



CITY OF

NEWPORT BEACH

City Council Staff Report

June 8, 2021
Agenda Item No. 19

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Resolution No. 2021-57: Fiscal Year 2021-22 Budget Adoption; City Budget Hearing; Recommendations from the Finance Committee; and Proposed Budget Revision Items

ABSTRACT:

Following multiple opportunities for public comment both in front of the City Council and the Finance Committee beginning in January, the City Council held a joint Study Session with the Finance Committee to review the proposed budget on May 25, 2021. After discussion at that meeting, revisions to the proposed budget have been incorporated as outlined in this report. The revised General Fund budget continues to be balanced. This evening's approval of the revised budget will comply with the City's Charter requirement that the City Council 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 2021-22;
- 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 approve the proposed budget revisions implementing the direction received from the City Council at the May 25, 2021 meeting and consider the Finance Committee's budget recommendations;
- d) Review and approve the City Manager's recommended list of City position classifications and their salary ranges as required by the California Public Employees' Retirement System (CalPERS) and in accordance with 2 CCR § 570.5 (a)(1);
- e) Approve Budget Amendment No. 21-045 implementing the restoration of budget reductions for the Fiscal Year 2020-21 budget as discussed with the City Council at the May 25, 2021 Study Session; and
- f) Adopt Resolution No. 2021-57, *A Resolution of the City Council of the City of Newport Beach, California, Adopting the Budget for the 2021-22 Fiscal Year*, as amended by Item (c) above.

DISCUSSION:

In accordance with the City Charter, the City Manager is presenting the City of Newport Beach's fiscal year 2021-22 proposed operating and capital budget and fiscal years 2022-2027 Capital Improvement Program (CIP). The proposed budget is comprised of the City Manager's proposed operating budget and the proposed Capital Improvement Program (CIP) budget. A third component of the budget includes proposed revisions to the initial proposed budget documents released in May. The proposed revisions are referred to as the Proposed Budget Revisions and may represent revisions to either the operating or the CIP budgets. The City Council, upon adoption of the proposed fiscal year 2021-22 budget resolution and the proposed budget revisions, included as Attachment A and Exhibit 1 respectively, will be authorizing the total appropriations for fiscal year 2021-22.

The operating budget totals \$309.1 million and the capital budget totals \$35.5 million in fiscal year 2021-22, with capital spending of \$195.9 million proposed over the six-year CIP. The City Manager's fiscal year 2021-22 proposed budget assumes that certain revenue sources, while still not at pre-pandemic levels, will continue to improve in the 2021-22 fiscal year. At the time of the development of the fiscal year 2021-22 proposed budget, the City's most impacted revenue sources, namely sales and transient occupancy taxes, are coming in higher than originally projected with each passing quarter. 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. Recent sales tax information shows that retail and restaurants have been hit especially hard while transportation is showing quarter over quarter increases. There is still room for additional positive improvement in sales tax revenues in the coming year; however, staff remains conservative in projecting sales tax revenues and will wait to evaluate additional receipts before making additional adjustments to the sales tax revenue projection as the fiscal year gets underway. A steady improvement in transient occupancy tax revenue has been seen since December, which is anticipated to continue given the current easing of restrictions and the anticipated return of more significant numbers of leisure, and ultimately business travelers in the months ahead. There is also room for positive improvement in transient occupancy tax revenues, but again a cautious approach has been taken to forecasting the speed of the recovery. With the low rates of hospitalizations and steady supply of vaccines, it is increasingly likely that California will be able to reopen fully on June 15, as planned. While this budget reflects steadily increasing revenue streams, it reflects a conservative spending plan. It is important to keep in mind that numerous funding and expense challenges lie ahead, and thus a steady and disciplined fiscal eye must be trained on the future.

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 fiscal year 2021-22 property tax assessed valuation growth estimated at 4.8 percent.

