

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

May 23, 2017

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** Third Quarter FY 2017 Financial Report

This third quarter forecast of revenues and expenditures, prepared by the Department of Budget and Evaluation, is an analysis of actual performance for the first nine months of the fiscal year (July through March) and a projection of financial activity for the remaining three months (April through June). In the first quarter report, a projected revenue shortfall of \$2.5 million and an expenditure surplus of \$2.0 million resulted in forecasted fiscal year-end net shortfall of \$511,973 for the General Fund. In the second quarter, a projected revenue shortfall of \$3.860 million and an expenditure surplus of \$1.694 million resulted in a forecasted fiscal year-end net shortfall of \$2.165 million. For the third quarter, a year-end General Fund shortfall of approximately \$530,000 is anticipated based on a revenue deficit of \$2.574 million and expenditure savings of \$2.040 million.

### *Revenues*

Revenues are expected to be less than budgeted by (\$2.571) million or (0.5%). This is an improvement of the year-end revenue position as compared to the second quarter projection. While some revenue streams are showing increases, the revenue shortfall identified in the second quarter report is driven by two general areas, the less than expected anticipated revenue growth (primarily Real Estate Taxes) and state revenue shortfall. The third quarter report now includes the actual receipts from total Business, Professional, and Occupation License (BPOL) fees. Otherwise, revenue collections from a majority of the other sources are within a narrow range, and are generally as estimated for the fiscal year.

With the first half of current real estate taxes received by the end of the second quarter, the activity on which to project a difference in tax collections is the amount of current Real Estate tax received after the due date of December 5<sup>th</sup>. At the end of the second quarter, if a straight line projection held, a one million dollar shortfall would have been estimated. By the end of the third quarter and looking at the collection patterns through April and prior to the first of the second half collections in May, this shortfall is now estimated to be lower. If the Current Real Estate Tax revenue collection rate for the second half of the tax year continues to improve, the total Current Real Estate Tax revenue will be lower than the adopted budget estimate by about \$600,000, once adjusted for tax relief deductions. Delinquent Real Estate Taxes are continuing to be less than estimated, and are projected to be \$600,000 lower than the \$4.6 million budgeted for this fiscal year. It is anticipated that Personal Property Tax receipts will be higher than estimated. By the end of the third quarter, 55% of the \$48.7 million Personal Property Tax estimate had been received, generating an anticipated \$1 million projected surplus for this revenue source. Machinery and Tools Taxes was another revenue stream anticipated for additional growth this fiscal year based on prior performance and anticipated expansion. The anticipated growth has not materialized; it is projected that this revenue will be under the \$22.9 million estimate by \$300,000.

At the end of the third quarter, the majority of the estimated \$17.3 million Business, Professional and Occupational Licenses (BPOL) receipts had been collected, with varied results. Professional Services had stronger than anticipated showing, exceeding the revenue estimates by over \$316,000 (or 7.7% more) as did the Contractors sector collecting over \$61,000 (or 5.5% above the estimate). The total BPOL category (Retail, Wholesalers, Contractors, Repairs, Public Service Corporations, and those areas associated with prior year collections and interest on penalties) are just short of meeting the FY 2017 estimate. The net revenue for all BPOL taxes is projected to be less than the estimate by \$736,000 or 4.2% lower. The combined revenue could signal a slightly mixed message: strong anticipated professional and contractor service industry at this time, while retail, wholesalers, and repairs are still lagging.

Local taxes and fees continue to perform at the same predicted level as last quarter. These revenue items are tracking to meet or marginally exceed their individual estimates. The Sales Tax revenue projections are

consistent with the previous quarter's assessment with an average of \$2.003 million in tax revenues per month. With this type of consistent performance, it is projected that the \$24.7 million estimate will be close to being on target. Meal Tax receipts are anticipated to be \$400,000 more than the \$24.8 million estimate. Lodging Taxes naturally lag during the winter months, and are projected to be under the revenue estimate of \$3.8 million by (\$300,000). Cigarette Taxes continue their slightly declining performance each fiscal year consistent with prior years, and it is probable that receipts will be \$200,000 lower than the \$5.0 million budget.

Total Building Permit revenue collections for the third quarter remain steady with the \$1.010 million estimate for this fiscal year for the major permit categories of Building, Mechanical, Electrical, and Plumbing. One lagging economic indicator showing that the existing housing market continues on a path of slow but improved recovery is the Grantees Tax on Deeds. Collections are on average about \$150,000 more than this point last fiscal year projecting to equal to the \$1.6 million revenue estimate.

