



# City of Newport Beach

OFFICE OF THE CITY MANAGER  
Dave Kiff, City Manager

September 2012

Dear Readers:

As the summer draws to a close, I want to update you on recent activities here at City Hall and around the community. Thank you for taking the time to read this newsletter. I always appreciate the feedback and additional questions I get from sending newsletters, so feel free to send comments and questions along to me.

## City Budget and Pensions

In June, the City Council passed another balanced budget for the new fiscal year (it began July 1) that added to the City's reserves, reflects our fiscal sustainability plan, continues to save money for the future, and invests even more money in infrastructure and maintenance projects.

This is a pretty remarkable accomplishment for the community, especially in light of what other cities are going through. Here are some numbers to help put our budget picture in perspective:

- We ended Fiscal Year 2011-12 with about \$7.8 million in surplus (that's combination of reduced spending and increased revenues).
- We ended Fiscal Year 2010-11 with about \$11.9 million in surplus (before considering a \$31.3 million planned transfer to the City's Facilities Financing Plan), also a combination of reduced spending and increased revenues.
- When the City's current labor contracts expire, our employees will be contributing \$6.6 million annually to pension costs, up from \$0 in 2007. (Read more about pensions below.)
- Our workforce is now at about 752 full-time positions, down from a high of 833 just three years ago. We're at a staffing level not seen since 2001, before Newport Coast was annexed.

We want to maintain and improve on this position, because additional tax dollars invested in the community's physical assets and in our quality of life help keep Newport Beach a special place and property values strong.

**More about the Budget.** The largest portion of most cities' budgets is employee costs because we provide services rather than products. In Newport Beach, we've spent a lot of time during the past three years identifying ways to maintain high quality services while making difficult decisions about which of those services the City provides best and what services the private sector could provide at an equal or higher level.

Even as our staff size has decreased, other employee costs, like pension and healthcare, have increased. So in addition to reducing the number of positions, we've worked on ways to share the burden of these expenses. This includes having current employees pay more toward their pensions. New employees' pensions will be at a lower benefit level (State law blocks cities from changing the benefit levels for employees once they are in an approved pension plan).

Our managerial, professional and administrative employees began paying more toward their pensions about two years ago. During recent labor negotiations with our fire fighters and police officers, they agreed to increase the amount they pay for their pensions by four times and three times, respectively. I greatly appreciate the willingness of the City staff to assist in the City's long-term sustainability.

To this end, the Fitch rating agency recently took a new look at the City's bond and underlying agency ratings. While they expressed concerns about fiscal situations in other California cities, they thought differently of us and reaffirmed the City's AA+/AAA ratings (bond/underlying agency). Fitch's analysts wrote: "The city's financial performance has been strong resulting in very high reserves.... Management has proven successful in expenditure savings including labor salary and pension concessions and Fitch expects the city will maintain strong financial performance and very high reserve levels." We've been working hard these past few years to maintain the City's strong fiscal position and it was reassuring to see that a rating agency recognized our efforts.

There are still challenging times ahead for all cities and I wish that the State Legislature and Governor would reform pensions statewide to level the field, and soon. Additionally, there are more tough choices ahead for our own budget. Although the changes made in 2012 are important, pension costs will be high for a long time before additional employee contributions and a "2nd Tier" have a significant effect. If the City wants to continue to invest in roads, buildings, and programs, our organization has to get even smaller, smarter, and more efficient with its resources. That might include contracting out more services and changing some long-standing ways of doing business.

For more information about the budget and pensions, please visit [www.newportbeachca.gov/budget](http://www.newportbeachca.gov/budget).

## Newport Harbor Rents

Is it a tax? Or is it rent? That's the discussion going on around Newport Harbor right now. The short answer is that it's rent. The State of California has assigned almost all of the waters in lower Newport Harbor to the City to manage on the State's behalf. This assigns to the City the responsibility effectively of a landlord of all property situated on tidelands within the harbor like the marinas, pier concessions, and the Balboa Bay Club. The State includes lots of rules in that assignment, including a requirement to set rents at fair market value.

So if the City is the landlord, who are the tenants? The tenants include mooring holders, commercial marinas, gas docks, and others. These are private uses of public lands. The City hasn't been charging these tenants fair market rents lately and if we need to bring rents to fair market value, I'm sure you can understand how politically unpopular that will be. That's in part why it hasn't been done. Yet there are good reasons to do it.

1. It's the law. We cannot "gift" state assets to any private entity – that's in the California Constitution (Article XVI, Section 6).
2. If we're not charging fair market rent, others are subsidizing these private uses – including the rest of the taxpayers of Newport Beach.
3. The harbor has a lot of unmet needs – more dredging is one. Seawall repair is another. Fair market rent should help pay for some not all, of these costs.

