



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 6C
January 15, 2026

TO: HONORABLE CHAIR AND MEMBERS OF THE COMMITTEE

FROM: Administrative Services Department
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SUBJECT: GENERAL FUND AND TIDELANDS FUND LONG RANGE FINANCIAL FORECAST UPDATE

EXECUTIVE SUMMARY

The City is projected to remain financially sound over the next 20 years, with a strong revenue base and healthy reserves. The forecast anticipates a surplus each year during this period. Any short-term deficits resulting from economic downturns or unforeseen events are expected to be absorbed without long-term reliance on the Contingency Reserve, and no structural deficit is apparent.

DISCUSSION

Strategic planning begins by determining the City's fiscal capacity, based on long-term financial forecasts of recurring revenues and future financial obligations. Before adopting the annual budget, staff prepares a Long-Range Financial Forecast (LRFF) each year for the General Fund to evaluate internal and external factors affecting the City's financial condition. Staff also prepared an LRFF for the Tide and Submerged Land Operating Fund, known as the Tidelands Fund. The LRFF aims to help the City achieve and maintain financial sustainability, provide long-term guidance for financial decisions, and ensure sufficient resources to deliver programs and services to the community.

Methodology

The Finance Department prepares the LRFF in three steps. First, a baseline growth scenario for revenues and expenditures is developed by analyzing historical growth rates and incorporating the latest data from consultants and other sources, with adjustments for lower near-term growth, particularly in sales and transient occupancy taxes. Next, line items that deviate from typical patterns, such as pension payments, interest income, ground lease revenue, and transfers for master financing plans, are adjusted based on

their specific schedules. Finally, the model remains flexible, allowing for alternative scenarios or fiscal impact analyses as needed.

Major Assumptions

Major assumptions used in the model include the following:

The Fiscal Year (FY) 2025-26 adopted budget, excluding one-time items, served as the base for developing growth assumptions except in personnel related costs which considered the amended budget to factor in recently approved labor MOUs. To refine near-term projections, the methodology for revenue and expenditure growth assumptions was updated, incorporating the revised budget and the latest actual data. Additional details are summarized below.

Annual General Fund transfers-out in support of:

- FFP & Debt Service – \$15.5 million annually, representing not less than 3% of general fund revenues as outlined in Council Policy F-28
- CIP – \$6.5 million annually
- Facilities Maintenance – \$2.5 million annually
- Tideland Harbor Capital – \$6.1 million, indexed at 2.5% annually, through FY 2032-33, and reduced to \$4.5 million thereafter
- Parks Maintenance Fund - \$2.3 million annually

Although year-end surpluses have exceeded \$10 million in recent years, future surpluses were not assumed in the projections. Any surpluses shown reflect the net difference between projected revenues and expenditures. The forecast does not assume expenditure savings or revenues above budget and is therefore based on conservative revenue projections and liberal expenditure estimates.

Revenue Assumptions

Revenue changes from FY 2026–27 to 2045–46 are initially based on historical trends using either CAGR or average annual growth, as appropriate for each revenue category. These trends are adjusted for known one-time events and other extraneous factors. An economic outlook is then applied to reflect the cyclical nature of expansions and contractions, resulting in a dynamic forecast rather than linear growth assumptions and reducing the risk of distorted long-term projections.

The General Fund's top three revenue sources—property tax, sales tax, and transient occupancy tax—account for about 72% of total revenues and therefore have a significant impact on the twenty-year forecast. Growth assumptions for these revenues are based on the latest economic data and the updated projections in the FY 2025–26 revised budget.

General Fund Revenue Forecast FY2026-27– FY2030-31

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Property Tax	\$ 170,469,309	\$ 177,288,081	\$ 184,379,604	\$ 189,910,993	\$ 195,608,322
Growth Rate	4.5%	4.0%	4.0%	3.0%	3.0%
Sales Tax	\$ 49,743,581	\$ 51,318,651	\$ 52,345,024	\$ 53,915,375	\$ 55,532,836
Growth Rate	5.2%	3.2%	2.0%	3.0%	3.0%
Transient Occupancy Tax	\$ 32,521,034	\$ 33,496,665	\$ 34,166,598	\$ 34,508,264	\$ 35,198,429
Growth Rate	-4.3%	3.0%	2.0%	1.0%	2.0%
Other Revenues	\$ 74,228,060	\$ 76,069,885	\$ 77,965,886	\$ 79,347,877	\$ 81,281,874
Growth Rate	4.5%	2.5%	2.5%	1.8%	2.4%
Transfers In	\$ 22,997,553	\$ 23,326,639	\$ 23,571,979	\$ 24,264,138	\$ 24,477,062
Growth Rate	6.4%	1.4%	1.1%	2.9%	0.9%
Total General Fund Revenue	\$ 349,959,537	\$ 361,499,921	\$ 372,429,092	\$ 381,946,646	\$ 392,098,524
Growth Rate	3.8%	3.3%	3.0%	2.6%	2.7%

Property Taxes

These revenues largely depend on assessed property values set each January. Newport Beach's assessed values rose 5.8% in FY 2025–26, driven mainly by ownership changes and new construction. For FY 2026–27, assessed values are projected to increase 4.5%, reflecting home sales from January through September 2025, the two-percent Proposition 13 inflation adjustment, and continued, albeit slower, growth from ownership changes and new construction due to higher interest rates.

