

FY 2016-2017 OCTOBER TO DECEMBER

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 second quarter of fiscal year 2016-2017 (FY17), which is the period between October 1, 2016, and December 31, 2016. Revenue categories are likely to perform at or higher than their projected levels for this year due to favorable economic conditions and higher property tax valuations within the City. Current expenditures are thus far performing within expected levels.

Top "3" Revenues

In FY17, 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 second quarter General Fund top three revenues appear to be off to a strong start.

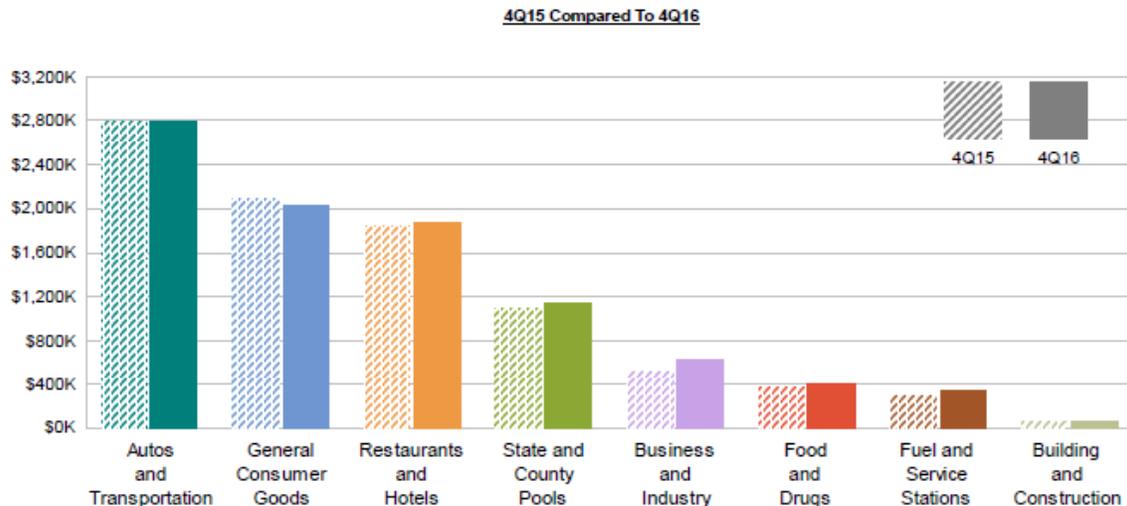
Property Tax

Property tax is the top source of revenue for the City of Newport Beach. It represents almost half, 45.7 percent, of all General Fund revenues. FY17 property taxes as a whole are budgeted to come in at \$91.7 million, which is 6.9 percent, or \$5.9 million, higher than FY16 receipts. As the economy continues to improve it is expected that prior year penalties and interest receipts will continue their downward trend. State law requires the County Assessor to reappraise property upon a change in ownership or new construction. The supplemental assessment reflects the difference between the new assessed value and the old or prior assessed value. The 34.8% decrease in supplemental taxes is likely due to a lower change in ownership or construction compared to the prior year. Revenue from the Santa Ana Heights Redevelopment Agency dissolution appears 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.

	Budget 2016-17	YTD Q2 Actual 2016-17	Percent of 2016-17 Budget Realized	Prior Year Q2 Actual 2015-16	Year-over- Year Q2 Increase/ Decrease
Secured	\$ 77,624,778	\$ 42,135,030	54.3%	\$ 39,157,756	7.6%
Unsecured	2,556,875	1,910,059	74.7%	1,691,684	12.9%
Prior Year Penalties & Interest	519,421	375,336	72.3%	434,028	-13.5%
Supplemental	1,497,095	608,505	40.6%	933,454	-34.8%
In Lieu of VLF	8,529,968	555	0.0%	-	**
RDA Dissolution	447,347	-	0.0%	3,559	-100.0%
All Other Property Taxes	509,860	75,313	0.0%	76,479	-1.5%
TOTAL	\$ 91,685,344	\$ 45,104,797	49.2%	\$ 42,296,960	6.6%

Sales Tax

Year-over-year, nearly all major industry group categories are slightly lower than the previous year as indicated in the chart below which depicts the most recent sales tax data available.