- Relatively flat expenditure growth except for specific program enhancements.
- Healthy levels of reserves, including a contingency reserve of \$55.3 million, an amount equal to 25 percent of the City's General Fund operations.
- Continuation of an aggressive pension payment plan with a level dollar payment of \$35 million and the intent to allocate an additional \$5 million from anticipated fiscal year 2020-21 year-end surplus to mitigate the potential impact of lower CalPERS investment returns.
- Significant contributions towards pension costs from our employees, with \$11.5 million (or 23 percent) of the \$49.4 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 fiscal year 2021-22 budget as proposed includes 730 full-time positions, an increase of 2 full-time position from the prior year.
- 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 will increase 2.97 full-time equivalent positions (FTE) to 164.52 FTE.

Budget Priorities

The City has weathered the current economic and fiscal challenges over the past year exceedingly well. We are fortunate to have avoided making deep service cuts that would have severely impacted the community and the organization. While service cuts were not required, General Fund budget reductions totaling \$33 million were initially made to balance the fiscal year 2020-21 budget. Following approval of the actions proposed in this report, the fiscal year 2020-21 budget reductions will be eliminated.

The fiscal year 2021-22 proposed budget furthers the same core budget priorities that have served the community well in recent years, while restoring the budget reductions that were implemented in response to the pandemic. We endeavor to maintain all priorities in a manner that is consistent with prior 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 have produced net operating surpluses in the last eleven years due to conservative budgeting, cooperative negotiation of labor concessions, and a stable and growing tax revenue base. Our annual surplus typically derives in equal measure from higher revenue and lower expenditures than budgeted.

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.

As an example, the Recreation & Senior Services Department is continuing to provide programs and activities under current State and County safety guidelines. The department has resumed Spring outdoor programs and classes, phased in the opening of indoor classes, and opened Active Kids and the Marina Park Preschool. Also, the Central and Mariners Libraries are open to the public with modified hours, services, and limited seating. The current curbside pick-up will continue, as well as on-line programming for the community. In addition, the Community Development Department will continue to refine and improve internal and external customer service, streamline the development review process, and implement new services including permitting and electronic plan review.

Keeping Newport Beach Looking Great

Our goal is to maintain a 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 will continue 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. Capital projects that were deferred to align the budget with reduced revenues will be restored in fiscal year 2021-22. The Utilities and Public Works Departments 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 codes, policies, and regulatory requirements to ensure quality residential neighborhoods and commercial districts throughout the City. The ongoing implementation of a new permitting system will streamline workflow and increase efficiency.

Providing a Safe and Secure Neighborhood

Our focus on public safety during this global pandemic 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, and other programs also support these efforts. The City's contracted homeless services provider continues to assist people experiencing homelessness. Their outreach efforts, coordinated with the City and County's resources, provide housing, health care, and other opportunities. There is funding in this budget for a new Boardwalk Ambassador Program that uses contract staffing to address resident complaints of boardwalk, pier, and parking lot problems such as speeding bicyclists, skateboarding, and surreys.

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 2021-22 fiscal year was first submitted to the City Council and made available to the public on March 11, 2021.

Per City 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, to the City Council for approval. The Finance Committee reviewed in detail the budget and operations of select City departments in advance of their consideration of the fiscal year 2021-22 budget and held multiple meetings to discuss the budget in advance of the joint Study Session with the City Council held on May 25, 2021.

The Finance Committee reviewed the funded status of the City's pension plan based on the latest CalPERS actuarial valuation and considered pension funding recommendations for fiscal year 2021-22 on November 19, 2020. On January 21, 2021, the Committee reviewed the CIP funding strategy, followed by a review of the Facilities Financing Plan on January 21, 2021. The Committee next reviewed the City's Long-Range Financial Forecast update, as well as the budget for the Water and Wastewater Enterprise Funds and other Utilities Department functions, on February 18, 2021. Finally, the Committee reviewed the revenue assumptions used to develop the fiscal year 2021-22 operating budget on March 11, 2021, reviewed the proposed operating budget on April 15, 2021, and reviewed the operating budget detail found in the preliminary budget document on May 13, 2021. This robust review process and numerous opportunities to receive public input on the proposed budget helps to ensure that the draft budget presented to the City Council is fiscally sound and adequately detailed.

