



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

Agenda Item No. 5A  
February 18, 2021

**TO:** HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
Scott Catlett, Finance Director/City Treasurer  
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**SUBJECT: Fiscal Year 2020-21 Second Quarter Financial Report**

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### **SUMMARY:**

The City of Newport Beach Finance Department prepares quarterly financial reports to review the status of revenues and expenditures for the City's funds. This report contains information on resources through the second quarter of Fiscal Year 2020-21, which is the period between July 1, 2020, and December 31, 2020. Year-to-date activity of the General Fund shows that revenues through the end of the second quarter are coming in higher than the revised budget, with expenditures projected to be lower than the revised budget. As the economy gradually improves, these trends are likely to continue; however, a great deal is unknown as the global pandemic and related restrictions are still evolving.

### **RECOMMENDED ACTION:**

Review and discuss this report and provide any recommendations for consideration by the City Manager and City Council.

### **DISCUSSION:**

#### **Economic Overview**

The unemployment rate in Orange County was 7.4 percent in December 2020, up from a revised 6.4 percent in November 2020. This compares with an unadjusted unemployment rate of 8.8 percent for California and 6.5 percent for the nation during the same period. Chapman University's recent annual economic forecast predicts that Orange County jobs, will rise 2.6% in 2021 but will still leave countywide payrolls 105,000 workers short of pre-coronavirus employment.

A key factor for the meek recovery is Orange County's dependence on leisure businesses — from tourism to dining out. Those industries, while resilient, have proved slower to recover or adapt given the State's pandemic-related restrictions that made most gatherings off limits and intermittently shuttered businesses. Leisure and hospitality jobs still will be 40,000 short of pre-pandemic days after growing an estimated 8.8% in 2021. The sector lost 24% of its jobs in 2020 after a 2.4% rise in 2019. One key yardstick for leisure industries is spending on food and drink. Chapman's forecast sees a jump of 13% in 2021 following a drop of 24% in 2020.

Powering the 2021 rebound will be housing, as new home construction should be strong, and economists predict that construction jobs should grow 13.5% in 2021. Home prices are forecast to rise 4.4% in 2021 following an increase of 7.8% this year and 0.9% in 2019. Among other big-ticket purchases, Orange County spending on motor vehicles and parts is projected to jump 13% in 2021, after plunging 24% this year and rising 3.6% in 2019.

Many economists, along with the Federal Reserve's policymakers, say they're hopeful that once the coronavirus vaccines are more widely distributed, the economy will achieve a broader recovery in the second half of the year. Job growth is expected to pick up in the spring as vaccine distribution continues, better weather allows for more outdoor activities, and the State gradually loosens restrictions. Despite the expected improvement, California's jobless claims represent 20.3% of the jobless claims filed in the entire nation for the week that ended January 2<sup>nd</sup>.

### General Fund Revenues

Most revenue categories have performed at or higher than their budgeted levels this year due to more favorable economic conditions than anticipated when the budget was developed in April 2020. Through the second quarter, revenues have come in \$11.5 million higher than currently budgeted.

### FY 2020-21 Actual General Fund Revenues Through Q2 (December 2020)

Revenues by Category	PY Q2 Actual	Adopted Budget Through Q2	A Revised Budget Through Q2	B YTD Q2 Actual	C=B-A Variance	D=C/A % Variance
Property Taxes	\$ 53,424,224	\$ 56,462,188	\$ 56,462,188	\$ 56,776,541	\$ 314,353	0.6%
Sales Tax	13,417,227	9,605,803	9,605,803	13,010,468	3,404,665	35.4%
Transient Occupancy Tax	12,689,626	1,543,553	1,543,553	7,790,737	6,247,184	404.7%
Other Taxes	4,755,170	3,804,296	3,804,296	4,122,531	318,235	8.4%
Service Fees & Charges	12,697,422	10,329,046	10,591,061	8,576,662	(2,014,399)	-19.0%
Parking Revenue	2,870,199	2,295,867	2,295,867	3,692,174	1,396,307	60.8%
Licenses & Permits	2,544,656	2,034,464	2,034,464	2,512,787	478,323	23.5%
Property Income	2,387,949	1,958,264	1,958,264	2,310,056	351,792	18.0%
Fines & Penalties	1,728,265	1,369,103	1,369,103	2,092,571	723,468	52.8%
Intergovernmental Revenues	802,580	431,446	1,605,228	1,750,146	144,918	9.0%
Investment Earnings	585,882	115,184	115,184	537,542	422,358	366.7%
Miscellaneous Revenues	1,554,206	298,961	655,531	374,325	(281,206)	-42.9%
<b>Total Revenues</b>	<b>\$ 109,457,406</b>	<b>\$ 90,248,175</b>	<b>\$ 92,040,542</b>	<b>\$ 103,546,540</b>	<b>\$ 11,505,998</b>	<b>12.5%</b>

