

FY 2014-2015 JANUARY TO MARCH

Quarterly Financial Report

Executive Summary

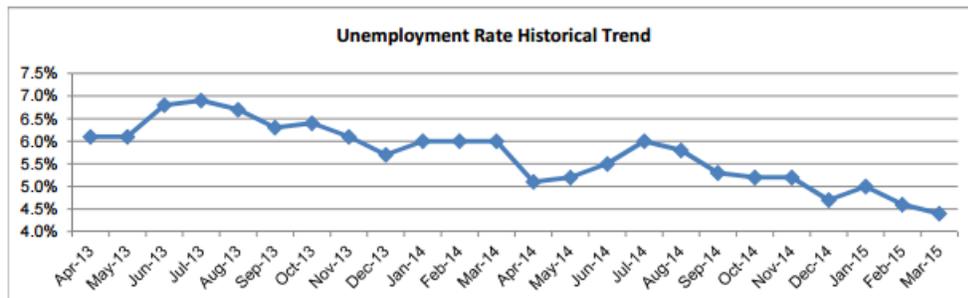
The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's funds. This report contains information on resources and expenditures for the third quarter of the fiscal year, which is the period between January 1, 2015, and March 31, 2015. The City's major General Fund revenue categories are performing according to their projected levels for this year. Current expenditures are thus far performing within expected levels. Higher sales tax revenue resulting from lower unemployment and higher discretionary spending on transportation, dining, and leisure continues to support a strong local economy through the third quarter.

Economic Update

The U.S. economy stands as the singular growth engine in the world due to the chronic economic weakness abroad. U.S. real Gross Domestic Product rose by 2.2% during the 4th quarter of 2014 and continued to show upward momentum due to gains in state and local government spending, and personal consumption expenditures. The European Union has failed to recover since the debt crisis began in 2009. Unlike the U.S. and Japan, the European Central Bank did not engage in quantitative easing by purchasing long-term financial assets to free up lending capacity. European firms bring investment to the U.S., which could dry up if Europe's economy does poorly. The euro has already taken a hit against the dollar, making it more expensive for Europeans to travel.

National job growth came particularly from the service sector, with leisure and hospitality adding 66,000 jobs, as well as an expansion of 54,000 jobs in education and health. In Orange County, key industries in hiring mode during the 12 months that ended in January 2014 include: professional services (which added 12,500 workers for a gain of 4.7 percent); healthcare and social services (up 7,400 workers or 4.6 percent); leisure and hospitality (up 6,200 workers or 3.3 percent); and administrative services (up 6,100 workers or 5.2 percent). The county has seen 128,000 new jobs added since 2011 – the best three-year period of job creation since 1999-2001. Newport Beach unemployment remains exceptionally low, at 2.7%, less than Orange County (4.4%), state (7.1%), and national (5.5%) averages. Still, one consistently dark patch in the recovery has been the sluggish growth of wages. Average hourly wages for private-sector workers have been rising slowly, at around 2 percent, for the last few years. Despite the healthy rate of job growth, economists are concerned that wages continue to stagnate. Slow wage growth has helped prevent the economy from returning to its potential, making many Americans feel as if the recovery has left them behind.