Following the joint Study Session of the City Council and the Finance Committee on May 25, 2021, the Finance Committee met on May 27, 2021, to finalize its recommendations to the City Council regarding the proposed fiscal year 2021-22 budget. A motion was made to recommend the City Manager's proposed fiscal year 2021-22 budget to the City Council for approval as presented. The motion was carried unanimously with a yes vote from all seven members of the Committee.

All Funds Budget Overview

The fiscal year 2021-22 proposed budget for all funds, including reappropriated capital improvement projects of \$39.3 million, internal charges of \$31.4 million, and the Proposed Budget Revisions outlined in Attachment A, Exhibit 1, is \$384.0 million. The operating portion of the budget amounts to \$309.1 million, which represents a 0.4 percent, or \$1.4 million increase over the prior year's adopted budget. The fiscal year 2021-22 proposed budget totals \$313.3 million after removing internal charges and CIP reappropriations, which reflects the total new spending approved by the budget as proposed.

	2018-19 ACTUAL EXPENDITURES	2019-20 ACTUAL EXPENDITURES	A 2020-21 ADOPTED EXPENDITURES	B 2021-22 PROPOSED EXPENDITURES	C=B-A \$ VAR	D=C/A % VAR
OPERATING BUDGET	\$ 274,269,915	\$ 283,290,144	\$ 307,759,024	\$ 309,114,306	\$ 1,355,282	0.44%
CIP PROJECTS*						
New Appropriations	33,777,057	28,589,680	31,377,223	35,506,078	\$ 4,128,855	13.16%
CIP Reappropriations	30,757,550	47,562,633	55,774,942	39,341,387	\$ (16,433,555)	-29.46%
TOTAL BUDGET	\$ 338,804,522	\$ 359,442,457	\$ 394,911,189	\$ 383,961,771	\$ 54,321,987	13.76%
Less CIP Reappropriations	\$ (30,757,550)	\$ (47,562,633)	\$ (55,774,942)	\$ (39,341,387)	\$ 16,433,555	-29.46%
Less Internal Charges	(28,101,575)	(30,587,749)	(32,823,525)	(31,356,462)	\$ 1,467,063	-4.47%
NET TOTAL BUDGET	<u>\$ 279,945,397</u>	<u>\$ 281,292,075</u>	<u>\$ 306,312,722</u>	<u>\$ 313,263,922</u>	<u>\$ 43,873,901</u>	<u>14.32%</u>

Capital Improvement Program 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. Specific project plans for the Capital Improvement Program are discussed in more detail in the CIP budget volume.

New appropriations for capital improvement projects included in the proposed budget amount to \$35.5 million. Unlike the operating budget, capital improvement appropriations are expended over multiple fiscal years due to timing considerations related to the ebb and flow of large construction projects that require environmental review, coordination with outside entities (public utilities), and design/policy considerations. The estimated total appropriations for capital projects will be approximately \$74.8 million when the estimated re-budgeting of capital projects is included with the new appropriations. This amount will be increased by the balance of any unexpended purchase orders for projects currently in process, which is estimated to result in a total ongoing capital budget in fiscal year 2021-22 of \$101.8 million. Prior year carry forward capital appropriations are supported by resources reserved and carried forward to offset those expenditures.

General Fund Budget Overview

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 \$246.2 million, which include operating revenues (net of restricted revenues) and interfund transfers in. Total uses of \$246.2 million include operating expenditures and interfund transfers out.

	2019-20 Actual	A 2020-21 Projected Actual	B 2021-22 Proposed Budget	C=B-A Variance	D=C/A % Variance
Beginning Unrestricted Fund Balance	23,119,513	24,081,225	10,978,809	(13,326,264)	-55%
Sources					
Operating Revenues	229,953,017	220,207,798	234,126,964	13,919,166	6%
Less: Restricted Revenues	(2,785,622)	(815,145)	(1,128,513)	(313,368)	38%
Prior Year Resources Carried Forward	1,744,227	2,075,632	-	(2,075,632)	-100%
Release of Restricted Funds	2,492,301	3,645,023	1,220,000	(2,425,023)	-67%
Transfers In from Other Funds	12,970,571	18,574,821	11,977,157	(6,597,664)	-36%
Total Sources	\$ 244,374,494	\$ 243,688,129	\$ 246,195,608	\$ 2,507,479	1%
Uses					
Operating Expenditures	211,066,539	226,794,867	225,963,633	(831,234)	0%
Transfers Out	32,346,243	10,422,340	20,200,000	9,777,660	94%
Appropriations from Excess Operating Reserves		16,876,073	-	(16,876,073)	-100%
Addition to 25% Contingency Reserve		2,697,265	-	(2,697,265)	-100%
Total Uses	243,412,782	256,790,545	246,163,633	(10,626,912)	-4%
Ending Unrestricted Fund Balance	\$ 24,081,225	\$ 10,978,809	\$ 11,010,784	\$ 31,975	0%

