



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

Agenda Item No. 6D  
November 9, 2023

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

**FROM:** Finance Department  
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**SUBJECT: FIRST QUARTER BUDGET UPDATE**

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**SUMMARY:**

The Finance Department prepares quarterly financial reports to review the status of revenues and expenditures for the City's General Fund and to monitor budgetary trends in other City funds. This report contains information on revenues, expenditures, and estimated fund balance for the first quarter of Fiscal Year 2023-24.

The FY 2023-24 first quarter financial report provides an analysis of the City's financial activity from July through September 2023. A \$4.6 million unrestricted General Fund operating surplus is projected for FY 2023-24 based on information currently available for the end of the first quarter. Recommended budget adjustments for revenues and expenditures are outlined in this report and will be reflected in the proposed first quarter budget amendment.

**RECOMMENDED ACTION:**

Review and discuss this report and provide any recommendations for consideration by the City Manager and City Council.

**DISCUSSION:**

**Economic Overview**

The City's assessed property values continue to increase providing a strong revenue base for the City. Recent trends in inflation and the inverted Treasury yield curves have caused concern in the broader economy and financial markets. Additionally, sales tax growth has slowed, which is discussed later in this report. Transient occupancy tax (TOT) continues to grow, and the opening of the Pendry hotel in September 2023 should further bolster the City's TOT revenues. The City is well positioned to withstand the impacts of a

potential recession and is expected to maintain long-term fiscal sustainability.

**General Fund Revenues**

Most revenue categories performed at or higher than their budgeted levels last year due to more favorable economic conditions than what was originally anticipated in the adopted budget. Growth in many areas has led to a \$3.5 million projected increase in General Fund revenues than what was estimated in the adopted budget. Projections for property taxes, other taxes, and service fees are offset by a decrease in sales tax projections.

The following table summarizes the changes to projected General Fund revenues versus the revised budget for FY 2023-24. Details highlighting the reasons for the material variances follow.

**FY 2023-24 Projected General Fund Revenues**

Revenues by Category	PY Actual	Adopted Budget	A	B	C = B-A	D = C/A
			Revised Budget	Q1 Projected Actual	Variance	% Variance
Property Taxes	138,358,730	141,373,233	141,373,233	142,715,981	1,342,748	1%
Sales Tax	46,552,459	48,532,772	48,532,772	45,257,551	(3,275,221)	-7%
Transient Occupancy Tax	30,201,648	31,986,150	31,986,150	31,986,150	-	0%
Other Taxes	10,079,710	8,937,999	8,937,999	9,922,292	984,293	11%
Service Fees & Charges	25,187,124	24,429,291	24,429,291	25,029,291	600,000	2%
Parking Revenue	7,420,314	7,900,099	7,900,099	7,900,099	-	0%
Licenses and Permits	5,676,619	5,746,027	5,746,027	5,746,027	-	0%
Property Income	7,530,393	8,125,682	8,125,682	9,425,682	1,300,000	16%
Fines & Penalties	3,838,752	3,799,784	3,799,784	3,799,784	-	0%
Intergovernmental	4,379,680	2,289,407	2,382,767	2,382,767	-	0%
Investment Earnings	1,690,399	1,750,000	1,750,000	1,750,000	-	0%
Misc Revenues	3,394,938	167,293	425,362	435,362	10,000	2%
Operating Transfers In	18,428,263	19,020,967	21,251,267	21,251,267	-	0%
<b>Total Revenues</b>	<b>302,739,030</b>	<b>304,058,704</b>	<b>306,640,433</b>	<b>307,602,252</b>	<b>961,820</b>	<b>0%</b>

**Property Tax** - Property taxes are the City’s single largest General Fund revenue and represent approximately 50% of all General Fund revenues. Property tax revenue was projected to increase approximately 3% from \$136.9 million in FY 2022-23 to \$141.4 million in FY 2023-24, largely due to the inflation adjustment indexed at the 2% cap allowed by Proposition 13 and due to changes in ownership — which was partially offset with an anticipated decrease in property transfer tax revenue as home sales continue to slow due to rising interest rates. Property tax revenue for FY 2022-23 totaled \$138.4 million, which is \$1.5 million higher than previously projected. The higher-than-projected revenue in FY 2022-23 is largely due to supplemental property tax revenue, which was aided by increases in assessed values related to changes in ownership and new construction. Therefore, property tax revenue for FY 2023-24 is projected to be \$1.3 million higher than previously projected due to the increase in assessed values. Staff is recommending a budget amendment to align the revised budget with updated projections.

