net surpluses (after transfers) in the last nine years due to conservative budgeting, successful negotiation of labor concessions, and a stable and growing tax revenue base.

Our overall assessed valuation (AV) has been stable despite the economic downturn between 2009 and 2012, with growth in each of the last 23 years and is among the highest in the country.

The Budget Surplus Utilization Policy F-5 directs that roughly fifty percent of the budget surplus generally be used to address long-term obligations such as pension liabilities, other post-employment benefits, bonded debt, lease obligations, and other long-term needs. The remaining surplus is typically used to address one-time infrastructure or neighborhood capital improvements, guided by a philosophy that these expenditures improve the community's safety, aesthetics, transportation, or quality of life.

Providing High Quality Municipal Services that Residents Expect

This budget priority is an ongoing, organization-wide effort to maintain the City as a highly performing municipal corporation that anticipates and responds to customer needs by delivering public services better, faster, less expensively, and when customers need them. The Community Development Department will continue to refine and improve internal and external customer service, streamline the development review process and implement new online services including permitting and electronic plan review. Library Services will evaluate collections that best fill the needs of customers at each library, and continue to explore emerging digital media. Recreation and Senior Services will continue to develop a wide variety of recreational and social programs that address the needs of tots, youth and adults in the Newport Beach community.

Keeping Newport Beach Looking Great

Our goal is to maintain our high-quality natural and physical environment by creating aesthetically-pleasing places in which to live, work, recreate, and visit. Key service areas include maintaining high-quality community centers, parks, parkways and medians, roads, trees, alleys, beaches, utility services, and other major infrastructure. Public Works strives to provide safe, quality, cost-effective and timely improvements and maintain all City-owned public facilities such as libraries, piers, beach and park restrooms, fire stations, and the Civic Center, including managing the contracts for janitorial services, to support the residential, business, recreational and social needs of the community. The Utilities Department will continue the effective operation, maintenance and repair of the City's water system, sewer system, storm drain system, streets, sidewalks, and beaches. The Community Development Department will continue to consistently implement the codes, policies, and regulatory requirements to ensure quality residential neighborhoods and commercial districts throughout the City.

Providing a Safe and Secure Neighborhood

Our focus on public safety translates into top quality police, fire, emergency medical, and lifeguard response, as well as working with the community to prevent crime, fires, and the need for rescue. Our fire prevention, emergency preparedness, junior lifeguarding, and other programs also support these efforts.

Budget Highlights

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:

- A stable local revenue base with projected FY 2019-20 property tax growth estimated at 6.4 percent.
- Relatively flat expenditure growth except for specific program enhancements.
- Healthy levels of reserves, including a contingency reserve of \$52.6 million, an amount equal to 25 percent of the City's General Fund operations.
- Allocation of the significant Fiscal Year 2017-18 Year End Surplus (about \$13 million), with roughly half allocated to address long-term obligations and the remainder to various neighborhood enhancement capital projects.

- Continuation of an aggressive pension payment plan with a level dollar payment of \$35 million with the intent to eliminate the City's unfunded pension liability over 15 years.
- Significant contributions towards pension costs from our employees, with \$10.5 million (or 20 percent) of the \$52.9 million CalPERS payments being met through employee payroll deductions. Employees are now paying between 12.35 percent and 14.6 percent of salary towards their pensions.
- The FY 2019-20 Budget as proposed includes 727 full-time positions, an increase of 1 full-time position from the prior year. This increase is fully off-set by a decrease in contract expenditures.
- The City relies heavily on part-time staff members to provide many projects and programs at lower cost than full-time employees. If approved, part-time positions, including the attached Proposed Budget Revisions, will increase 7.21 full-time equivalent positions (FTE) to 158.21 FTE.

Budget Submission and Finance Committee Recommendation

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 2019-20 fiscal year was first submitted to the City Council and made available to the public on April 11, 2019 and April 17, 2019, respectively. 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 select City departments in advance of the Proposed Fiscal Year 2019-20 Budget.

