

Financial Report

city of newport beach | finance department

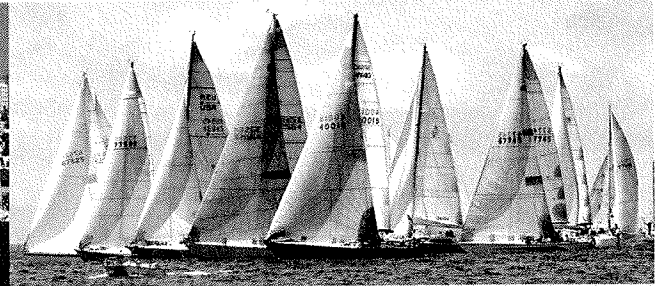
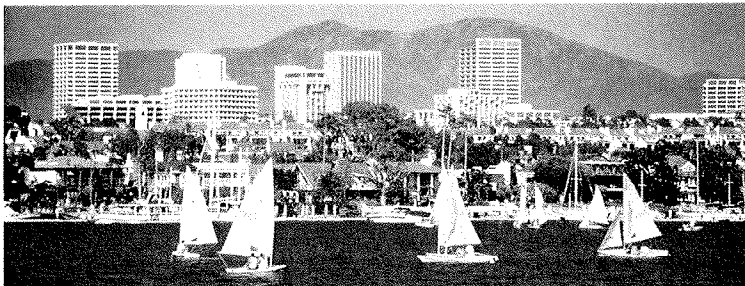
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FACTORS INFLUENCING THE ECONOMY TODAY

The Federal Reserve has noted "the economy has been expanding moderately notwithstanding some apparent slowing in global growth." "Strains in Global Financial markets continue to pose significant downside risks to the economic outlook."

Although the domestic economic recovery to date is not robust, there is some underlying momentum in the US economy. Healthier than expected labor growth has boosted equities markets as of late and is a good sign that economic momentum is carrying into the new year. However, many economists are mindful that previous job growth momentum early last year shriveled over the summer and are not yet ready to declare a full-on recovery.

Overall, economic data appears indicative of slow growth. Political turmoil abroad continues to influence domestic economics. A severe contraction in Europe or China could derail the relatively fragile US economy. All things considered, we continue to believe the US Economy will continue its moderate growth at a consistent yet relatively slow pace.



FY 2010-11

2010-11 FINAL AUDITED RESULTS

Preliminary unaudited financial results for Fiscal Year 2010-11 were summarized in the September 2011 Quarterly Business Report. Since then the City, received an unqualified opinion from its auditors, White Nelson Diehl Evans dated December 20, 2011. The final audited General Fund reserve balances presented below did not materially change since the last presentation.

General Fund Reserves			
	2010	2011	Change
Non-spendable	\$ 1,641,672	\$ 1,031,742	\$ (609,930)
Restricted	1,692,533	1,681,333	(11,200)
Committed			
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
Other Miscellaneous	3,399,369	3,726,726	327,357
Assigned			
Capital Reappropriations	3,993,497	2,516,600	(1,476,897)
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
Tidelands Management	-	200,000	200,000
Marian Bergeson 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
Unassigned (Appropriations Reserve)	17,293,299	20,570,033	3,276,734
Pre FFP Transfer	82,157,866	94,068,845	11,910,979
FFP Transfer Out*	-	(31,300,000) *	(31,300,000)
Net General Fund Balance	\$ 82,157,866	\$ 62,768,845	\$ (19,389,021)

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

FACILITIES FINANCING PLAN (FFP) RESERVE

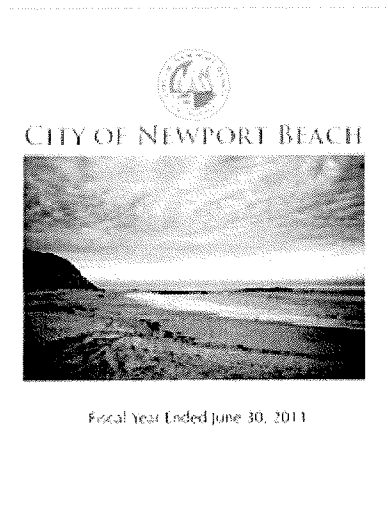
As reported in the previous QBR, the City established a long-term financing plan (FFP) for the replacement of all General Fund supported facilities including the Civic Center, fire stations, police stations, community centers and parks. The City has been reserving these funds in a Facilities Replacement reserve within the General Fund.