**Sales Tax** - The second largest funding source for the General Fund is sales tax revenue, making up more than 15% of General Fund revenues. The City's sales tax base is largely generated from three industry groups — autos and transportation; general consumer goods; and restaurants/hotels. Sales tax in FY 2022-23 came in at \$46.6 million, which was lower than what was predicted in prior quarters. The FY 2023-24 budget was developed before the trend in sales tax began declining. Staff is therefore lowering the FY 2023-24 to \$45.3 million — a decrease of \$3.3 million from the FY 2023-24 adopted budget projection. The decrease in the sales tax projection is primarily attributable to a 5.5% projected decrease in sales from autos and transportation over the prior year compared to the previously projected decrease of 1.4% over FY 2022-23. This equates to a \$1.7 million decrease in projected sales tax revenue over what was previously projected. Moreover, sales tax revenue is projected to be lower than the prior year due to decreases in sales from most industry groups except for restaurants and hotels. The projected decrease in sales tax revenue from these other industry groups is largely due to a shift in consumer spending to nontaxable items, such as travel, leisure, and entertainment. However, sales from restaurants and hotels remain strong with patrons allocating around 40% of their food budget to dining out. A budget amendment is recommended to align the revised budget with updated projections.

**Transient Occupancy Tax** – The third largest funding source for the General Fund is TOT, making up more than 10% of General Fund revenues. The City has seen record high TOT revenues in the wake of the pandemic: FY 2022-23 saw growth rates of 10% and 24% for hotel TOT and residential TOT respectively. Staff's projection for Q1 is in line with the budgeted revenues, and no adjustment is recommended. Staff will continue to monitor TOT trends and will provide additional updates to projections as necessary in future quarterly financial reports.

**All Other Revenue** – This category includes all other revenue sources other than the top three (property tax, sales tax and TOT). All other revenue is made up of the following:

- **Other Taxes** – real property transfer taxes, business license taxes, marine charter taxes and franchise fees. This category is anticipated to have increased revenues of \$984,000 from business licenses and franchise fees, which will align projections with actual revenues received in the prior FY.
- **Service Fees and Charges** – plan check fees, recreation classes, emergency medical services fees and numerous other cost-of-service fees. It is anticipated that fees will bring in an additional \$600,000 in revenue above the adopted budget, largely from paramedic service fees, as well as other fees that were increased in the latest fee study approved by Council after the budget was adopted.
- **Parking Revenue** – all General Fund-related metered parking fees that are assessed throughout the various parking zones of the City.
- **Licenses and Permits** – fees charged to process building related permits, street closure permits, dog licenses and police tow franchise fees.

- Property Income – City-owned and -managed, income-producing properties; long-term ground leases to concessions, restaurants, hotels and other businesses and organizations; and rental of City facilities to the public. As was reported in the FY 2022-23 Fourth Quarter Budget Update, revenues and expenses for the Dove Street property must be accounted for at their gross amount in our general ledger, resulting in additional revenues and expenses that net out in the General Fund. A budget amendment is recommended to increase the revenues and expenses by \$1.3 million to account for this activity.
- Fines and Penalties – parking citation fines collected by the City, administrative citation fines, fines remitted to the City from the County for vehicle code violations, and false alarm penalties.
- Intergovernmental Revenues – federal, state and local grant revenues, which includes, but is not limited to, the City’s portion of the half cent sales tax revenue paid to the County for public safety, state mandate reimbursements, reimbursement for strike teams sent to assist with fires, and revenue sharing with the County of Orange under the Waste Disposal Agreement (WDA).
- Investment Earnings – revenue generated from the investment of City funds.
- Miscellaneous Revenues – restricted revenue, damage to City property, bad debt, donations and contributions, non-operating revenues such as proceeds from the sale of materials and equipment, and other miscellaneous revenues. A budget amendment increasing revenues and expenses by \$10,000 is included to accept a donation from the Dorothy Ressel trust and appropriate it in the Fire Department’s expenditure budget.

### **General Fund Expenditures**

The FY 2023-24 General Fund revised expenditure budget totals \$308 million. Spending trends in FY 2023-24 are generally consistent with prior years and do not indicate any cause for concern. Total expenditure savings of \$1.4 million are projected at this time due to year-to-date savings from vacancies and savings from transferring the purchase of an ambulance to a different funding source, offset by expenses that are addressed in Budget Amendment No. 24-027 (to be attached to this report when it is presented to the City Council) and are explained in detail below.

The following table summarizes the changes to the adopted expenditure budget for FY 2023-24, as well as expenditure savings by budget category. Details highlighting the reasons for the material variances follow.