Contingency Reserve \$ 52,618,059 \$ 55,315,324 \$ 55,315,324 \$ -

As illustrated in the previous table, appropriations for operating expenditures are balanced in relation to projected revenue sources, and one-time revenue sources and reserves have not been utilized to balance the budget.

General Fund Operating Revenues and Transfers In

The General Fund operating revenues for fiscal year 2021-22 are projected at \$234.1 million. This represents a 6.4 percent increase from the fiscal year 2020-21 projected budget due largely to favorable economic trends.

Revenues by Category	FY 21 Adopted	A FY 21 Projected	B FY 22 Proposed	C=B-A Variance	D=C/A % Variance
Property Taxes	\$117,508,227	\$117,508,227	\$122,229,980	\$4,721,753	4.02%
Sales Tax	28,690,831	34,540,800	40,275,670	5,734,870	16.60%
Transient Occupancy Tax	6,434,115	15,209,156	19,027,493	3,818,337	25.11%
Other Taxes	9,652,973	11,501,162	10,815,117	(686,045)	-5.97%
Service Fees & Charges	17,350,903	15,900,048	19,046,329	3,146,281	19.79%
Parking Revenue	4,599,800	5,619,263	5,655,242	35,979	0.64%
Licenses & Permits	4,239,333	5,042,454	5,106,646	64,192	1.27%
Property Income	3,892,635	4,341,939	4,795,903	453,964	10.46%
Fines & Penalties	3,681,031	3,295,392	3,292,102	(3,290)	-0.10%
Intergovernmental Revenues	1,646,716	5,105,269	1,760,934	(3,344,335)	-65.51%
Investment Earnings	1,112,200	543,912	1,112,200	568,288	104.48%
Miscellaneous Revenues	775,140	1,600,176	1,009,348	(590,828)	-36.92%
Total Revenues	\$199,583,904	\$220,207,798	\$234,126,964	\$13,919,166	6.32%

Property Taxes – Our overall assessed valuation (AV) has been stable despite economic downturns with an average growth of 6.7 percent over the past 20 years and is among the highest in the county. Property taxes are the least volatile and last to show a deceleration due to the inherent lag in the annual assessed property valuation process. Property taxes are the single largest funding source and represent over 50 percent of all General Fund revenues. Property tax revenues for fiscal year 2021-22 are projected to increase by 4 percent. With the recent surge of home sales, this category will likely continue to improve, which bodes well for future secured property taxes.

Sales Tax – The second largest funding source for the General Fund is sales tax revenue, making up 17 percent 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. This projected budget will surpass the prior peak revenue as continued growth in multiple industries is expected. While consumer shopping habits have transitioned during this time, there is continued growth in Autos and Transportation, Building and Construction, while Restaurants are expected back at approximately 93 percent of peak revenues. While these industries were faced with difficulties in the prior fiscal year, these categories are projected to rebound in fiscal year 2021-22, albeit at a slower rate when compared to prior years.

Transient Occupancy Tax - Transient occupancy tax (TOT) was the City's most severely impacted revenue source as the pandemic unfolded. While there has already been vast improvement in this category, revenues are not expected to fully recover to pre-pandemic levels this fiscal year. In prior years TOT provided just over 10 percent of all General Fund revenues, compared to this fiscal year where it is expected to provide just over 8 percent of all General Fund revenues. As tourism is rebounding, non-leisure travel is in a more vulnerable position. According to the California Office of Tourism, hotels that are not serving leisure travel are projected to have the longest road to recovery. It is worth noting that Residential TOT did not see a revenue decrease during the pandemic and based on conversations with Visit Newport Beach we believe that recovery may be faster in Newport Beach than will be seen on a statewide basis.

