

FY 2015-2016 JULY TO SEPTEMBER

Quarterly Financial Report

Executive Summary

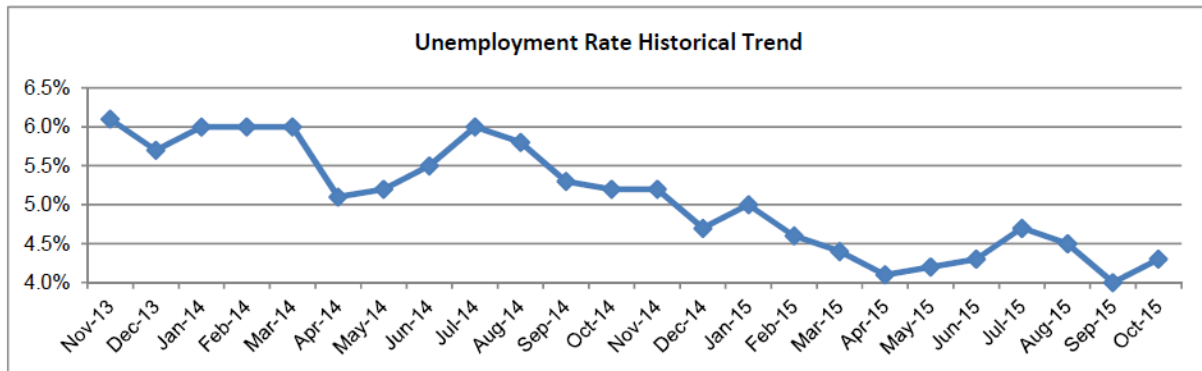
The City of Newport Beach Finance Department prepares quarterly financial reports for the City Council to review the status of revenues and expenditures for the City's funds. This report contains information on resources for the first quarter of the fiscal year, which is the period between July 1, 2015, and September 30, 2015.

Economic Update

On December 16, 2015, after seven years at zero, the Federal Open Market Committee (FOMC) approved a quarter-point increase in its target funds rate. With gradual adjustments, they expect the economy will continue to expand at a moderate pace as well as continued strengthening of the labor market. Third quarter 2015 U.S. real Gross Domestic Product (GDP) came in at 2.1%, down from 3.9% in the prior quarter. The deceleration in real GDP was due in part by a downturn in private inventory investment and deceleration in exports, personal consumption expenditures, nonresidential fixed investment, and state and local government spending.

California's unemployment rate continued to decrease, dropping to 5.8 percent in October 2015. In addition, nonfarm payroll jobs increased by 41,200 during the month for a total gain of 2,131,800 jobs since the recovery began in February 2010, according to data released by the California Employment Development Department (EDD). The US unemployment rate also decreased in October to 5.0 percent. The unemployment rate in the Orange County was 4.3 percent in October 2015, up slightly from a revised 4.0 percent in September 2015; but, below the prior year estimate of 5.2 percent.

Orange County Unemployment 2013-2015



Source: State Employment Development Department

Home sales in Southern California for September 2015 were the highest for the month since 2009. The pace of home price appreciation in California continued to grow in September, up 6.1% from the prior year.

In the third quarter of 2015, the median price for a single family residence in Newport Beach increased 1.6 percent over the prior quarter.

Single Family Residential Full Value Sales (01/01/2013 - 9/30/2015)

Year	Full Value Sales	Average Price	Median Price	Median % Change
2013 Q1	349	\$1,815,237	\$1,375,000	
2013 Q2	477	\$1,896,839	\$1,475,000	7.27%
2013 Q3	379	\$2,073,078	\$1,644,000	11.46%
2013 Q4	341	\$1,839,135	\$1,500,000	-8.76%
2014 Q1	273	\$1,986,212	\$1,600,000	6.67%
2014 Q2	401	\$1,890,900	\$1,600,000	0.00%
2014 Q3	386	\$2,110,148	\$1,667,000	4.19%
2014 Q4	294	\$1,965,529	\$1,590,000	-4.62%
2015 Q1	282	\$2,017,470	\$1,650,000	3.77%
2015 Q2	470	\$2,202,095	\$1,640,000	-0.61%
2015 Q3	406	\$2,190,489	\$1,666,250	1.60%

Top “3” Revenues

In FY2015-16 (FY2016), the General Fund’s top three revenue sources (Property Tax, Sales Tax, and Transient Occupancy Taxes) account for approximately 75 percent of all General Fund revenues. The first quarter General Fund top three revenues appear to be off to a slower start in comparison with last year; however, this is not believed to be an indication of how the year will progress but more an issue of timing.