In conjunction with the financing of the Civic Center project and the completion with the OASIS Senior Center construction effort, the City transferred \$31.3 Million from the General Fund to the Facilities Financing Plan fund during FY 2010-11. This initial transfer along with future annual contributions from the General Fund and developers is intended to pre-fund debt service or cash fund construction projects consistent with the City's long-term facilities replacement plan. The FFP will provide 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.

Facilities Replacement Plan Fund	
Beginning Balance 7/1/10	\$ -
Revenues	
Transfer In from General Fund	31,300,000
Interest Income	275,381
Total Revenues	<u>31,575,381</u>
Expenditures	
2010 Civic Center COPs Debt Service	(682,755)
OASIS Construction	(5,266,982)
Total Expenditures	<u>(5,949,737)</u>
Ending Balance 6/30/11	<u>25,625,644</u>

COMPREHENSIVE ANNUAL FINANCIAL REPORT

The audited Comprehensive Annual Financial Report (CAFR) can be found at www.newportbeachca.gov/cafr.



FY 2011-12

2011-12 REVENUE UPDATE

As the second quarter comes to a close, we have sufficient revenue data to refine fiscal year 2011-12 revenue estimates and propose midyear revenue revisions. In total, General Fund Revenue estimates have been revised upward .98% or \$1.5 million to reflect the net proposed adjustments to General Fund revenues. The net adjustments reflect an expectation that actual revenues will increase \$2.8 million or 1.8% on a year over year comparative basis.

FY 2011-12 Revised Revenue Projections						
Revenue Source	FY 2010-11 Actuals	Original Budget	Amended Budget	12/31/11 YTD Revenues	Midyear Revised Est.	Midyear Revision
Property Taxes	\$ 71,630,345	\$ 72,155,615	\$ 72,155,614	\$ 34,676,903	\$ 72,612,217	\$ 456,603
Sales Tax	18,455,181	18,788,167	18,788,167	6,206,982	19,219,170	431,003
Property Tax - In Lieu of Sales Tax	6,284,266	6,300,000	6,300,000	-	6,500,000	200,000
Transient Occupancy Tax	13,082,451	12,786,000	12,786,000	7,370,908	14,000,000	1,214,000
Business Licenses	4,111,245	3,910,000	3,910,000	1,746,738	3,850,000	(60,000)
Franchises	3,730,819	3,936,000	3,936,000	909,818	3,498,000	(438,000)
Community Development	5,492,327	5,465,260	5,512,301	2,661,950	5,845,441	333,140
Other	27,948,689	25,621,741	27,744,089	14,493,574	27,120,034	(624,055)
Transfer-In	3,116,700	6,500,000	4,000,000	-	4,000,000	-
Total Revenues & Transfers	\$ 153,852,024	\$ 155,462,783	\$ 155,132,171	\$ 68,066,873	\$ 156,644,862	\$ 1,512,691

PROPERTY TAX

Overall the housing market remains under pressure but it seems to have stabilized following several years of sharp declines and some data surprisingly to the upside.

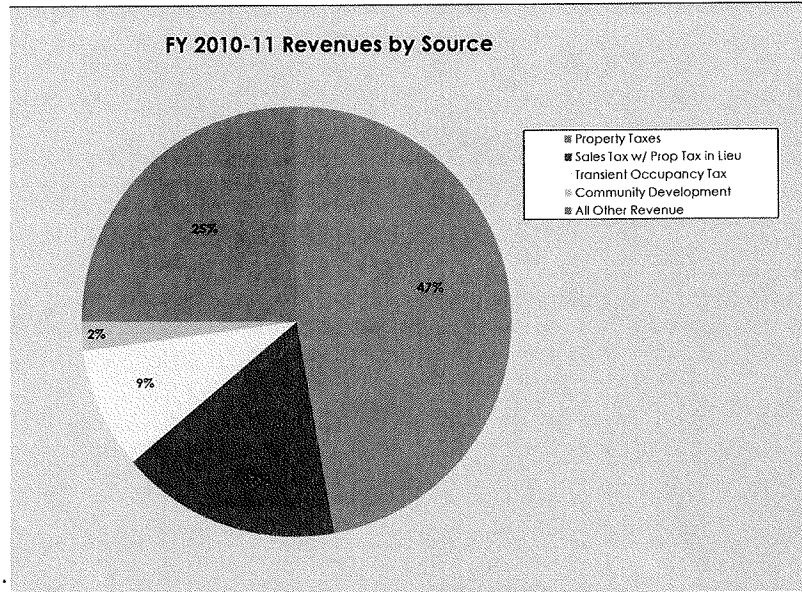
As previously reported, the Secured property tax levy grew by +1.27% reflecting a +.75% CPI adjustment, due to new construction in the Fashion Island area and net reassessments from property sales and or assessment appeals. Unsecured property taxes (e.g. business equipment and boats) decreased -4.31%. 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.