**Property Taxes** - Property taxes are the single largest funding source and represent just under 50% of all General Fund revenues. Property tax revenues for FY 2020-21 were budgeted conservatively anticipating the potential for delayed payments due to economic hardship and the Governor's Executive Order (N-61-20) suspending penalties and interest of property taxes. For FY 2020-21, property taxes are so far \$314,000 higher than projected through the second quarter. This is largely due to a timing difference for receipt of the City's first RDA (Redevelopment Agency) residual payment being booked in December when it is typically booked in January. Otherwise property taxes would have been down approximately \$466,000. The City's first of three unsecured property tax payments came in less than projected; however, the second payment, received in January 2021, came in higher than projected and overall unsecured property taxes are now back on track at 4.6% higher than the previous year. These are value-based taxes not secured by property (e.g. business property, boats, and airplanes) and make up only about 2.6% of property tax revenue. Supplemental taxes (levied after change in ownership or completion of new construction) continued to be down through the second quarter; however, the latest payment received in January 2021 was flat compared to the prior year. With the recent surge of home sales, this category will likely continue to improve, which bodes well for future secured property taxes. Secured property tax payments continue to come in strong which is an indication of timely property tax payments. Staff have made no changes to the property tax revenue estimates based on the revenues received through the end of the second quarter.

**Sales Tax** - The second largest funding source for the General Fund is sales tax revenue, typically making up more than 15% of General Fund revenues. The City's sales tax base is largely generated from three main industry categories including Autos and Transportation, General Consumer Goods, and Restaurants/Hotels. Most of these industries are also heavily impacted by tourism. Sales Tax revenues through the second quarter of FY 2020-21 are \$3.4 million higher than anticipated. Businesses pivoted in creative ways to reach their customers as they were able to open at some capacity sooner than expected resulting in relatively strong consumer spending. For these reasons all three main industry categories performed better than expected. Although second quarter revenues are higher than expected thus far, sales taxes receipts are still less than the prior year. The latest sales tax information shows that retail and restaurants have been hit especially hard while transportation is showing quarter over quarter increases. Also, the California Department of Tax and Fee Administration (CDTFA) has extended due dates and offered payment plans to small businesses. This has, and will continue to create, timing issues related to when revenues are received. The City's sales tax consultant has provided an updated sales tax estimate of \$34.5 million for FY 2020-21, \$5.8 million or 20.4% higher than budgeted, resulting from increased consumer spending, vaccination roll-out, and reduced case counts. There is still room for additional positive improvement in sales tax revenues by the end of the fiscal year; however, staff and the City's consultant remain conservative in projecting sales tax revenues and will wait to

evaluate additional receipts before making additional adjustments to the sales tax revenue projection.

**Transient Occupancy Tax** – Transient occupancy tax (TOT) was the City's most severely impacted revenue source as the pandemic unfolded, as most major hotels within the City were temporarily closed towards the end of March 2020 and many didn't start reopening until late May or early June. Also, short term rentals were not allowed to operate in the City from early April 2020 until May 20, 2020. Although most hotels are operational, with the exception of the Island Hotel, they remain well under full capacity. The Renaissance Newport Beach hotel just reopened February 1, 2021. Staff budgeted FY 2020-21 TOT revenues very conservatively expecting to realize just 10% and 20% of prior year revenue in the first and second quarter, respectively. Staff also anticipated that residential and hotel TOT would be impacted similarly by the pandemic. In fact, the negative impact has been limited to hotel TOT, with residential TOT revenues for the first and second quarters of FY 2020-21 coming in 13% higher than prior years. The table below illustrates hotel TOT revenues by month this fiscal year versus the same month in the prior fiscal year. It is notable that revenues continued to improve from July through October and then had a dramatic fall in December 2020 when Governor Newsom enacted a stay at home order that largely prohibited travel.

