



NEWPORT BEACH

City Council Staff Report

June 24, 2025
Agenda Item No. 20

TO: HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL

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TITLE: Fiscal Year 2024-25 Third Quarter Financial Report

ABSTRACT:

The Finance Department prepares quarterly financial reports to review the status of General Fund revenues and expenditures, as well as to monitor budgetary trends in the City of Newport Beach's other major funds. This report presents revenue, expenditure and estimated fund balance information for the third quarter of Fiscal Year 2024-25.

The FY 2024-25 third-quarter financial report analyzes the City's financial activity from July 2024 through March 2025. Based on data available through the end of the third quarter, an unrestricted General Fund operating surplus of \$19.2 million is projected—an increase of \$1.7 million compared to the second-quarter projection. Recommended budget adjustments for revenues and expenditures are outlined in this report and will be reflected in the proposed third quarter budget amendment, No. 25-071.

This report was reviewed and discussed with the Finance Committee on May 29, 2025.

RECOMMENDATIONS:

- a) Determine this action is exempt from the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) and 15060(c)(3) of the CEQA Guidelines because this action will not result in a physical change to the environment, directly or indirectly; and
- b) Receive and file this report, and approve Budget Amendment No. 25-071, adjusting revenue estimates and expenditure appropriations for the Fiscal Year 2024-25 budget as further outlined in this report.

DISCUSSION:

Economic Overview

Home sales for detached single-family residences in Newport Beach were lower during the quarter ending March 31, 2025, due to elevated interest rates. However, the median sales price increased by 11.6% during the same period, reaching \$4.6 million, which is \$476,000 higher than the median price for the quarter ending December 31, 2024.

Meanwhile, uncertainty in national public policy and ongoing tariff discussions—with changing timelines and product details—continues to create challenges for capital investment and may affect consumer spending patterns. The City is closely monitor potential impacts on tax revenues and will modify revenue projections as needed in response to data-driven analysis. Overall, the economic outlook for Newport Beach remains strong, driven primarily by consistent and vigorous demand for coastal real estate. This demand continues to push assessed property values higher, despite a slowdown in home sales. This long-term trend is a key factor in Newport Beach’s fiscal stability.

General Fund Revenues

General Fund revenues are projected to end the year approximately 0.16%, or \$0.5 million, lower than projected in the second quarter. This is primarily due to decreases in other taxes, service fees and charges, parking revenues, and license and permit revenues, which is partially offset by an increase in transient occupancy tax revenue.

The following table summarizes the changes to projected General Fund revenues versus the quarter two projected amounts for FY 2024-25. Details explaining the reasons for material variances follow.

FY 2024-25 Projected General Fund Revenues

Revenues by Category	Revised	A	B	C = B-A	D = C/A
	Budget	Q2 Projected Actuals	Q3 Projected Actuals	Variance	% Variance
Property Taxes	152,582,253	152,582,253	152,582,253	-	0.00%
Sales Tax	45,200,159	45,200,159	45,200,159	-	0.00%
Transient Occupancy Tax*	32,670,435	32,670,435	33,045,274	374,839	1.15%
Other Taxes	9,587,638	10,171,883	10,041,804	(130,079)	-1.28%
Service Fees & Charges	25,743,157	25,856,609	25,527,646	(328,963)	-1.27%
Parking Revenue	8,271,651	8,271,651	8,127,414	(144,237)	-1.74%
Licenses and Permits	5,952,271	6,230,295	5,999,425	(230,870)	-3.71%
Property Income	9,633,853	9,661,159	9,499,220	(161,939)	-1.68%
Fines & Penalties	3,996,299	3,978,089	3,964,092	(13,997)	-0.35%
Intergovernmental	6,489,319	6,514,083	6,568,296	54,213	0.83%
Investment Earnings	1,904,925	1,904,925	1,904,925	-	0.00%
Misc Revenues	673,579	610,716	680,310	69,594	11.40%
Operating Transfers In	19,767,775	19,767,775	19,767,775	-	0.00%
Total Revenues	322,473,314	323,420,032	322,908,594	(511,438)	-0.16%

*Gross Transient Occupancy Tax revenues total approximately \$40.7 million. Through December 31, 2024, Visit Newport Beach (VNB) received 18% of gross TOT. Starting January 1, 2025, VNB’s share increased to 23% of hotel TOT and 0% of residential TOT. VNB payments are projected at \$7.7 million for the fiscal year, leaving net TOT revenues of \$33 million.

