

## FY 2016-2017 JANUARY TO MARCH

### Quarterly Financial Report

#### 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 funds. This report contains information on resources for the third quarter of fiscal year 2016-2017 (FY17), which is the period between January 1, 2017, and March 31, 2017. Revenue categories are likely perform to at or higher than their projected levels for this year due to favorable economic conditions and higher property tax valuations within the City. Current expenditures are thus far performing within expected levels.

#### Top "3" Revenues

In FY17, the General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 75 percent of all General Fund revenues. The third quarter General Fund top three revenues appear to be performing as planned.

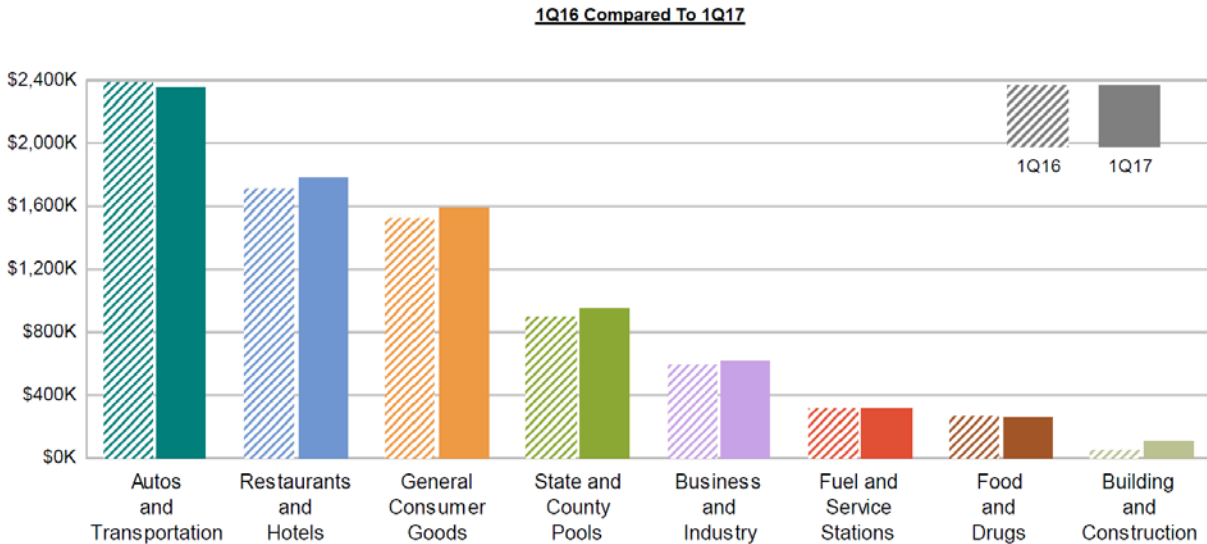
#### Property Tax

Property tax is the top source of revenue for the City of Newport Beach. It represents almost half, 45.7 percent, of all General Fund revenues. FY17 property taxes as a whole are budgeted to come in at \$91.7 million, which is 6.9 percent, or \$5.9 million, higher than FY16 receipts. As the economy continues to improve, it is expected that prior year penalties and interest receipts will continue their downward trend. Revenue from the Santa Ana Heights Redevelopment Agency dissolution appears to be coming in higher than anticipated, yet less than this same time last year (see featured article at the end).

	Budget 2016-17	YTD Q3 Actual 2016-17	Percent of 2016-17 Budget Realized	Prior Year Q3 Actual 2015-16	Year-over- Year Q3 Increase/ Decrease
Secured	\$ 77,624,778	\$ 49,402,384	63.6%	\$ 45,889,207	7.7%
Unsecured	2,556,875	2,105,470	82.3%	2,116,337	-0.5%
Prior Year Penalties & Interest	519,421	398,124	76.6%	525,415	-24.2%
Supplemental	1,497,095	1,194,004	79.8%	1,155,760	3.3%
In Lieu of VLF	8,529,968	4,327,908	50.7%	4,073,918	6.2%
RDA Dissolution	447,347	832,392	186.1%	1,076,104	-22.6%
All Other Property Taxes	509,860	251,042	0.0%	254,930	-1.5%
<b>TOTAL</b>	<b>\$ 91,685,344</b>	<b>\$ 58,511,325</b>	<b>63.8%</b>	<b>\$ 55,091,671</b>	<b>6.2%</b>

## Sales Tax

Year-over-year, nearly all major industry group categories are slightly lower than the previous year as indicated in the chart below which depicts the most recent sales tax data available (labeled as calendar year quarter 1 as opposed to fiscal year quarter 3).



Source: HdL Companies

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 the tax is remitted to the City, each quarter the BOE advances 90 percent of the net sales tax collections for the same quarter 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 2016 and March 2017) payments. Relative to the amount budgeted, actual receipts are consistent with prior years. A comparison of sales and use tax performance from the prior year reveals that the City realized an 18 percent increase quarter-over-quarter.