The Finance Committee reviewed the status of the Insurance Reserve on October 18, 2018; reviewed the funded status of the City's pension plan, its latest valuation and considered pension funding recommendations for Fiscal Year 2019-20 on November 29, 2018; reviewed pertinent facts and other information regarding the City's pension accrued liability on January 17, 2019; reviewed the City's Long Range Financial Forecast update on February 14, 2019, reviewed the revenue assumptions used to develop the Fiscal Year 2019-20 Operating Budget on April 25, 2019; participated in a joint meeting with the City Council on May 14, 2019 to review the proposed budget; and obtained further clarification on the proposed budget from staff on May 16, 2019.

On May 30, 2019, the Finance Committee finalized its review of the Proposed Fiscal Year 2019-20 Budget. A motion was made to recommend the City Manager's Proposed Fiscal Year 2019-20 Budget. The motion also stated that the Committee takes no position on the fiscal policy merits of the Capital Improvement Budget or of the Proposed Budget Revisions. The motion was carried 5-0, with two members absent.

Budgetary Information

The Fiscal Year 2019-20 Proposed Budget for all funds, including reappropriated CIPs of \$51.7 million and internal charges of \$30.8 million, is \$400 million. The operating portion of that amounts to \$303.8 million, which represents a 1.6 percent, or \$4.8 million increase over the prior year's revised budget. The Fiscal Year 2019-20 Proposed Budget of net new appropriations total \$317.4 million.

	2017-18 REVISED EXPENDITURES	2018-19 REVISED EXPENDITURES	2019-20 PROPOSED EXPENDITURES	\$ VAR	% VAR
OPERATING BUDGET	\$ 294,576,388	\$ 298,959,576	\$ 303,752,688	\$ 4,793,112	1.6%
CIP NEW APPROPRIATIONS	41,069,538	52,325,792	44,491,100	(7,834,692)	-15.0%
CIP REAPPROPRIATIONS	35,194,809	30,757,550	51,724,110	20,966,560	68.2%
TOTAL BUDGET	\$ 370,840,735	\$ 382,042,918	\$ 399,967,898	\$ 17,924,980	4.7%
LESS CIP REAPPROPRIATIONS	(35,194,809)	(30,757,550)	(51,724,110)	(20,966,560)	68.2%
LESS INTERNAL CHARGES	(24,747,772)	(28,101,579)	(30,844,645)	(2,743,066)	9.8%
NET NEW APPROPRIATIONS	\$ 310,898,154	\$ 323,183,789	\$ 317,399,143	\$ (5,784,646)	-1.8%

This change in the operating budget represents the net amount of both one-time decreases from the prior year and increases for Fiscal Year 2019-20. Decreases result from the elimination of one-time budget amendments and encumbrances for unspent appropriations from the prior year. Increases are the result of negotiated salary and benefit increases, increases in operating costs, and some growth due to new programs or enhancements to existing programs that are described in the sections that follow. New appropriations for capital improvement projects amount to \$44.5 million. Unlike the operating budget, capital improvement appropriations are expended over multiple fiscal years due to the timing, ebb and flow of large construction projects that require environmental review, coordination with outside entities (public utilities), and design/policy considerations. We estimate that total appropriations for capital projects will be approximately \$96.2 million when the balance of encumbered funds is carried forward into Fiscal Year 2019-20, as they are every year. Prior year carry forward capital appropriations are supported by reserves for prior year encumbrances and CIP reappropriations.

General Fund

The General Fund is the key operating fund within the City's budget. The General Fund accounts for discretionary revenues and expenditures, while all other funds are used to account for enterprise activities, internal service activity, major capital improvement projects, and special revenue sources that are restricted for specific purposes. The General Fund budget is balanced and includes total sources of \$252.3 million. Sources include prior year surplus, operating revenues (net of restricted revenues) and interfund transfers-in. Total uses of \$250.4 million include operating expenditures and transfers-out.

Appropriations for operating expenditures are balanced in relation to projected revenue sources and will not over-rely on one-time revenue sources or reserves. A summary of the Fiscal Year 2019-20 General Fund Proposed Budget follows.