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 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.

Restricted Revenues

Certain revenues, approximately \$1.1 million are restricted revenues and will be reserved for future use. These include \$332,000 for public/government access programming, \$300,000 that will be reserved for the operational expenses of caring for unhoused individuals, \$249,000 for oceanfront access/recreation improvements, and \$150,000 that will be reserved for a general public benefit.

Release of Restricted Funds

Intra-fund Transfers total \$1.2 million and represent restricted resources released from the General Fund to be used towards their intended purpose. These include \$700,000 for Oceanfront Encroachment CIP projects and \$500,000 for operation expenses of caring for unhoused individuals.

Transfers In

Interfund transfers in total \$12.0 million and are resources transferred in 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 these transfers are from the Tidelands Fund to offset costs for activities, programs, and functions whose primary purpose benefits the Tidelands, such as Harbor Resources, Police, Fire/EMS, and lifeguards. 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.

General Fund Operating Expenditures and Transfers Out

The total General Fund operating expenditures amount to \$226.0 million (\$246.2 million with transfers). This represents a \$6.1 million, or 2.8 percent, increase from the fiscal year 2019-20 adopted 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.

	FY 20 Adopted Budget	A FY 21 Adopted Budget	B FY 22 Proposed Budget	C=B-A Variance	D=C/A % Variance
Expenditures by Category					
Salary & Benefits	\$ 149,193,630	\$ 149,193,631	\$ 151,689,101	\$ 2,495,470	1.67%
Contract Services	24,088,461	24,088,461	24,726,901	638,440	2.65%
Grant Operating	600,000	600,000	600,000	-	0.00%
Utilities	2,961,757	2,961,757	3,011,315	49,558	1.67%
Supplies & Materials	3,740,696	3,740,696	3,739,730	(966)	-0.03%
Maintenance & Repair	8,822,276	8,822,276	12,640,923	3,818,647	43.28%
Travel & Training	813,368	813,368	814,868	1,500	0.18%
General Expenses	2,125,501	2,125,501	2,130,552	5,051	0.24%
Internal Svc Charge	25,977,295	25,977,295	25,078,890	(898,405)	-3.46%
Risk Management	750,915	750,915	750,915	-	0.00%
Capital Expenditures	785,138	785,138	780,438	(4,700)	-0.60%
Total	\$ 219,859,037	\$ 219,859,038	\$ 225,963,633	\$ 6,104,596	2.78%

The majority of Salary and Benefit expenditure increases are the result of negotiated salary and benefit changes. The fiscal year 2021-22 budget includes an increase of \$2.5 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. Fiscal year 2021-22 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 excluding Salary & Benefits are increasing \$3.5 million due to the recycling contract increase as well as contractual service costs citywide (\$2.9 million), new programs or enhancements to existing programs (\$1.4 million), increase of utility charges (\$50,000), and decreases in internal service charges (\$898,000).

Program Enhancements

Contained in the proposed budget are enhancements to current programs and new programs that are in line with the City Council's budget priorities. Included in these enhancements are staffing changes, as further detailed in the following section of this report, in the Harbor, Community Development, Finance, Fire, Public Works, and Recreation & Senior Services Departments. Other major enhancements included in the budget as originally proposed include the anticipated refuse and recycling contract increase, the ongoing operating funds commitment to the Costa Mesa Homeless Shelter, increased contract staffing for Code Enforcement, and funding for the Police Department's Boardwalk Ambassador Program pilot to continue with full funding in the upcoming fiscal year.

At the City Council's joint session with the Finance Committee to review the proposed budget on May 25, 2021, additional information was provided regarding possible beach-related service level enhancements. Following discussion, the Council directed staff to include additional funding in the budget for several maintenance-related enhancements including additional beach trash cans in high use areas, continuing enhanced porter service in Balboa Village and Corona Del Mar that was added during the pandemic, and more frequent trash pickups during the summer season. Funding for these three enhancements is not reflected in the proposed budget document, but has been incorporated into the numbers in this staff report and is reflected in Exhibit 1 to the budget resolution proposed for adoption. The final budget document will be revised to include these changes.