In the outer years of the forecast, staff expect continued strong demand for Newport Beach property. Property tax revenues tend to be less volatile than other sources due to assessment and collection lags of 12–18 months and the City's high assessed values. Although growth slowed during the Great Recession, assessed values in Newport Beach did not decline and have increased in each of the past 20 years. This sustained demand has supported long-term growth, with an average annual increase of 5.6% over the past two decades. Beyond FY 2026–27, staff conservatively assumes 3–4% annual growth in property taxes, including supplemental and property transfer taxes.

Sales Tax

Sales tax is the General Fund's second-largest revenue source and is driven primarily by autos and transportation, general consumer goods, and restaurants and hotels. Revenue increased 5.7% in FY 2024–25 and is projected to increase by 3% in FY 2025–26, reflecting growth in autos and transportation. Looking ahead, sales tax is expected to grow throughout the forecast, with a 5.2% increase (about \$2.4 million) projected in FY 2026–27. Beyond that, staff conservatively assumes average annual growth of 2.6%.

Transient Occupancy Tax (TOT)

The third largest General Fund revenue source is transient occupancy tax (TOT), which accounts for nearly 10% of revenues. Commercial properties—21 hotels and resorts—generate about 74% of TOT, while approximately 1,550 vacation rentals account for the remaining 26%. Although the FY 2025–26 adopted budget assumed 4% growth, TOT revenue projections have been revised based on first quarter results which indicates a softening in demand particularly from international travel. As a result, TOT revenues are projected to decline 4.3% to \$32.5 million in FY 2026–27, followed by average annual growth of 2.9% consistent with historical trends.

Other revenues (service fees and charges, fines and penalties, property income, transfers in, and other miscellaneous revenues) which make up 28% of the City's total revenues are projected to grow modestly at 3% on average over the next 20 years. This assumption is based on the average growth from the preceding 20 years. Service fees and charges are projected to grow by an average of 2% annually each year and property income, which includes leases and parking revenue, is projected to grow by an average of 4% annually over the next 20 years. Transfers in, which represents the Tidelands payment to the General Fund for the Cost Allocation Plan are estimated to grow at 3% annually.

Expenditure Assumptions

Regular salaries for miscellaneous and public safety employees reflect approved adjustments through the current MOU agreements and are assumed to grow 2% annually thereafter, with no increase in headcount. Special and other pays (e.g., certification, bilingual, motor officer, scholastic achievement) are projected to grow 2% annually. Benefits—including life insurance, Medicare, retiree health contributions, and CalPERS pension contributions—are also projected to grow 2% annually; however, certain items in this category have alternate growth rates, resulting in an overall average year-over-year change of 0%.

The forecast assumes an annual baseline pension funding of \$40 million, with \$37 million from the General Fund. Under this plan, the pension liability is projected to be fully paid off by FY 2032–33, assuming CalPERS achieves a 6.8% average investment return and there are no major changes to experience studies or the discount rate. The baseline payment exceeds the required CalPERS contribution by about \$6 million, with an additional \$5 million expected annually from year-end surpluses, bringing total payments to \$45 million, assuming continued Council authorization of additional contributions.

Non-personnel costs—including contract services, utilities, supplies, and maintenance—are projected to grow an average of 5.2% annually. While some costs may rise with the consumer price index (CPI), many contracts cap increases at CPI, so high CPI rates were not broadly applied to these projections. The FY 2026-27 growth in this category is higher than the average due to increase in rates related to City refuse contracts. Transfers out cover General Fund contributions to other funds for future capital improvement projects and support for Tidelands Fund operations.

General Fund Expenditure Forecast FY2026-27– FY2030-31

	FY 2026-27	FY 2027-28	FY 2028-29	FY 2029-30	FY 2030-31
Regular Salaries	\$ 104,573,983	\$ 108,443,220	\$ 110,612,085	\$ 112,824,326	\$ 115,080,813
Growth Rate	4.0%	3.7%	2.0%	2.0%	2.0%
Special and Other Pays	\$ 20,908,662	\$ 21,326,835	\$ 21,753,372	\$ 22,188,439	\$ 22,632,208
Growth Rate	2.5%	2.0%	2.0%	2.0%	2.0%
Benefits ¹	\$ 75,171,175	\$ 75,739,894	\$ 76,819,803	\$ 77,939,693	\$ 79,096,328
Growth Rate	1.1%	0.8%	1.4%	1.5%	1.5%
Non-Personnel Costs	\$ 97,563,944	\$ 102,459,521	\$ 108,043,496	\$ 113,639,918	\$ 119,878,047
Growth Rate	6.2%	5.0%	5.4%	5.2%	5.5%
Transfers Out ²	\$ 45,986,928	\$ 46,625,011	\$ 47,028,378	\$ 47,506,205	\$ 49,854,740
Growth Rate	-5.6%	1.4%	0.9%	1.0%	4.9%
Total General Fund Expenditures	\$ 344,204,691	\$ 354,594,481	\$ 364,257,133	\$ 374,098,582	\$ 386,542,136
Growth Rate	2.4%	3.0%	2.7%	2.7%	3.3%

