



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 5B
February 12, 2026

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Administrative Services Department
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SUBJECT: SECOND QUARTER BUDGET UPDATE

SUMMARY:

The Administrative Services Department prepares quarterly financial reports to review the status of revenues and expenditures for the City's General Fund and to monitor budgetary trends across other City funds. This report presents information on revenues, expenditures, and the estimated fund balance for the second quarter of Fiscal Year 2025–26.

The second quarter financial report for FY 2025–26 provides an analysis of the City's financial activity from October through December 2025. Based on information available through the end of the second quarter, an unrestricted General Fund operating surplus of \$12.9 million is projected for FY 2025–26.

RECOMMENDED ACTION:

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

DISCUSSION:

Economic Overview

Property tax, the City's largest revenue source, is experiencing projected growth by 5.8% in FY 2025–26, driven primarily by strong property sales and rising median home prices.

Sales tax, the City's second largest revenue source and approximately 15% of General Fund revenues, grew 5.7% in FY 2024–25 and is projected to increase 3.0% in FY 2025–26, reflecting a resilient local economy.

Transient Occupancy Tax (TOT), the City's third-largest revenue source, is declining in Fiscal Year 2025/26 due to both continued softness in international tourism and commercial hotel activity and the absence of a one-time increase in hotel stays that occurred in the prior year. In Fiscal Year 2024/25, TOT demand was temporarily elevated by regional displacement following the Los Angeles wildfires, which resulted in atypically high hotel occupancy. As this non-recurring demand has subsided and travel activity has returned to more typical levels, TOT revenues are projected to decrease year over year.

Overall, the City's diverse and stable revenue base, coupled with prudent fiscal management, positions it well to maintain long-term financial sustainability.

General Fund Revenues

General Fund Revenues are projected to end the year by approximately 0.27%, or \$0.9 million, higher than projected in the first quarter. This is primarily due to increase in the following categories: sales tax, license and permits, property income, miscellaneous revenues, fines and penalties. Projections for key revenue categories have been updated based on current economic conditions and revenue forecasts.

The table below summarizes the changes to projected General Fund revenues versus the quarter one projected amounts for FY 2025–26. Details explaining the reasons for the material variances follow.

FY 2025-26 Projected General Fund Revenues

Revenues by Category	Revised	A		B	C = B - A	D = C/B
	Budget	Q1 Projected	Q2 Projected	Varlance		
Property Taxes	163,128,525	163,128,525	163,128,525	-	-	0.00%
Sales Tax	48,091,080	48,091,080	48,793,625	702,545	1.44%	
Transient Occupancy Tax*	33,600,771	33,747,971	32,821,827	(926,144)	-2.82%	
Other Taxes	10,318,398	10,318,398	10,318,398	-	-	0.00%
Service Fees & Charges	26,121,476	26,569,121	26,492,369	(76,752)	-0.29%	
Parking Revenue	8,976,102	8,976,102	8,924,261	(51,841)	-0.58%	
Licenses and Permits	5,598,575	5,757,997	6,213,317	455,320	7.33%	
Property Income	9,552,739	9,544,279	10,117,997	573,718	5.67%	
Fines & Penalties	4,169,867	4,324,224	4,431,438	107,214	2.42%	
Intergovernmental	4,943,347	4,684,876	4,531,502	(153,374)	-3.38%	
Investment Earnings	1,577,249	1,577,249	1,577,249	-	0.00%	
Misc Revenues	806,648	660,554	934,015	273,462	29.28%	
Operating Transfers In	20,753,116	20,753,116	20,753,116	-	0.00%	
Total Revenues	337,637,893	338,133,491	339,037,638	904,147	0.27%	

*Gross TOT revenues are projected at approximately \$39.8 million, consisting of \$30.4 million in hotel TOT and \$9.4 million in residential TOT. Effective January 1, 2025, VNB's share increased to 23% of hotel TOT and 0% of residential TOT. VNB is projected to receive about \$7.0 million, resulting in net TOT revenues of \$32.8 million.