Property Tax

The Orange County Assessor’s Office released the Local Assessment Roll of Values, setting secured and unsecured property values within Orange County. The City of Newport Beach saw a \$2.6 billion increase to its assessed valuation, or 5.84 percent, over the prior year. The County increased \$27.7 billion, or 5.89 percent. With a total assessed value of \$47.4 billion, Newport Beach ranks second in Orange County, ahead of much larger cities including Anaheim and Huntington Beach.

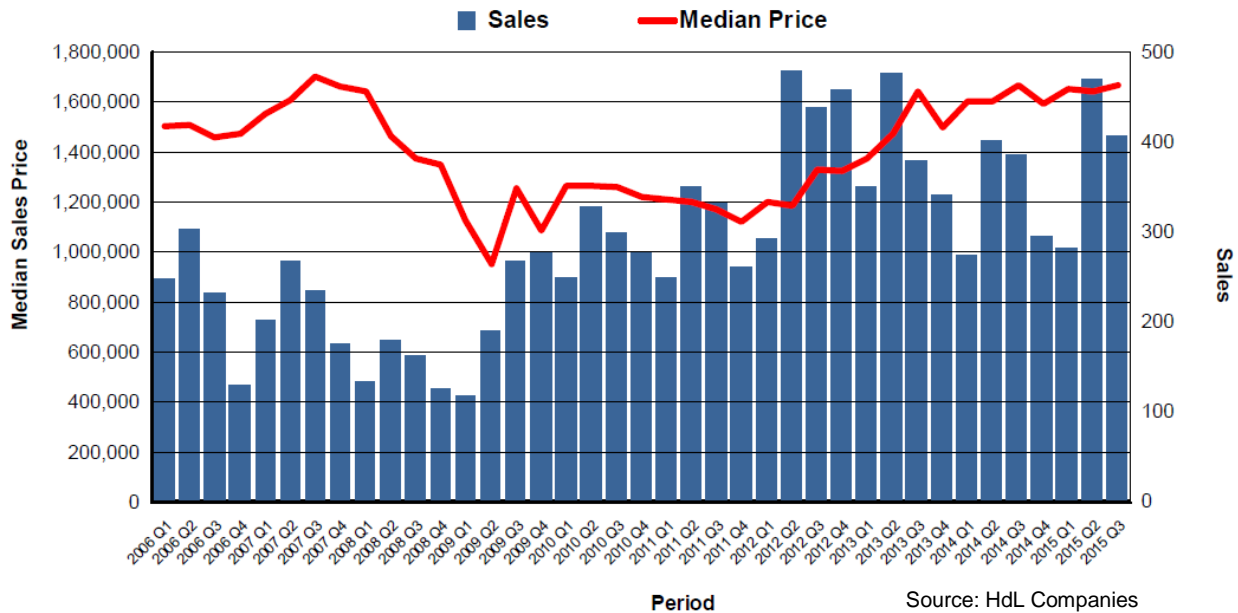
Property tax is the top source of revenue for the City of Newport Beach. It represents almost half, 45.8 percent, of all General Fund revenues. FY2016 property taxes as a whole are budgeted to come in at \$87.8 million, which is 4.3 percent, or \$3.7 million, higher than FY15 receipts. As the economy continues to improve it is expected that prior year penalties and interest receipts will continue their downward trend.

