



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

Agenda Item No. 6C
May 14, 2026

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Administrative Services Department
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SUBJECT: THIRD 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 third quarter of Fiscal Year 2025–26.

The third quarter financial report for FY 2025–26 provides an analysis of the City's financial activity from January through March 2026. Based on information available through the end of the third quarter, an unrestricted General Fund operating surplus of \$16.1 million, including full funding of the contingency reserve, for FY 2025–26 is identified—an increase of \$3.2 million compared to the second quarter projection.

RECOMMENDED ACTION:

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

DISCUSSION:

Economic Overview

Home sales for detached single-family residences in Newport Beach declined during the quarter ending March 31, 2026. However, in the first quarter of calendar year 2026, the median sales price for detached single-family residences in Newport Beach increased 16.8% compared to the same period in the prior year, reaching \$5 million. This represents an increase of approximately \$720,000 from the median sales price recorded for the quarter ending December 31, 2025.

As the market enters the spring homebuying season, home prices are expected to continue increasing, providing a positive outlook for the City's property tax revenues. However, potential inflationary pressures in the coming months may pose risks to housing affordability and overall market activity.

The City will continue to monitor potential impacts on tax revenues and adjust revenue projections as necessary based on ongoing economic conditions and data-driven analysis. 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 fiscal year approximately 1.2%, or \$4.0 million, higher than projected in the second quarter. This increase is primarily attributable to higher-than-anticipated revenues in the following categories: service fees and charges, investment earnings, licenses and permits, miscellaneous revenues, and transient occupancy tax revenue. Revenue projections for key categories have been updated based on current economic conditions and the latest revenue forecasts.

The table below summarizes the changes in projected General Fund revenues compared to the second quarter FY 2025–26 projections. Additional detail regarding the material variances is provided below.

FY 2025-26 Projected General Fund Revenues

Revenues by Category	Revised Budget	A	B	C = B - A Variance	D = C/B % Variance
		Q2 Projected Actuals	Q3 Projected Actuals		
Property Taxes	163,128,525	163,128,525	162,671,926	(456,599)	-0.3%
Sales Tax	48,793,625	48,793,625	48,934,518	140,893	0.3%
Transient Occupancy Tax*	32,821,827	32,821,827	33,791,437	969,610	2.9%
Other Taxes	10,318,398	10,318,398	10,318,398	-	0.0%
Service Fees & Charges	26,598,746	26,492,369	28,492,321	1,999,952	7.0%
Parking Revenue	8,976,102	8,924,261	8,950,545	26,284	0.3%
Licenses and Permits	6,249,421	6,213,317	6,730,337	517,020	7.7%
Property Income	9,552,739	10,117,997	10,204,260	86,264	0.8%
Fines & Penalties	4,169,867	4,431,438	4,089,007	(342,431)	-8.4%
Intergovernmental	4,946,790	4,531,502	4,597,004	65,502	1.4%
Investment Earnings	1,577,249	1,577,249	2,200,000	622,751	28.3%
Misc Revenues	859,026	934,015	1,326,681	392,666	29.6%
Operating Transfers In	25,753,116	20,753,116	20,753,116	-	0.0%
Total Revenues	343,745,431	339,037,638	343,059,551	4,021,912	1.2%

*Gross TOT revenues are projected at approximately \$41.1 million, consisting of \$31.6 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 \$7.3 million, resulting in net TOT revenues of \$33.8 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 and second 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. Third quarter projections reflect a slight decrease of \$0.5 million, or 0.3%, from second quarter estimates.

Sales Tax – The second-largest funding source for the General Fund is sales tax revenue, which accounts for more than 15% 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 second quarter, sales tax revenue was projected at \$48.7 million. However, an updated projection provided by the City’s sales tax consultant reflects a 0.3%, or \$0.1 million, increase over the second quarter projection. Overall, sales tax revenue is now estimated at \$48.9 million for the current fiscal year, which is \$3.0 million, or 6.5%, higher than prior year actuals. A major contributor to this growth is the autos and transportation sector, which is projected to increase by \$1.3 million, or 11.4%, compared to the prior year.