Property Tax – Property taxes are the City’s single largest General Fund revenue and represent approximately 50% of all General Fund revenues. As reported in the first quarter budget update, property tax revenue was projected at \$163 million, reflecting an increase of \$1.5 million, or 1.3%, over the prior year. Second quarter projections remain consistent with the previous forecast, and no adjustment is recommended. Accordingly, property tax revenues are expected to remain stable for the remainder of the fiscal year, supporting the City’s overall General Fund outlook.

Sales Tax – The second-largest funding source for the General Fund is sales tax revenue, which accounts for more than 15 percent of total General Fund revenues. The City’s sales tax base is primarily generated from four industry groups: autos and transportation; general consumer goods; restaurants and hotels; and the State and County pools. As reported in the first quarter, sales tax revenue was projected at \$48.1 million. However, an updated projection provided by the City’s sales tax consultant reflects a 1.44 percent, or \$0.7 million, increase over the first-quarter projection. Overall, sales tax revenue is now estimated at \$48.8 million for the current fiscal year, which is \$2.9 million, or 6.2 percent, higher than the prior year. A major contributor to this growth is the autos and transportation sector, which is projected to increase by \$1.3 million, or 12.2 percent, compared to the prior year.

Transient Occupancy Tax – The third largest funding source for the General Fund is TOT, making up more than 10% of General Fund revenues. TOT is projected to decline as temporary, non-recurring hotel demand related to Los Angeles wildfire displacement in FY 2024–25 subsides and international tourism and commercial hotel activity remain soft. For FY 2025–26, after distributions to Visit Newport Beach, net General Fund TOT revenues are projected at \$32.8 million. This includes a downward revision of \$0.9 million (2.8%) from the previous TOT forecast in the first quarter.

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 other taxes, service fees and charges, parking revenue, licenses and permits, property income, fines and penalties, intergovernmental revenues, investment earnings, and miscellaneous revenues. Changes in projected amounts are proposed in the following categories:

- Property Income includes 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. Second quarter projections show a \$0.6 million, or 5.67% increase over first quarter projections and are attributed to various properties around the City.
- Licenses and Permits include fees for processing building-related permits, street closure permits, dog licenses, and police tow franchise fees. Budget projections indicate an increase of \$0.5 million, or 7.33%, above the first quarter projection. This variance is primarily attributed to higher building and plumbing permits, reflecting an overall increase in residential and commercial development projects.

- Miscellaneous Revenues include restricted revenue, damage to City property, bad debt recoveries, donations and contributions, non-operating revenues such as proceeds from the sale of materials and equipment, and other miscellaneous revenues. This category is projected to be \$0.3 million, or 29.3% higher than first quarter projections. Contributing factors include an increase in one-time receipts.
- Fines & Penalties include 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. Second quarter projections are expected to exceed first quarter projections by \$0.1 million, or 2.42% due to higher administrative citation fine activity in the Police Department.

General Fund Expenditures

The FY 2025-26 General Fund revised expenditure budget totals \$363.4 million. Spending trends in FY 2025-26 are generally consistent with prior years and do not indicate any cause for concern. As of quarter two, additional expenditure savings of \$1.7 million are projected at this time largely due to year-to-date savings from vacancies.

The following table summarizes budgeted expenditures compared to amounts based on data through the second quarter, along with expenditure savings by budget category. Details highlighting the reasons for the material variances follow.

FY 2025-26 Projected General Fund Expenditures

Expenses by Category	Revised Budget	A Q1 Projected Actuals	B Q2 Projected Actuals	C = A - B Variance	D = C/B % Variance
Salary & Benefits	195,963,383	193,425,260	191,525,260	1,900,000	0.99%
Contract Services	42,960,522	42,485,199	41,891,862	593,337	1.42%
Grant Operating	1,570,592	1,108,329	1,097,146	11,183	1.02%
Utilities	4,722,621	4,654,138	4,966,968	(312,831)	-6.30%
Supplies & Materials	5,363,627	4,945,456	5,087,980	(142,524)	-2.80%
Maintenance & Repair	6,676,879	6,518,171	6,587,024	(68,852)	-1.05%
Travel & Training	873,529	872,569	865,405	7,164	0.83%
General Expenses	4,700,681	4,709,539	5,036,800	(327,261)	-6.50%
Internal Svc Charge	29,444,147	29,444,147	29,444,147	-	0.00%
Capital Expenditures	1,790,189	1,504,462	1,188,003	316,460	26.64%
Operating Transfers Out	57,267,367	57,007,367	57,267,367	(260,000)	-0.45%
Total Expenditures	351,333,538	346,674,637	344,957,962	1,716,675	0.50%