The other major concern is State revenue for the salaries and fringe benefits expenses of the Constitutional Officers. Incorporated in the FY 2017 revenue projection was the anticipated state 2% salary increase which is reimbursed to the City on the State's share of the Constitutional Officer Staff salaries. As the State did not provide the salary increase (due to State revenue shortfalls), the City does not collect that associated revenue. In addition, there have been above average vacancy rates among those offices; the City is only reimbursed for actual salary costs for existing employees. Taken together, this revenue category is estimated to be under budget by \$890,000.

As the FY 2017 General Fund budget was being formed, there was some anticipated year-end surplus generated in FY 2016. The current budget planned to use \$4.7 million of that surplus as revenue to fund one-time expenses for the current fiscal year. In the first half of this fiscal year, with projected lower overall revenue receipts estimated, it was likely that these surplus funds (fund balance) would be needed to meet revenues to cover expenditures. At this point of the fiscal year, the \$4.7 million (the amount represented by fund balance use) is still required to achieve a positive fiscal year-end. With the next round of real estate, personal property, and machinery and tools tax collections occurring (the largest revenue

producers in the General Fund), it is hoped that enough current cash will be generated to mitigate using 'savings' to balance this year's budget.

### *Expenditures*

The operating departments continue to closely control spending in their budgets. Expenditures are expected to be \$2.040 million, or 0.4%, below budget.

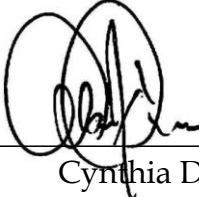
Included in this quarterly projection is the estimated cost of individual employee's selection of using up to 40 hours of Paid Personal Leave (PPL) as part of compensation for one week's pay as part of the transition to Bi-Weekly payroll. While beneficial in reducing this outstanding liability on the City's overall balance sheet, it was a critical employee benefit that was not budgeted for in FY 2017. For the General Fund, the cost of the use of PPL for Bi-Weekly pay conversion was \$1.6 million and \$500,000 for all other funds.

In FY 2017, the employee compensation categories will be overspent. As detailed in the first and second quarter reports, the Fire and Police Departments continue to experience higher than average vacancy rates. With this circumstance plus providing a full staff complement on all fire apparatus, the Fire Department's operating budget is projected to be overspent by \$1.9 million. The Police Department also continues to experience overtime pressures. Resulting from these two special conditions, and the use of PPL for the Bi-Weekly pay conversion, salary expenses are projected to be approximately \$1.5 million or 1.1% over budget. When combined with anticipated fringe benefits savings of over \$234,000, the total category for employee compensation is anticipated to be overspent by \$1.291 million or 0.8%.

Lower Vehicle Fuel costs have been experienced for a majority of this fiscal year. Continued pricing experienced during the last nine months has the potential to deliver vehicle fuel savings of \$142,442 for the fiscal year. However with the increases in price per gallon after this quarter due to the transition to "summer blend" fuel, this level of savings may not be sustained. Budgeted at 24 cents less per gallon than last fiscal year, and assuming future price fluctuations continue to be at same minor levels for the remainder of the fiscal year, the projected savings could still be close to this third quarter level.

***Combined Results***

The forecasted revenue shortfall has been a concern for the entire fiscal year. As this condition has emerged over time, we have been assertive in controlling costs, by limiting operating expenses to those that are essential to service delivery. We will not end this fiscal year in a deficit due to spending. With the third quarter projected expenditure surplus, combined with careful practices for the remaining months, it is hoped that this year's budget will be balanced without any other extraordinary expenditure reductions. Revenue collections are reviewed daily; if these revenue shortfalls become more pronounced, City Council will be informed. If the collection of second half major revenue sources (Real Estate, Personal Property, and Machinery and Tool taxes) improves over those of the first half, and consistent collections in consumer generated taxes and fees (Sales, Meals, and Lodging taxes) are experienced, it is possible to close this predicted gap.

