

**CITY OF NEWPORT BEACH  
FINANCE COMMITTEE STAFF REPORT**

November 7, 2011

**TO:** HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

**FROM:** Finance Department  
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**SUBJECT: QUARTERLY FINANCIAL REPORT – UPDATE 6/30/2011 & 9/30/2011**

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**ABSTRACT:**

Finance has the preliminary year-end financial results for Fiscal Year ending June 30, 2011 (unaudited) as well as the first quarter ending September 30, 2011, revenue projections for the “Top 3” revenue sources, as also reported in the City Manager’s Quarterly Business Report (QBR).

**DISCUSSION:**

Fiscal Year 2010-11 was plagued by global economic instability, an unimaginable natural disaster in Japan, the European financial crisis, a sputtering US economy, debt ceiling hysteria and stubbornly high jobless rates. The net result was consistent consumer uncertainty and extraordinary volatility across all markets.

Even though the economic recovery is now more than two years old, the pace of the recovery in the labor market continues to be extremely weak by historical standards. However, given this global economic crisis, Newport Beach continues to fair relatively well during the recession. The result for Newport Beach was a second year of minimal-to-flat revenue growth that has kept us focused on Council priorities and disciplined fiscal decisions. Also a factor, adhering to our Council’s 15-point Fiscal Sustainability Plan has empowered our City to “stay the course” with responsible, yet difficult, spending decisions and strong revenue monitoring, analysis and reporting.

Overall General Fund Revenues finished 2.9% higher than the prior year while expenditures finished 4.1% lower. The net result is General Fund revenue exceeded budget by nearly \$5 million. General Fund expenditures were almost \$7 million under budget. This was the result of the City Manager tasking Department Directors to right-size each department as it should look by FY 2012-13. Each director took this task seriously and began immediately making changes, resulting in a large budgetary savings for the General Fund for fiscal year 2010-11 and structurally going forward. This \$7 million also included some budget savings in completed capital projects funded by the General Fund. As stated earlier, even in these volatile economic times, the City of

Newport Beach increased the General Fund total fund balance in the current fiscal year by approximately \$12 million. This increase to fund balance was allocated to various fund reserves, commitments and some to unassigned fund balance.

It is important to note at this time that the City had also planned, and budgeted, for a one-time transfer of \$31.3 million in General Fund Reserved Fund to the Facilities Financing Fund, discussed in detail later. This transfer of \$31.3 million net with the fund balance increase of \$12 million, and the net result of other transfers in and out, resulted in the General Fund closing the year with a net decrease in Fund Balance of \$18.8 million.

<b>General Fund Reserves</b>			
	2010	Unaudited 2011	Change
<b>Non-spendable</b>	\$ 1,641,672	\$ 1,366,754	\$ (274,918)
<b>Restricted</b>	1,692,533	1,681,333	(11,200)
<b>Committed</b>			
Facilities Financing Plan *	27,500,000	31,300,000	3,800,000
Contingency Reserve	18,895,125	21,841,467	2,946,342
Recreation Reserves	443,522	452,448	8,926
Parking Reserves	235,506	238,876	3,370
Cable Franchise	1,356,143	1,360,385	4,242
Capital Reappropriations	3,993,497	2,617,100	(1,376,397)
Other Miscellaneous	3,897,380	3,962,476	65,096
<b>Assigned</b>			
PERS Rate Reserve	5,000,000	5,000,000	-
Change in FV of Investment	707,200	369,235	(337,965)
Neighborhood Revitalization	-	650,000	650,000
Tideland Management	-	200,000	200,000
Marian Bergesson Pool Contribution	-	330,000	330,000
Airport Issues	-	100,000	100,000
MOD - Tree Replacement Program	-	75,000	75,000
Economic Development	-	75,000	75,000
Median Maintenance Program	-	50,000	50,000
Lower Newport Bay Dredging - Loan	-	2,500,000	2,500,000
<b>Unassigned (Appropriations Reserve)</b>	16,795,288	20,508,581	3,713,293
Pre FFP Transfer	<u>\$ 82,157,866</u>	<u>\$ 94,678,655</u>	12,520,789
FFP Transfer Out*	<u>\$ -</u>	<u>\$ (31,300,000) *</u>	(31,300,000)
Net General Fund Balance	<u><u>\$ 82,157,866</u></u>	<u><u>\$ 63,378,655</u></u>	<u><u>\$ (18,779,211)</u></u>

