



CITY OF NEWPORT BEACH FINANCE COMMITTEE STAFF REPORT

Agenda Item No. 6B
October 16, 2025

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
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SUBJECT: YEAR-END BUDGET RESULTS AND SURPLUS ALLOCATION

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 fourth quarter of Fiscal Year 2024-25 (FY 2024-25), which provides an analysis of the City's financial activity from July 2024 through June 2025. In May 2025, an unrestricted General Fund operating surplus of \$19.2 million was projected for FY 2024-25 based on revenues and expenditures through the third quarter. At the end of the fourth quarter, the projected unrestricted General Fund operating surplus is \$13.8 million. Council Policy F-5 requires that 50% of the surplus be used to address long-term obligations and 50% be used to address infrastructure or neighborhood capital improvements. However, since the City pre-funded surplus funds at the beginning of the fiscal year toward paying down the pension liability, it is recommended that the entire unrestricted year-end surplus be allocated to infrastructure or neighborhood capital improvements.

RECOMMENDED ACTION:

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

DISCUSSION:

Economic Overview

The Newport Beach housing market remains strong and continues to support the City's revenue base. FY 2024-25 recorded 737 detached single-family home sales, up 5% from the prior year. This modest increase follows the market's peak in 2021, when home sales exceeded 1,400. The median price of a detached single-family home remained largely

stable at \$4.2 million for the quarter ending June 30, 2025, just 0.9% below the prior year. This stability in home sales and home values is significant, as property tax revenue, the City's largest source of revenue, continues to benefit from the resilient housing market.

Overall, Newport Beach's economy demonstrates stability, with rising home sales, steady prices, and continued strength in consumer spending. These trends reflect a resilient local economy supported by robust consumer activity, which is a key factor contributing to the City's fiscal stability.

General Fund Revenues

Overall General Fund revenue growth has outpaced projections that were incorporated into the adopted FY 2024-25 budget, as well as projections provided at the end of the third quarter. The following table summarizes the changes to projected General Fund unaudited actuals versus the amounts previously projected for the third quarter. Details follow highlighting the reasons for the material variances.

FY 2024-25 Unaudited General Fund Revenues

Revenues by Category	PY Actual	A	B	C = B - A	D = C / A
		Q3 Projected Actual	Unaudited Actual	Variance from Q3 Projection	% Variance
Property Taxes	\$ 146,136,871	\$ 152,582,253	\$ 154,182,580	\$ 1,600,327	1.0%
Sales Tax	43,444,542	45,200,159	45,934,260	734,101	1.6%
Transient Occupancy Tax*	31,736,960	33,045,274	33,174,269	128,995	0.4%
Other Taxes	10,252,075	10,041,804	10,385,818	344,013	3.4%
Service Fees & Charges	25,117,364	25,527,646	26,959,840	1,432,194	5.6%
Parking Revenue	8,431,973	8,127,414	9,184,435	1,057,021	13.0%
Licenses and Permits	5,567,848	5,999,425	6,350,278	350,853	5.8%
Property Income	9,713,641	9,499,220	10,158,789	659,569	6.9%
Fines & Penalties	4,157,573	3,964,092	4,344,837	380,745	9.6%
Intergovernmental	4,977,095	6,568,296	5,689,659	(878,638)	-13.4%
Investment Earnings	4,853,052	1,904,925	4,900,890	2,995,965	157.3%
Misc Revenues	1,401,783	680,310	2,000,458	1,320,148	194.1%
Operating Transfers In	26,926,241	19,767,775	20,121,369	353,594	1.8%
Total Revenues	\$ 322,717,019	\$ 322,908,594	\$ 333,387,479	\$ 10,478,885	3.2%

*Gross TOT revenues total approximately \$40.9 million. Through December 31, 2024, Visit Newport Beach (VNB) received 18% of gross TOT. Beginning January 1, 2025, VNB's share increased to 23% of hotel TOT and 0% of residential TOT. VNB received approximately \$7.7 million, leaving projected net TOT revenues of \$33.2 million after amounts remitted to VNB.

Property Tax - Property taxes are the City's single largest General Fund revenue and represent approximately 50% of all General Fund revenues. In the third quarter budget update, Property Tax revenue was projected at \$152.6 million. Unaudited actuals exceeded the projection by \$1.6 million, primarily due to higher residual tax revenue from the dissolution of the former redevelopment agency and supplemental taxes.

Sales Tax - The second largest funding source for the General Fund is sales tax revenue, making up approximately 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. Sales tax revenue ended the year at \$45.9 million, exceeding projections by \$0.7 million or 2.0%. For the quarter ending March 2025, sales tax revenue was down 1.2% compared to the same quarter in 2024. In contrast, revenue for the quarter ending June 2025 increased 2.9% compared to June 2024. On an annualized basis, growth in sales tax revenue was largely driven by strong consumer spending in key industry groups, including restaurants and hotels, general consumer goods, and the pools, all of which experienced year-over-year increases of 8% to 9%.