  
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For  
Cynthia D. Rohlf

CDR:LJC

Attachment

cc: Alan K. Archer, Assistant City Manager  
Lisa J. Cipriano, Director of Budget and Evaluation

**FY 2017 OPERATING BUDGET  
PROJECTED RESULTS OF OPERATIONS**

*Third Quarter - July 2016 through March 2017*

**GENERAL FUND**

**REVENUES**

|                                      | Revised<br>Budget    | YTD Receipts         | Projected<br>Total Receipts | <i>Projected Difference<br/>from Revised Budget</i> |               |
|--------------------------------------|----------------------|----------------------|-----------------------------|---|---------------|
|                                      |                      |                      |                             | Surplus/ (Deficit)<br>Amount                        | Percent       |
| Real Estate Taxes <sup>1</sup>       | \$184,209,696        | \$92,626,866         | \$183,259,696               | (\$950,000)   | (0.5%)        |
| Personal Property Taxes <sup>2</sup> | 53,075,000           | 30,755,064           | 54,095,000                  | 1,020,000   | 1.9%          |
| Machinery & Tools Taxes <sup>3</sup> | 22,955,000           | 11,265,868           | 22,655,000                  | (300,000)   | (1.3%)        |
| Other General Property Taxes         | 2,445,000            | 2,122,625            | 2,445,000                   | 0   | 0.0%          |
| Other Local Taxes                    | 104,746,411          | 72,222,337           | 103,443,411                 | (1,303,000)   | (1.2%)        |
| Permits and Fees                     | 3,731,577            | 2,637,224            | 3,665,577                   | (66,000)  | (1.8%)        |
| Fines and Forfeitures                | 1,724,500            | 1,193,094            | 1,639,500                   | (85,000)  | (4.9%)        |
| Revenue from Use-Money & Prop        | 2,368,913            | 1,688,813            | 2,470,913                   | 102,000   | 4.3%          |
| Charges for Services                 | 6,183,599            | 4,722,952            | 6,016,599                   | (167,000)   | (2.7%)        |
| Miscellaneous Revenue                | 25,079,396           | 13,111,551           | 24,541,396                  | (538,000)   | (2.1%)        |
| Recovered Costs                      | 13,490,178           | 9,849,483            | 12,822,178                  | (668,000)   | (5.0%)        |
| Non-Categorical Aid                  | 1,027,619            | 817,994              | 1,020,619                   | (7,000)   | (0.7%)        |
| Shared Expenses                      | 10,220,464           | 6,309,034            | 9,330,464                   | (890,000)   | (8.7%)        |
| Categorical Aid                      | 32,293,964           | 24,248,078           | 33,574,964                  | 1,281,000   | 4.0%          |
| Non-Revenue Receipts                 | 15,265,603           | 7,549,202            | 15,265,603                  | 0   | 0.0%          |
| Payments from Other Funds            | 283,356              | 0                    | 283,356                     | 0   | 0.0%          |
| <b>TOTAL REVENUES</b>                | <b>\$479,100,276</b> | <b>\$281,120,185</b> | <b>\$476,529,276</b>        | <b>(\$2,571,000)</b>                                | <b>(0.5%)</b> |

**EXPENDITURES**

|                                    | Revised<br>Budget    | YTD Exp/Enc          | Projected<br>Total Expense | <i>Projected Difference<br/>from Revised Budget</i> |             |
|------------------------------------|----------------------|----------------------|----------------------------|---|-------------|
|                                    |                      |                      |                            | Surplus/ (Deficit)<br>Amount                        | Percent     |
| Personnel Services                 | \$140,804,313        | \$104,148,840        | \$142,330,138              | (\$1,525,825)                                       | (1.1%)      |
| Taxes, Benefits, Insurance         | 71,863,060           | 52,943,667           | 71,628,620                 | 234,440   | 0.3%        |
| Contractual Services               | 20,454,889           | 17,630,995           | 19,540,703                 | 914,186   | 4.5%        |
| Vehicle Costs                      | 6,311,583            | 4,732,984            | 6,311,583                  | 0   | 0.0%        |
| Fuel                               | 1,390,856            | 841,634              | 1,248,414                  | 142,442   | 10.2%       |
| Utilities                          | 6,442,885            | 4,697,880            | 6,559,249                  | (116,364)   | (1.8%)      |
| Operating Materials, Supplies, Ins | 21,378,121           | 16,998,456           | 20,310,396                 | 1,067,725   | 5.0%        |
| Equipment (Except Vehicles)        | 1,953,564            | 1,197,593            | 1,611,793                  | 341,771   | 17.5%       |
| Leases, Rentals                    | 6,163,012            | 5,342,538            | 5,621,774                  | 541,238   | 8.8%        |
| Community Support                  | 11,147,870           | 8,086,268            | 11,147,870                 | 0   | 0.0%        |
| Transfer to Schools                | 118,300,000          | 88,725,000           | 118,300,000                | 0   | 0.0%        |
| Debt Service/Cash Capital          | 45,621,216           | 41,741,067           | 45,621,216                 | 0   | 0.0%        |
| Payments to Other Funds            | 18,363,707           | 10,362,109           | 18,363,707                 | 0   | 0.0%        |
| Direct Program Costs - DHS         | 8,905,200            | 6,986,607            | 8,464,706                  | 440,494   | 4.9%        |
| <b>TOTAL EXPENDITURES</b>          | <b>\$479,100,276</b> | <b>\$364,435,638</b> | <b>\$477,060,169</b>       | <b>\$2,040,107</b>                                  | <b>0.4%</b> |