In an analysis of actual property tax remittances through January compared to long-term historical collection trends, final property tax revenues may finish 1.37% higher than the prior fiscal year and .63% (\$456,603) over our original budgetary estimate. While there is some downside risk that the slight disparity between the levy and the collection trend may represent a simple payment trend anomaly, it is our current thought that the City will actually realize the additional property tax revenues and have therefore increased our midyear property tax estimate upward by \$456,203.

SALES TAX REVENUE

Sales tax remittances to date only represent economic activity through September. However, retail sales as is widely reported, continue to deliver solid returns despite consumer hesitancy concerning the strength of recovery in the labor markets and concerns abroad.

Overall, retail sales increased 6.5% through December 2011 on a year over year basis, down slightly from December 2010 which increased 7.6% over the depths of the recession. The current conjecture is that the jobless rate will need to demonstrate a sustained improvement before a more robust sales recovery can be expected.



Currently, we are estimating modest year over year sales tax growth of 4.1% which represents a \$431,000 increase over our previous budgetary estimate.

Restaurants and auto sales continue to rank as the highest sales tax generating segments. When comparing the third quarter of 2011 to 2010, restaurants sales improved 5.8% while auto sales decreased -5.2%. The business segments that showed the largest improvement over the same period included light industry at 27% and service stations at 24.4%.

TRANSIENT OCCUPANCY TAX (TOT)

In a year over year comparison, hotel and residential TOT revenues increased 11.6% during fiscal year 2010-11 significantly improving over the previous double dip declines experienced during 2009 and 2010. Based on the collection trend to date, we are expecting 2011-12 TOT revenues to increase 7% over 2010-11 representing a \$1.2 million increase to our mid-year revenue estimate. Once again, Pelican Hills is leading hoteliers in total TOT production and year over year growth.

FRANCHISE REVENUES

Franchise revenues have been underperforming relative to the prior fiscal year and budgetary estimates primarily due to lower than expected earnings in the solid waste and cable business segments. Both are estimated to be down due to the economy. MOD has confirmed that solid waste tonnage has been down all through the recession, but also added that home demolitions are trending up so there may be more positive news on the solid waste franchises toward the end of the fiscal year. As a result of these decreases, the midyear projection for franchise revenues has been lowered \$438,000.

COMMUNITY DEVELOPMENT & OTHER REVENUE

The midyear revenue estimate for Community Development revenues was increased \$333,140 primarily due to higher than expected revenues in building permits. While planning permit revenues have been stable, a previously expected developer impact fee has been deferred until fiscal 2012-13 due the revised timeline associated with the project. As a result, the midyear estimate in Other Revenues has been lowered by (\$624,055) to reflect the new project timeline.

DEPARTMENT EXPENDITURE PERFORMANCE

General Fund Expenditures by Department						
Department	FY 12 Original Budget	FY 2011-12			FY 2010-11	
		Amended Budget	YTD as of 12/31/2011	Percent Expended	YTD @ 12/31/2010 - Audited	Percent Expended
City Council	\$ 940,397	\$ 1,137,377	\$ 577,990	51%	\$ 537,467	51%
City Clerk	546,465	556,465	295,361	53%	190,166	38%
City Manager	1,921,739	1,944,724	925,542	48%	1,028,239	42%
Human Resources	2,393,167	2,397,667	1,025,295	43%	1,026,967	44%
City Attorney	2,292,941	2,302,827	921,528	40%	1,490,753	63%
Finance	5,284,343	6,928,312	3,261,894	47%	3,532,087	43%
Police	41,502,813	42,020,693	21,367,324	51%	20,330,668	47%
Fire	34,353,768	34,632,925	18,155,546	52%	17,118,734	50%
Planning	3,457,855	3,731,965	1,835,370	49%	1,634,126	50%
Building	5,482,077	5,217,539	2,516,143	48%	2,717,387	48%
General Services	22,212,918	22,436,522	10,452,515	47%	9,761,417	44%
Library	6,889,590	7,613,316	3,668,031	48%	3,226,522	46%
Recreation	8,418,226	8,492,156	4,409,218	52%	3,693,519	48%
Public Works	5,834,035	5,961,505	3,018,329	51%	2,627,913	45%
Electrical	774,984	796,456	499,858	63%	439,192	33%
C.I.P.	4,610,730	6,131,677	933,147	15%	585,939	10%
OPEB	2,314,000	2,314,000	1,157,000	50%	1,064,000	50%
FFP	4,016,812	4,016,812	4,016,812	100%	31,300,000	100%
Debt Service	780,000	780,000	-	0%	-	0%
Total	\$ 154,026,860	\$ 159,412,938	\$ 79,036,903	50%	\$ 102,305,095	55%

