

# Quarterly Financial Report

## Executive Summary

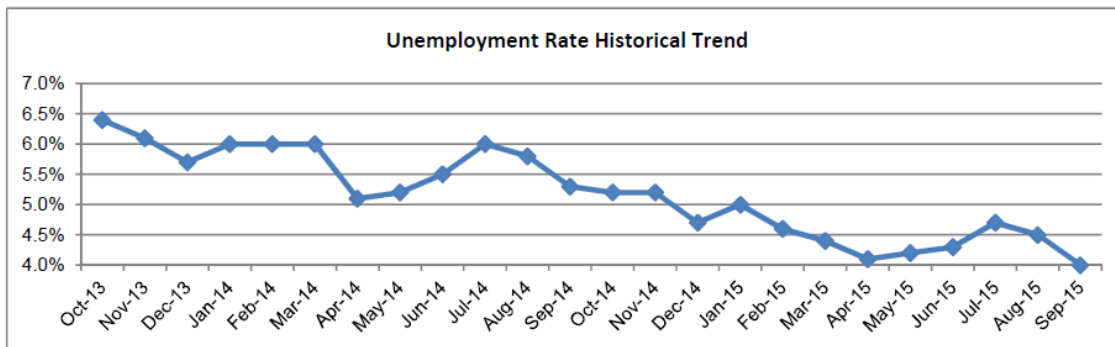
The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's funds. This report contains information on resources for the fourth quarter of the fiscal year, which is the period between April 1, 2015, and June 30, 2015. The City's major General Fund revenue categories performed better than their projected levels for this year. Sales tax increases were realized in each of the five major industry groups due in part by higher receipts from car sales, new eateries, and strong sales from office equipment.

## Economic Update

The federal funds rate has significant implications for the U.S. and global economy. The rate affects the interest consumers pay for car loans or a mortgage, the rate a foreign investor earns when buying a U.S. Treasury or corporate bond, levels of job creation, and manufacturing activity. The Federal Reserve dropped its policy rate (the federal funds rate) to near zero in 2008, where it has sat through episodes of sputtering growth. It now appears that the time for a rate increase is approaching, with inflation beginning to move back towards the Federal Reserve 2% target and a labor market that's continuing to strengthen. Recent U.S. real Gross Domestic Product bounced back strong to 3.9% from 0.6% in the prior quarter. The rebound was mainly fueled by large contributions from consumer spending, state and local government spending, nonresidential fixed investment and exports.

California's unemployment rate decreased to 5.9 percent in September 2015, dropping below 6.0 percent for the first time since November 2007. In addition, nonfarm payroll jobs increased by 8,200 during the month for a total gain of 2,077,700 jobs since the recovery began in February 2010, according to data released by the California Employment Development Department (EDD). The unemployment rate in the Orange County was 4.0 percent in September 2015, down from a revised 4.5 percent in August 2015.

## Orange County Unemployment 2013-2015



Source: State Employment Development Department

The pace of home price appreciation in California accelerated again in June, up 5.2% from the previous year. Though growing, home prices remain affordable in most parts of the state from a historical standpoint. This is due in large part to low interest rates, However, supply constraints pose a threat to the state's future levels of affordability.

### Top “3” Revenues

The General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 74 percent of General Fund revenues. FY2014-15 (FY2015) General Fund top three revenues finished the year \$1.2 million higher than projected in the revised budget. The City's top three revenue sources finished the fiscal year \$8.4 million or 6.5 percent higher than the previous year. This is the result of an improving economy demonstrated through continued increases in assessed valuation for the City, higher consumer spending, and a growing travel industry.

### Property Tax

Property tax is the top source of revenue for the City of Newport Beach. It represents almost half (45.3 percent) of all General Fund revenues. FY2015 property taxes as a whole came in at \$84.1 million, which is 5.3 percent, or \$4.2 million, higher than the prior year.