Transient Occupancy Tax – 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 remaining balance generated from short-term lodging. TOT revenue exceeded expectations largely due to hotel TOT, which was projected to grow 6% over the prior year but ultimately increased by 7.8%.

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 service fees and charges, parking revenue, fines and penalties, intergovernmental revenues, investment earnings, and miscellaneous revenues.

- Service Fees and Charges consists of plan check fees, recreation classes, emergency medical services fees and numerous other cost-of-service fees. Services fees and charges exceeded projections by \$1.4 million primarily due to higher paramedic service fees (\$0.7 million), short-term lodging renewal fees (\$0.2 million), and other miscellaneous fees. Paramedic service fees fluctuate annually; in recent years, they have ranged from \$3.9 million to \$5.2 million. For FY 2024-25, \$4.5 million was projected, but actual revenue reached \$5.2 million. Short-term lodging permit renewal fees also came in higher, reflecting a fee increase approved by the City Council.
- Parking Revenue is derived from General Fund related metered parking fees that are collected across various parking zones throughout the City. Parking revenue outperformed third quarter projections by \$1.1 million (13%), primarily due to higher parking rates and increased utilization.
- Property Income consists of City-owned and managed income-producing properties, long-term ground leases with concessions, restaurants, hotels and other businesses and organizations, as well as rental of City facilities to the public. Property income exceeded projections by \$0.6 million, in part due to several property transfers in the Beacon Bay area that resulted in higher rents.
- Intergovernmental Revenues consists of federal, state, and local grant revenues, which includes, but is not limited to, the City's portion of the ½ 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). Intergovernmental revenues came in \$0.9 million (14%) below projections due to timing differences in grant expenditures and related reimbursements.

- Investment Earnings represent income received from investment-related activities in accordance with state laws and internal policies. General fund investment earnings totaled \$4.9 million for the year, \$2.9 million above projections, driven by strong performance and a 4.96% rate of return. Earnings were consistent with the prior year and included \$1.1 million in unrealized gains.
- Miscellaneous Revenues include items not classified under other revenue categories, such as donations and insurance reimbursements for damage to City property. These revenues came in \$1.3 million above projections. The largest variance relates to bad debt write-offs, which were budgeted as a \$0.5 million reduction in miscellaneous revenue. In practice, receivables that were written off were recorded as reductions to the original revenue accounts rather than the bad debt account. As a result, fewer write-offs were recorded under miscellaneous revenue, contributing to higher-than-expected revenues.

General Fund Expenditures

The FY 2024-25 General Fund operating expenditure budget totals \$324 million. Spending trends in FY 2024-25 are generally consistent with prior years and do not indicate any cause for concern. Total projected expenditure savings of \$11.8 million are largely attributable to vacancy savings, as well as savings in contract services, maintenance and repair, general expenses, and operating transfers-out categories.

The following table summarizes the expenditure savings by budget category. Details highlighting the reasons for the material variances follow.

FY 2024-25 Projected General Fund Operating Expenditures*

	A		B		C = A-B	D = C/A
	Revised	Q3 Projected	Unaudited		Savings	
Expenditures by Category	Budget	Actual	Actual		(Overage)	% Variance
Salary & Benefits	\$ 186,891,989	\$ 181,284,564	\$ 179,942,325	\$	6,949,665	3.72%
Contract Services	42,202,258	39,765,473	40,187,293		2,014,965	4.77%
Grant Operating	1,951,104	1,863,141	1,273,344		677,760	34.74%
Utilities	4,692,909	4,497,303	4,838,099		(145,190)	-3.09%
Supplies & Materials	5,798,089	5,196,657	5,206,645		591,444	10.20%
Maintenance & Repair	7,042,205	7,178,327	6,648,795		393,410	5.59%
Travel & Training	990,970	887,178	924,511		66,459	6.71%
General Expenses	5,124,230	4,250,049	4,106,030		1,018,200	19.87%
Internal Svc Charge	27,630,594	27,627,177	27,630,595		(0)	0.00%
Capital Expenditures	2,424,031	1,800,339	2,167,610		256,421	10.58%
Operating Transfers Out	39,255,611	39,255,611	39,255,611		-	0.00%
Total Expenditures	\$ 324,003,990	\$ 313,605,819	\$ 312,180,857	\$	11,823,133	3.65%

*Unaudited actuals include funds carried over to the next year.