\*In FY 11 \$31.3 Million was transferred to a separate Facilities Financing Plan Fund

The City's external auditors are still completing the financial statement audit for fiscal year ending June 30, 2011, as such these account balances are considered unaudited and subject to change. However, Finance staff does not feel there will be any material changes in these balances as represented today. Two items of note: 1) The City Manager has assigned \$9.3 million of fund balance to set monies aside for Council priorities for the next fiscal year; these projects include neighborhood revitalization and Tidelands dredging. 2) Unassigned fund balance increased \$3.7 million; this represents additional available monies for future appropriations not otherwise committed or reserved. This is a strong signal that our City is fiscally strong and has followed our Council approved fiscal sustainability plan to ensure our General Fund's continued fiscal strength.

**Facilities Financing Plan (FFP) Reserve**

Council Policy F-28, approved in August 2009, establishes a long-term financing plan (FFP) for the replacement of all General Fund supported facilities (Civic Center, fire stations, police stations and parks). The FFP provides a consistent, level funding plan to minimize negative impacts on the General Fund in any given year, while also ensuring the City is able to maintain its high quality facilities. The City has been reserving these funds in a Facilities Replacement Reserve within the General Fund. With the financing of the Civic Center Project and completion of the OASIS Senior Center, the City transferred \$31.3 million to a separate financing fund that will be used to accumulate resources to pre-fund debt service or cash fund construction of projects on the Facilities Replacement Plan. In 2010-11, \$5 million was used to cash fund the remaining balance of the completed OASIS Senior Center construction. After accounting for interest earnings and net debt service payments on the 2010 Civic Center bonds, the remaining Fiscal Year 2010-11 FFP Reserve balance was \$25.5 million. The balance of the FFP Reserve has grown to more than \$33.5 million after a major developer contribution dedicated to the facilities plan was received during our current Fiscal Year 2011-12.

Facilities Financing Plan Fund	
<b>Beginning Balance 7/1/10</b>	\$ -
<b>Revenues</b>	
Transfer In from General Fund	31,300,000
Interest Income	275,381
<b>Total Revenues</b>	<b>31,575,381</b>
<b>Expenditures</b>	
2010 Civic Center COPs Debt Service	(682,755)
OASIS Construction	(5,027,920)
<b>Total Expenditures</b>	<b>(5,710,675)</b>
<b>Ending Balance 6/30/11</b>	<b>25,864,706</b>

As mentioned earlier, the FFP Reserve has historically been held within the General Fund. It was planned and budgeted to be transferred to a separate fund during Fiscal Year 2010-11 for transparency purposes for the readers of our financials, rating agencies and finance staff. For comparison purposes, the FY 2010-11 General Fund Balance of \$63.3 million should be added to the FFP fund balance of \$25.9 million to equal \$89.2 million. This represents an increase of \$7 million over the \$82.2 million reported in General Fund as of June 30, 2010.

Quarter Ending September 30, 2011

As the first quarter comes to a close we review the early results of a brand new year. Although it is generally too early to make any substantive assessments we do have our first analysis for the year ahead and as expected it is trending minimally higher than last fiscal year which is also trending on budget.

General Fund 1st Quarter Revenue Comparison			
	Revenues through 9/30		Change
	2011	2012	
<b>General Fund Revenues:</b>			
Property Taxes	\$ 2,403,202	\$ 2,397,266	\$ (5,936)
Sales Taxes	1,133,897	1,227,287	93,390
Transient occupancy Tax	3,211,861	3,485,041	273,180
Business Licenses	976,209	977,749	1,540
Franchises	219,063	224,963	5,900
Community Development	1,211,601	1,306,922	95,322
Recreation	1,875,548	2,335,379	459,832
Other	5,783,900	6,704,189	920,290
<b>Total GF Revenues</b>	<b>16,815,280</b>	<b>18,658,797</b>	<b>1,843,517</b>