### FY 2023-24 Projected General Fund Expenditures

Expenditures by Category	Adopted Budget	A Revised Budget	B Q1 Projected Actual	C = A-B Savings (Overage)	D = C/A % Variance
Salary & Benefits	\$173,678,368	\$178,930,368	\$176,906,515	\$2,023,853	1.1%
Contract Services	28,455,395	33,959,690	33,959,690	-	0.0%
Grant Operating	490,000	799,298	799,298	-	0.0%
Utilities	4,365,888	4,365,888	4,365,888	-	0.0%
Supplies & Materials	3,990,531	4,721,943	4,721,943	-	0.0%
Maintenance & Repair	13,884,795	15,223,086	15,223,086	-	0.0%
Travel & Training	840,151	888,771	868,771	20,000	2.3%
General Expenses	2,455,445	2,639,158	3,939,158	(1,310,000)	-49.6%
Internal Svc Charge	29,463,973	29,422,570	29,422,570	-	0.0%
Capital Expenditures	1,803,666	2,625,489	1,975,489	650,000	24.8%
Operating Transfers Out	34,489,271	34,489,271	\$34,489,271	-	0.0%
<b>Total Expenditures</b>	<b>\$293,917,485</b>	<b>\$308,065,533</b>	<b>\$306,671,680</b>	<b>\$ 1,383,853</b>	<b>0.4%</b>

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$178.9 million, an increase of \$5.3 million over the adopted budget. The increase is primarily due to the appropriation of \$5.0 million from the FY 2023-24 structural budget surplus as an additional discretionary payment to CalPERS to further reduce the City’s unfunded pension liability. An analysis of salary and benefit activity for quarter one indicates that \$2 million in personnel savings have been captured to date. These savings are offset by three proposed budget increases. The adopted budget should have included \$40 million for the CalPERS UAL payment but erroneously was missing the UAL budgets in one program, in the Fire Department, leaving the total adopted UAL budget \$215,000 short. A budget amendment is requested to fully fund the UAL payment at the level that Council directed. It is recommended to transfer one maintenance aide position, a position within the Public Works Department, from the Equipment Maintenance Fund to the General Fund, as the responsibilities and needs of the department more accurately should be funded from the General Fund.
- The travel and training budget will be decreased by \$20,000 as the budget intended for Certified Access Specialist (CASp) training should be funded from Fund 180, the Restricted Programs Fund, and was erroneously included in the General Fund budget in FY 2023-24, despite this program being transferred to Fund 180 in the prior FY. A budget amendment is recommended to transfer \$20,000 from the General Fund to the Restricted Programs Fund.
- The budget amendment that Council approved when the Dove Street property was purchased accounted for only the net activity of revenues and expenses. As was reported in the FY 2022-23 Fourth Quarter Budget Update, revenues and expenses must be accounted for at their gross amount in our general ledger,

resulting in additional revenues and expenses that net out in the General Fund. A budget amendment is recommended to increase the revenues and expenses by \$1.3 million to account for this activity on a gross basis.

- The capital expenditures budget will be decreased by \$650,000 as the purchase of the ambulance unit that was approved in the FY 2023-24 budget is proposed to be transferred to the Fire Equipment Fund to utilize funding from development agreements, which is described in more detail in the Fire Equipment Fund section of this report.

### General Fund Sources, Uses, and Projected Surplus

The City continues to be in excellent financial health. Conservative budgeting and sound financial policies have resulted in a trend of General Fund operating surpluses and strong reserve levels for several years. The City is well positioned to continue delivering high levels of services to the community while targeting surplus resources to key priorities each year. It is currently projected that unrestricted General Fund resources will total \$4.6 million at the end of FY 2023-24. As is the case each year, staff anticipate that additional budget savings will be realized, and the final year-end budget surplus will exceed this amount.

The table below illustrates the prior year sources and uses of funds, current year activity and the projected year-end results.

### FY 2023-24 Projected General Fund Sources, Uses, and Budget Surplus

Category	A Revised Budget	B Q1 Projection	C=B-A Variance	D=C/A % Variance
<b>Beginning Fund Balance Reserves</b>	\$ 15,254,999	\$ 15,254,999	\$ -	0.0%
<b>Operating Resources:</b>				
Operating Revenues	285,389,166	286,350,985	961,819	0.3%
Prior Year Resources Carried Forward	5,465,426	5,465,426	-	0.0%
Transfers In from Other Funds	21,251,267	21,251,267	-	0.0%
Repayment of Advances	1,250,000	1,250,000	-	0.0%
<b>Total Operating Resources</b>	<b>313,355,859</b>	<b>314,317,678</b>	<b>961,819</b>	<b>0.3%</b>
<b>Operating Uses:</b>				
Operating Expenditures	273,576,262	272,182,409	(1,393,853)	-0.5%
Transfers Out	34,489,271	34,489,271	-	0.0%
<b>Total Operating Uses</b>	<b>308,065,533</b>	<b>306,671,680</b>	<b>(1,393,853)</b>	<b>-0.5%</b>
<b>Net Operating Surplus</b>	<b>5,290,326</b>	<b>7,645,998</b>	<b>2,355,672</b>	<b>44.5%</b>
<b>Non-Operating Resources &amp; Uses</b>				
Transfers Out for Prior Year Surplus Allocation to Paydown OPEB and to Capital Project Funds	(13,270,950)	(13,270,950)	-	0.0%
Transfers Out to Capital Project Funds	(5,005,300)	(5,005,300)	-	0.0%
<b>Total Non-Operating Resources &amp; Uses</b>	<b>(18,276,250)</b>	<b>(18,276,250)</b>	<b>-</b>	<b>0.0%</b>
Net Change in Fund Balance	(12,985,924)	(10,630,252)	-	0.0%
<b>Ending Fund Balance Reserves</b>	<b>\$ 2,269,075</b>	<b>\$ 4,624,747</b>	<b>\$ 2,355,672</b>	<b>103.8%</b>