**TOTAL PROJECTED DIFFERENCE**

**(\$530,893)**

<sup>1</sup>Includes Current, Delinquent, Tax Relief, Public Service Corp (PSC) Real Estate Taxes

<sup>2</sup>Includes Current and Delinquent Personal Property Taxes

<sup>3</sup>Includes Current and Public Service Corp (PSC ) Machinery & Tools Taxes

**OTHER GENERAL FUND SUPPORTED FUNDS**

|                            | Budget              | Projected Revenues  | Projected Expenditures | <i>Projected</i><br>Surplus/ (Deficit) |             |
|----------------------------|---------------------|---------------------|------------------------|--|-------------|
|                            |                     |                     |                        | Amount                                 | Percent     |
| Auto Liability Fund        | \$1,364,000         | \$1,364,000         | \$1,138,218            | \$225,782                              | 16.6%       |
| General Liability Fund     | 1,794,000           | 1,821,829           | 1,546,613              | 275,216                                | 15.1%       |
| Worker's Compensation Fund | 3,170,000           | 3,170,000           | 2,732,092              | 437,908                                | 13.8%       |
| Recreation Revolving Fund  | 4,688,300           | 5,211,158           | 4,754,922              | 456,236                                | 8.8%        |
| Historical Services Fund   | 1,114,000           | 1,010,865           | 1,149,397              | (138,532)                              | (13.7%)     |
| Golf Course Fund           | 1,680,000           | 1,097,432           | 1,702,575              | (605,143)                              | (55.1%)     |
| Leeward Marina Fund        | 284,000             | 239,714             | 249,508                | (9,794)                                | (4.1%)      |
| Tourism Fund               | 1,426,000           | 1,327,905           | 1,328,626              | (721)                                  | (0.1%)      |
| <b>TOTAL</b>               | <b>\$15,520,300</b> | <b>\$15,242,903</b> | <b>\$14,601,951</b>    | <b>\$640,952</b>                       | <b>4.2%</b> |

**PROJECTED DIFFERENCE (OTHER FUNDS)** **\$640,952** **4.2%**

**TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds** **\$110,059**

**USER FEE SUPPORTED FUNDS**

|                            | Budget       | Projected Revenues | Projected Expenditures | <i>Projected</i><br>Surplus/ (Deficit) |         |
|----------------------------|--------------|--------------------|------------------------|--|---------|
|                            |              |                    |                        | Amount                                 | Percent |
| Stormwater Management Fund | \$22,135,000 | \$20,822,335       | \$19,921,500           | \$900,835                              | 4.3%    |
| Solid Waste Fund           | \$14,943,000 | \$14,838,399       | \$14,098,130           | \$740,269                              | 5.0%    |
| Wastewater Fund            | \$21,797,000 | \$20,998,272       | \$20,169,456           | \$828,816                              | 3.9%    |
| Waterworks Fund            | \$88,750,000 | \$90,047,845       | \$87,622,095           | \$2,425,750                            | 2.7%    |

**EXPENDITURES BY DEPARTMENT**

(This is a departmental breakdown of the General Fund expenditures shown on page 1.)

