



**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
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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