



City of Newport Beach

OFFICE OF THE CITY MANAGER
Dave Kiff, City Manager

July 25, 2014

Dear Reader:

In June, the Newport Beach City Council adopted the new fiscal year's City budget. I will give you a brief overview of what's in it and, if you want to dig in more deeply, you can find more detailed information at newportbeachca.gov/budget.

City of Newport Beach Budget at a Glance

- Our budget year started July 1, 2014 and will end June 30, 2015.
- The \$278-million budget is balanced and we again avoided using reserve funds (savings) for regular expenses.
- The top three sources of revenue for the City remain:
 - Property Tax – Of the 1% of assessed value you pay, the City gets 17%.
 - Sales Tax – For every \$1.08 that a visitor or resident spends buying a car here, or going to a restaurant, or shopping at Fashion Island, the City gets \$0.01.
 - Hotel Bed Taxes – For every \$100 that a visitor spends at a local hotel, the City gets \$10, and gives \$1.80 of that to Visit Newport Beach, Inc.
- The budget calls for investing about \$66 million in capital projects. These are projects like road repair, new sidewalks and alleys, and more. The largest projects this year will involve completing Marina Park on the Peninsula and renovating Corona del Mar's fire station and library.
- The City staff size will again get a little smaller. It will go to 727 full-time positions. This is down from 833 in Fiscal Year 2009-10.
- At the same time, we will add another police officer to help prevent crime as more folks are being released from prison early. We will also transition some of our existing fire fighter positions to paramedics, as more and more of our Fire Department's calls are for medical aid.
- City employees will fund a record \$7.4 million of pension costs from their own paychecks. The total pension costs for the year, including what the employees pay, will be \$27 million.
- Debt service on our bonded debt is about \$8 million this year, net of a federal subsidy. This is about 4.6% of our general fund expenditures, a tick down from the 4.7% last year. The City's implied credit rating is again AAA.
- Our discretionary reserves (savings) are projected to be at \$89 million by June 30, 2015, after the City pays cash to construct two new, major parks – Sunset Ridge and Marina Park. Within the \$89 million is \$41 million that we've set aside in our “rainy day” fund. More on the City's savings later in the newsletter.

Going Back in Time. I was recently asked, “Why aren't City expenditures today more like they were a decade ago?” And, “If the City is spending more per year, why is that, and how do we know it's being spent efficiently?” Those are fair questions. As I see it, there are at least two big drivers to expenditure changes from 2003 to 2014. They are:

- 1. Infrastructure projects.** I previously mentioned the City will spend \$66 million on parks, streets, water pipes, buildings, and more in our Capital Improvement Program (often referred to as the CIP). In 2003, we budgeted \$34 million for the CIP. The city is more than a century old. An aging city needs to invest in its infrastructure to stay vibrant and successful. You can easily spot many examples of cities that don't do this – you will find water line breaks, potholes, weedy and dry medians, and parks you don't want to visit. So, our capital improvement plan these past years (among other things) fixed roads like Bayside Drive, replaced concrete alleys on the Peninsula, dredged the Lower Bay when the federal government wouldn't do it, built new parks, and provided better water service to Corona del Mar. About 25% of our capital investment is from awards and competitive grants that we successfully brought home to Newport Beach.
- 2. Pension Costs.** You're concerned about rising pension costs, and I am too. These are costs that we cannot make disappear. They will be over \$27 million this fiscal year. I had someone say the other day, “Well, just move everyone to a 401(k) plan!” I can't. State law mandates much of what we can and cannot do. Further, about 70% of the City's pension liability is attributable to employees that have already retired.

We are making some progress though, in two key ways: First, in 2003, the City paid a total of \$6.6 million to CalPERS for pensions. The employees paid none of that. Today, the employees will pay \$7.4 million from their paychecks. Many Newport Beach employees are now paying for over 50% of the “normal” cost of their own pensions, which is the State's goal for 2018. Many of our employees are there four years early. Second, the City Council took a big step in 2013 when it adopted a faster payoff plan for the unfunded liability. If successful, it should eliminate all of the unfunded liability in 21-25 years. Paying more now dramatically reduces interest costs – saving \$113 million over 30 years.

Back to comparing 2003 and today. Other costs, somewhat beyond our control, have increased significantly. Our budget for drinking water purchases that get to your tap – from imported water to groundwater – jumped 87% and 77% respectively between 2003 and now. Gasoline was \$1.59 per gallon in 2003 and now it's over \$4.22. That's a 265% increase. Our police cars, ambulances, beach cleaners, and more are all affected by petroleum prices. Petroleum is also the base for asphalt for road repairs. Our insurance and worker's compensation costs are up, too.