Month	% of Prior Year Revenues
July 2020	37%
August 2020	48%
September 2020	55%
October 2020	59%
November 2020	51%
December 2020	31%

In spite of these restrictions, revenues through the second quarter of FY 2020-21 were approximately \$6.2 million over the projected budget. Staff expects the hotel industry to continue to operate at reduced, but increasing, occupancy throughout the remainder of the Fiscal Year. Due to the lifting of the stay at home order, the vaccination roll-out, and the likelihood of more travel by year end, the City's tourist population is expected to gradually increase. Staff are projecting revenues to reach 60%, a level comparable to what was seen in October, by the end of the fiscal year. For these reasons, staff currently

estimates TOT revenues of \$15.2 million for FY 2020-21, which is \$8.8 million or 136.4% higher than budgeted.

**All Other Revenue** – This category includes all other revenue sources other than the top three (property tax, sales tax, and TOT). All Other Revenue is made up of the following:

- Other Taxes – real property transfer taxes, business license taxes, marine charter taxes, and franchise fees.
- Service Fees & Charges – plan check fees, recreation classes, emergency medical services fees, and numerous other cost-of-service fees.
- Parking Revenue – all General Fund related metered parking fees that are assessed throughout the various parking zones of the City.
- Licenses and Permits – fees charged to process building related permits, street closure permits, dog licenses, and police tow franchise fees.
- Property Income – City owned and managed income producing properties, long-term ground leases to concessions, restaurants, hotels and other businesses and organizations, and rental of City facilities to the public.
- Fines and Penalties – parking citation fines collected by the City, administrative citation fines, fines remitted to the City from the County for vehicle code violations, and false alarm penalties.
- Intergovernmental Revenues – federal, state, and local grant revenues, which includes, but is not limited to, the City's portion of the ½ cent sales tax revenue paid to the County for public safety, state mandate reimbursements, reimbursement for strike teams sent to assist with fires, and revenue sharing with the County of Orange under the Waste Disposal Agreement (WDA).
- Investment Earnings – revenue generated from the investment of City funds.
- Miscellaneous Revenues – restricted revenue, damage to City property, bad debt, donations and contributions, non-operating revenues such as proceeds from the sale of materials and equipment, and other miscellaneous revenues.

Revenue accounts other than the top three were, reduced by 20% across the board in the FY 2020-21 budget. This was based on historical reductions to revenues during prior recessions and with the understanding that some accounts would come in higher than projected and others would come in lower. All other revenue (excluding the top three) through December 31, 2020, is \$1.5 million higher than budgeted. Parking revenue through the second quarter came in strong at \$1.4 million over budget. This is due to warm weather and people seeking local outdoor options for exercise and entertainment. Property Income through the second quarter is up \$350,000 over budget and is due to rental property revenue coming in strong and to account for revenue that was deferred from FY 2019-20 to FY 2020-21. Fines and Penalties are \$720,000 over budget as parking fines are coming in higher than projected. Other Taxes are \$300,000 over budget,

with business license taxes and property transfer taxes coming in strong, while marine charter taxes are below budget. Licenses and Permits revenues are almost \$480,000 over budget primarily from building permits. Service Fees & Charges came in \$2 million less than budgeted. This is partially due to a decrease in fees from police activity (jail booking and alarm permit) and the libraries being closed, but largely results from recreation programs and contract classes being severely limited. These decreased revenues were also partially offset by Community Development Department, Public Works, and the Fire Junior Lifeguard Services Fees & Charges revenues coming in higher than projected. Also partially offsetting the decrease in recreation revenue is expenditure savings resulting from reduced contract instructor payments. Other Revenue estimates have been further refined by the departments during the budget process and are now projected at \$51.3 million for FY 2020-21, which is \$2.6 million or 5.3% higher than budgeted.

The following table shows staff's projection for FY 2020-21 revenue through the end of the fiscal year and how it compares to current year budgets and prior year actuals. If revenues come in as projected below, staff estimates an additional \$17.2 million beyond the revised budget amounts.

