

FY 2015-2016 APRIL TO JUNE

Quarterly Financial Report

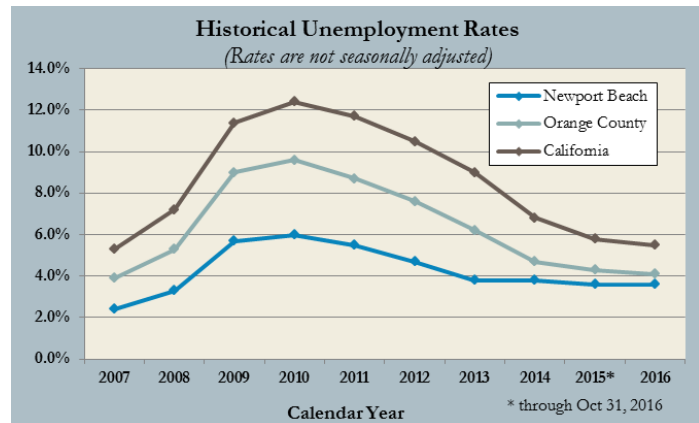
Executive Summary

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 for the fourth quarter of the fiscal year, which is the period between April 1, 2016, and June 30, 2016. The City's major General Fund revenue categories performed better than their projected levels for this year. Sales tax increases were realized in each of the five major industry groups due in part by higher receipts from car sales, new eateries, and strong sales from office equipment.

Economic Update

The national unemployment rate stood at 4.9 percent in November, according to the Bureau of Labor Statistics. Compared to November 2015, unemployment has decreased by 0.1 of percentage point and is the lowest it has been since April 2008.

Employment rates in California and the U.S. have been steady or increasing since the end of the great recession as more workers rejoin the labor force. California's poverty rate fell to 14 percent in 2015 from 15.9 percent in 2014, while real median household income rose 2.7 percent to \$64,500. California's unemployment rate fell from 5.8 percent in the prior fiscal year to 5.5 percent currently, the lowest reading since October 2007. Orange County



unemployment next year is expected to drop below 4 percent for the first time in a decade. The County's unemployment rate peaked at 9.5 percent in 2010, and now stands at 4.1 percent - one of the lowest unemployment rates in California. Furthermore, Newport Beach's unemployment rate stands even lower at approximately 3.6 percent currently.

Growth remains a bit sluggish in construction, but is strongest in professional and business services which recorded the largest year-over growth with a gain of 10,400 jobs. Almost 60 percent of the increase in Orange County employment was in professional, scientific and technical services. Construction increased by 9,000 jobs. The largest changes were a 9,600-job gain in specialty trade contractors and a 1,200-job loss in construction of buildings. Heavy and civil engineering construction added 600 jobs.

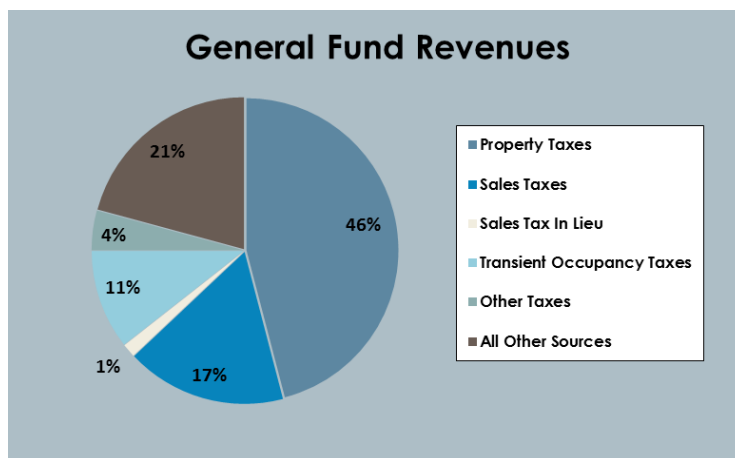
With its popular dining and shopping options, recreational harbor and proximity to the ocean, Newport Beach has attracted visitors for more than 100 years. Based on data from the city's local destination marketing organization, Newport Beach & Co., it booked

160,862 hotel rooms in and there were approximately 7 million tourists who visited Newport Beach in the 2015-16 fiscal year.