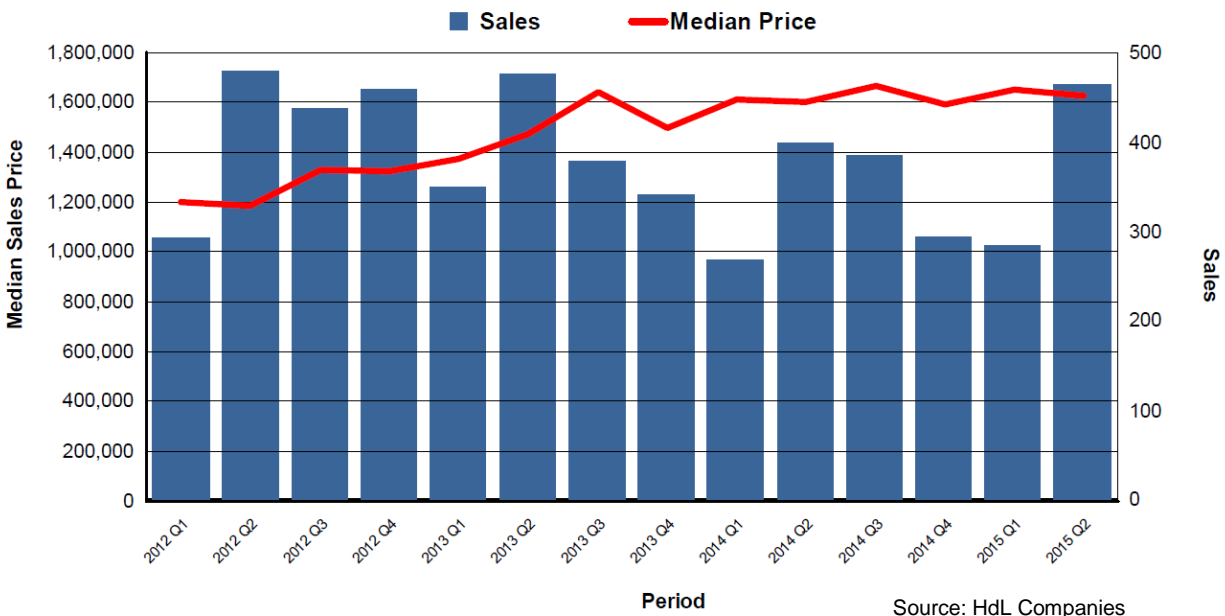
We realized a notable increase in secured and unsecured property tax, coming in at an increase of 5.6 percent and 10.46 percent respectively. Reflective of changes in ownership and new construction, supplemental taxes increased 19 percent over the prior year. Prior year penalties and interest receipts are down 13.76 percent from last year due to the improved economic status of homeowners. The “RDA Dissolution” category is more than last year due to an overpayment error by the county in FY 2012-13, resulting in a smaller than normal payment in FY 2013-14. The payments are back to normal levels in FY 2015-16. The Other Property Tax revenue category is 4.78 percent lower than the prior year due to a dip in property tax transfer (transfer of title) revenues.

Property Taxes	Budget 2014-15	YTD Q4 Actual 2014-15	Percent of		Year-Over- Year Q4 % Change
			2014-15 Budget Realized	Prior Year Q4 Actual 2013-14	
Secured	\$ 68,281,223	\$ 68,236,644	99.93%	\$ 64,602,202	5.63%
Unsecured	2,447,718	2,667,069	108.96%	2,414,405	10.46%
Prior Year Penalties & Interest	960,000	783,103	81.57%	908,053	-13.76%
Supplemental	1,412,604	1,953,373	138.28%	1,641,159	19.02%
In Lieu of VLF	7,692,124	7,697,166	100.07%	7,459,004	3.19%
RDA Dissolution	650,000	451,957	69.53%	415,342	8.82%
All Other Property Taxes	2,525,570	2,332,149	92.34%	2,449,181	-4.78%
<b>TOTAL</b>	<b>\$ 83,969,239</b>	<b>\$ 84,121,461</b>	<b>100.18%</b>	<b>\$ 79,889,347</b>	<b>5.30%</b>

Continued job growth, low mortgage rates, more confident consumers and other factors have put more wind in the housing market sails. Southern California's June home sales