Summary of the General Fund FY 2019-20 Proposed Budget (Millions)

	FY 2018-19 Revised Budget	FY 2019-20 Proposed Budget	\$ VAR	% VAR
SOURCES				
Prior Year Surplus	\$ 13.5	\$ 14.1	\$ 0.5	4.0%
Revenues	\$ 221.4	\$ 229.4	\$ 8.0	3.6%
Transfers-In	\$ 8.1	\$ 9.5	\$ 1.3	16.4%
Restricted Revenues	\$ 1.1	\$ (0.7)	\$ (1.8)	-159.1%
TOTAL SOURCES	\$ 244.2	\$ 252.3	\$ 8.1	3.3%
USES				
Expenditures	\$ 211.9	\$ 218.7	\$ 6.8	3.2%
Transfers Out	\$ 29.9	\$ 31.7	\$ 1.8	6.1%
TOTAL USES	\$ 241.7	\$ 250.4	\$ 8.7	3.6%
TOTAL SURPLUS/DEFICIT	\$ 2.5	\$ 1.9	\$ (0.6)	-22.9%

Prior Year's Fund Balance

The proposed budget adheres to Council guidance regarding the use of the \$14.1 million prior year surplus funds. Thirteen million of this amount derives from the prior year (FY 2017-18) surplus. Roughly half of this amount will be allocated to address long term obligations including the Harbor & Beaches Master Plan (\$2 million), Facilities Financing Plan (\$1.5 million) and Workers' Compensation (\$3 million). The remaining half will be allocated to various neighborhood enhancement capital projects. Approximately \$1 million of the net remaining surplus funds derives from the FY 2018-19 projected surplus that will be allocated to the FY 2019-20 Proposed Budget.

Operating Revenues

The General Fund operating revenues for Fiscal Year 2019-20 are projected at \$229.4 million. This represents a 3.6 percent increase from the Fiscal Year 2019-20 revised budget due largely to favorable economic trends impacting two of the General Fund's top revenue sources (Property Tax and Transient Occupancy Taxes). We are projecting that property taxes will increase 6.4 percent, and Transient Occupancy Taxes (TOT) will increase 4.6 percent over our Fiscal Year 2019-20 revised revenue estimates. Net of one-time aberrations, sales tax receipts are expected to grow, albeit at a slower rate when compared to recent years. General consumer sales continue to trend flat in part due to continued expansion of the on-line sales at the expense of brick and mortar stores. Strong sales tax performance in recent quarters is evident in the car sales and restaurants/hotels sectors. Revenue projections are, as always, based on conservative assumptions to minimize adverse deviation from expected results and to ensure that the City has adequate financial resources to meet obligations and complete the programs approved by the City Council.

Transfers In

Inter-fund Transfers or “transfers-in” total \$9.5 million and include resources transferred from other funds, which are used to offset administrative and maintenance costs necessary to conduct particular projects or programs within the General Fund. The majority of transfers-in is from the Tidelands Fund to offset costs for activities, programs, or functions whose primary purpose benefit the Tidelands, such as Harbor Resources, Police, Fire/EMS, and lifeguarding. Newport Beach’s Tidelands include the ocean beaches, and the visitor use here is high, adding revenue but also causing significant expense in terms of police, lifeguard, and emergency medical response.

Restricted Revenues

Certain revenues, approximately \$700 thousand are restricted revenues and will be reserved for future use. These include the \$222 thousand that will be reserved for public/government access programming, \$300 thousand for oceanfront access/recreation improvements and \$150 thousand that will be reserved for a general public benefit.

Operating Expenditures

The total General Fund operating expenditures amount to \$218.7 million (\$250.4 million with transfers). This represents a \$6.8 million, or 3.2 percent, increase from the Fiscal Year 2018-19 revised budget and includes increases and decreases. Decreases include the elimination of prior year one-time costs, one-time grants, and funds carried over from the prior year that can be removed from the budget as planned.