In spite of these favorable economic trends, a generally conservative outlook is warranted as some economists predict that the current economic recovery is in its latter stages and nearing an end point. Since 2007, the cumulative job growth of 2.8 percent in Orange County has lagged the U.S. (3.3 percent and California 4.9 percent). County high-tech and information jobs have taken a dramatic dive of 16.3 percent since 2007. This year, Broadcom announced it would cut nearly 700 jobs at its Irvine campus, and Western Digital said it would shed 99 positions. Southern California has been especially hard hit by the loss of well-paid factory jobs. The state lost 11.3 percent of its manufacturing jobs since 2007, higher than the U.S. As a result, Orange County's per capita personal income, which in 2007 was 16.4 percent greater than that of California, is now only 8.7 percent higher. Housing affordability continues to be a challenge. At \$625,000, the median cost of a house in Orange County is almost 13 times its residents' average annual wages while in the U.S. it's just over four times higher.

Top "3" Revenues

General Fund revenues were approximately \$199 million during FY 2015-16. The top three individual revenue sources, Property Taxes, Sales Taxes and Sales Tax in Lieu, and Transient Occupancy Taxes (TOT), represent 75 percent of all General Fund revenues. Tax revenues in total, including business licenses, franchise fees and other taxes represent nearly 79 percent of all General Fund revenues while only 21 percent is generated by other revenue sources.



Property Tax

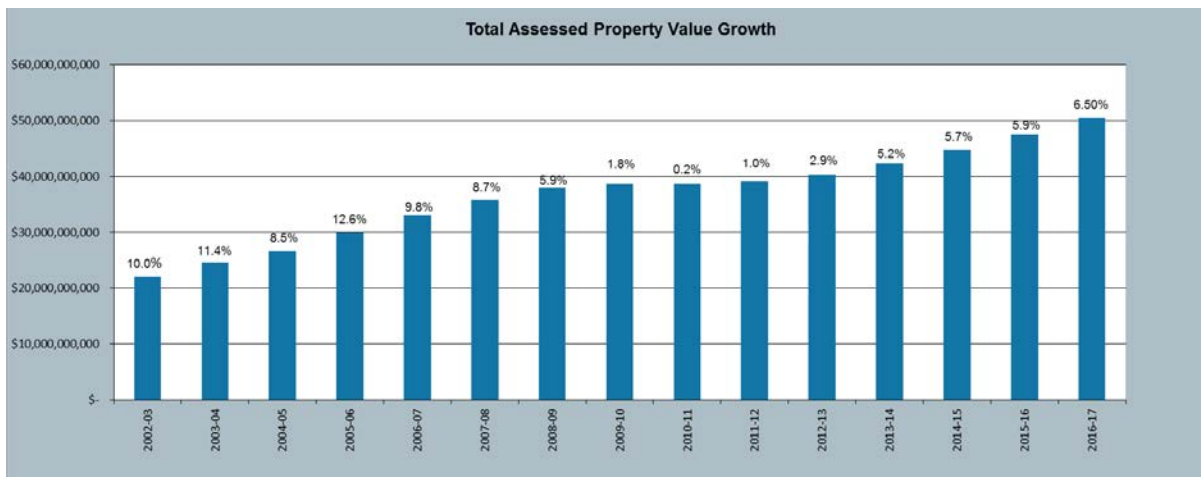
Unlike many cities, property taxes, not sales taxes, are the number one source of revenue for the City of Newport Beach, representing almost half (46 percent) of all General Fund revenues. Due to the limited supply of scenic coastal property and the unique access to

the scenic Newport Bay, the Newport Beach community has been developed into affluent residential neighborhoods and high-end commercial districts.

Consistent and vigorous demand for coastal property has allowed the City to enjoy long-term growth trends with its number one revenue source. Value changes in Newport Beach show continued appreciation in property values in FY 2015-16 and the restoration of values previously reduced under the assessed valuation appeal process provided by Proposition 8. Over the past 10 years, assessed valuation increased an average of 4.4 percent per annum and 6.8 percent over a twenty-year period. Newport Beach's assessed property values increased 5.9 percent and came in second in Orange County in total local assessed value at \$47.4 billion for FY 2015-16.

After Californians passed Proposition 13 in 1978, assessed property value is reassessed to market value only when the property changes ownership. Otherwise, the assessed value (AV) grows by no more than 2 percent per year. This practice creates a constant lag and buffer between assessed and market values, effectively insulating the tax base from more market volatility.

While property tax growth rates fell sharply during the Great Recession, the City has experienced positive AV growth during each of the past 20 years (see chart below with the past 15 years of AV growth demonstrated). This positive growth occurred while many other cities experienced decreases in their AV during 2008 through 2011. Note that while growth slowed, the assessed value never declined throughout the recession.