Lastly, it should be noted that Exhibit 1 to the budget resolution also reflects an increase in General Fund revenue from the elimination of the Balboa Village Area Benefit District, which was approved by the City Council on May 25, 2021, subject to approval of the second reading of the proposed ordinance and adoption of a related resolution this evening. This additional revenue more than offsets the additional cost associated with the three beach-related program enhancements shown in Exhibit 1.

Transfers Out

General Fund transfers out total \$20.2 million transferred to other funds to address long-term obligations in high priority areas including \$8.5 million to the Facilities Financial Plan, \$5.7 million for General Fund capital improvement projects, \$4.5 million to the Harbor & Beaches Capital Fund, and \$1.5 million to the Facility Maintenance Plan. These transfers are consistent with past practice of pre-pandemic fiscal years and reflect a full restoration to the level of these transfers seen prior to the reductions necessitated by the pandemic.

Citywide Staffing Changes (All Funds)

Net staffing changes will result in an increase of 2.0 full-time position for a total of 730 full-time authorized positions and an increase of 2.97 FTE part-time positions for an authorized part-time total of 164.52 positions. Staffing changes are summarized in the table below.

2020-21 REVISED BUDGET AUTHORIZED POSITIONS	FULL-TIME	PART-TIME	TOTAL
	728.0	161.6	889.6
2021-22 PROPOSED POSITION CHANGES			
COMMUNITY DEVELOPMENT			
Add new full-time Senior Civil Engineer	1.0	0.0	1.0
Decrease full-time Code Enforcement Officer II	(2.0)	0.0	(2.0)
Increase full-time Senior Code Enforcement Officer	1.0	0.0	1.0
Increase full-time Code Enforcement Supervisor	1.0	0.0	1.0
Decrease full-time Building Department Specialist	(1.0)	0.0	(1.0)
Increase full-time Administrative Assistant	1.0	0.0	1.0
FINANCE			
Decrease full-time Senior Accountant	(1.0)	0.0	(1.0)
Increase full-time Senior Budget Analyst	1.0	0.0	1.0
FIRE			
Decrease full-time Department Assistant	(1.0)	0.0	(1.0)
Increase full-time Management Assistant	1.0	0.0	1.0
Decrease part-time Lifeguard I/II	0.0	(1.4)	(1.4)
Increase part-time Assistant Recreation Coordinator	0.0	0.85	0.85
Decrease full-time Fire Safety Specialist II	(1.0)	0.00	(1.00)
Increase full-time Fire Services Coordinator	1.0	0.00	1.00
HARBOR			
Add new full-time Permit Technician	1.0	0.0	1.0
PUBLIC WORKS			
Decrease full-time Administrative Analysts	(2.0)	0.0	(2.0)
Decrease full-time Equipment Operator	(1.0)	0.0	(1.0)
Decrease full-time Concrete Finisher	(1.0)	0.0	(1.0)
Decrease full-time Concrete Supervisor	(1.0)	0.0	(1.0)
Decrease full-time Groundswoker II	(1.0)	0.0	(1.0)
Decrease part-time Intern	0.0	(0.45)	(0.45)
Increase full-time Senior Management Analyst	2.0	0.00	2.00
Increase full-time Maintenance Worker II	3.0	0.0	3.0
Increase full-time Crew Chief	1.0	0.0	1.0
Increase part-time Maintenance Aide	0.0	3.68	3.68
Increase part-time Associate Civil Engineer	0.0	0.3	0.3
RECREATION			
Decrease full-time Senior Services Manager	(1.0)	0.00	(1.00)
Increase full-time Recreation & Senior Services Manager	1.0	0.00	1.00
FY 22 PROPOSED POSITIONS	730.0	164.52	894.52

New full-time positions proposed for inclusion in the budget include the following:

1. Addition of a Senior Civil Engineer in the Community Development Department to replace contract staffing at no additional cost.
2. Addition of a Permit Technician in the Harbor Department to provide enhanced support and subject matter expertise to the boating community related to insurance, registration, and other requirements.