Property Tax - Property taxes are the City’s largest single source of General Fund revenue, accounting for approximately 50% of total General Fund revenues. As reported in the second quarter update, property tax revenue for FY 2024-25 was projected at \$152.6 million, reflecting an increase of \$6.4 million, or 4.4%, over the prior year. Third-quarter projections remain consistent with the previous forecast, and no adjustment is recommended. These figures remain steady due to stable cash receipts from supplemental property taxes. The current projections align with the previous forecast.

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 four industry groups — autos and transportation, general consumer goods, restaurants/hotels, and the State & County Pools. As reported in the second quarter, sales tax revenue was projected at \$45.2 million in FY 2024-25, which assumed a 4% increase or \$1.8 million over the prior year. Sales tax data from the California Department of Tax and Fee Administration for the quarter ending on March 31, 2025, is not yet available. Therefore, the projection for the third quarter remains at \$45.2 million.

Transient Occupancy Tax (TOT) – The third largest funding source for the General Fund is TOT, making up more than 10% of General Fund revenues. Approximately three-fourths of TOT revenue is derived from hotels, with the balance coming from short-term lodging. While TOT receipts from short-term lodging more than doubled over the four-year period, from Fiscal Year 2018-19 through Fiscal Year 2022-23, short-term lodging revenue for FY 2024-25 is projected to be 2.3% lower than the prior year actuals. However, TOT revenue from hotels is projected to be 6% higher than the prior year actuals. Therefore, the overall projection for the third quarter is 1.1% higher than projected in quarter two, or \$0.4 million.

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. Material changes in projected amounts were made to other taxes and service fees and charges:

- Other Taxes include utility, cable and solid waste franchise taxes, as well as business license and marine charter taxes. Second-quarter projections for business license tax revenue anticipated 3% growth over the prior year. However, the third-quarter projection shows revenues leveling off compared to the prior year, contributing to the overall decrease in other tax revenues.
- Service Fees and Charges include plan check fees, recreation class fees, emergency medical service fees, and various other cost-of-service charges. These revenues are projected to be \$0.3 million (1.3%) lower than previously forecasted, due to a slight decrease in activity. For example, planning permit fee revenues are lower than expected, reflecting a slowdown in construction activity driven by higher interest rates.
- Parking Revenue consists of all General Fund-related parking fees that are assessed throughout the various parking zones of the city. Third quarter figures are 1.7% lower than the revised budget, or \$0.1 million.
- Licenses and Permits include fees for processing building-related permits, street closure permits, dog licenses, and police tow franchise fees. The Police Department is reporting lower-than-expected actual revenues for accounts such as police tow franchise fees and dog licenses. Additionally, the Community Development Department is seeing reduced permit revenues due to a decline in discretionary construction activity, which has been affected by high interest rates.

- Property Income is projected to come in \$0.1 million lower than the budget primarily due to the Dove Street property, which is experiencing increased vacancy rates within the past year.
- Intergovernmental Revenues reflects an additional settlement payment of \$460,793 from a class action lawsuit between the City of Long Beach and Monsanto regarding polychlorinated biphenyls (PCBs) contamination. A budget amendment is requested to increase revenues within this category to reflect this additional settlement payment. This increase in revenue offsets the Fire Department’s delayed payments from PP-GEMT-IGT due to the collection process where there is a delay between the month that the transport occurred and the receipt of the payment.

General Fund Expenditures

The FY 2024-25 General Fund expenditure budget totals \$323 million. Spending trends for the fiscal year are generally consistent with prior years and do not indicate any cause for concern. General Fund expenditures are projected to total \$313.6 million, which is \$2.2 million lower than previously forecasted, primarily due to additional savings from vacant positions.

The following table summarizes budgeted expenditures compared to projected amounts, along with expenditure savings by budget category. Details explaining the reasons for material variances follow.

FY 2024-25 Projected General Fund Expenditures

Expenditures by Category	Revised	A	B	C = A-B	D = C/A
	Budget	Q2 Projected Actual	Q3 Projected Actual	Savings (Overage)	% Variance
Salary & Benefits	188,928,032	182,867,855	181,284,564	1,583,291	0.87%
Contract Services*	41,854,877	41,195,777	39,765,473	1,430,304	3.47%
Grant Operating	1,925,125	1,951,104	1,863,141	87,963	4.51%
Utilities	4,477,006	4,431,334	4,497,303	(65,969)	-1.49%
Supplies & Materials	5,226,844	4,877,085	5,196,657	(319,572)	-6.55%
Maintenance & Repair*	6,968,433	6,778,838	7,178,327	(399,489)	-5.89%
Travel & Training	964,272	890,040	887,178	2,862	0.32%
General Expenses	4,214,181	4,360,509	4,250,049	110,460	2.53%
Internal Svc Charge	27,630,594	27,630,594	27,627,177	3,417	0.01%
Capital Expenditures	1,996,698	1,587,270	1,800,339	(213,069)	-13.42%
Operating Transfers Out	39,255,611	39,255,611	39,255,611	-	0.00%
Total Expenditures	323,441,674	315,826,017	313,605,819	2,220,198	0.70%

* Refuse contract costs totaling \$9.3 million were previously classified under maintenance and repair but have been reclassified as contract services in the third quarter.