Tidelands Fund Forecasting

The Tidelands Fund transfers roughly \$20 million annually to the General Fund to cover costs for Tidelands-area activities supported by General Fund services. These include public safety—Police patrols, traffic operations, Fire Department services, emergency medical services, and marine safety—as well as public facilities, including Public Works maintenance of public spaces and Finance Department management of parking.

Tidelands Fund revenues are insufficient to cover all operating costs, requiring a General Fund subsidy estimated at \$10.6 million for FY 2025–26. Accordingly, the General Fund's performance and the long-range financial plan must account for Tidelands Fund revenue and expenditure projections, including the associated subsidy.

The Tidelands LRFF uses the same methodology as the General Fund LRFF. The FY 2025-26 adopted budget, excluding one-time items, was used as a base from which forward growth assumptions were developed.

Tidelands Revenue Assumptions

The Tidelands Fund generates revenue from tidelands operations, including rents from moorings, piers, and leases, as well as parking and oil sales. Its top three sources of revenue – property income, parking revenue, and the General Fund subsidy—account for about 99% of total revenue, making their growth assumptions critical to the twenty-year forecast. Projections for these sources are based on the latest economic data and the FY 2025–26 revised budget.

Property Income

Property income is the primary revenue source for the Tidelands Fund. For FY 2025-26, Tide and Submerged Land Operating income is projected to generate \$8.4 million from leases and an additional \$1.4 million from oil sales. Looking ahead to FY 2026-27, property income revenues are expected to grow by 3.5%, or \$355,771.

Parking Revenue

Parking revenue is made up of \$2.7 million from the Balboa Parking Lot, \$1.5 million from the Ocean Front Lot, and \$881,669 from a combination of smaller lots. In FY 2026-27, parking revenues are projected to increase by 4%, or \$195,250.

General Fund Subsidy

Historically, the Tidelands Fund has not generated enough revenue to cover operating costs, primarily due to public safety expenses like lifeguarding, EMS, and police services at ocean beaches. To cover the gap, the General Fund provides an annual subsidy, which fluctuates with Tidelands revenues and expenditures. For FY 2025–26, the subsidy totaled \$10.6 million.

Tidelands Expenditure Assumptions

Regular salaries are reflective of the approved adjustments through the end of the current MOU agreements. Thereafter, regular salaries are assumed to grow at 2% annually. The forecast assumes no growth in personnel headcount. Non-personnel costs include contract services, utilities, supplies and materials, and maintenance and repair. These expenditures are projected to grow an average of 4.5% annually.

The largest expense in the Tidelands Fund is the transfer out to the General Fund to cover the allocated costs, which are the Citywide expenditures that support the management and operation of the Tidelands that are accounted for in the General Fund. Assumptions for these costs are based on the current Cost Allocation Plan and are escalated each year by an average of 3%.

CONCLUSION

The City is in a strong financial position. The General Fund LRFF projects a surplus balance (revenues net of expenditures) of approximately \$5.8 million in FY 2026-27. Surpluses are also projected for the remaining years of the model.

The City currently has a contingency reserve of \$71.5 million, which represents 25% of operating expenditures. This reserve serves as a means of responding to unexpected deviations in operating trends over the 20-year term of the forecast.

Although it is unlikely the City would need to access the reserve for unforeseen circumstances, it still faces fiscal challenges. While revenues have improved significantly since the Great Recession, future downturns or shifts in consumer behavior—particularly in spending and travel—could affect revenues in ways that differ from past trends.

The City faces significant financial pressures, including rising CalPERS pension costs, unfunded state mandates, and the need to fund near-term facilities maintenance and replacement under long-term infrastructure plans. Its robust revenue base, however, enables strategic allocation of resources each year to address the most critical needs of residents.

In summary, the General Fund is projected to remain in a financially sound position over the next 20 years. Any short-term deficits that may arise can be absorbed without long-term reliance on the Contingency Reserve—no structural deficit is apparent.

Submitted by:

/s/ Jessica Nguyen

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Budget Manager

Attachments:

- A. 20-Year Long-Range Financial Forecast for the General Fund
- B. 20-Year Long-Range Financial Forecast for the Tidelands Fund