

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

December 12, 2011

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

**FROM:** Finance Department  
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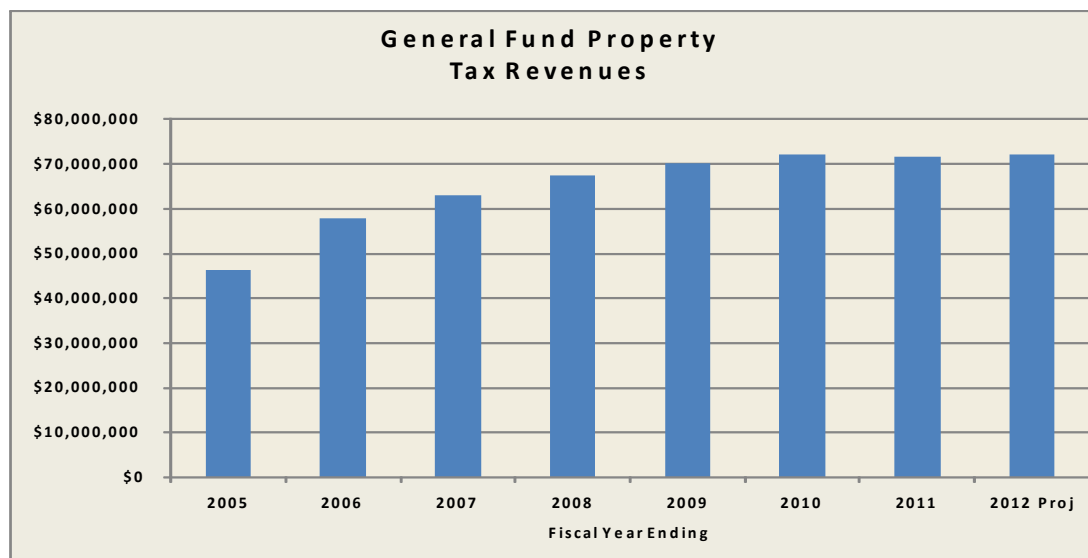
**SUBJECT: "TOP 3" REVENUE TRENDS AS OF DECEMBER 10, 2011**

**DISCUSSION:**

The economy continues to grow at a slow and steady pace, gradually returning to pre-recession 2008 revenue levels ("new normal"), as of December 10, 2011, almost half way through our fiscal year ending 6/30/2012. We have been monitoring our "Top 3" revenues and will report to the committee on our preliminary FY 2012 revenue projections.

**Property Tax**

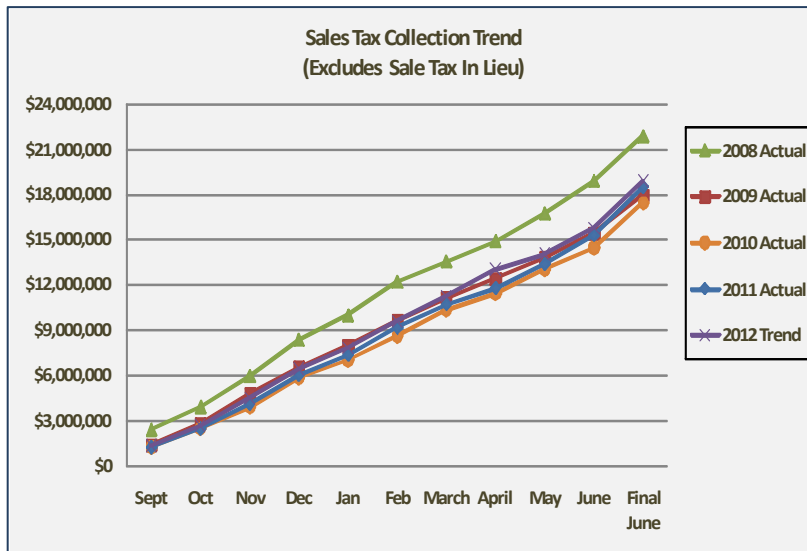
The end of December property tax apportionment, historically representing almost 45% of our annual collections, is still not available from the County. However, using trend analysis and studying recent market data and economic forecasts, we are projecting to end the fiscal year with approximately \$72 million in property tax collections. This is the amount budgeted for FY 2012, and is net of small excesses in the secured tax collections offset by equally small deficits in the supplemental tax accounts.