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$187 million. Salary and benefit expenses for the fiscal year totaled \$180 million, resulting in savings of \$7.0 million. These savings were primarily due to position vacancies and unspent health benefit allocations.
- The contract services budget shows savings of \$4.0 million, however a portion of the savings in this category were encumbered contracts and purchase orders that were carried into FY 2025-26. These encumbrances have been incorporated into this table showing the true savings of \$2.0 million.
- The grant operating budget reflects \$0.7 million in savings, largely due to delays in disbursements from federal agencies for the Buck Gully Hazardous Mitigation project. However, the funds are to be carried forward from FY 2024-25 to FY 2025-26 and will remain available until they are received or the grant period officially lapses.
- The utilities budget exceeded the revised budget by \$0.1 million, primarily due to higher-than-expected water consumption. This overage is offset by savings within the Public Works department budget; therefore, no budget amendment is requested.
- The supplies & materials and maintenance & repair categories generated total savings of \$1.0 million. Savings in the maintenance & repair category were primarily in accounts related to automotive fuel and washing, maintenance and repair of damages, and other maintenance-related activities. Savings in the supplies and materials category were mainly due to library materials and S.W.A.T supplies.
- The general expenses category shows savings of \$1.0 million compared with the revised budget. These savings are largely related to operating overhead expenses for the Dove Street property.

General Fund Sources, Uses, and Projected Surplus

The City remains in excellent financial health. Conservative budgeting and sound financial policies have produced a consistent trend of General Fund operating surpluses and strong reserve levels over several years. The City is well-positioned to continue delivering high-quality services to the community while allocating surplus resources to key priorities each year.

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

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

Category	A Q3 Projection	B Unaudited Actuals	C=B-A Variance	D=C/A % Variance
Beginning Fund Balance Reserves	\$ 15,752,275	\$ 15,752,275	\$ -	0.00%
Operating Resources:				
Operating Revenues	303,140,819	313,266,110	10,125,292	3.34%
Prior Year Resources Carried Forward	6,786,845	6,786,845	-	0.00%
Transfers In from Other Funds	19,767,775	20,121,369	353,594	1.79%
Repayment of Advances	1,250,000	1,250,000	-	0.00%
Total Operating Resources	\$ 330,945,439	\$ 341,424,324	\$ 10,478,885	3.17%
Operating Uses:				
Operating Expenditures	274,350,208	269,139,705	5,210,503	1.90%
Transfers Out	39,255,611	39,255,611	-	0.00%
Resources Carried to Next Fiscal Year	-	3,785,866	(3,785,866)	-
Addition to 25% Contingency Reserve	-	5,500,523	(5,500,523)	-
Total Operating Uses	\$ 313,605,819	\$ 317,681,705	\$ (4,075,886)	-1.30%
Net Operating Surplus	\$ 17,339,620	\$ 23,742,620	\$ 16,281,723	93.90%
Non-Operating Resources & Uses				
Transfers Out	(13,924,578)	(13,780,807)	143,771	-1.03%
Transfers In	-	-	-	-
Total Non-Operating Resources & Uses	\$ (13,924,578)	\$ (13,780,807)	\$ 143,771	-1.03%
Net Change in Fund Balance	3,415,042	9,961,813	6,546,771	191.70%
Ending Fund Balance Reserves	\$ 19,167,317	\$ 25,714,088	\$ 6,546,771	34.16%

A \$25.7 million operating surplus for the General Fund is projected for FY 2024-25. This amount is net of non-operating activity, including one-time transfers out of the General Fund and the addition to the Contingency Reserve (pursuant to City Council Policy F-2). The City Council also approved a budget amendment in FY 2025-26 that allocates a portion of the projected year-end surplus. BA 26-018 appropriated \$11.9 million of the surplus for the purchase of real property at 3848 Campus Drive. This use of the General Fund surplus reduces the available unrestricted surplus to \$13.8 million, as shown below.

Fiscal Year 2024-25 Year-End Surplus	\$25,714,088
Purchase of Real Property at 3848 Campus Drive	<u>(11,936,500)</u>
Unrestricted Surplus	\$13,777,588

Council Policy F-5 requires that 50% of the surplus be used to address long-term obligations and 50% be used to address infrastructure or neighborhood capital improvements. However, since the City pre-funded surplus funds at the beginning of the fiscal year toward paying down the pension liability, it is recommended that the entire unrestricted year-end surplus be allocated to infrastructure or neighborhood capital improvements.

Other Funds

Staff have evaluated the fiscal condition of the City's other major operating funds (Tidelands, Water & Wastewater). Variances between budgeted and actual amounts are within reason.

The City accounts for general liability claims through its General Liability Internal Service Fund (ISF). Recently, the ISF paid a large claim related to the Water Utility. Because this claim was paid in FY 2024-25, a transfer of \$2,789,008.85 from the Water Fund to the ISF is required. This transfer will be recorded as an internal service fund charge to the Water Fund, moving the corresponding amount to the General Liability ISF. It is recommended that the transfer be made from Water Fund reserves, which totaled \$19.3 million as of June 30, 2025.

Preliminary Unaudited Amounts

The City's financial records are undergoing a customary audit review. Therefore, the financial information presented in this report is preliminary in nature and subject to adjustments as the year-end close process continues through December. Any such adjustments are not anticipated to have a material impact on the financial information presented in this report. If any material adjustments related to FY 2024-25 are subsequently recorded, any such adjustments will be reported to the Finance Committee.

Conclusion

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

Prepared and Submitted by:

/s/ Jessica Nguyen

Jessica Nguyen
Budget Manager