Additional minimal part-time staffing changes would provide additional support for utilities undergrounding projects and convert certain contract maintenance staff to City employees to increase service levels and reduce turnover.

Chapter 2.28 of the Newport Beach Municipal code (NBMC) addresses the establishment of classifications and salary ranges. Section 2.28.030 states the City Manager shall review and recommend changes to the City Council at least annually. It has been the City's practice to bring forth the City Manager's recommendations annually during the budget approval process.

In addition to the NBMC requirements, the California Public Employees' Retirement System (CalPERS) requires all pay schedules (Attachment B) to be publicly available. The pay schedule must meet the following requirements: 1) be duly approved and adopted by the employer's governing body in accordance with requirements of applicable meeting laws; 2) identify the position title for every employee position; 3) show the pay rate as a single amount or multiple amounts within a range for each identified position; 4) indicate the time base, including, but not limited to, whether the time base is hourly, daily, biweekly, monthly, bi-monthly, or annually; 5) be posted at the office of the employer or immediately accessible and available for public review during normal business hours or posted on the employer's website; 6) indicate an effective date and date of any revisions; 7) be retained by the employer and available for public inspection for not less than five years; and 8) not reference another document in lieu of disclosing the pay rate. Council's approval of Attachment B with approval of the budget facilitates compliance with these requirements.

The City Manager is not recommending the addition of new job classifications as part of this fiscal year's budget. However, there are a few position titles that staff would like to update on the Citywide salary schedule that have no consequence to pay rates. The proposed title changes are as follows:

1. Budget/Accounting Manager to Finance Manager
2. Administrative Analyst to Management Analyst
3. Equipment Maintenance Superintendent, Field Maintenance Superintendent and Parks & Trees Superintendent to Superintendent
4. Senior Services Manager to Recreation & Senior Services Manager
5. Beach Maintenance Supervisor, Concrete Supervisor (if not reclassified – see below discussion), Equipment Maintenance Supervisor, Facilities Maintenance Supervisor, Park Maintenance Supervisor, and Street Maintenance Supervisor to Public Works Supervisor

6. Concrete Maintenance Crew Chief, Facilities Maintenance Crew Chief, Park Maintenance Crew Chief, and Street Maintenance Crew Chief to Public Works Crew Chief
7. Fire Facilities Coordinator to Fire Services Coordinator.

These changes offer flexibility and efficiency, consolidate the number of position titles, streamline the classification series, and have departmental support. All impacted positions are in the unrepresented Key & Management Compensation Group, with the exception of Public Works Supervisor (Employees League), Public Works Crew Chief (Employees League) and Fire Services Coordinator (Fire Association). Both the Employees League and the Fire Association are supportive of the title changes.

In addition to the proposed title changes, staff are proposing several reclassifications and/or compensation adjustments for existing full-time positions as described in more detail below. Staff are also requesting Council's approval of a correction to the salary schedule for Part-Time Employees, where the effective date of the 1.75% salary adjustment for 2021 was incorrectly listed as June 26, 2021, rather than the correct date of June 19, 2021. The proposed changes are as follows:

Community Development Department

First, two Code Enforcement Officer II positions are proposed to be reclassified following the transfer of the Code Enforcement Supervisor to the Harbor Department. The reclassified positions would be one Senior Code Enforcement Officer and one Code Enforcement Supervisor, and the Code Enforcement Officer II classification will be eliminated. Second, the compensation for the Real Property Administrator position is proposed to be adjusted, and the Fair Labor and Standards Act (FLSA) overtime status for the position would change from non-exempt to exempt. This movement will provide internal and external parity. Lastly, the outdated, single incumbent position of Building Department Specialist is proposed to be eliminated as there is no longer a Building Department, with the incumbent reclassified to an Administrative Assistant.

Finance Department

One vacant Senior Accountant position in the Revenue Division with a FLSA non-exempt status is proposed for reclassification to an exempt Senior Budget Analyst position in the Administration Division.