### **Facility Financing Plan**

Per the City's Municipal Code, park dedication and in-lieu fees provide for the dedication of land, the payment of fees in lieu thereof or a combination of both, for park or recreational purposes in conjunction with the approval of residential development. Park zone fees in Park Zone 9 are anticipated to total \$976,701 in FY 2023-24. A budget amendment is recommended to align the budgeted revenues in this fund with current projections by increasing revenues in account 51303-422105.

### **IT Replacement Fund**

The IT Replacement Internal Service Fund (ISF) was established in 2012 to set aside funds for large technology purchases and implementations, which has over \$8 million in reserves. This fund accumulates reserves over the useful life of crucial City technology assets so that sufficient resources are available for its eventual replacement. Typical assets that are budgeted for replacement are enterprise business applications, PCs, mobile devices, networking equipment, phone systems, data center servers and hardware, as well as specialized systems like library self-checkout stations. There are two necessary system replacements that will be included as part of the budget amendment when this report goes before the City Council, the Fire Records Management System (RMS) and the Lifeguard Computer Aided Dispatch (CAD) system. The evaluation of these systems was completed after the budget was adopted.

The Fire Department, along with support from IT, requests funding to upgrade the department's existing Records Management System (RMS) for the Fire Operations Division to match the County's reporting portal. In doing so, the City will centralize its records data under one system, modernize its records management and have the ability to access additional software system features. A budget amendment for \$118,695 will cover the implementation and three years of licensing of the application.

The Fire Department's Lifeguard Division has relied on a modified version of the Computer Aided Dispatch (CAD) System used by the Police Department. However, it is limited in capability due to its design as a police Department-specific program. Transitioning to a new lifeguard -specific software will allow for greater operational use and flexibility for the division and provide for better coordination with the City's IT team. A budget amendment for \$119,511 will cover the implementation and five years of licensing of the application.

### **Fire Equipment Fund**

The FY 2023-24 adopted budget includes \$650,000 in the General Fund for the purchase of a new ambulance unit. It was anticipated that funding from two development agreements that total \$1 million would fund this purchase. However, due to uncertainty in the timing of receiving those funds, the General Fund was positioned to front the cost of purchasing the unit, with the understanding that the General Fund would be reimbursed once the developer funds had been received. Now that a portion of developer funds have been received for the Newport Crossings and Harbor Pointe projects, it is recommended that the budget for the purchase and outfitting of the new ambulance be transferred to the

Fire Equipment Fund where it will be fully offset by the additional revenues.

### **Other Funds**

Staff have evaluated the fiscal condition of the City's other major operating funds (Tidelands and Water). An analysis of the budget performance for these funds indicates that no budget adjustments are necessary and variances between budgeted and actual amounts are within reason.

### **Personnel Changes**

The departure of City personnel in the Human Resources Department provided an opportunity to evaluate the staffing structure within the department. In this analysis, inconsistencies in job titles for the analyst series were found. To align positions within the series and across the organization, the city manager recommends changes to the following job classifications to expand the existing analyst series:

- Management Assistant to Assistant Management Analyst
- Human Resources Specialist I to Human Resources Specialist
- Human Resources Specialist II to Assistant Human Resources Analyst.

These changes will create a pathway for career development and are expected to assist with succession planning and recruitment. No changes are proposed to the related pay rates. The proposed changes will impact certain employee benefits, as some positions are moving from the Newport Beach Professional and Technical Employees Association to the Key and Management employee group, however, these changes result in nominal cost adjustments and can be absorbed in the current fiscal year.

### **Conclusion**

Staff recommends that the Finance Committee review and discuss this report and provide any recommendations for city manager and City Council consideration.

Prepared and Submitted by:

/s/ Shelby Burguan

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Shelby Burguan  
Budget Manager