|                                | Revised<br>Budget    | YTD Exp/Enc          | Projected<br>Total Expense | <i>Projected Difference<br/>from Revised Budget</i> |             |
|--------------------------------|----------------------|----------------------|----------------------------|---|-------------|
|                                |                      |                      |                            | Surplus/ (Deficit)<br>Amount                        | Percent     |
| City Council                   | \$278,892            | \$194,913            | \$272,828                  | \$6,064   | 2.2%        |
| City Clerk                     | 349,544              | 268,361              | 349,544                    | 0   | 0.0%        |
| City Manager                   | 1,345,018            | 1,019,918            | 1,345,018                  | 0   | 0.0%        |
| Human Resources                | 1,579,974            | 1,079,499            | 1,468,763                  | 111,211   | 7.0%        |
| City Attorney                  | 1,868,568            | 1,410,086            | 1,868,568                  | 0   | 0.0%        |
| Internal Auditor               | 553,977              | 412,497              | 553,977                    | 0   | 0.0%        |
| Commissioner of the Revenue    | 2,580,741            | 1,722,532            | 2,362,609                  | 218,132   | 8.5%        |
| Real Estate Assessor           | 1,662,106            | 1,179,909            | 1,551,586                  | 110,520   | 6.6%        |
| City Treasurer                 | 2,243,911            | 1,785,992            | 2,243,911                  | 0   | 0.0%        |
| Finance                        | 1,597,273            | 1,301,572            | 1,597,273                  | 0   | 0.0%        |
| Budget and Evaluation          | 687,512              | 452,062              | 617,111                    | 70,401  | 10.2%       |
| Purchasing                     | 1,173,174            | 1,020,490            | 1,278,266                  | (105,092)   | (9.0%)      |
| Information Technology         | 9,456,818            | 8,137,840            | 8,712,964                  | 743,854   | 7.9%        |
| Registrar                      | 449,762              | 448,613              | 449,762                    | 0   | 0.0%        |
| Judiciary                      | 1,450,108            | 904,352              | 1,266,446                  | 183,662   | 12.7%       |
| Circuit Court Clerk            | 1,568,041            | 1,171,606            | 1,568,041                  | 0   | 0.0%        |
| Commonwealth's Attorney        | 3,906,628            | 2,850,742            | 3,903,430                  | 3,198   | 0.1%        |
| Police                         | 46,556,130           | 35,849,473           | 46,542,637                 | 13,493  | 0.0%        |
| Fire                           | 33,296,245           | 27,575,185           | 35,273,132                 | (1,976,887)   | (5.9%)      |
| Sheriff                        | 21,620,284           | 16,270,862           | 21,721,950                 | (101,666)   | (0.5%)      |
| Juvenile Services              | 8,207,807            | 6,373,199            | 8,203,703                  | 4,104   | 0.1%        |
| Codes Compliance               | 3,087,160            | 2,152,246            | 2,942,937                  | 144,223   | 4.7%        |
| Engineering                    | 5,883,797            | 4,518,818            | 5,807,879                  | 75,918  | 1.3%        |
| Public Works                   | 23,405,697           | 18,615,473           | 23,282,423                 | 123,274   | 0.5%        |
| Health                         | 2,074,401            | 1,558,105            | 2,074,401                  | 0   | 0.0%        |
| Mental Health                  | 1,523,521            | 1,523,521            | 1,523,521                  | 0   | 0.0%        |
| Human Services                 | 34,923,876           | 26,196,684           | 33,688,625                 | 1,235,251   | 3.5%        |
| Parks, Recreation, and Tourism | 13,211,600           | 10,505,136           | 13,162,486                 | 49,114  | 0.4%        |
| Libraries                      | 4,589,299            | 3,373,873            | 4,578,592                  | 10,707  | 0.2%        |
| Development                    | 1,788,927            | 1,243,533            | 1,666,555                  | 122,372   | 6.8%        |
| Planning                       | 1,152,132            | 842,215              | 1,124,178                  | 27,954  | 2.4%        |
| Communications                 | 1,686,453            | 1,159,678            | 1,588,539                  | 97,914  | 5.8%        |
| Appointed Boards               | 112,662              | 70,080               | 92,430                     | 20,232  | 18.0%       |
| Nondepartmental-Contingencies  | 49,795,445           | 32,332,129           | 48,943,291                 | 852,154   | 1.7%        |
| Community Support              | 11,147,870           | 8,086,268            | 11,147,870                 | 0   | 0.0%        |
| Transfers to Schools           | 118,300,000          | 88,725,000           | 118,300,000                | 0   | 0.0%        |
| Debt Service/Cash Capital      | 45,621,216           | 41,741,067           | 45,621,216                 | 0   | 0.0%        |
| All Other Payments             | 18,363,707           | 10,362,109           | 18,363,707                 | 0   | 0.0%        |
| <b>TOTAL EXPENDITURES</b>      | <b>\$479,100,276</b> | <b>\$364,435,638</b> | <b>\$477,060,169</b>       | <b>\$2,040,107</b>                                  | <b>0.4%</b> |