Fire Department

First, one Department Assistant position in the Fire Operations Division is proposed for reclassification to a Management Assistant position to assist with new State reporting requirements. Second, one vacant Life Safety Specialist II position is proposed for reclassification to the newly titled Fire Services Coordinator position. The vacancy has provided an opportunity to reevaluate operational needs, and the Fire Services Coordinator job description will be updated to incorporate duties associated with community outreach as well as coordination of the Fire Department's volunteer certification program when assigned.

Public Works Department

First, with the absorption of the Municipal Operations Division into the Public Works Department, duties and assignments of two of the Administrative Analysts were modified to meet operational demands. These two Administrative Analyst positions are proposed for reclassification to Senior Management Analysts as a result of these changes. Second, several positions are proposed for reclassification to Maintenance Worker II. These include an Equipment Operator II in the Maintenance and Operations Section, a Concrete Finisher in the Maintenance and Operations Section, and a Groundswoker II in the Parks & Trees Section. Lastly, staff are proposing the reclassification and downgrade of the vacant Concrete Supervisor position in the Municipal Operations Division to Crew Chief.

Recreation & Senior Services Department

Staff propose aligning the compensation of the Recreation Manager position with the Senior Services Manager and establishing one job title of Recreation & Senior Services Manager.

Restoration of Remaining Fiscal Year 2020-21 Budget Reductions

The strategy employed to balance the budget for fiscal year 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
Total	\$ 2,758,567	\$ 2,000,000	\$ 20,977,137	\$ 5,000,000	\$ 2,304,399	\$ -	\$ 33,040,103
Cuts Restored in First Quarter	-	-	-	(500,000)	(2,304,399)	-	(2,804,399)
Cuts To be Restored							
Transfer to FFP	-	-	(8,500,000)	-	-	-	(8,500,000)
Transfer to Harbor Capital	-	-	(4,500,000)	-	-	-	(4,500,000)
Neighborhood Enhancement	-	-	(2,366,000)	-	-	-	(2,366,000)
Restoration Not Required	(2,758,567)	(2,000,000)	(5,611,137)	(4,500,000)	-	-	(14,869,704)
Remaining Cuts in Place	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -

It was assumed that several revenues sources would be significantly impaired for the entire fiscal year, and we built in flexibility through a "tiered" budget solution for the fiscal year 2020-21 estimated 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, and reduced transfers to other funds. The City's discretionary pension payment to CalPERS was also temporarily deferred, but included in the budget as adopted. That payment was subsequently approved by the Council with the first quarter budget update, along with the restoration of \$2.8 million of budget cuts as outlined in the table above.

The City successfully achieved the Tier 1 and 2 budget savings objectives of \$4.8 million in the current fiscal year. Based on the current estimated surplus of \$30.6 million for fiscal year 2020-21, restoration is recommended of \$15.4 million in Tier 3 cuts that includes allocating \$8.5 million to Facilities Financing Program, \$4.5 million to the Harbor Capital fund, and \$2.37 million to the Neighborhood Enhancement fund for fiscal year 2021-22. A Budget Amendment (Attachment C) is recommended for Council approval that will implement the \$15.4 million of budget restorations and return the fiscal year 2020-21 budget to a fully funded condition.

There are \$10.1 million of reductions to deferred capital spending and internal service fund charges that are not recommended for restoration due to the fact that the capital projects would not be ready for moving forward in the year ahead due to resource and scheduling issues and the insurance trust funds having sufficient available funding as-is without additional transfers.

FISCAL IMPACT:

In accordance with the City Charter, the City Manager is presenting the City of Newport Beach's fiscal year 2021-22 proposed operating and capital budget and fiscal years 2022-2027 Capital Improvement Program (CIP) Plan. The operating budget totals \$309.1 million and the capital budget totals \$35.5 million in fiscal year 2021-22 and \$195.9 million over the six-year CIP. The proposed general fund budget is balanced, with revenues exceeding expenditures by \$32,000.

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 – Resolution No. 2021-57 and Exhibit 1 - Proposed Budget Revisions
Attachment B – City Manager's Recommended List of City Position Classifications and Salary Ranges
Attachment C – Budget Amendment