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$196.0 million. An analysis of second-quarter salary and benefit activity indicates that \$1.9 million in personnel savings accrued during the quarter, in addition to the personnel salary savings realized in the first quarter.

- The contract services budget is expected to have \$0.6 million in savings. As of the second quarter, the variance is primarily due to timing of projects. As these savings are preliminary, staff will continue to monitor activity to refine projections as additional data becomes available.
- The capital expenditures budgets are trending lower than first quarter projections due to timing of planned project expenditures.
- The utilities, supplies & materials, maintenance & repair, and general expense budget show a combined \$0.9 million in overages due to higher-than-expected consumption related to facility usage, maintenance requirements, and increase operational demand.

General Fund Sources, Uses, and Projected Surplus

The City continues to maintain a strong and stable financial position. Conservative budgeting practices and adherence to sound financial policies have supported consistent General Fund operating surpluses and healthy reserve levels over the past several years. These practices position the City to sustain current service levels and strategically allocate surplus resources toward key community priorities. Unrestricted General Fund resources are currently projected to total \$12.9 million at the end of FY 2025–26. As in prior years, staff anticipate that additional budget savings will be realized in subsequent quarters as the fiscal year progresses.

FY 2025-26 Projected General Fund Sources, Uses, and Budget Surplus

Category	Revised Budget	A Q1 Projection	B Q2 Projection	C=B-A Variance	D=C/B % Variance
Beginning Fund Balance Reserves	\$ 25,714,088	\$ 25,714,088	\$ 25,714,088	\$ -	0.00%
Operating Resources:					
Operating Revenues	316,884,777	317,380,375	318,284,522	904,147	0.28%
Prior Year Resources Carried Forward	3,785,541	3,785,541	3,785,541	-	0.00%
Transfers In from Other Funds	20,753,116	20,753,116	20,753,116	-	0.00%
Repayment of Advances	1,250,000	1,250,000	1,250,000	-	0.00%
Total Operating Resources	\$ 342,673,435	\$ 343,169,032	\$ 344,073,180	\$ 904,147	0.26%
Operating Uses:					
Operating Expenditures	294,066,171	289,667,270	287,690,595	1,976,675	0.69%
Transfers Out	45,330,867	43,229,779	43,489,779	(260,000)	-0.60%
Total Operating Uses	\$ 339,397,038	\$ 332,897,049	\$ 331,180,374	\$ 1,716,675	0.52%
Net Operating Surplus	\$ 3,276,397	\$ 10,271,983	\$ 12,892,805	\$ 2,620,822	20.33%
Non-Operating Resources & Uses					
Use of FY 2024-25 Surplus:					
Purchase of Real Property on Campus Drive	(11,936,500)	(11,936,500)	(11,936,500)	-	0.00%
Transfers out to the FFP	(13,777,588)	(13,777,588)	(13,777,588)	-	0.00%
Total Non-Operating Resources & Uses	\$ (25,714,088)	\$ (25,714,088)	\$ (25,714,088)	\$ -	0.00%
Net Change in Fund Balance	\$ (22,437,691)	\$ (15,442,105)	\$ (12,821,283)	\$ 2,620,822	-20.44%
Ending Fund Balance Reserves	\$ 3,276,397	\$ 10,271,983	\$ 12,892,805	\$ 2,620,822	20.33%

Major Funds

Staff have evaluated the fiscal condition of other major operating funds.

An analysis of the budget performance for other major operating funds indicates that a budget adjustment is not necessary and variances between budgeted and actual amounts are within reason.

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/ Jessica Nguyen

Jessica Nguyen
Budget Manager