

Quarterly Financial Report

Executive Summary Thumbnail Summary:

As the result of favorable economic trends, the General Fund's top three revenue sources (Property Tax, Sales Tax and Transient Occupancy Taxes) and other revenue categories are performing better than projected in FY 2014-15 and are expected to continue their climb into positive territory in FY 2015-16.

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 and expenditures for the second quarter of the fiscal year (FY), which is the period between September 1, 2014, and December 31, 2014. Revenue categories 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 greater level of travel and tourism within the region.

Staff estimates that General Fund revenues will be \$5.3 million higher than anticipated. Property taxes are currently exceeding the 5 year collection trend. Assessed valuation is up 5.7% from the prior year and sales prices are just below the all-time high in 2007. We estimate that property taxes will come in \$1.4 million above the budget. The City is experiencing increased sales activity across all major industry groups. Receipts for Newport Beach's July through September 2014 sales were 10.9% higher than the same quarter one year ago. We estimate that sales taxes will come in just over \$1.0 million above the budget. Transient occupancy tax receipts continue to increase due largely to the sustained climb in travel and tourism to the region. We estimate that transient occupancy taxes will come in just over \$1.0 million above the budget. Construction activity and associated permit and plan check revenues are also increasing. We estimate that building permits and fees will come in \$1.4 million above the budget. Other revenue including reimbursements from the State and parking revenue are also higher. Current expenditures are thus far performing within expected levels.

Economic Update Thumbnail Summary:

U.S. economic data indicated a slowing trend at year end. Data released in January showed weaker results for retail sales, durable goods, factory orders, and the Institute for Supply Management (ISM) survey of manufacturing activity. Increased discretionary income created by lower gasoline prices failed to result in increased spending.

Economic Update

As the U.S. economy continued to expand, slower growth in other parts of the world drove the market in January due to concerns that continued weakness around the globe would slow expansion in the U.S. Fourth-quarter U.S. gross domestic product (GDP) grew at an annual rate of 2.6% according to the Bureau of Economic Analysis. Weakness in exports and investment resulted in this being below economists' estimates

of 3%. Following its January 27-28 meeting, the Federal Open Market Committee (FOMC) noted that economic activity was expanding at a “solid pace,” yet warned that low energy prices would likely result in lower near-term inflation. The FOMC reiterated its intention to remain “patient” in normalizing the benchmark federal funds rate. Oil prices declined and the U.S. dollar strengthened in January in a continuation of trends that have dampened inflation, stressed emerging markets, and put disposable income in the pockets of energy consumers. U.S. economic data indicated a slowing trend at year end. Data released in January showed weaker results for retail sales, durable goods, factory orders, and the Institute for Supply Management (ISM) survey of manufacturing activity. Increased discretionary income created by lower gasoline prices failed to result in increased spending.

The vitality of Orange County’s manufacturing industry is monitored by Chapman University’s manufacturing composite index, measuring growth in the industry sector by monitoring changes in employment, production, commodity prices, and new orders. Orange County’s composite index continues to trend positive with an increase to 62.6 in Q4 2014. However, the state-level composite index declined to 59.9 for the fourth quarter – while still a positive indicator of expansion, Orange County’s manufacturing industry is expected to grow ahead of the state’s level of expansion.

Top “3” Revenues Thumbnail:

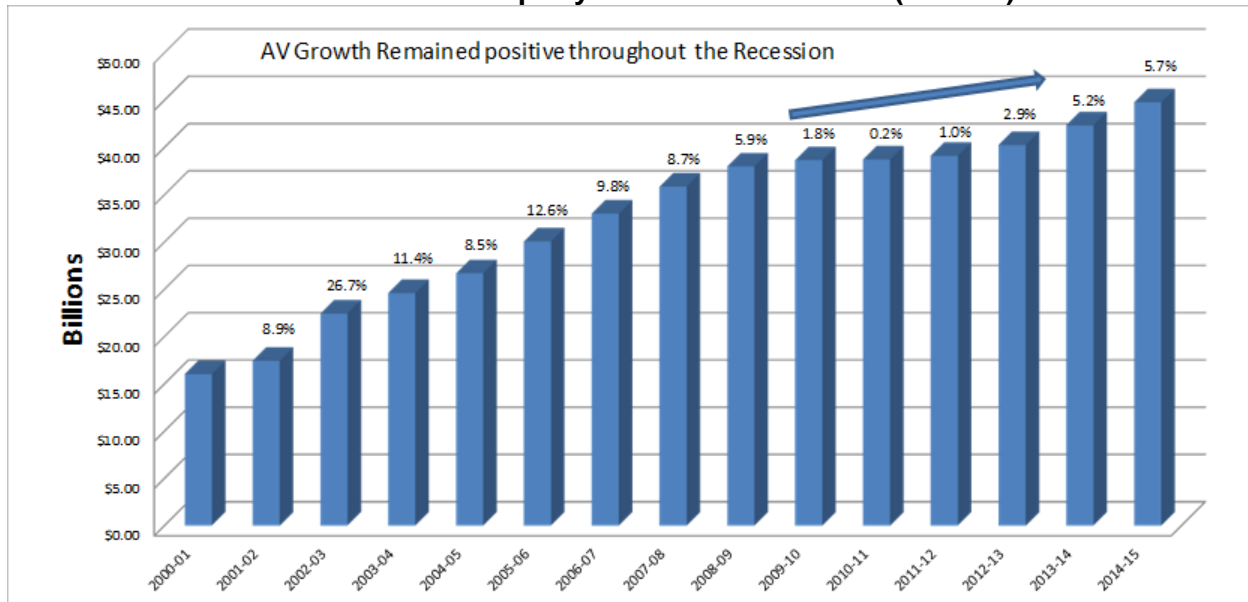
The General Fund’s top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for 77% of total General Fund revenues. Certain revenues lag as they are received in the latter part of the fiscal year. Therefore, second quarter results are not entirely indicative of annual performance. With 50% of the year complete, General Fund revenues are at 46% of the budget. The normal trend is to collect 41% which is a good indicator that actual revenues will exceed original budget predictions.

Top “3” Revenues:

Property Tax

Overall, the City has received \$40.2 million, or 48.6%, of its budgeted property taxes through the second quarter of FY 2014-15. Secured property taxes are recorded as they are remitted, in large part, during December and April of each year. Most property tax revenue categories through December are thus far meeting or exceeding the five-year collection trend and are 5.2% higher than at this same time last year. Due to the relatively high assessed valuation for FY 2013-14, foreclosure levels returning back to normal, and higher home prices, we project total property tax collections of \$84 million in FY 2014-15 which is \$4 million, or 5% higher than prior year actual receipts. The number of December Southern California sales increased sharply from the month of November and rose modestly from the same time last year. Sales prices in Newport Beach are slightly below the all-time high in 2007.

Total Assessed Property Value FY 00 to FY 14 (billions)



Sales Tax

The City's sales tax base is generated from a relatively diverse business community and is not dependent on any one merchant or industry. The city experienced increased sales tax receipts from all major industry groups when compared to last year. The largest year over year increase was in the largest segment, "Autos and Transportation," which accounts for 34% of total sales taxes and is represented by 197 new and used auto/boat/aircraft dealers, supply stores and repair shops.

Sales tax continues to trend upward in FY 2014-15. The City received \$8 million, or 25%, of its budgeted sales taxes through the end of the second quarter.¹ A comparison of sales and use tax performance from the prior year reveals that the City realized a 9.8% increase year-over-year. Due to the solid growth trajectory seen in high end department stores and auto sales, including the relatively new Tesla dealership, we project sales tax collection of \$32.8 million in FY 2014-15. This represents a \$1.2 million increase over our original projection.

Transient Occupancy Taxes

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 December represents four monthly advance payments and one December 2014 clean-up payment.

Due to the higher occupancy rates in the City's hotels, motels, cottages, and resorts and a generally improving travel and tourism business sector, we project transient occupancy tax collections of \$19.5 million in FY 2014-15. This represents \$1.2 million, or 6.7%, increase over the original FY 2014-15 budget.