Some line items in the City budget have increased simply because more people are participating. For example, our recreational programs (many of which are outsourced to private firms) are cost-recovery. With more people signing up, more contractors get hired and more programs are offered. The OASIS Senior Center is a good example. OASIS got a brand-new and expanded building in 2009. The new interest in programs there – also recovered in part by fees paid by participants – led to a budget jump of 275% from 2003 to 2014. Our \$2.1 million recreation program in 2003 is now \$7.1 million – driven by more Newporters participating in more and more fun and healthy activities.

What about debt? In 2003, the City carried about \$6 million in long-term debt, paying 0.6% of our operating budget to repay it. This fiscal year will see the Civic Center (library expansion, parking structure, park, pedestrian bridge, and city hall) debt at about \$116.5 million. Debt service on that is \$8 million per year (net of a subsidy) – about 4.6% of our General Fund.

4.6% is well under the 8% that rating agencies like Standard and Poors, Moody's, Fitch, and others say is a *conservative* limit for a city. Newport Beach's implied credit rating of AAA is the result of good fiscal stewardship, including sensible levels of rainy-day savings. We are one of only a handful of California cities with these ratings from three rating agencies.

When does it make sense to carry bonded debt? Some will say never – I understand that. Others will say it can make sense to fund a long-term asset with debt when its use will cross multiple generations. To me, that's the case with the Civic Center. The city hall, park, and library expansion, for example, provide value today and for the next 80 years.

Outsourcing. After a pretty active year for outsourcing efforts, the new fiscal year might not bring much change. 2013 saw a new tree trimming company and a new trash collector for most residential areas. We also evaluated outsourcing some lifeguard functions, but opted not to do so. As pension costs continue to loom, it still makes sense to evaluate some functions to see if the private sector can provide a good service at less expense. This won't always be the case, but looking at it is good fiscal policy and helps us track efficiencies.

Reserves. Earlier, I mentioned that the City's reserves (its savings accounts) are projected to be \$89 million by June 30, 2015. Generally, we plan and save for:

- Known Risks – Liabilities like workers compensation costs, legal claims and judgments, etc.
- Strategic Savings – Newport Beach has many long-term plans that we fund – for things like:
 - Facilities that will be needed over the next 30 years, like a new police building, renovated fire stations and libraries.
 - Equipment needs - public safety vehicles, heavy equipment, and our emergency communication equipment.
 - Master plans to improve water and wastewater pumps and pipes, pavement, and much more.
- Contingencies – In Newport Beach, we set aside 25% of the annual operations budget in case of a natural disaster or economic recession. This year, the City's contingency reserve is \$41 million.

Ben Carlson

As many of you know, Newport Beach Lifeguard Ben Carlson was killed in the line of duty on July 6 while attempting to rescue a swimmer in distress. Ben had worked as a City lifeguard for 15 years and was a skilled waterman. He will forever be remembered as a hero. We are so very proud of his actions that day and all that he accomplished in his lifetime.

There's nothing that I can write that will adequately express how much he is missed by his family, friends, fellow lifeguards and the City family. I'm sure you already knew that. I can, however, convey that we were deeply moved by the outpouring of community support for Ben, the Carlson family and our lifeguards. Residents left flowers at lifeguard headquarters, local businesses honored Ben on their signs, others offered help with his memorials, our colleagues in other public agencies provided assistance to our staff wherever it was needed, thousands attended the paddle out and celebration of life... the list of caring gestures goes on and on. We sincerely appreciate every person that stepped forward that week – it meant an awful lot to a lot of people. On their behalf and mine, thank you very, very much.

Random Note Roundup

- The **new trash carts**. The handles should go toward your house as you put the carts out for pickup. Please also try to separate the carts by about a foot or so from each other, to allow the automatic arm unfettered access to each cart.
- April 2014 was **Distracted Driving Awareness Month**. Our police department issued over 400 tickets to persons texting or talking on the phone without being hands-free. During the summer, we have more people (and a lot of Jr. Lifeguards) biking and walking. Please protect them and yourself by eliminating distracted driving.
- I had a great but busy time this spring participating in our **Community Emergency Response Team (CERT)** program and the Newport Beach Police Department's **Citizens Academy**. Those programs start up again this fall. Please consider participating in either of these terrific activities. They're free and give you loads of information about public safety and emergency preparedness. If you want to know more about either program, e-mail me.
- There are two more **Concerts on the Civic Green** this summer – August 17 and September 6 from 6 p.m. to 7:30 p.m. These are free, too. Bring a picnic dinner, a blanket, some chairs, and enjoy the music. For more information, look at www.newportbeachlibrary.org/events.

If you ever have questions about any of the issues in this newsletter, or any issue you're curious about when it comes to the City, our budget, our operations or programs, and more, please don't hesitate to contact me at 949-644-3001 or dkiff@newportbeachca.gov.

Thank you, as always, for reading. I wish you a safe and enjoyable rest of the summer.

Sincerely,



Dave Kiff
City Manager