#### FY 2020-21 Projected General Fund Revenues

Revenues by Category	PY Actual	Adopted Budget	A Revised Budget	B Projected Actual	C=B-A Variance	D=C/A % Variance
Property Taxes	\$ 113,313,535	\$ 117,508,227	\$ 117,508,227	\$ 117,508,227	\$ -	0.0%
Sales Tax	36,232,969	28,690,831	28,690,831	34,540,800	5,849,969	20.4%
Transient Occupancy Tax	20,847,883	6,434,115	6,434,115	15,209,156	8,775,041	136.4%
Other Taxes	11,846,082	9,652,973	9,652,973	11,081,175	1,428,202	14.8%
Service Fees & Charges	20,913,897	17,350,903	17,612,918	14,508,830	(3,104,088)	-17.6%
Parking Revenue	5,503,053	4,599,800	4,599,800	5,503,097	903,297	19.6%
Licenses & Permits	4,752,252	4,239,333	4,239,333	5,042,454	803,121	18.9%
Property Income	4,619,106	3,892,635	3,892,635	4,341,939	449,304	11.5%
Fines & Penalties	3,659,011	3,681,031	3,681,031	3,263,257	(417,774)	-11.3%
Intergovernmental Revenues	3,910,305	1,646,716	2,860,998	5,031,400	2,170,402	75.9%
Investment Earnings	1,295,547	1,112,200	1,112,200	1,112,200	-	0.0%
Miscellaneous Revenues	3,059,377	775,140	1,131,710	1,462,982	331,272	29.3%
<b>Total Revenues</b>	<b>\$ 229,953,017</b>	<b>\$ 199,583,904</b>	<b>\$ 201,416,771</b>	<b>\$ 218,605,517</b>	<b>\$ 17,188,746</b>	<b>8.5%</b>

It should also be noted that the City has received approximately \$4.0 million of CARES Act funding between fiscal years 2019-20 and 2020-21. Between March 2020 and September 30, 2020, we received a total of \$3.5 million in CARES Act funding, with another \$529,569 received in October of 2020. Of the total \$4.0 million received to date, \$72,314 was from the U.S. Department of Health & Human Services as part of the Provider Relief Fund to be used for healthcare related expenses or lost revenues; \$2.1 million was from the County of Orange to provide grants to small business impacted by the pandemic; \$769,758 from the County of Orange, and \$1.0 million from the State of California were both used to offset public safety activities during the pandemic. In addition to the CARES Act Funding, the City also filed a \$565,000 claim to the Federal Emergency

Management Agency (FEMA), which given recent actions by the Biden Administration will be revised to request reimbursement for additional costs and to increase the amount requested to 100% of the City's costs. However, the disposition of this claim will not be known for some time. The City also received \$290,000 from the County of Orange for economic support initiatives for the community's small businesses. Depending on the source and guidance associated with the different allocations of pandemic-related funding, certain portions will ultimately be transferred to the General Fund and provide additional resources to further offset pandemic-related costs.

### **General Fund Expenditures**

With 50% of the year complete, FY 2020-21 General Fund expenditures total \$104.7 million and are at 45.9% of the revised budget, which is 2.7% lower than projected. Some departments incur a greater or lower level of expenditures in the first half of the year than in the second half due to the timing and seasonality of their operations or programs, and the trends in the current fiscal year are generally consistent with prior years. Existing appropriations are on target to fund all current operational expenditures and likely generate year-end budget savings, with no further adjustments to the expenditure budget needed as of the end of the second quarter.

Significant expenditure budget updates include the following (all currently expected to be covered with existing revised budget appropriations):

- Many departments have seen an increase in operating costs for janitorial and cleaning expenses related to COVID-19, including street sweeping, beach clean-up and park maintenance, public facilities and restroom janitorial services, day porter services at the Central Library, power washing for public spaces and sidewalks including temporary outdoor dining, and additional weekly cleaning of city vehicles (mainly Public Safety departments). The current budget can fund all expenditures as of the end of Q2.
- The Fire Department continues to provide staffing for Strike Team deployments. Reimbursement will be requested through Cal OES and expected to be received within the 2nd – 3rd quarters of Fiscal Year 2020-21. The Fire Department has a new line item for the transparency of Strike Team expenditures, Strike Teams/Mutual Aid - 713010, which had expenditures of \$775,000 through Q2.
- Public Safety has seen increased expenditures relating to COVID-19 for disposable medicine/EMS supplies for personal protective equipment, emergency cleaning services, and related supplies. These costs are expected to be absorbed through Q2, with CARES Act & FEMA reimbursement expected to offset any overages in department budgets at year-end.
- Departments have seen increased overtime costs relating to the pandemic for emergency clean-up services such as beach and street clean-up relating to more people enjoying the beach for outdoor recreational activities due to the shutdown orders, and staffing COVID testing sites and vaccinations PODs.

