

January to March FY 2015-2016

Executive Summary

The City of Newport Beach Finance Department prepares quarterly financial reports to review the status of revenues and expenditures for the City's General Fund. This report contains information on resources and expenditures for the third quarter of the fiscal year (FY), which is the period between January 1, 2016, and March 31, 2016. Revenue categories overall are likely to perform higher than their projected levels for this year due to favorable economic conditions, higher property tax valuations within the City, and a sustained high level of travel and tourism within the region. Current expenditures are thus far performing within expected levels.

Economic Update

The Federal Open Market Committee (FOMC) left policy rates unchanged in March, as expected. The tone of the FOMC policy statement was largely dovish and the Committee's consensus forecast for the year-end target federal funds rate was revised down to a level more closely aligned with market expectations. The FOMC's median forecast now implies two rate hikes in 2016 versus the previous forecast of four rate hikes. The March national employment report was stronger than expected. Nonfarm payrolls rose by 215,000 in March, exceeding the consensus forecast of 205,000. January and February payrolls were revised down slightly by a net total of 1,000. Unemployment stood at 5.0% nationally and 5.4% in California at the end of March.

Economists from the UCLA Anderson Forecast recently released a new report, predicting a more positive outlook for California's economy than the nation as a whole. The main driver of the projected growth is the development of technology and innovation in the state. Forecasters predict that California will keep steadily adding jobs over the next few years; however, factors that could threaten future economic growth include Asia's sputtering economy, and instability in Europe where the United Kingdom might pull out of the European Union in June.

Orange County housing's median selling price stands at \$645,000, the first time it has been back to this level since its June 2007 peak.

Revenues

The General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for 75.7% of total General Fund revenues. With 75% of the year complete, General Fund revenues overall are at 63.8% of the budget. Certain revenues lag as they are received in the latter part of the fiscal year. Therefore, second quarter results are not entirely indicative of annual performance.

Top 3 Revenues

Property Tax

Overall, the City has received \$57 million, or 64.8%, of its budgeted property taxes through the third quarter of FY 2015-2016. Secured property taxes are recorded as they are remitted, in large part, during December and April of each year. Property tax revenue categories through March are 9.6% higher than at this same time last year.

	Budget 2015-16	YTD Q3 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q3 Actual 2014-15	Year-over- Year Q3 Increase/ Decrease
Secured	\$ 71,698,471	\$ 45,889,207	64.00%	\$ 42,340,213	8.38%
Unsecured	2,547,718	2,116,337	83.07%	2,197,488	-3.69%
Prior Year Penalties & Interest	634,614	525,415	82.79%	599,071	-12.30%
Supplemental	1,741,159	1,155,760	66.38%	1,309,120	-11.71%
In Lieu of VLF	7,972,185	4,073,918	51.10%	3,845,745	5.93%
RDA Dissolution	650,000	1,076,104	165.55%	339,663	216.82%
All Other Property Taxes	2,630,358	2,119,692	80.59%	1,317,342	60.91%
TOTAL	\$ 87,874,505	\$ 56,956,433	64.82%	\$ 51,948,642	9.64%

Sales Tax

The City received \$16.8 million, or 45.3%, of its budgeted sales taxes through the end of the third quarter.¹ A comparison of sales and use tax performance from the prior year reveals that the City realized a 10.3% decrease year-over-year. This is due to several factors.

¹ Businesses collecting sales and use taxes periodically remit the amount collected to the State Board of Equalization (BOE). To compensate for the lag time between the sales period and the time that the tax is remitted to the City, the BOE advances 90% of the net sales tax collections for the same period of the prior year. The difference between the advances and total actual receipts for the quarter is remitted in the form of "clean-up" payments, which are included in the March, June, September, and December remittances. The amount of sales tax realized through March represents seven monthly advance payments and two clean-up (December 2015 and March 2016) payments. Relative to the amount budgeted, actual receipts are consistent with prior years, with the exceptions noted above.

Receipts from new car dealers have either flattened or declined (depending upon the dealership), partially offset by gains from auto leases. Receipts are also down in several categories of General Consumer Goods, including Women's & Family Apparel, Department Stores and Electronics/Appliances. There were also one-time aberrations and reporting errors to the State Board of Equalization that temporarily depressed year-over-year receipt comparisons. These errors will be adjusted in subsequent quarters. Lower fuel prices were responsible for a decline sales tax receipts from service stations. Finally there were lower Property Tax in Lieu of Sales Tax receipts due to the wind down of the decade-old funding mechanism known as the "triple flip." The triple flip shifted a portion of sales tax from cities to the state for the payment of economic recovery bonds issued by the state. In return cities received an in-lieu payment representing 25% of 1% sales tax allocation. Going forward, the City will no longer be receiving the in-lieu payment as the full 1% Sales and Use Tax revenue will be restored beginning this fiscal year.

In spite of the relative sales tax decline in comparison to the prior year, we project sales tax collection of \$37 million as budgeted in FY 2015-2016.

	Budget 2015-16	YTD Q3 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q3 Actual 2014-15	Year-over- Year Q3 Increase/ Decrease
Sales and Use Tax	\$32,019,302	\$15,005,800	46.86%	\$14,401,331	4.20%
Property Tax in Lieu of Sales Tax	4,980,791	1,749,767	35.13%	4,273,164	-59.05%
TOTAL	\$ 37,000,093	\$ 16,755,567	45.29%	\$ 18,674,496	-10.28%

Transient Occupancy Taxes

Due to the higher occupancy rates in the City's hotels, motels, cottages, and resorts and a sustained strength in the travel and tourism business sector, we project transient occupancy tax collections of \$20.6 million in FY 2015-2016. The City received \$14.5 million, or 70.4%, of its budgeted transient occupancy tax through the end of the second quarter.

	Budget 2015-16	YTD Q3 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q3 Actual 2014-15	Year-over- Year Q3 Increase/ Decrease
Transient Occupancy Taxes	\$20,656,850	\$14,531,659	70.35%	\$13,794,955	5.34%

Expenditures

With expenditures at 67% of the amended budget, the General Fund is generally on-track. The table below indicates General Fund operating expenditures by department through March 31, 2016. 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. This variability is generally consistent with prior years.

GENERAL FUND OPERATING EXPENDITURES BY DEPARTMENT

Department	Amended Budget 2015-16	YTD Q3 Actual 2015-16	Percent of 2015-16 Budget Expended	Prior Year Q3 Actual 2014-15	Year-Over-Year Q3 Increase/Decrease
City Council	\$1,475,352	\$731,332	50%	\$847,633	-14%
City Clerk	793,188	641,784	81%	581,429	10%
City Manager	3,100,843	1,857,321	60%	1,973,481	-6%
Human Resources	2,699,922	1,862,907	69%	1,760,515	6%
City Attorney	2,308,907	1,317,705	57%	1,460,065	-10%
Finance	7,319,158	5,416,671	74%	4,856,190	12%
Police	52,873,669	39,940,983	76%	37,231,966	7%
Fire	44,368,948	32,509,145	73%	32,074,331	1%
Community Development	11,098,540	7,413,615	67%	6,874,556	8%
Municipal Operations	28,795,122	18,667,175	65%	18,211,946	2%
Library Services	8,387,397	5,899,351	70%	5,645,381	4%
Recreation	11,410,332	7,978,655	70%	7,394,193	8%
Public Works	7,958,932	5,623,936	71%	5,243,715	7%
Capital Projects	18,404,266	5,218,766	28%	6,674,084	-22%
Total	\$200,994,577	\$135,079,345	67%	\$130,829,484	3%