DEPARTMENTAL EXPENDITURE PROJECTIONS

The Operating Departments provided their FY 2011-12 expenditure projections to the City Manager and Finance departments in December, 2011. Mid-way through the fiscal year, the departments have estimated they will not only maintain budgetary control over their departments but are expecting to end the fiscal year with a combined \$1,000,000 in operational savings. This is evidence of the City's commitment to budgetary controls through strong monitoring and budget adherence by all departments. This is also in keeping with the structural reductions all departments made during the FY 2011-12 budget process. The City Manager requested and received \$8 million in structural budget cuts from the departments, and all departments continue to effectively manage their budgets in accordance to the City's Fiscal Sustainability Plan.

The Finance Department has reviewed the department projections, in addition to performing independent city-wide analysis of salaries & benefits and operation and maintenance costs. Not only do the department's projections align with the city-wide estimates, but if trend analysis and expenditure performance remain as expected we calculate that savings could be approximately \$1.5 million by fiscal year end 6/30/2012. This is almost entirely attributed to salaries and benefits savings and includes expected step increases and approved new hires and promotion expenditures.

Projection savings for maintenance and operations, both as submitted by departments and in analyzing trend data, is estimated at \$500,000. However, this is most likely going to be utilized for additional costs associated with the eucalyptus tree removal and higher than expected electrical costs. We will continue to monitor the contracts and supplies costs to report more detailed estimates in the next Quarterly Financial Status Report dated 3/31/2012.

PORT OF LONG BEACH DREDGING OPPORTUNITIES AND IMPACT ON THE GENERAL FUND

Recent opportunities to dispose dredging material from Newport Harbor to containment facilities within the Port of Long Beach represented a significant savings in dredging disposal costs to the City. While a great disposal opportunity, the amount of general fund monies, approximately \$7.5 million to date, needed for dredging project costs will increase the amount of the General Fund subsidy to the Tidelands fund in the near term. This advance of funds for dredging was approved by Council to be repaid if new Tidelands revenue sources are approved and come to fruition. In the meantime, we will book this advance of funds within the General Fund balance sheet along with any other "extraordinary" loans Council approves for repayment. This will track our on-going commitment to repay the general fund with new revenue sources approved within the Tidelands Fund.



FY 2012-13 Budget: Goals and Process

COUNCIL & COMMUNITY GOALS

Listening to the community and our Council, the Management Team led by our City Manager continues to prepare for the budget cycle by identifying the unique qualities and specific city services that will contribute toward becoming and staying the "Shining City by the Bay". Our core values as confirmed by Council are:

- A high quality physical environment
- Public safety and how city services and programs reinforce safety
- Civic engagement

City Council held their 2012 Planning Session on Monday, January 23, 2012. This meeting occurs at the beginning of each calendar year and is a forum for Council and the public to discuss priorities for the remainder of the current fiscal year (FY 2011-12) and those for the upcoming year (FY 2012-13). It is the first of many public meetings that will be held to discuss Council and community goals before Council adopts the next budget. The results of this and other public meeting are crucial to the development of the budget.

The Council will continue its priority of protecting the City's quality of life and fiscal health by reinforcing their commitment to the Council approved 15-point Fiscal Sustainability Plan. Many of the points addressed in the plan are imbedded in our core budget principles and are woven into our budget process as itemized in the box below.

In 2010, Council advanced the Fiscal Sustainability Plan. This is a 15-point plan to protect and enhance the City's economic and fiscal health so that the community continues to thrive. This plan continues to be a core principle to us into the future and a few of the 15 point items as they most apply to budget are in the chart to the right.

Fiscal Sustainability Plan
<ul style="list-style-type: none">● Maintain appropriate cash reserves.● Manage Facilities Financing Plan.● Review Revenue Performance.● Competitive contracting of services and equipment.● Appropriate cost-recovery targets.● Ensure fair compensation in partnership with our employees.

The City Manager outlined five categories for Council to consider during the Planning Session, and they are summarized below:

- Construction Projects
 - Current: Lower Bay Dredging; sidewalks, streets, curbs; Sunset Ridge; Marina Park; Civic Center & Parks and more.
 - Future: Tidelands CIP; West Newport Facilities; Neighborhood Revitalization for Balboa Village and Lido Marina Village.
- Agreements to be Completed
 - JWA Settlement Extension
 - Uses for Current City hall site
 - Oil facilities
 - Labor agreements
- General Issues (Further Direction Needed)
 - Budget
 - General Fund CIP
 - Reserve Levels
 - NBTV
- Good to Great – Performance Management
 - Shared Services/Outsourcing/Regionalization
 - City-wide IT Strategic Plan
- “Unpredictables”
 - Fire rings/ Smoking Ban/Chickens and more....