Businesses collecting sales and use taxes periodically remit the amount collected to the State Board of Equalization (BOE). To compensate for the lag time between the sales period and the time the tax is remitted to the City, each quarter the BOE advances 90 percent of the net sales tax collections for the same quarter of the prior year. The difference between the advances and total actual receipts for the quarter is remitted in the form of “clean-up” payments, which are included in the March, June, September, and December remittances. The amount of sales tax realized through December represents four monthly advance payments and one December 2016 clean-up payment. A comparison of sales and use tax performance from the prior year reveals that the City realized a 30 percent increase quarter-over-quarter.

	Budget 2016-17	YTD Q2 Actual 2016-17	Percent of 2016-17 Budget Realized	Prior Year Q2 Actual 2015-16	Year-over- Year Q2 Increase/ Decrease
Sales and Use Tax	\$36,173,778	\$10,969,808	30.3%	\$8,446,555	29.9%

The strongest growth was seen in the business-industrial category, though the 23% spike was inflated by a negative allocation in the prior year to correct a reporting error. After adjusting for this anomaly, the group’s results registered a still-healthy improvement of 8%. New car sales were up, but auto lease revenues were temporarily depressed by a prior-year misallocation that artificially diminished this year’s results in comparison. Department store results slumped for the fifth straight quarter, like the statewide trend, as

consumer shopping habits change with the rise in internet shopping. The strong dollar may have also impaired spending at Fashion Island by international tourists. Net of aberrations, taxable sales for all of Orange County grew 1.2% over the comparable time period; the Southern California region was up 1.4%.

Transient Occupancy Taxes

Transient Occupancy Taxes (TOT) are budgeted at \$22 million for FY17 and the City has realized \$10.7 million, through the second quarter of the year. The budget is 6.5 percent higher than the prior year and second quarter revenues are showing a 5.1% increase over the same period in FY16.

	Budget 2016-17	YTD Q2 Actual 2016-17	Percent of 2016-17 Budget Realized	Prior Year Q2 Actual 2015-16	Year-over- Year Q2 Increase/ Decrease
Transient Occupancy Taxes	\$21,996,307	\$10,722,279	48.7%	\$10,197,834	5.1%

Operating Expenditures – All Funds

With expenditures at 41.8 percent of the amended budget, the General Fund is generally on-track. The table below summarizes operating expenditures for all funds by department through December 31, 2016.

Department	Budget 2016-17	YTD Q2 Actual 2016-17	Percent of 2016-17 Budget Expended	Prior Year Q2 Actual 2015-16	Year-Over-Year Q2 Increase/Decrease
City Council	\$1,199,121	\$378,525	31.6%	\$436,317	-13.2%
City Clerk	1,002,428	417,731	41.7%	419,842	-0.5%
City Manager	13,137,930	3,641,903	27.7%	3,734,008	-2.5%
Human Resources	2,927,576	1,160,293	39.6%	1,181,372	-1.8%
City Attorney	2,434,088	927,605	38.1%	854,466	8.6%
Finance	8,035,251	3,603,995	44.9%	3,520,969	2.4%
Police	57,630,411	26,073,045	45.2%	27,501,771	-5.2%
Fire	45,893,943	21,971,556	47.9%	22,400,089	-1.9%
Community Development	12,128,131	5,037,024	41.5%	4,976,141	1.2%
Municipal Operations	62,290,389	22,406,126	36.0%	23,340,398	-4.0%
Library Services	8,639,640	3,929,751	45.5%	3,963,555	-0.9%
Recreation	13,098,244	6,009,485	45.9%	5,543,329	8.4%
Public Works	10,927,644	4,520,113	41.4%	4,570,982	-1.1%
Total	\$239,344,797	\$100,077,152	41.8%	\$102,443,238	-2.3%