Understandably, harbor renters have complained about the City's proposal, calling it a "dock tax." Since just about everyone hates taxes, that's a smart strategy, but it's also misleading. This is a private use of a public asset.

Let me give you a few examples of how out of line things are today:

- What the City charges to commercial pier permit holders has gone up about 24% since 2001 (roughly a little less than general inflation). During that same period, some marina slip rates went up between 67% and 152%.
- Newport Harbor has two, good-sized marinas that are not over City tidelands – they're over tidelands managed by the County of Orange. These two marinas' slip rates are competitive with other marinas and they have quality docks and good amenities. The County charges these nearly identical marinas about 300% more than we do (\$0.36/SF/year vs. \$1.44/SF/year).
- The City last reviewed the tidelands rents in 2001 and elected not to adjust them to fair market value at that time. I estimate it's been at least 20 years or more since tidelands rents have been materially adjusted.

We know we're legally obligated to charge fair market rent. As to what the amount should be, we're determining that in part based on two separate, independent appraisals, including using one appraiser suggested by harbor renters. Both appraisers met with harbor renters in workshops and one-on-one settings.

As to using the funds received from these rent charges, the trust agreement with the State spells this out clearly for us, and the Tidelands Fund is audited annually. This Tidelands Fund includes both the tidelands within the harbor and those tidelands along the ocean beaches. All revenue generated from tidelands rents is required by law to be re-invested and spent solely on the tidelands. We've been doing that.

A healthy harbor is essential to the economic vitality of the entire city of Newport Beach. The harbor and our beaches constitute the very essence of Newport Beach, make this city stand apart from its neighbors, and serve key recreational and business interests.

At the same time as we switch to charging fair market rents, the harbor's infrastructure needs some attention. This includes sea walls, dredging, water quality protection, and more. It's clear that harbor renters should not cover all of these costs alone. The harbor's infrastructure needs should be funded by at least four sources – visitor use revenue, the City's General Fund, grants from other levels of government, and fair market rents for harbor renters. We need to make sure that harbor renters pay fair market rent – but no more.

To their credit, some harbor renters have already acknowledged that rents should increase, perhaps to more than double the rent they currently pay. The City Council will consider the appraisals and other relevant information, as well as input from the public, to determine fair market rents. Whatever is arrived at is likely to be phased in over time (as we did with two other harbor uses - moorings and the slip rates at the City-owned marina) to minimize economic disruption.

For more information about this issue, go to [www.newportbeachca.gov/harborrenters](http://www.newportbeachca.gov/harborrenters).

## Sunset Ridge Park and Marina Park

This was a surprising summer of success for the community at an unlikely place – the California Coastal Commission. Two of our long-planned projects, the park and marina at Marinapark (on the bay side of the Balboa Peninsula between about 16th and 18th Streets) and Sunset Ridge Park (the 13+ acre vacant land at the northwest corner of Superior Avenue and West Coast Highway), were approved and got the required permits for construction!

Sunset Ridge Park was a struggle for the Commission, but they ultimately approved it after three meetings and extensive debate each time. When constructed, Sunset Ridge will add three much-needed athletic fields to the west side of town, and add over four acres of great passive park space for walking, watching the sunset, and learning about coastal habitat.

There are many to thank in getting us to this point. We were all so happy to get these approvals and they made our summer.

## Civic Center Project

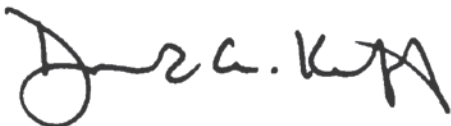
If you haven't been by the site lately (the project is located between Avocado Avenue and MacArthur Boulevard, just north of the Central Library), the buildings are really taking shape. The new Civic Center is the largest capital project in the City's history and consists of two parks (including our first dog park), a pedestrian bridge over San Miguel, an expansion of the Central Library that will increase its size by about 20 percent, a parking structure that will add 100 spaces just for the library (and 350 for the parks and City Hall), and the new City Hall with a community room, City Council Chambers, and an emergency operations room.

We plan to start moving programs and people over there late this year and early in the new year, including holding the first City Council meeting in the new Chambers in December. I think residents and those that work in the Newport Center area will love the new parks as they will have tremendous ocean and harbor views in a remarkable design, including trails, a restored wetlands, places for art, and picnic spots.

For more information about the project, see our website at [www.newportbeachca.gov/civiccenter](http://www.newportbeachca.gov/civiccenter).

Thanks for reading the newsletter. Please always feel free to e-mail, write, or call about any City issue.

Sincerely,

A handwritten signature in black ink, appearing to read "Dave Kiff". The signature is stylized and cursive.

Dave Kiff

City Manager

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