As the chart above illustrates, the City has continued to experience minimal to flat growth in this revenue category. Many cities have experienced drastic decreases in the property tax assessed valuations, but Newport Beach has experienced positive assessed valuation growth in every year through the recession and we expect this to continue into the future. Standard & Poor’s/Case-Shiller reports that home prices, while still declining, are declining at a slower rate than originally expected, they also reported consumer confidence is rising from a two-year low, this based on September 2011 data. In Newport Beach, our median home prices have not been impacted as much as the time it takes our homes to sell. We have recently been tracking almost 9 months on the market compared to our County average of 3.5. Economists have estimated that it will take approximately 7 years in total for the housing market to recover from the 2008 recession.

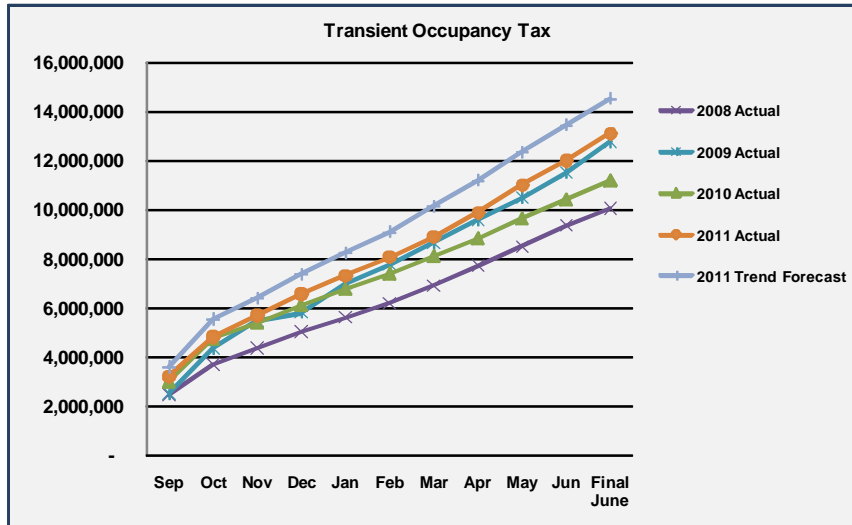
### Sales Tax

Sales tax revenues are trending upward, although there is a considerable way to go to arrive at pre-recession levels. After working with the State Board of Equalization and performing sales tax trend analysis through early December, we are currently estimating a small shortfall, (\$300,000), in sales tax collections compared to the budget of \$19.25 million. This is most likely the State waiting for true “clean up” adjustments as we experienced last fiscal year. One important change this year, restaurants have regained the top spot as the number 1 sales tax category (20.4%), barely inching over new auto sales which are 20.2%. We will continue to monitor the revenues closely, and are confident that when the clean up payments are received for the holiday season we will be at budget before fiscal year-end.



Note: FY 2012 continues to trend upward but still below the pre-recession high of FY 2008. This is what economists are calling the “New Normal” in projecting revenue. Analysts are projecting revenues to eventually return to 2008 levels, but are stating they will not grow at the pace we experienced earlier in the 2000’s.

## Transient Occupancy Tax (TOT)



Hotel and residential TOT continues to be our biggest year over year winner in the Top 3 revenue categories. While TOT revenues trend very similar to sales taxes, TOT has exceeded our pre-recession levels due to the opening of the Pelican Hill Resort during the height of the recession in November 2008.

The Pelican Hill Resort has been voted the “#1 Resort in the United States” by the readers of the leading luxury travel magazine, Conde Nast Traveler. As you compare the 5-year chart above to the sales tax chart on the previous page you can see the similar upward trends with the one major distinction in that TOT has exceeded the 2008 levels and this is primarily due to Pelican Hill Resort.

We estimated an increase in TOT revenue of 10% over the previous fiscal year’s budget, or \$12.8 million in FY 2012. After a very strong first half of the year, and our internal trend analysis, we are projecting to exceed budget this year by almost \$1 million. This also correlates to the economy’s continued steady and moderate growth expectations.

In closing, as we approach the mid-way point for FY 2012, our “Top 3” revenues cumulatively, which represent almost 75% of our General Fund Budget, are trending approximately \$700,000 over budget. While this is less than a 1% excess, it is still good news that we continue to budget and track in a reliable and accurate manner for the City of Newport Beach. Finance will have updates to these revenues as well as expenditure projections in the next City Manager’s Quarterly Business Report for the quarter ending 12/31/2011.

Prepared by:

/s/ Tracy McCraner

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