Orange County Unemployment 2013-2015



Source: State Employment Development Department

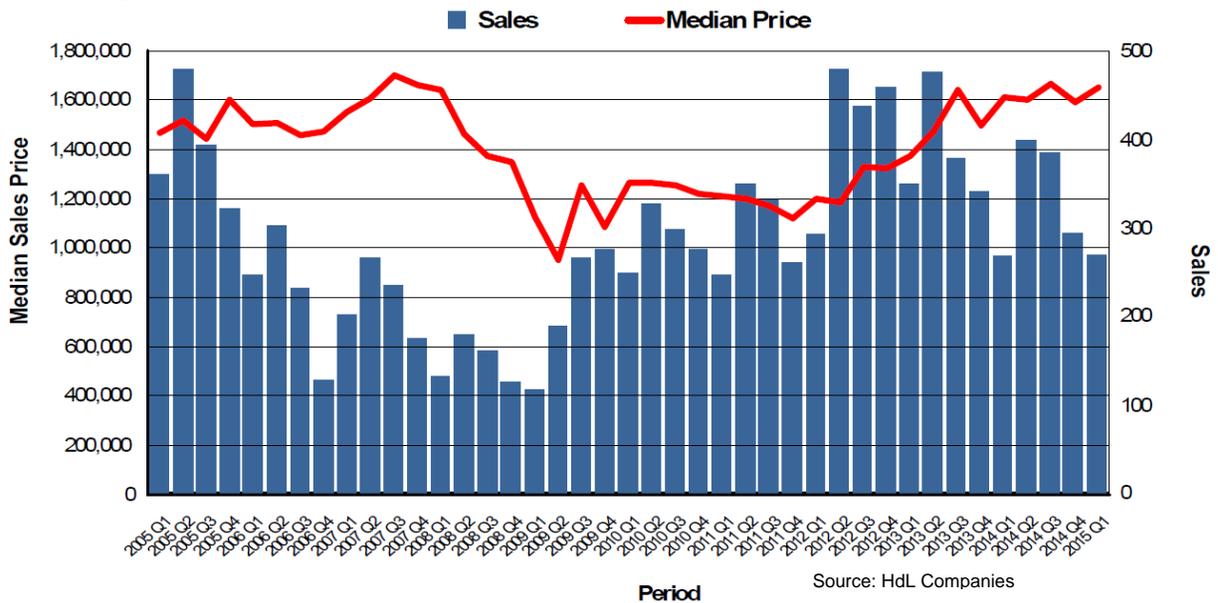
Top “3” Revenues

The General Fund’s top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 75% of General Fund revenues. With 75% of the year complete, General Fund revenues overall are at 66% of projections. This is generally consistent with prior years as certain revenues are received in the latter part of the fiscal year. Unlike prior periods, revenue results can be forecasted with greater confidence by the third quarter of the fiscal year.

Property Tax

Property tax is the top source of revenue for the City of Newport Beach, representing almost half (46.5%) of all General Fund revenues. Despite dramatic declines in the real estate market in past years, sales data demonstrates the high market values throughout the residential communities of Newport Beach. As the chart below indicates, the median sales price in Newport Beach has shown a rise between March Q1 2005 and March Q1 2015, nearing the peak set in 2007. The number of home sales for this quarter is generally consistent with prior years.

City of Newport Beach Home Sales and Median Price History
Single Family Residential Full Value Sales (01/01/2005 – 03/31/2015)



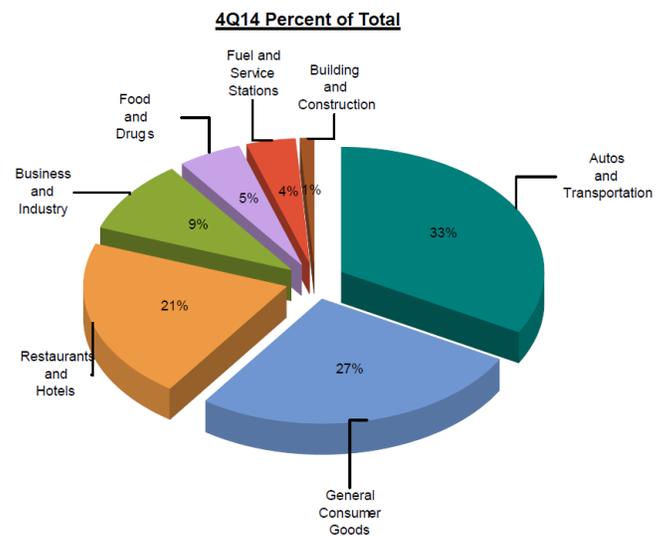
Overall, the City has received \$51.9 million, or 61.9%, of its budgeted property taxes through the third quarter of FY 14/15. Secured property taxes are recorded as they are remitted, in large part, during December and April of each year. A large secured property tax payment was received in late April, subsequent to the reporting period of this report. Most property tax revenue categories through March are thus far meeting or exceeding the prior year collection trend and the revenue category overall is 6.5% higher than at this same time last year. Prior year penalties and interest receipts are down from last year due to the improved economic status of homeowners. We are seeing a marked increase in secured/unsecured property tax and especially supplemental taxes. Supplemental assessments reflect the difference between the new assessed value and the old or prior assessed value upon a change in ownership or new construction. 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 lower than the prior year due to a dip in property tax transfer (transfer of title to property) revenues.

Property Taxes

	Budget 2014-15	YTD Q3 Actual 2014-15	Percent of 2014-15 Budget Realized	Prior Year Q3 Actual 2013-14	Year-over- Year Q3 Increase/ Decrease
Secured	\$ 68,281,223	\$ 42,340,213	62.01%	\$ 39,788,653	6.41%
Unsecured	2,447,718	2,197,488	89.78%	2,018,648	8.86%
Prior Year Penalties & Interest	960,000	599,071	62.40%	665,977	-10.05%
Supplemental	1,412,604	1,309,120	92.67%	1,001,057	30.77%
In Lieu of VLF	7,692,124	3,845,745	50.00%	3,748,866	2.58%
RDA Dissolution	650,000	336,930	51.84%	25,781	1206.90%
All Other Property Taxes	2,525,570	1,317,342	52.16%	1,536,314	-14.25%
TOTAL	\$ 83,969,239	\$ 51,945,910	61.86%	\$ 48,785,296	6.48%

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% of total sales taxes and is represented by 185 new and used auto/boat/aircraft dealers, supply stores and repair shops. The next largest segment, "General Consumer Goods" accounts for 27% of total sales taxes and is represented by a multitude of stores and shops that provide various consumer goods. The third largest sales tax segment, "Restaurants and Hotels," accounts for 21% of total sales tax and is represented by 466 restaurants, hotels, clubs and other amusement places.