The majority of Salary and Benefit expenditure increases are the result of both increased higher salary and benefit costs, as well as a recommended increase in internal charges to bolster Workers’ Compensation reserve levels as determined by an annual actuarial valuation. The Fiscal Year 2019-20 budget includes an increase of \$4.5 million as the result of negotiated salary and benefits changes (including cost of living adjustments and merit increases), as well as Memorandum of Understanding (MOU) and other staffing related increases. It also provides for an increase of \$852 thousand apportioned for the purpose of increasing Workers’ Compensation reserves. Fiscal Year 2019-20 will mark another year of accelerated pension liability payments to CalPERS as opposed to the lengthier, and consequently costlier, default payment options. This aggressive funding plan will improve the City’s funded status, further increase repayment efficiency of the unfunded pension liability, and preserve financial flexibility over the long term.

General Fund operating expenditures are increasing \$3.8 million due to higher IT internal service charges (\$1.2 million), new programs or enhancements to existing programs – some discussed below (\$1 million), the escalation of contractual service costs citywide (\$0.7 million), higher cost of general liability/uninsured claims (\$0.5 million) and various other changes (\$0.5 million). General Fund supplemental budget enhancements account for less than half of one percent of the General Fund’s proposed operating budget and include such things as professional services work relating to airport issues (\$0.5 million), adding additional resources to the non-profit organization City Net to enhance ongoing outreach and support efforts to mitigate homelessness (\$0.2 million), and the replacement of emergency medical service equipment (0.1 million).

Citywide Staffing Changes (All Funds)

Including the Proposed Budget Revisions (Attachment A), net staffing changes will result in an increase of 1.0 full-time position for a total of 727 full-time authorized positions and an increase of 7.21 FTE/part-time positions for an authorized part-time total of 158.21 FTE positions.

	Full Time	Part Time
FY 19 Adopted Budget	726	151.00
City Attorney's Office		
Add .6 FTE Paralegal		0.60
City Manager's Office		
Eliminate .5 FTE Office Assistant		(0.50)
Add .3 FTE Admin Analyst		0.30
Community Development		
Eliminate .75 FTE Building Inspector II		(0.75)
Add .75 FTE Admin Analyst		0.75
Add .6 FTE Interns		0.60
Finance		
Add .29 FTE Senior Fiscal Clerk		0.29
Fire Department		
Add .95 FTE Lifeguard - Rescue Boats, Marina Park & Lido Bridge		0.95
Human Resources		
Add .75 FTE Human Resource Analyst		0.75
Police Department		
Eliminate .44 FTE Cold Case Investigators (Limited Term)		(0.44)
Public Works		
Eliminate 1 FT Engineering Technician	(1)	
Eliminate .23 FTE Intern		(0.23)
Add 1 FT Records Specialist	1	
Add .3 FTE Associate Civil Engineers		0.30
Add .525 FTE Office Assistant		0.53
Recreation		
Eliminate .17 FTE FiiN Leader		(0.17)
Add .04 FTE Recreation Leader		0.04
Utilities		
Add 1 FT M&O Specialist to Streetlight Program	1	
Add 1.5 FTE Utilities Specialists		1.50
Add 1.0 FTE Maintenance Aide		1.00
FY20 Proposed Budget Position Total	727	156.52
FY20 Proposed Budget Revisions (Checklist)		
Community Development		
Add 1 FTE Planning Technician (Limited Term - General Plan Update)		1.00
Add .25 FTE Department Assistant (Limited Term - General Plan Update)		0.25
Fire Department		
Eliminate 3 FT Firefighters	(3)	
Add 3 FT Firefighter/Paramedics	3	
Police Department		
Add .44 Limited Term Cold Case Investigators		0.44
FY 20 Proposed with Checklist Changes	727	158.21

Since the Detail Operating budget was discussed with City Council at the study session on May 14, 2019 the following adjustments have been made to the Proposed Budget Revisions. The exchange of three firefighter positions for three firefighter paramedic positions is included to more efficiently staff the new Corona del Mar Fire station. This exchange will upgrade service capabilities from Basic Life Support (BLS) to a Paramedic Assessment Unit (PAU) capable of providing Advance Life Support (ALS) services. The City will meet and confer with the Newport Beach Firefighters Association to document the newly proposed service model.