### FY 2020-21 Projected General Fund Expenditures

Expenditures by Category	Adopted Budget	A Revised Budget	B Projected Actual	C=B-A Variance	D=C/A % Variance
Salary & Benefits	\$ 149,193,630	\$ 154,425,087	\$ 154,300,338	\$ (124,749)	-0.08%
Contract Services	24,088,461	25,340,657	25,352,004	11,348	0.04%
Grant Operating	600,000	1,155,371	1,149,858	(5,513)	-0.48%
Utilities	2,961,757	2,961,757	2,961,757	-	0.00%
Supplies & Materials	3,740,696	4,425,375	4,015,467	(409,908)	-9.26%
Maintenance & Repair	8,822,276	8,987,338	9,104,698	117,359	1.31%
Travel & Training	813,368	809,309	808,995	(314)	-0.04%
General Expenses	2,125,501	2,295,759	2,281,206	(14,553)	-0.63%
Internal Svc Charge	25,977,295	25,977,295	25,962,004	(15,291)	-0.06%
Risk Management	750,915	750,915	750,915	-	0.00%
Capital Expenditures	785,138	854,412	826,367	(28,046)	-3.28%
<b>Total</b>	<b>219,859,037</b>	<b>227,983,275</b>	<b>227,513,609</b>	<b>(469,667)</b>	<b>-0.21%</b>

While the table only reflects \$0.5 million of budget savings, consistent with prior fiscal years, it is anticipated that year-end budget savings will exceed this amount. However, it is important to note that the non-personnel budget was reduced by \$2.7 million prior to adoption and \$2.0 million of salary savings is already assumed. Savings are therefore likely to be less than what is seen in a typical fiscal year.

### General Fund Reserves

We are fortunate that the City was in excellent financial health prior to the global pandemic. Conservative budgeting and sound financial policies have resulted in a trend of General Fund operating surpluses and strong reserve levels for several years. This is still no less the case even amid the significant economic downturn the City is experiencing. Conservative budgeting practices coupled with better than expected consumer demand have resulted in higher revenues and lower expenditures than budgeted. This has contributed towards the realization of projected unrestricted General Fund resources of \$27.5 million at the end of Fiscal Year 2020-21 as shown in the table below.



### General Fund Sources and Uses

	2019-20	A	B	C=B-A	D=C/A
	Actual	2020-21 Revised Budget	2020-21 Projected Actual	Variance	% Variance
<b>Sources</b>					
Beginning Unrestricted Fund Balance	\$ 23,119,513	\$ 24,081,225	\$ 24,081,225	\$ -	0.0%
Operating Revenues	229,953,017	201,416,771	218,605,517	17,188,746	8.5%
Less: Restricted Revenues	(2,785,622)	(765,967)	(765,967)	-	0.0%
Use of Restricted Revenues and Encumbrances	-	2,095,632	2,095,632	-	0.0%
Transfers In	17,207,099	19,160,543	19,160,543	-	0.0%
<b>Total Sources</b>	<b>\$ 267,494,007</b>	<b>\$ 245,988,204</b>	<b>\$ 263,176,950</b>	<b>\$ 17,188,746</b>	<b>7.0%</b>
<b>Uses</b>					
Operating Expenditures	211,066,539	227,983,275	227,513,609	(469,666)	-0.2%
Transfers Out	32,346,243	8,200,000	8,200,000	-	0.0%
<b>Total Uses</b>	<b>\$ 243,412,782</b>	<b>\$ 236,183,275</b>	<b>\$ 235,713,609</b>	<b>\$ (469,666)</b>	<b>-0.2%</b>
<b>Ending Unrestricted Fund Balance</b>	<b>\$ 24,081,225</b>	<b>\$ 9,804,929</b>	<b>\$ 27,463,341</b>	<b>\$ 17,658,412</b>	<b>180.1%</b>
<b>Contingency Reserve</b>					
	\$ 52,618,059		\$ 52,618,059		

As the data presented in this report reflects only half of the fiscal year, there remain opportunities for positive or negative variances. The risks associated with variances are further amplified by the pandemic and related restrictions. The degree to which these restrictions are lifted or reinstated for the balance of the fiscal year will have a material impact on revenues and possibly expenditures. While this report reflects the best information currently available to staff, variances will occur. Staff therefore recommends caution when viewing the projected ending unrestricted fund balance (surplus) of \$27.5 million, which is still very much subject to revision as the year progresses.

### The Tiered Budget Balancing Framework

The strategy employed to balance the budget for FY 2020-21 includes utilization of a tiered budget balancing framework, which is illustrated below.