We realized a notable increase in secured property tax, coming in at an increase of 7.4 percent. Residential uses increased 6.5 percent, or a total of \$2.4 billion, and represented 91 percent of the growth experienced in the City. Unsecured assets decreased 4.9 percent as many represented escaped assets that were billed on the prior year tax roll. Reflective of changes in ownership and new construction, supplemental taxes increased 2.7 percent over the prior year. Prior year penalties and interest receipts are down 7.5 percent from last year due to the improved economic status of homeowners. 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 redevelopment

agencies. Property tax revenues that exceeded the enforceable obligations of the RDA are now being allocated to the City. These revenues are largely unpredictable as the amount of the enforceable obligations varies from year to year. Other property taxes came in higher than budgeted due to an increase in property transfer taxes resulting from higher home sales. Property tax revenue overall increased \$7.4 million or 8.8 percent higher than the prior fiscal year.

Property Taxes

	Budget 2015-16	YTD Q4 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q4 Actual 2014-15	Year-over- Year Q4 Increase/ Decrease
Secured	\$ 71,698,471	\$ 73,256,147	102.2%	\$ 68,236,644	7.4%
Unsecured	2,547,718	2,537,550	99.6%	2,667,069	-4.9%
Prior Year Penalties & Interest	634,614	724,583	114.2%	783,103	-7.5%
Supplemental	1,741,159	2,005,390	115.2%	1,953,373	2.7%
In Lieu of VLF	7,972,185	8,147,835	102.2%	7,697,166	5.9%
RDA Dissolution	650,000	1,669,948	256.9%	451,957	269.5%
All Other Property Taxes	2,630,358	3,175,157	120.7%	2,332,149	36.1%
TOTAL	\$ 87,874,505	\$ 91,516,611	104.1%	\$ 84,121,461	8.8%

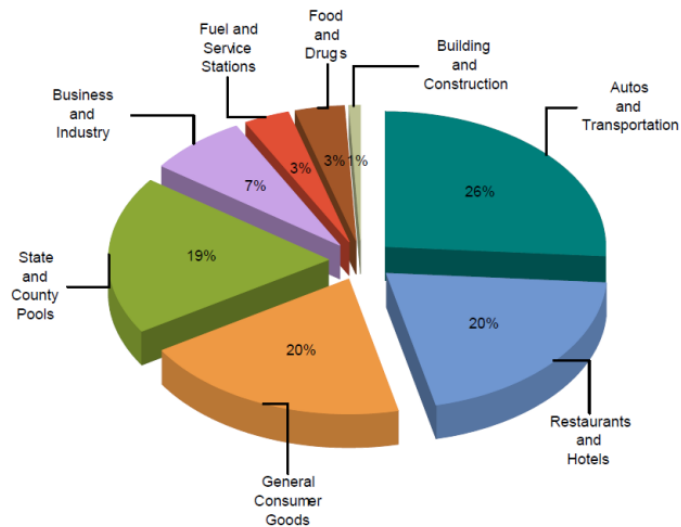
Median home sales prices of \$1,767,000 in the city far exceed the countywide median sales price of \$625,000.

CITY OF NEWPORT BEACH Median Home Sales* Comparative Month Ending September			
Year	Single Family Residence		% Change
	Sales	Median Sales Price	
2007	877	\$ 1,625,000	
2008	599	\$ 1,450,000	-10.77%
2009	848	\$ 1,100,000	-24.14%
2010	1,152	\$ 1,253,000	13.91%
2011	1,190	\$ 1,189,000	-5.11%
2012	1,667	\$ 1,260,000	5.97%
2013	1,546	\$ 1,500,000	19.05%
2014	1,354	\$ 1,600,000	6.67%
2015	1,023	\$ 1,650,000	3.13%
2016	1,116	\$ 1,767,500	7.12%

* Source: HdL Coren & Cone

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 following chart demonstrates the diversity of the City sales tax revenue. The largest segment, "Autos and Transportation," accounts for 26 percent of total sales taxes and is represented by 197 new and used auto, boat and aircraft dealers, supply stores and repair shops. The next largest segments, "General Consumer Goods" and "Restaurants and Hotels," each account for 20 percent of total sales taxes. The third largest sales tax segment, "State and County Pools" accounts for 19 percent of total sales. These pools assign revenue from out of state sellers to local jurisdictions based on each jurisdiction's share of total taxable sales. Growth in countywide pool allocations is expected to remain strong as online shopping for goods shipped from out-of-state fulfillment centers continues to accelerate. Sales Taxes in total represent 18.5 percent of all General Fund revenues.