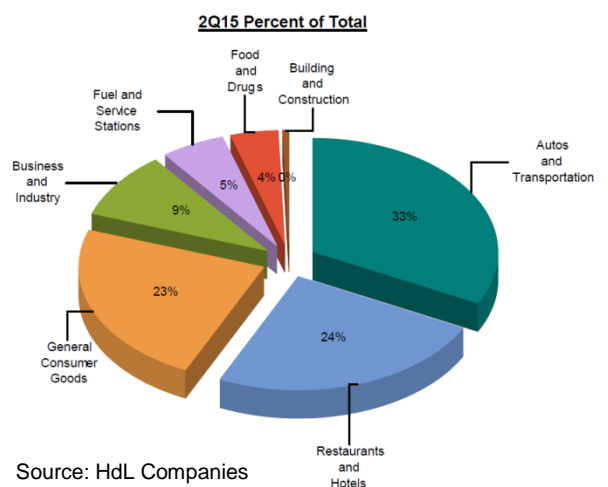
were the highest since summer 2006. The median price paid for all Southern California homes sold in June was up 2.8 percent from May and 5.7 percent from the prior year. As the chart below indicates, the median sales price in Newport Beach is over \$1.6 million at the end of June 2015 and the number of home sales (464) is up significantly over the prior quarter (284).

### Newport Beach Single Family Residential Full Value Sales (1/1/12 – 6/30/15)



### Sales Tax

The City's sales tax base is largely generated from three main industry categories including Autos and Transportation, General Consumer Goods, and Restaurants/Hotels as indicated in the adjacent pie chart that depicts the most recent available sales tax statistics. The largest segment, "Autos and Transportation," accounts for 33 percent of total sales taxes and is represented by 178 new and used auto/boat/aircraft dealers, supply stores and repair shops. The next largest segment, "Restaurants and Hotels," accounts for 24 percent of total sales tax and is represented by 462 restaurants, hotels, clubs and other amusement places. The third largest sales tax segment, "General Consumer Goods" accounts for 23 percent of total sales taxes and is represented by a multitude of stores and shops that provide various consumer goods.

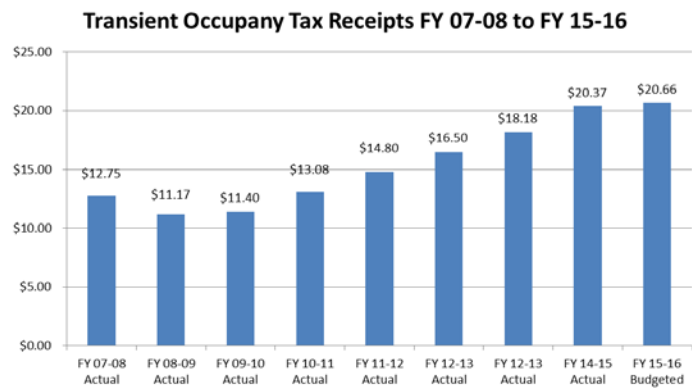


Year-over-year, the Restaurants and Hotels and Business and Industry sales tax categories in Newport Beach are up over the prior year, which suggests improved consumer perception and confidence in our local economy. For FY2015, the City received \$32.9 million. A comparison of sales tax performance from the prior year reveals that the City realized a 6.5 percent increase year-over-year.

Sales Taxes	Budget 2014-15	YTD Q4 Actual 2014-15	Percent of 2014-15 Budget Realized	Prior Year Q4 Actual 2013-14	Year-Over- Year Q4 % Change
Sales and Use Tax	\$ 24,754,322	\$ 24,832,412	100.32%	\$ 23,142,065	7.30%
Property Tax in Lieu of Sales Tax	8,046,423	8,046,424	100.00%	7,727,876	4.12%
<b>TOTAL</b>	<b>\$ 32,800,745</b>	<b>\$ 32,878,836</b>	<b>100.24%</b>	<b>\$ 30,869,941</b>	<b>6.51%</b>

### Transient Occupancy Taxes

Transient Occupancy Taxes (TOT) for FY2015 came in at \$20.4 million, just under \$1 million higher than originally budgeted. The amount collected represents a 12.06 percent increase over the prior year. This increase is due to higher occupancy rates in the City's hotels, motels, cottages, and resorts and a strong travel and tourism business sector.



	Budget 2014-15	YTD Q4 Actual 2014-15	Percent of 2014-15 Budget Realized	Prior Year Q4 Actual 2013-14	Year-Over- Year Q4 % Change
Transient Occupancy Taxes	\$ 19,377,767	\$20,369,158	105.12%	\$ 18,176,369	12.06%

As can be seen from the adjacent bar chart, TOT revenues have maintained a sustained climb in recent years.