All five categories were well received after much Council discussion and community comment. Some of the additional areas for consideration discussed by both Council and the public are summarized below:

- Additional Review/Study for Neighborhood Revitalization Areas: Balboa Village; Lido Marina Village; Mariner's Mile
- Tidelands Fees to offset specific Tidelands CIP improvements
- Boating & Waterways Loans for Marina Park
- IT Strategic Plan being a priority
- Additional CIP on signal synchronization
- CDM parking study
- Banning Ranch
- 19th Street Bridge

The City is cautiously optimistic that we will continue to experience continued, yet moderate, revenue growth into FY 2012-13 due to the gradual economic recovery. However, in keeping with our Fiscal Sustainability Plan, additional budget areas beyond the five categories outlined above will need to be strategically added and prioritized in context of the final revenue estimates.

The next Quarterly Financial Report dated March 31, 2011 will provide our updated revenue and expenditure forecasts for the FY 2012-13 budget year. We continue to project that next year's revenues will increase over the FY 2011-12 projections we discussed earlier in the report, but we do not have the detailed analysis ready for discussion at this time.

BUDGET PROCESS FISCAL YEAR 2012-13

Building on the five categories identified by the City Manager, and approved by Council, we continue the development of the FY 2012-13 budget. We have identified all community and Council budget areas not yet funded and will continue to prioritize these needs with the Council and public input and approval at the five planned Council and Finance Committee meetings as outlined in the Budget Calendar below:

DATE	RESPONSIBILITY	ACTION
12/1/11	Finance Dept.	Distribute Revenue Worksheets via email.
12/14/11	Departments	Submit Revenue Estimates for 2011-2012.
1/19/12	Department Training	Budget computer training conducted by OMB staff. Important for all key budget participants to attend. Please contact Katherine Warnke-Carpenter x3122 if you have any questions.
1/20/12	Finance Dept.	Complete forecasts for FY 2011-2012 and FY 2012-2013 and meet with City Manager to discuss.
1/25/12	City Manager Finance Dept. Departments	Briefing of Dept. Directors on budget forecasts for FY 2011-2012 and FY 2012-2013. Distribution of Budget Instructions and budget control figures.
2/9/12	Department Training	Budget workshop-½ day session at the Central Library. Budget processors can work on their department's budget with OMB staff available to provide assistance or answer questions. Please contact Katherine Warnke-Carpenter x3122 if you are planning on attending this work session.
2/13/12	Council Finance Committee	Budget Update.
2/17/12	Departments	Submit budget worksheets to Finance Dept.
2/28/12	Departments	Submit list of CIP expenditure projections through 6/30/12 and list of project funds to be rebudgeted to FY 2012-2013 to Public Works.
3/19/12 to 3/23/12	City Manager	Budget conferences with Departments.
3/28/12	Finance Dept.	Meet with City Manager to discuss departmental budgets.
3/30/12	Departments	Submit final Performance Plan pages to Finance Department for assembly and publication.

DATE	RESPONSIBILITY	ACTION
3/30/12	City Manager	Last day to make changes to Proposed Budget documents.
3/30/12 to 4/26/12	Finance Dept. Public Works	Prepare and print Proposed Budget documents.
4/26/12	City Manager	Submit Proposed Budget to City Council.
5/4/12	Departments	Submit final list of CIP projects to be included on Budget Checklist (additions, deletions and rebudgets) to Public Works.
5/8/12	City Council	First budget review with staff at the Study Session.
5/14/12	Council Finance Committee	Review of Proposed Budget.
5/22/12	City Council	Second budget review with staff at the Study Session. Set date for public hearing on budget and GANN Limit.
6/12/12	City Council	Third budget review with staff at the Study Session. Public Hearing and Adoption of FY 2012-13 Budget and GANN Limit.
7/1/12		Beginning of FY 2011-12. (Finance will open new year on Monday, July 2, 2012.)
8/30/12	Finance Dept.	Target distribution of final budget documents.

SUMMARY

In closing, we are committed to Fiscal Sustainability and living within our means. We will continue to tackle the difficult issues of pension costs, funding our CIP program for streets, lights and signals and neighborhood revitalization, funding our new facilities and maintaining them, and investing on our IT Strategic Plan so technology can be used to continue to be that "Shining City by the Bay". The Finance Department will be providing this financial status update at the next Finance Committee meeting schedule for Monday February 13, 2011.