



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

Agenda Item No. 6C
November 13, 2025

TO: HONORABLE CHAIRMAN AND MEMBERS OF THE COMMITTEE

FROM: Finance Department
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SUBJECT: FIRST QUARTER BUDGET UPDATE

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 across other City funds. This report presents information on revenues, expenditures, and the estimated fund balance for the first quarter of Fiscal Year 2025–26.

The first quarter financial report for FY 2025–26 provides an analysis of the City's financial activity from July through September 2025. Based on information available through the end of the first quarter, an unrestricted General Fund operating surplus of \$10.3 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

The City's assessed property values continue to rise, strengthening the City's largest revenue source. Property tax revenue increased by 5.5% in FY 2024–25 and is projected to grow 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 experiencing slower growth following several years of strong post-pandemic recovery.

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

Most revenue categories performed at or above their budgeted levels last year due to more favorable economic conditions than originally anticipated in the adopted budget. Growth in many areas has led to a projected \$4.5 million increase in General Fund revenues compared with the budgeted estimates. 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 compared with the revised budget for FY 2025–26. Details explaining the reasons for the material variances follow.

FY 2025-26 Projected General Fund Revenues

Revenues by Category	A	B	C = B - A Variance	D = C/A % Variance
	Revised Budget	Q1 Projected Actuals		
Property Taxes	159,980,466	163,128,525	3,148,059	1.97%
Sales Tax	47,301,344	48,091,080	789,736	1.67%
Transient Occupancy Tax*	33,994,371	33,747,971	(246,400)	-0.72%
Other Taxes	10,318,398	10,318,398	-	0.00%
Service Fees & Charges	26,121,476	26,569,121	447,645	1.71%
Parking Revenue	8,976,102	8,976,102	-	0.00%
Licenses and Permits	5,598,575	5,757,997	159,422	2.85%
Property Income	9,544,279	9,544,279	-	0.00%
Fines & Penalties	4,169,867	4,324,224	154,357	3.70%
Intergovernmental	4,684,876	4,684,876	-	0.00%
Investment Earnings	1,577,249	1,577,249	-	0.00%
Misc Revenues	588,354	660,554	72,200	12.27%
Operating Transfers In	20,753,116	20,753,116	-	0.00%
Total Revenues	333,608,473	338,133,491	4,525,019	23.45%

*Gross TOT revenues are projected at approximately \$41.0 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 \$33.7 million.

Property Tax - Property taxes are the City's single largest General Fund revenue and represent approximately 50% of all General Fund revenues. When the original property

tax forecast for the current year was developed eight months ago, the City's total assessed valuation was projected at \$83.3 billion. The final property tax roll, finalized in July, reflected total assessed values of \$84.4 billion—approximately 1.3% higher than originally forecasted. Accordingly, secured and unsecured property tax revenues are projected to be about 1.3% higher, resulting in roughly \$1.5 million in additional revenue. Supplemental property tax revenues are also projected to exceed prior estimates by approximately \$1.5 million.

The forecast was revised upward primarily to reflect this stronger-than-expected performance in assessed values and prior-year activity. Overall, property tax revenue is now projected to increase by 5.8% compared to the prior year, driven by continued strength in the local real estate market.

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 three industry groups — autos and transportation; general consumer goods; and restaurants/hotels. In FY 2024-25 the City saw a 5.7% increase in sales tax revenue compared to FY 2023-24. Sales tax revenues are projected to increase by approximately 3.0% over FY 2024-25 levels, consistent with the City's sales tax consultant's forecast. The updated projection represents a \$0.7 million increase over the original forecast for the current year to align the City's estimates with the consultant's outlook. An updated projection provided by the City's sales tax consultant reflects a \$0.7 million increase over the revised budget. A major contributor to overall sales tax growth is the automobiles and transportation sector, which is projected to be \$1.7 million higher—an increase of 16% compared to the prior year. Approximately \$1 million of this growth was already reflected in the original forecast, which is why only a \$0.7 million adjustment is needed to align the City's overall sales tax projection with the consultant's outlook.

Transient Occupancy Tax – The third largest funding source for the General Fund is TOT, making up more than 10% of General Fund revenues. The City is experiencing slower growth compared to FY 2024-25, largely due to softening demand, particularly from international travel and tourism. A decrease of approximately \$0.25 million (0.7%) is required to adjust the forecast for TOT revenue from hotels, reflecting this softening demand.

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:

- Service Fees and Charges – plan check fees, recreation classes, emergency medical services fees and numerous other cost-of-service fees. This category is projected to be \$0.4 million or 1.71% higher than the revised budget. Contributing factors include an increase in police emergency response, fire annual and special permits, and Oasis Center and aquatics program enrollment.