	<b>Budget 2016-17</b>	<b>YTD Q3 Actual 2016-17</b>	<b>Percent of 2016-17 Budget Realized</b>	<b>Prior Year Q3 Actual 2015-16</b>	<b>Year-over- Year Q3 Increase/ Decrease</b>
Sales and Use Tax	\$36,173,778	\$19,812,383	54.8%	\$16,755,567	18.2%

## Transient Occupancy Taxes

Transient Occupancy Taxes (TOT) are budgeted at \$22 million for FY17 and the City has realized \$15.5 million, through the third quarter of the year. The budget is 6.5 percent higher than the prior year and third quarter revenues are showing a 6.7% increase over the same period in FY16.

	Budget 2016-17	YTD Q3 Actual 2016-17	Percent of 2016-17 Budget Realized	Prior Year Q3 Actual 2015-16	Year-over- Year Q3 Increase/ Decrease
Transient Occupancy Taxes	\$22,001,307	\$15,499,947	70.5%	\$14,531,659	6.7%

## Operating Expenditures – All Funds

With expenditures at 63.7 percent of the amended budget, the General Fund is generally on-track. The table below summarizes operating expenditures for all funds by department through March 31, 2017.

Department	Budget 2016-17	YTD Q3 Actual 2016-17	Percent of 2016-17 Budget Expended	Prior Year Q3 Actual 2015-16	Year-Over-Year Q3 Increase/Decrease
City Council	\$1,199,121	\$665,518	55.5%	\$731,071	-9.0%
City Clerk	1,002,428	722,412	72.1%	640,646	12.8%
City Manager	12,939,064	5,238,415	40.5%	5,542,426	-5.5%
Human Resources	2,927,576	1,837,031	62.7%	1,859,499	-1.2%
City Attorney	2,434,088	1,437,631	59.1%	1,315,163	9.3%
Finance	8,035,251	5,384,955	67.0%	5,398,661	-0.3%
Police	57,630,411	38,642,684	67.1%	39,955,577	-3.3%
Fire	45,757,164	31,906,453	69.7%	32,446,876	-1.7%
Community Development	12,128,131	7,797,071	64.3%	7,477,033	4.3%
Municipal Operations	62,379,404	37,402,762	60.0%	38,505,981	-2.9%
Library Services	8,688,740	5,775,223	66.5%	5,890,885	-2.0%
Recreation	13,100,550	8,398,734	64.1%	7,974,249	5.3%
Public Works	10,927,644	7,103,502	65.0%	7,093,654	0.1%
<b>Total</b>	<b>\$239,149,573</b>	<b>\$152,312,392</b>	<b>63.7%</b>	<b>\$154,831,721</b>	<b>-1.6%</b>

## The Santa Ana Heights Redevelopment Agency

The state Legislature authorized the formation of redevelopment agencies through approval of the Community Redevelopment Law (CRL). The CRL allowed local governments to form redevelopment agencies to “prepare and carry out plans for the improvement, rehabilitation and redevelopment of blighted areas.” After designating an area as “blighted,” RDAs could acquire real property, dispose of the property by lease or sale, clear land, construct infrastructure necessary for building on project sites, and undertake improvements to public facilities in designated project areas. In 1952, California voters approved a constitutional amendment that allowed RDAs to use tax increment financing to fund their redevelopment plans. Tax increment financing allowed redevelopment agencies to capture increased property tax revenue in their project areas to fund their activities. Once a project area was designated and a redevelopment plan was adopted, a base year was set for property tax revenues. All of the other taxing entities in the project area (e.g., school districts, county governments, flood control districts, library districts, etc.) had their property tax revenue frozen at this base year level. Any increased tax revenue above the base year level went to the redevelopment agency until the redevelopment project ended. The County of Orange adopted its first redevelopment plan in 1986 as the Santa Ana Heights Redevelopment Project (SAH). The Project Area encompasses the John Wayne Airport, the SAH community, and the Upper Newport Bay Regional Park. In addition to redevelopment goals such as housing rehabilitation, business attraction, and infrastructure improvements, the Project sought to implement existing land use policies. Subsequent to the adoption of the SAH Redevelopment Plan and Project Area, a significant portion of the Project Area was annexed by the City of Newport Beach. The County continued to be responsible for administering the Redevelopment Plan, in cooperation with the City of Newport Beach. As part of the 2011 Budget Act, and in order to protect funding for core public services at the local level, the Legislature approved the dissolution of the state’s 400 plus RDAs. After a period of litigation, RDAs were officially dissolved as of February 1, 2012. Because of the elimination of the RDAs, property tax revenues are now being used to pay required payments on existing bonds, other obligations, and pass-through payments to local governments. The remaining property tax revenues that exceed the enforceable obligations are now being allocated to cities, counties, special districts, and school and community college districts, thereby providing critical resources to preserve core public services. With the dissolution of the SAH, the City’s General Fund will see an increase in property tax revenue. The amount and timing of these revenues are difficult to predict and are dependent on how the tax increment is unobligated by the County over time.