	Tier 1 Operating Cuts	Tier 2 Temporary Hiring Freeze	Tier 3 Deferred Capital	Tier 4 ISF Charge Reductions	Tier 5 Contingency Reserve	Tier 6 Service Level Cuts	Total
Professional and Contract Svcs.	\$ 1,621,760	\$ -	\$ -	\$ -	\$ -	\$ -	\$ 1,621,760
Other Non-Personnel Budgets	1,136,807	-	-	-	-	-	1,136,807
Personnel Services	-	2,000,000	-	-	-	-	2,000,000
Transfers Out	-	-	18,477,137	500,000	-	-	18,977,137
Capital Budgets	-	-	2,500,000	-	-	-	2,500,000
Insurance	-	-	-	2,000,000	-	-	2,000,000
Equipment Replacement	-	-	-	2,500,000	-	-	2,500,000
Contingency Reserve Draw	-	-	-	-	2,304,399	-	2,304,399
<b>Total</b>	<b>\$ 2,758,567</b>	<b>\$ 2,000,000</b>	<b>\$ 20,977,137</b>	<b>\$ 5,000,000</b>	<b>\$ 2,304,399</b>	<b>\$ -</b>	<b>\$ 33,040,103</b>
Cuts Restored in First Quarter	-	-	-	(500,000)	(2,304,399)	-	(2,804,399)
<b>Revised Total</b>	<b>\$ 2,758,567</b>	<b>\$ 2,000,000</b>	<b>\$ 20,977,137</b>	<b>\$ 4,500,000</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ 30,235,704</b>

#### Tier 5 – Contingency Reserve

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, excluding the amount allocated for additional discretionary pension payments. In order to balance the budget and under the emergency provisions of Policy F-2, this current year budget has a \$2.3 million draw from the Contingency Reserve. Pursuant to policy, staff must present a plan to City Council to replenish the reserve within five years after the economy has stabilized. Based on the positive budget to actual variances realized in FY 2019-20 that resulted in a surplus, the better than expected quarter one results, and the positive revenue results projected for FY 2020-21, Council approved the replenishment of the \$2.3 million Contingency Reserve at the 11/24/20 Council meeting. The Contingency Reserve is now fully funded pursuant to Council Policy F-2 for the FY 2020-21 fiscal year.

#### Tier 4 – Internal Service Fund Charges

Funds in the amount of \$4.5 million were transferred in from other funds to partially backfill the anticipated General Fund revenue shortfall for FY 2020-21. These funds derived from prior year internal service funds (ISF) charges that originated from the General Fund. These charges are intended to reimburse ISF operations related to equipment replacement charges, or centrally managed insurance reserves and most were returned without significantly impacting the replacement schedule or funding for liabilities. At the 11/24/20 Council meeting, Council approved the replenishment of the \$500,000 taken from the Equipment Replacement Fund, which improves the percent of that Fund's reserve that is set aside to cover the accumulated depreciation. No further changes to the Tier 4 reductions are recommended at this time. However, should the fiscal year end with a surplus as is currently anticipated, staff will evaluate the health on the City's Internal Service Funds and may make recommendations for further restoration of Tier 4 cuts at year-end. These restorations would be proposed for evaluation prior to the disposition of the balance of the budget surplus being considered under City Council Policy F-5 – General Fund Surplus Utilization.

#### Tier 3 – Deferred Capital Funding

Staff recommends maintaining the reductions at this time. A review of the CIP program is recommended in the context of developing the FY 2021-22 budget. This will be discussed in more detail as the FY 2021-22 budget is being developed, at which time deferred capital projects would be considered for funding.

#### Tier 2 – Temporary Hiring Freeze

Staff recommends the continuation of selected hiring with approval by City Manager, with the City targeting an estimated \$2 million in personnel savings. Current projections are that this savings will be achieved.

#### Tier 1 – Operating Reductions

No changes are recommended at this time. Departments have indicated that they can complete the fiscal year without restoration of any of these reductions.

**Other Funds**

Other funds that are subject to revenue volatility include Tidelands, Gas Tax, Measure M, SB1 RMRA (Road Maintenance and Rehabilitation Account), and the Water and Wastewater funds. An analysis of the budget performance for these funds through the second quarter of this fiscal year indicates that no budget adjustments are currently necessary. Staff will continue to monitor these and all funds on a monthly basis.

**Conclusion**

Staff recommends that the Finance Committee review and discuss this report and provide any recommendations for City Manager and City Council consideration prior to the February 23, 2021, City Council meeting, at which time this report will next be presented.

Prepared and Submitted by:

/s/ Steve Montano

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Steve Montano  
Deputy Finance Director