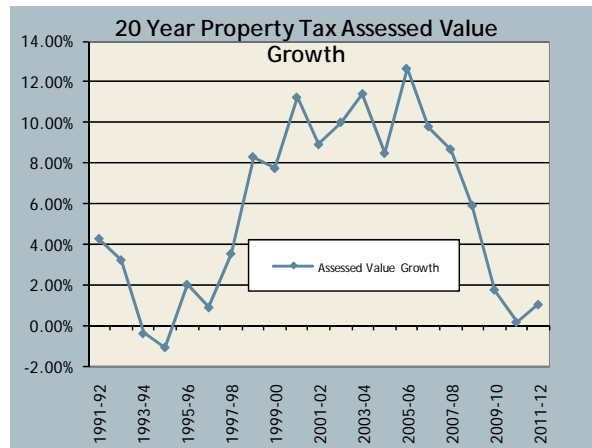
Property Tax

Property tax collections to date only represent the remittance of supplemental taxes and prior taxes and penalties collected. The first remittance of secured taxes is not scheduled until November 9, 2011. However, the City of Newport Beach has experienced positive AV growth even through the toughest economic times. After meeting with the County Assessor's Office we had expected a slight decrease due to a -.25% CPI adjustment in fiscal year 2010-11. In reality we experienced a +.25% CPI adjustment and then exceeded budget by an additional 1% above that. Our homes take longer to sell than most other California cities, approximately 8 months on average, but sell for a higher median price, \$1.3 million.

Secured property tax grew by +1.27% reflecting a +.75% CPI adjustment, due to new construction in the Fashion Island area and net reassessments from property sales and or assessment appeals. Unsecured property taxes (e.g. business equipment and boats) decreased -4.31%. The net result is that the overall property tax levy, as of September 30, 2011, grew by 1.03% compared to fiscal year 2010-11 as follows:

Property Tax Assessed Valuation (AV)				
	2011-2012	2010-2011	Change in AV	% Change
Secured	37,550,412,836	37,080,217,275	470,195,561	1.27%
Unsecured	1,556,752,313	1,626,947,910	(70,195,597)	-4.31%
Total AV	39,107,165,149	38,707,165,185	399,999,964	1.03%

The levy tends to change during the course of the year as supplemental adjustments to the tax roll occur. We will continue to monitor the levy throughout the year and report back quarterly through the City Manager's QBR.



While the current assessed value growth (AV) is only 1.03%, well below long-term historical averages, the City is encouraged that the housing market appears to have stabilized after several years of sharp declines. By comparison to the current growth rate of 1.03%, the ten-year average annual assessed value (AV) growth trend is 7.16% while the twenty-year average annual AV growth totals 5.64%.

Sales Taxes

Sales tax collections to date only represent a State advance for the July 2011 reporting period. Generally, consumer spending has rebounded from the depths of the recession and recent activity has been moderate.

However, activity is still far short of the heights of the previous economic expansion as the weak job market, economic uncertainty and high energy prices restrain consumer spending. As a result, we believe consumer sentiment and spending patterns will be fragile but will remain cautiously optimistic. Newport Beach continues to improve in the areas of restaurants and high end auto sales. We built in a minimal sales tax increase over fiscal year 2010-11 of 4% and with this first quarter we appear to be on track to meet budget in this revenue area.

### TOT

Hotel and residential TOT exceeded budget by 15% during fiscal year 2010-11, even with the continued economic uncertainty, Newport Beach hotels were improving over the previous double dip declines experienced during 2008 and 2009. Expecting this positive gain to maintain during the new fiscal year, we built in a 10% increase to the fiscal year 2011-12 budget compared to fiscal year 2010-11. After the first quarter receipts we are trending to meet budget with \$3.8 million in early collections compared to \$3.6 million same quarter last year.

The City of Newport Beach has weathered the recession and established long-term sustainable fiscal policies to ensure continued success. We look forward to discussing the financial condition of the City at Finance Committee.

Prepared by:

/s/Tracy McCraner

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