While the City was considering additional Police Officers to be included in the list of proposed budget revisions, initial analysis indicates further study is needed, including the use of resources now that the department is fully staffed after several years of vacancies. Staff will bring this proposal back for Council consideration at a later date after further analysis.

Lastly, as part of a detailed analysis of expenditures in the Water Fund in preparation of the water rate study, administrative cost allocations and fixed water meter charges for City water accounts have been adjusted. These adjustments result in more expenditures allocated to the General Fund but a corresponding decrease in expenditures or increase in revenues to the Water Fund.

Section 2.28 of the Newport Beach Municipal Code (NBMC) pertains to the City's Compensation Plan. NBMC 2.28.030 states that the City Manager shall review the provisions of the position classifications and salary ranges at least annually and "recommend changes" thereto.

Additionally, CalPERS requires a public listing and Council-approved schedule of the position classifications and salary ranges. Attached is the current salary schedule with the recommended list of changes to City classifications and ranges.

- **ASSISTANT CITY ATTORNEY:** Adjust the compensation of the Assistant City Attorney position to better reflect internal and external parity. The monthly salary range is adjusted from \$12,928 - \$20,253 to \$11,773 - \$17,656.
- **MAINTENANCE & OPERATIONS (M&O) SPECIALIST:** Retitle the M&O Specialist position to Electrical and Instrumentation Specialist, with no change to compensation. The updated position title more clearly identifies the type of work associated with this classification.
- **PUBLIC WORKS TECHNICAL AIDE:** A compensation adjustment is proposed for the Public Works Technical Aide position, from \$13.70 - \$19.28 to \$16.13 - \$19.63 per hour. This position requires enrollment in a college-level Engineering program. The salary range enhancement will 1) improve internal and external parity of the classification, 2) bring the salary range closer to the labor market median and 3) assist with recruiting qualified candidates.

- **PURCHASING AGENT:** Reclassify the Purchasing Agent position to Purchasing and Contracts Administrator, with a salary range of \$90,529 - \$127,429. Over the past few years, the job duties and responsibilities of the position have increased in complexity and responsibility; the updated title, job description and salary more accurately reflect the incumbent's job duties and level of accountability.

Capital Improvement Expenditures

The CIP serves as a funding plan for public improvements, special projects and many ongoing maintenance programs. Projects in the CIP include construction and rehabilitation of arterial highways, local streets, storm drains, bay and beach improvements, parks and buildings, and water and wastewater improvements.

The Fiscal Year 2019-20 CIP budget consists of \$44.5 million in new appropriations (\$5 million of which comes from the General Fund) and an estimated \$51.7 million in re-budgeted funds to be carried forward from the current fiscal year for a total CIP budget of just over \$96.2 million. Specific project plans for this budget year is discussed in more detail in the CIP budget volume.

Transfers

General Fund Transfers-out total \$31.7 million to address long-term obligations in high priority areas including \$10 million to the Facilities Financial Plan, \$5 million for “nuts and bolts” CIPs, \$5 million to fund neighborhood enhancement projects (from prior year surplus), \$5.5 million to the Harbor & Beaches Capital Fund, \$3 million to the Workers’ Compensation Fund, \$2.5 million to the Facility Maintenance Plan, and \$0.5 million to the Equipment Replacement Fund that reflects the City’s saving plan to fund the perpetual replacement of the 800 MHz Countywide Coordinated Communications System (CCCS). The CCCS is Orange County's analog/digital trunked public safety radio communications system that provides radio communication services and interoperability among City and County law enforcement, fire services, public works and lifeguard/marine safety departments in Orange County. Per City Council Reserve Policy F-2, the Contingency Reserve shall have a target balance of 25 percent of the General Fund operating budget as originally adopted. Per Council Policy and due to its discretionary nature, the \$8.5 million discretionary pension payment is excluded from the 25 percent calculation.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENTS:

Attachment A – Proposed Budget Revisions

Attachment B – Resolution No. 2019-54

Attachment C – City Manager’s Recommended List of City Position Classifications and
Salary Ranges