Property Taxes

	Budget 2014-15	Budget 2015-16	YTD Q1 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q1 Actual 2014-15	Year-over- Year Budget Increase/ Decrease
Secured	\$ 68,281,223	\$ 71,698,471	\$ (2,999)	0.00%	\$ -	5.00%
Unsecured	\$ 2,447,718	\$ 2,547,718	\$ 1,691,684	66.40%	\$ 1,964,776	4.09%
Prior Year Penalties & Interest	\$ 960,000	\$ 634,614	\$ 181,077	28.53%	\$ 258,277	-33.89%
Supplemental	\$ 1,412,604	\$ 1,741,159	\$ 87,941	5.05%	\$ 395,347	23.26%
In Lieu of VLF	\$ 7,692,124	\$ 7,972,185	\$ -	0.00%	\$ 41,680	3.64%
RDA Dissolution	650,000	650,000	(119,952)	-18.45%	-	0.00%
All Other Property Taxes	2,525,570	2,630,358	691,131	26.28%	387,297	4.15%
TOTAL	\$ 83,969,239	\$ 87,874,505	\$ 2,528,882	2.88%	\$ 3,047,378	4.65%

The median sales price in Newport Beach remains over \$1.6 million at the end of September 2015. The number of home sales for the quarter (406) is less than the prior quarter (470), but higher than the same quarter in the prior year (386). Due to inventory and affordability constraints home sales are moving at a slower pace.

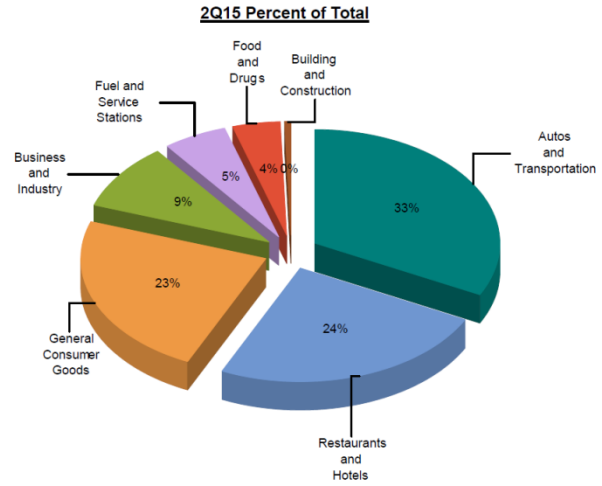
Newport Beach Single Family Residential Full Value Sales (1/1/06 – 9/30/15)



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 following pie chart that depicts the most recent available sales tax statistics.

The largest segment, “Autos and Transportation,” accounts for 33 percent of total sales taxes and is represented by 178 new and used auto/boat/aircraft dealers, supply stores and repair shops. The next largest segment, “Restaurants and Hotels,” accounts for 24 percent of total sales tax and is represented by 462 restaurants, hotels, clubs and other amusement places. The third largest sales tax segment, “General Consumer Goods” accounts for 23 percent of total sales taxes and is represented by a multitude of stores and shops that provide various consumer goods.



Year-over-year, the Restaurants and Hotels and Business and Industry sales tax categories in Newport Beach are up over the prior year, which suggests improved consumer perception and confidence in our local economy. FY16 promises to be a good year for the City in sales tax with the unwind process and final reconciliations of the triple flip. This will be a one-time boost for sales tax revenues. Beginning March 2016 sales tax allocations will revert back to the original 1%.

Sales Taxes

	Budget 2014-15	Budget 2015-16	YTD Q1 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q1 Actual 2014-15	Year-over- Year Budget Increase/ Decrease
Sales and Use Tax	24,754,322	32,019,302	1,824,825	5.70%	1,621,500	29.35%
Property Tax in Lieu of Sales Tax	8,046,423	4,980,791	-	0.00% *		-38.10%
TOTAL	\$ 32,800,745	\$ 37,000,093	\$ 1,824,825	4.93%	\$ 1,621,500	12.80%

Transient Occupancy Taxes

Transient Occupancy Taxes (TOT) for FY2016 are expected to continue to grow. With a budget that is 6.6% higher than the prior year and first quarter revenues showing an increase over the same period in FY2015. The travel and tourism sector continue to be strong resulting in higher occupancy rates in the City’s hotels, motels, cottages, and resorts.

Transient Occupancy Taxes

	Budget 2014-15	Budget 2015-16	YTD Q1 Actual 2015-16	Percent of 2015-16 Budget Realized	Prior Year Q1 Actual 2014-15	Year-over- Year Budget Increase/ Decrease
Transient Occupancy Taxes	\$ 19,377,767	\$ 20,656,850	\$4,139,067	20.04%	\$ 4,716,693	6.60%

The following bar chart demonstrates the steady climb in TOT revenues over the last few years.