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$188.9 million. Based on the third-quarter budget update, expenditures are projected to be \$181.3 million, which includes an additional \$1.6 million in savings compared to the second-quarter projection. The second-quarter forecast had already reflected \$6 million in budget savings. Therefore, total projected savings now amount to \$7.6 million, or 4%,

primarily due to unfilled vacant positions.

- Maintenance and repair accounts are anticipated to slightly exceed the budget due to increased maintenance needs. These overages are expected to be offset by savings in other categories and are not a cause for concern.
- Capital expenditures are trending higher than second-quarter projections due to the reallocation of certain Dove Street property costs between operating and capital accounts.

General Fund Sources, Uses, and Projected Surplus

The City remains in excellent financial health, supported by conservative budgeting and sound financial policies that have produced consistent General Fund surpluses and strong reserves. For FY 2024-25, unrestricted General Fund resources are projected to total \$19.2 million. After allocating an estimated \$2.1 million to fully fund the contingency reserve, \$17.1 million is expected to remain available for City Council appropriation. As in prior years, additional savings are anticipated, which could increase the final year-end surplus.

The table below summarizes projected General Fund sources, uses and the budget surplus based on the third-quarter forecast compared to the second-quarter forecast.

FY 2024-25 Projected General Fund Sources, Uses, and Budget Surplus

Category	A Q2 Projection	B Q3 Projection	C=B-A Variance	D=C/A % Variance
Beginning Fund Balance Reserves	15,752,275	15,752,275	-	0.0%
Operating Resources:				
Operating Revenues	303,652,257	303,140,819	(511,438)	-0.2%
Prior Year Resources Carried Forward	6,786,845	6,786,845	-	0.0%
Transfers In from Other Funds	19,767,775	19,767,775	-	0.0%
Repayment of Advances	1,250,000	1,250,000	-	0.0%
Total Operating Resources	331,456,877	330,945,439	(511,438)	-0.2%
Operating Uses:				
Operating Expenditures	276,570,406	274,350,208	(2,220,198)	-0.8%
Transfers Out	39,255,611	39,255,611	-	0.0%
Total Operating Uses	315,826,017	313,605,819	(2,220,198)	-0.7%
Net Operating Surplus	15,630,860	17,339,620	1,708,760	24.2%
Non-Operating Resources & Uses				
Transfers Out	(13,924,578)	(13,924,578)	-	0%
Total Non-Operating Resources & Uses	(13,924,578)	(13,924,578)	-	0.0%
Net Change in Fund Balance	1,706,282	3,415,042	1,708,760	-24.9%
Ending Fund Balance Reserves	17,458,557	19,167,317	1,708,760	19.2%

Other Major Funds**Tidelands Fund**

State requirements and increased demand for oil well maintenance have caused maintenance and repair costs, as well as other agency fees, to exceed the budget. An additional \$145,000 is anticipated to be needed in the current fiscal year. However, this need is fully offset by higher-than-budgeted oil sale revenues, resulting in no net impact to the fund. The attached budget amendment increases both revenues and expenditures in the Tidelands Fund.

Staff has evaluated the fiscal condition of the City's other major operating funds (Water and Wastewater). The budget performance analysis for these funds indicates that no adjustments are necessary, and variances between budgeted and actual amounts are reasonable.

FISCAL IMPACT:

As a result of the Budget Amendment (Attachment A) \$606,000 in additional revenue and \$145,000 in expenditures will be appropriated to the accounts listed in the Budget Amendment. Approval of the budget amendment is included in the "Q3 Projection" for Fiscal Year 2024-25 column of the General Fund and Sources & Uses table above.

ENVIRONMENTAL REVIEW:

Staff recommends the City Council find this action is not subject to the California Environmental Quality Act (CEQA) pursuant to Sections 15060(c)(2) (the activity will not result in a direct or reasonably foreseeable indirect physical change in the environment) and 15060(c)(3) (the activity is not a project as defined in Section 15378) of the CEQA Guidelines, California Code of Regulations, Title 14, Chapter 3, because it has no potential for resulting in physical change to the environment, directly or indirectly.

NOTICING:

The agenda item has been noticed according to the Brown Act (72 hours in advance of the meeting at which the City Council considers the item).

ATTACHMENT:

Attachment A – Budget Amendment No. 25-071