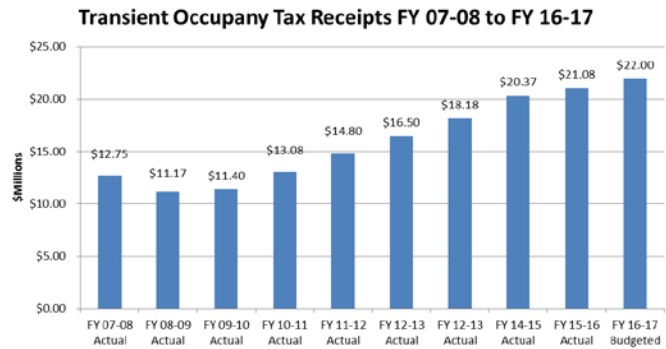
Sales Tax revenue increased \$3.9 million or 12 percent from the prior year. Approximately \$2.7 million of the sales tax increase is due to a one-time true-up payment from the state known as the "triple-flip." This complex, decade-old funding mechanism shifted a portion of sales tax from cities to the state for the payment of economic recovery bonds issued by the state. The State "defeased" the remaining debt this summer. Excluding the one-time triple-flip payment, the City realized a \$1.3 million, or 3.8 percent, increase over the prior year.

Sales Taxes

	Budget 2015-16	YTD Q4 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q4 Actual 2014-15	Year-over- Year Q4 Increase/ Decrease
Sales and Use Tax	\$ 32,019,302	\$ 33,937,986	106.0%	\$ 24,832,412	36.7%
Property Tax in Lieu of Sales Tax	4,980,791	2,870,474	57.6%	8,046,424	-64.3%
TOTAL	\$ 37,000,093	\$ 36,808,460	99.5%	\$ 32,878,836	12.0%

Transient Occupancy Taxes (TOT)

TOT accrues to the City at a rate of 10 percent of room charges with 18 percent of this collection going to the local destination marketing organization (Newport Beach & Co.) to promote Newport Beach as a tourist destination. The City distinguishes its transient occupancy taxpayers in two broad property type categories, commercial and residential property. The commercial category is composed of approximately 20 inns, motels, hotels and resorts and accounts for 90 percent of TOT revenues. The residential category is made up of some 884 vacation rentals representing 10 percent of TOT revenue; together, they accounted for \$21 million in TOT revenue during FY 2015-16. As can be seen from the adjacent bar chart, TOT revenues have maintained a sustained climb in recent years.



TOT collections increased \$714,041 or 3.5 percent over the prior year. This is the net result of a 18.6 percent increase in residential transient tax collections and a 2.0 percent increase in hotel transient tax collections.

	Budget 2015-16	YTD Q4 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q4 Actual 2014-15	Year-over- Year Q4 Increase/ Decrease
Transient Occupancy Taxes	\$20,656,850	\$21,083,199	102.1%	\$20,369,158	3.5%

Expenditures

Operating expenditures for all funds ended the year at 92.1 percent of the budget. Significant factors contributing to this savings include salary and benefits savings and reductions in professional and contract services.

OPERATING EXPENDITURES (ALL FUNDS) BY DEPARTMENT

Department	Budget 2015-16	YTD Q4 Actual 2015-16	Percent of 2015-16 Budget Expended	Prior Year Q4 Actual 2014-15	Year-Over-Year Q4 Increase/Decrease
City Council	\$1,475,352	\$1,007,414	68.3%	\$971,970	3.6%
City Clerk	797,820	817,871	102.5%	762,425	7.3%
City Manager	13,753,122	9,404,149	68.4%	7,485,310	25.6%
Human Resources	2,699,922	2,537,365	94.0%	2,352,955	7.8%
City Attorney	2,308,907	1,843,660	79.8%	1,984,866	-7.1%
Finance	7,451,158	7,132,040	95.7%	6,543,713	9.0%
Police	54,263,571	54,080,964	99.7%	50,817,153	6.4%
Fire	44,952,745	42,897,019	95.4%	43,027,866	-0.3%
Community Development	11,151,241	10,285,735	92.2%	9,382,187	9.6%
Municipal Operations	62,156,354	54,391,424	87.5%	52,010,415	4.6%
Library Services	8,386,113	7,927,063	94.5%	7,393,605	7.2%
Recreation	11,411,886	10,807,643	94.7%	9,869,912	9.5%
Public Works	10,461,673	9,769,115	93.4%	9,020,618	8.3%
Total	\$231,269,862	\$212,901,461	92.1%	\$201,622,995	5.6%

Conclusion

Newport Beach continues to be a financially secure municipality due to its strong underlying tax base, governance, and careful fiscal decisions through the fourth quarter of FY 2015-16. 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.