- 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 \$0.2 million, or 2.85%, above the revised budget. This variance is primarily attributed to higher building permit activity, reflecting an overall increase in residential and commercial development projects.
- 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.
- Miscellaneous Revenues – restricted revenue, damage to City property, bad debt, donations and contributions, non-operating revenues such as proceeds from the sale of materials and equipment, and other miscellaneous revenues. Staff's analysis shows revenues for the special lighting district projected to come in \$23,903 over the revised budget.

General Fund Expenditures

The FY 2025-26 General Fund revised expenditure budget totals \$348.0 million. Spending trends in FY 2025-26 are generally consistent with prior years and do not indicate any cause for concern. Total expenditure savings of \$3.2 million are projected at this time largely due to year-to-date savings from vacancies.

The following table compares the revised expenditure budget for FY 2025-26 to projected amounts based on data through the first quarter. Details highlighting the reasons for the material variances follow.

FY 2025-26 Projected General Fund Expenditures

Expenses by Category	A Revised Budget	B		C = A - B Variance	D = C/A % Variance
		Q1 Projected	Actuals		
Salary & Benefits	195,325,260	193,425,260		1,900,000	0.97%
Contract Services	42,841,524	42,485,199		356,325	0.83%
Grant Operating	1,570,592	1,108,329		462,264	29.43%
Utilities	4,722,621	4,654,138		68,484	1.45%
Supplies & Materials	5,162,258	4,945,456		216,801	4.20%
Maintenance & Repair	6,653,479	6,518,171		135,308	2.03%
Travel & Training	874,770	872,569		2,201	0.25%
General Expenses	4,661,079	4,709,539		(48,460)	-1.04%
Internal Svc Charge	29,444,147	29,444,147		-	0.00%
Capital Expenditures	1,572,389	1,504,462		67,926	4.32%
Operating Transfers Out	55,166,279	55,166,279		-	0.00%
Total Expenditures	347,994,399	344,833,549		3,160,850	0.91%

Significant expenditure budget variances are as follows:

- The revised salary and benefits budget totals \$195.3 million, an increase of \$10.1 million over the adopted budget. An analysis of salary and benefit activity for quarter one indicates that \$1.9 million in personnel savings have been captured to date.
- The grant operating budget shows savings of \$0.5 million, largely due to delays in disbursements from the Public Provider Ground Emergency Medical Transport Intergovernmental Transfer Program (PP-GEMT-IGT). Staff will continue to assess the nature of the delay and provide updates as more information becomes available.
- The contract services budget is expected to have \$0.4 million in savings. As of the first 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 supplies & materials and maintenance & repair budgets show savings of \$0.4 million based on projected spending trends. However, staff will continue to monitor expenditures in subsequent quarters to confirm actual savings.
- The general expense budget shows a 1.04% or \$0.04 million overage mainly attributed to the Fire Department's need to replace uniform personal protective equipment (PPE). This overage is expected to be more than offset by savings in other categories within each department and is not a cause for concern.

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 \$10.3 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	A Revised Budget	B Q1 Projection	C=B-A Variance	D=C/A % Variance
Beginning Fund Balance Reserves	\$ 25,714,088	\$ 25,714,088	\$ -	0.00%
Operating Resources:				
Operating Revenues	312,855,357	317,380,375	4,525,019	1.43%
Prior Year Resources Carried Forward	3,785,541	3,785,541	-	0.00%
Transfers In from Other Funds	20,753,116	20,753,116	-	0.00%
Repayment of Advances	1,250,000	1,250,000	-	0.00%
Total Operating Resources	\$ 338,644,014	\$ 343,169,032	\$ 4,525,019	1.32%
Operating Uses:				
Operating Expenditures	292,828,120	289,667,270	3,160,850	1.09%
Transfers Out	43,229,779	43,229,779	-	0.00%
Total Operating Uses	\$ 336,057,899	\$ 332,897,049	\$ 3,160,850	0.95%
Net Operating Surplus	\$ 2,586,115	\$ 10,271,983	\$ 7,685,868	74.82%
Non-Operating Resources & Uses				
Use of FY 2024-25 Surplus:				
Purchase of Real Property on Campus Drive	(11,936,500)	(11,936,500)	-	0.00%
Transfers out to the FFP	(13,777,588)	(13,777,588)	-	0.00%
Total Non-Operating Resources & Uses	\$ (25,714,088)	\$ (25,714,088)	\$ -	0.00%
Net Change in Fund Balance	(23,127,973)	(15,442,105)	7,685,868	-49.77%
Ending Fund Balance Reserves	\$ 2,586,115	\$ 10,271,983	\$ 7,685,868	74.82%

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