Transient Occupancy Tax – The Transient Occupancy Tax (TOT) is the third-largest revenue source for the General Fund, accounting for more than 10% of total General Fund revenues. As noted in the second quarter budget update, TOT revenues were projected to decline by approximately \$0.9 million (2.8%) compared to first quarter projections. However, third quarter results indicate that commercial TOT is up 1.6% fiscal year-to-date, driven by stronger than anticipated booking activity. Accordingly, staff recommends a budget amendment to increase commercial TOT revenue projections by \$0.9 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, investment earnings, miscellaneous revenues, licenses and permits, and intergovernmental revenues. Changes in projected amounts are proposed in the following categories:

- Service Fees & Charges including plan check fees, recreation classes, and emergency medical services fees, are projected to exceed second quarter estimates by approximately \$2.0 million (7.0%). The increase is primarily driven by higher-than-anticipated plan check activity in the Community Development Department, particularly related to apartment projects, as well as increased attendance at Recreation and Senior Services facilities citywide. Additional recreation revenues will be offset by corresponding increases in instructor-related expenditures.
- Investment Earnings are projected to exceed second quarter projections by approximately \$622,751 due to favorable market conditions through March 31, 2026.

- Miscellaneous Revenues include restricted revenues, damage to city property, bad debt recoveries, donations and contributions, and non-operating revenues such as proceeds from the sale of materials and equipment. This category is projected to exceed second quarter projections by approximately \$0.5 million (29.6%). The increase is primarily attributable to a one-time donation to the Police Department from the Newport Beach Foundation.
- 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 7.7%, above the second quarter projection. This variance is primarily attributed to higher volumes of building, plumbing, and electrical permits, reflecting an overall increase in residential and commercial development projects.

General Fund Expenditures

The FY 2025-26 General Fund revised expenditure budget totals \$356.4 million. Spending trends in FY 2025-26 are generally consistent with prior years and do not indicate any cause for concern. As of quarter three, additional expenditure savings of \$2.6 million are projected largely due to year-to-date savings from vacancies.

The following table summarizes second quarter projected actuals compared to updated estimates based on year-to-date data, along with expenditure savings by budget category. Additional details explaining significant variances are provided below.

FY 2025-26 Projected General Fund Expenditures

Expenses by Category	Revised Budget	A	B	C = A - B Variance	D = C/B % Variance
		Q2 Projected Actuals	Q3 Projected Actuals		
Salary & Benefits	195,405,386	191,525,260	187,473,898	4,051,362	2.2%
Contract Services	42,484,029	41,891,862	42,475,281	(583,419)	-1.4%
Grant Operating	1,570,592	1,097,146	1,163,868	(66,723)	-5.7%
Utilities	5,032,621	4,966,968	4,946,838	20,131	0.4%
Supplies & Materials	5,364,447	5,087,980	5,258,057	(170,077)	-3.2%
Maintenance & Repair	6,829,408	6,587,024	6,918,355	(331,331)	-4.8%
Travel & Training	874,719	865,405	863,328	2,077	0.2%
General Expenses	5,304,271	5,036,800	5,106,661	(69,861)	-1.4%
Internal Svc Charge	29,444,147	29,444,147	29,444,147	-	0.0%
Capital Expenditures	1,841,189	1,188,003	1,418,960	(230,957)	-16.3%
Operating Transfers Out	62,268,327	57,267,367	57,267,378	(11)	0.0%
Total Expenditures	356,419,138	344,957,962	342,336,771	2,621,191	0.76%

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$195.4 million. An analysis of third quarter salary and benefit activity indicates that \$4.1 million in personnel savings accrued during the third quarter.