Major Sales Tax Industry Groups	Year-Over-Year % Change
Autos and Transportation	4.3%
General Consumer Goods	5.6%
Restaurants and Hotels	7.7%
Business and Industry	24.1%
Food and Drugs	6.7%
Fuel and Service Stations	-2.6%
Building and Construction	21.7%
Total	7.3%

A national economy is a broad amalgamation of individual, business and government spending or investment. Governments typically pay close attention to economic factors to measure the strength of an economy. Free market economies rely on consumer demand to gauge the allocation and distribution of economic resources. U.S. consumers account for approximately 70% of the national economy. Year-over-year, most sales tax categories in Newport Beach are up over

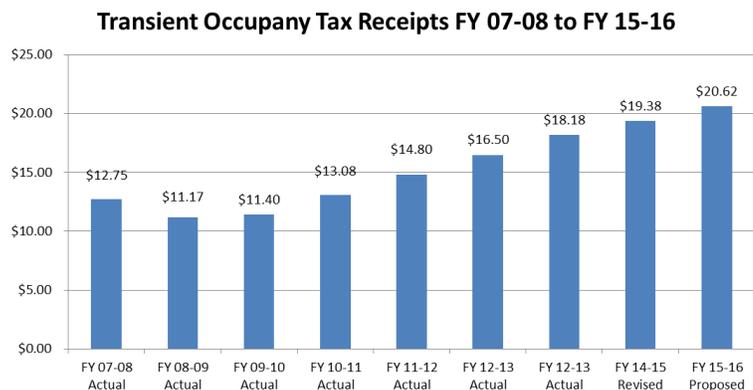
the prior year, which suggests improved consumer perception and confidence in our local economy. The City received \$18.7 million, or 57.1%, of its budgeted sales taxes through the end of the third quarter.¹ A comparison of sales tax performance from the prior year reveals that the City realized a 9.0% increase year-over-year.

Sales Taxes

	Budget 2014-15	YTD Q3 Actual 2014-15	Percent of 2014-15 Budget Realized	Prior Year Q3 Actual 2013-14	Year-over- Year Q3 Increase/ Decrease
Sales and Use Tax	24,703,322	14,434,648	58.43%	13,121,985	10.00%
Property Tax in Lieu of Sales Tax	8,046,423	4,273,164	53.11%	4,036,849	5.85%
TOTAL	\$ 32,749,745	\$ 18,707,812	57.12%	\$ 17,158,834	9.03%

Transient Occupancy Taxes

The City has received \$13.8 million, or 71.2%, of its budgeted Transient Occupancy Taxes (TOT) through the end of the third quarter. The amount collected represents an 11.9% increase over the same period last 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 Q3 Actual 2014-15	Percent of 2014-15 Budget Realized	Prior Year Q3 Actual 2013-14	Year-over- Year Q3 Increase/ Decrease
Transient Occupancy Taxes	\$ 19,377,767	\$ 13,792,016	71.17%	\$ 12,330,525	11.85%

The largest year-over-year transient occupancy tax increases were derived from the Resort at Pelican Hill, Island Hotel, and the Fairmont Hotel. As can be seen from the adjacent bar chart, TOT revenues have maintained a sustained climb in recent years.

Expenditures

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 2014 and March 2015) payments. Relative to the amount budgeted, actual receipts are consistent with prior years.

With expenditures at 68% of the amended budget, the General and Tidelands Funds are generally on-track. The table below aggregates General and Tidelands Funds expenditures by department through March 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 AND TIDELANDS FUNDS EXPENDITURES BY DEPARTMENT

Department	Amended Budget 2014-15	YTD Q3 Actual 2014-15	Percent of 2014-15 Budget Expended	Prior Year Q3 Actual 2013-14	Year-Over-Year Q3 Increase/Decrease
City Council	\$1,444,927	\$845,765	59%	\$1,143,195	-26%
City Clerk	847,647	580,343	68%	504,481	15%
City Manager	3,139,482	1,968,187	63%	2,115,631	-7%
Personnel	2,695,137	1,758,683	65%	1,827,490	-4%
City Attorney	2,292,775	1,458,144	64%	1,463,568	0%
Finance	7,072,584	4,847,513	69%	4,800,228	1%
Police	51,487,421	37,103,045	72%	33,082,224	12%
Fire	43,680,115	31,995,826	73%	29,789,722	7%
Community Development	10,510,805	6,861,703	65%	6,822,964	1%
Municipal Operations	28,452,988	18,575,235	65%	17,648,233	5%
Library Services	8,153,601	5,634,761	69%	5,325,149	6%
Recreation	10,196,409	7,359,239	72%	6,731,167	9%
Public Works	9,829,548	6,412,467	65%	5,614,725	14%
Capital Projects	18,393,880	9,376,409	51%	3,275,648	186%
Total	\$198,197,320	\$134,777,321	68%	\$120,144,424	12%

Conclusion

Newport Beach continues to be a financially secure municipality due to its strong underlying tax base, governance, and careful fiscal decisions through the third quarter of FY 2014-15. Our growing economy and the City Council’s decision-making in recent years provides the opportunity to commit resources for quality improvements while allowing the provision of high level public programs and services that the Newport Beach population demands.