September to December FY 2015-2016

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 General Fund. This report contains information on resources and expenditures for the second quarter of the fiscal year (FY), which is the period between September 1, 2015, and December 31, 2015. 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 sustained high level of travel and tourism within the region. Current expenditures are thus far performing within expected levels.

Economic Update

In his forecast for the national economy, UCLA Anderson Senior Economist David Shulman states that while the recovery may not feel like much of a recovery for many Americans, employment remains healthy. He indicated "the economy is generating jobs at a 200,000-a-month clip that will bring with it further declines in the unemployment rate to 4.6%." Other economists cite data that indicate ongoing growth for California, including: port activity in September was at a historically high level; international passenger arrivals at LAX and SFO have reached record numbers over the past year; a (shallow) upward trend in sales taxes (which are still below the pre-recession peak when adjusting for inflation); continued growth in residential construction; and impressive gains in California employment. Anderson economists expect California's unemployment rate to be insignificantly different from the U.S. rate at 4.9% by the end of the forecast period.

Revenues

The General Fund's top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for 76% of total General Fund revenues. With 50% of the year complete, General Fund revenues overall are at 44% 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 $43.5 million, or 49.5%, 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 8.3% higher than at this same time last year. Foreclosure levels are returning back to normal, and with higher home prices, we project total property tax collections of $87.9 million in FY 2015-16.

	Budget 2015-16	YTD Q2 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q2 Actual 2014-15	Year-over-Year Q2 Increase/ Decrease
Secured	$ 71,698,471	$ 39,157,756	54.61%	$ 36,209,694	8.14%
Unsecured	2,547,718	1,691,684	66.40%	1,964,776	-13.90%
Prior Year Penalties & Interest	634,614	434,028	68.39%	496,440	-12.57%
Supplemental	1,741,159	933,454	53.61%	759,294	22.94%
In Lieu of VLF	7,972,185	-	0.00%	(533)	-100.00%
RDA Dissolution	650,000	-	0.00%		**
All Other Property Taxes	2,630,358	1,277,108	48.55%	748,094	70.71%
TOTAL	**$ 87,874,505**	**$ 43,494,030**	**49.50%**	**$ 40,177,766**	**8.25%**

Sales Tax

Sales tax continues to trend upward in FY 2014-15. The City received $8.4 million, or 23%, 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 5.7% increase year-over-year. Due to the solid growth trajectory seen in high end department stores, restaurants and hotels, we project sales tax collection of $37 million in FY 2015-16.

[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 2015 clean-up payment.

	Budget 2015-16	YTD Q2 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q2 Actual 2014-15	Year-over-Year Q2 Increase/ Decrease
Sales and Use Tax	$ 32,019,302	$ 8,446,555	26.38%	$ 7,989,594	5.72%
Property Tax in Lieu of Sales Tax	4,980,791	-	0.00%	-	**
TOTAL	**$ 37,000,093**	**$ 8,446,555**	**22.83%**	**$ 7,989,594**	**5.72%**

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 2015-16. The City received $10.2 million, or 49%, of its budgeted transient occupancy tax through the end of the second quarter.

	Budget 2015-16	YTD Q2 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q2 Actual 2014-15	Year-over-Year Q2 Increase/ Decrease
Transient Occupancy Taxes	$20,656,850	$10,197,834	49.37%	$9,632,786	5.87%

Expenditures

With expenditures at 44% of the amended budget, the General Funds is generally on-track. The table below indicates General Fund operating expenditures by department through December 31, 2015. 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	Budget 2015-16	YTD Q2 Actual 2015-16	Percent of 2015-16 Budget Realized
City Council	$ 1,107,432	$ 428,151	38.66%
City Clerk	740,717	398,712	53.83%
City Attorney	2,308,907	807,623	34.98%
City Manager	3,105,843	1,258,306	40.51%
Human Resources	2,699,922	1,121,890	41.55%
Finance	7,319,158	3,177,595	43.41%
Police	52,788,930	25,758,125	48.79%
Fire	43,702,942	21,186,461	48.48%
Community Development	11,098,540	4,652,368	41.92%
Library	8,354,592	3,770,794	45.13%
Recreation and Senior Services	11,476,672	5,335,729	46.49%
Public Works	8,003,932	3,580,163	44.73%
Municpal Operations	28,624,145	11,219,811	39.20%
General Fund CIP	14,583,231	3,548,962	24.34%
TOTAL	**$ 195,914,963**	**$ 86,244,689**	**44.02%**