- The contract services and maintenance and repair expenditures are projected to exceed second quarter projections by a combined \$0.9 million, driven by increased utilization of temporary staffing in CDD, as well as higher outside agency service costs and maintenance activity at fire stations citywide within the Fire Department. Additionally, RSS requests a budget amendment to appropriate funds which are to be fully offset by revenues as previously mentioned in this report. These amounts are built into the projected revenue and expenses included in the tables in this report.
- The grant operating budget is projected to increase by \$66,723 from second quarter projections primarily due to staff proposing a budget amendment to increase appropriations by \$53,311.32 to make remaining estimated payments to the State under the PP-GEMT-IGT program for State Calendar Year 2025.

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. Unrestricted General Fund resources are currently projected to total \$19.5 million at the end of FY 2025–26. After allocating an estimated \$3.4 million to fully fund the contingency reserve, \$16.1 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.

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

Category	Revised Budget	A Q2 Projection	B Q3 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	317,992,315	318,284,522	322,306,434	4,021,912	1.26%
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	\$ 343,780,972	\$ 344,073,180	\$ 348,095,092	\$ 4,021,912	1.17%
Operating Uses:					
Operating Expenditures	294,150,811	287,690,595	285,069,393	2,621,202	0.91%
Transfers Out	45,331,827	43,489,779	43,489,790	(11)	0.00%
Total Operating Uses	\$ 339,482,638	\$ 331,180,374	\$ 328,559,184	\$ 2,621,191	0.79%
Net Operating Surplus	\$ 4,298,334	\$ 12,892,805	\$ 19,535,908	\$ 6,643,103	51.53%
Non-Operating Resources & Uses					
Non-Operating Transfers In	5,000,000	-	5,000,000	-	100.00%
Non-Operating Transfers Out	(5,000,000)	-	(5,000,000)	-	100.00%
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	(21,415,754)	(12,821,283)	(6,178,180)	6,643,103	-51.81%
Ending Fund Balance Reserves	\$ 4,298,334	\$ 12,892,805	\$ 19,535,908	\$ 6,643,103	51.53%

Non-Operating Transfers Out

A one-time transfer out from the General Fund to the Office of Traffic Safety Fund (OTS, Fund 110) in the amount of \$11.43 is included to offset the difference of an invoice that was incorrectly charged to the wrong account. Accurate reporting in the OTS Fund is important to claim reimbursement.

Major Funds

Staff have evaluated the fiscal condition of the City's major operating funds, as summarized below:

- Measure M-Competitive Fund, the Orange County Transit Authority (OCTA) Environmental Cleanup Program provides Measure M2 funding for water quality improvement projects that address transportation-generated pollution. The City was awarded a grant to purchase a second trash rover that will be deployed in the Newport harbor. A budget amendment is requested to appropriate the \$68,000 in OCTA grant funds to Account No. 1230052-980000-26X12 and expense in 1230052-980000-26X12.
- PEG Fees Fund, the Public, Education, and Government (PEG) Fund receives revenue from cable franchise agreements and is restricted to supporting community cable access. Eligible expenditures include capital-related costs such as equipment (e.g., cameras and editing systems), as well as facility construction, upgrades, and renovations to studios and control rooms. Historically, the City has charged PEG-eligible expenditures to the General Fund. Staff are now correcting this practice to ensure that qualifying expenditures are appropriately accounted for in the PEG Fund. Accordingly, a budget amendment is requested to appropriate \$30,000 from the PEG Fund unappropriated fund balance.
- Fire Equipment Fund, Public Safety Development Impact Fees were established to provide capital improvements related to buildings, furnishings, vehicles equipment software, and similar facilities utilized by the City's fire department. The Fire Department received \$141,000 of development impact fees from the 1401 Quail location. Staff proposed to recognize \$141,000 in account 75604-561083-23040 and expense to account 75604-911024-23040 for equipment such as radios and ballistic helmets with vest supplements.

Staff have 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 actuals amounts are reasonable.

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