

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

February 28, 2017

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

This second quarter forecast of revenues and expenditures, prepared by the Department of Budget and Evaluation, provides budgetary projections based on actual performance for the first six months of the current fiscal year (July through December) and a projection of financial activities over the remaining six months.

In our first quarter report, we projected a revenue shortfall of \$2.7 million and an expenditure surplus of \$3 million. When taken together, this resulted in forecasted fiscal year-end net surplus of \$231,000 for the General Fund. In the second quarter, we are projecting a revenue shortfall of \$2.66 million and an expenditure surplus of \$1.694 million. When taken together, this results in a forecasted fiscal year-end net shortfall of \$965,031.

### *Revenues*

Revenues are expected to be less than the budgeted amounts by (\$2.660) million, or (0.6%). This is driven by two general areas, the less than expected anticipated revenue growth and state revenue shortfall. Most revenue streams are showing performances mostly as expected, with collection patterns close to those in the first quarter, and are generally as initially budgeted for the fiscal year. This revenue forecast includes, at this point, the use of \$4.7 million of General Fund Reserves, as budgeted for in FY 2017 Operating Budget.

With the first half of the current real estate and personal property taxes now mostly collected, we have better activity on which to project. Current Real Estate Tax collections are slightly below the 50% mark, which if straight lined, could result in being slightly under the fiscal year revenue

estimate of approximately \$177 million. This projected shortfall is driven by two elements. First, we had anticipated a certain level of growth in real estate market during the fiscal year, and had built this projected higher level tax base into our revenue estimate for the fiscal year. While we are seeing some improvements, the level of change still remains lower than expected, contributing to this revenue shortfall. Second, and to a lesser degree, the Disabled Veteran Tax Exemption is higher for the fiscal year than anticipated due to an increased number of participants. Collections of delinquent real estate taxes are lower than last year's pace, projecting to be less than the \$4.6 million revenue estimate by \$400,000.

Current Personal Property Tax receipts continue to do well, and are above the estimate, projecting to exceed the fiscal year estimate by \$700,000. By the end of the second quarter, 52% of the Current Personal Property Tax estimate of \$48.7 million estimate had been received. In addition, Delinquent Personal Property Taxes are again showing strong collections to date, and are estimated to surpass the \$4.2 million estimate by \$100,000. Machinery and Tools Taxes are another category where we anticipated additional growth. As you recall, this revenue has performed well in recent fiscal years; based on prior performance and anticipated expansions, a growth factor was included in the FY 2017 revenue estimate. While we hope that this will still be achieved, it is projected to be under the \$22.9 million estimate by \$300,000.

One of our more sensitive local economy indicators, Sales Tax revenue, continues to perform better on a monthly basis as compared to the prior fiscal year. At the present time we are collecting an average of just over \$2.008 million per month; this is an average of approximately \$66,000 more per month than FY 2016. We currently anticipate meeting the Sales Tax estimate of \$24.7 million. Meals taxes continue to be a growing revenue stream, projecting at this time to exceed the \$24.8 million estimate by \$500,000. Lodging taxes are within the same ranges as the previous fiscal year, and for the most part are tracking directly with the estimate for this fiscal year of \$3.8 million. Cigarette Taxes for the first quarter of the fiscal year were projecting to be over the estimate for the first time in many years, but during the second quarter have settled back in to a similar pattern of prior years' activity, and it is probable that receipts will be \$200,000 lower than estimated.

A significant unknown at this point continues to be receipts from Business Professional and Occupational Licenses (BPOL), the majority of which will not be received until March. At this point, we have only collected 11% of the \$17.3 million estimate. We are forecasting these revenues to perform as estimated for this fiscal year and they will be monitored closely.

For other local fees and charges, building permits, mechanical, electrical, and plumbing permits are currently projecting to be slightly below the \$1 million estimate. As a reminder, the second quarter receipts tend to fall in the low construction season; we will be watching this trend as the early spring building season progress over the next several months. One lagging economic indicator showing that existing housing market continues on a path of slow but improved recovery is the Grantees Tax on Deeds. Collections are on average about \$200,000 more than this point last fiscal year which could project to be over the \$1.6 million revenue estimate by at least that amount.

The other major area of concern is State revenue reimbursement for the salaries and fringe benefits expenses of the Constitutional Officers. Incorporated into the FY 2017 revenue projection was the value of the anticipated state 2% salary increase which is paid to the City on the State's share of the Constitutional Officer Staff salaries. As the State did not provide that salary increase (due to State revenue shortfalls), we will not collect that associated revenue. In addition, there have been a consistently above average vacancy rate 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 almost \$1.6 million.

While all other revenue projections in the other categories that reflect a mixture of some fluctuations, one that is of note is in the Department of Human Services program revenue. The City has been experiencing increases in various program areas. In recent years, the State has increased both the VIEW (Virginia Initiative for Employment, not Welfare) and basic operating budgetary base, which are reimbursable at the federal and state levels. In the most general of terms, the City will receive approximately \$1 million in revenue for Human Services program delivery.

*Expenditures*

Overall, Departmental operating expenses are expected to be \$1.694 million or 0.4% under budget.

As noted in the first quarter report, the Fire and Police Departments have been experiencing higher than average vacancy rates for the fiscal year. Part of this vacancy status is interwoven with the complex and sometimes difficult national discussion on public safety roles and professions, both within individual communities and the country as a whole. In part, the vacancy rates also indicate a changing economy, where employment options are changing, making public service more a dedicated calling instead one of preferred choice. Aside from this, we continue to experience high vacancy rates and a limit candidate pool. It is a challenge to adequately provide critical and fundamental responsibility to provide around the clock emergency police and fire services with existing employees.

With this in mind, I have directed the Fire Department to use overtime staffing to ensure that at all times possible, we have a complete, responsive fire apparatus complement. By doing so, we are projecting to overspend the Fire Department's operating budget by \$1.9 million. The Police will also continue to experience overtime pressures, but it is hopefully that with the recently announced recruitment bonus program, we will make some progress on closing this gap. In summary, driven by these two special exceptions, the combined salary and fringe benefits expenses are projected to be approximately (\$707,000) or (0.2%) over budget.

In a separate operational change, I directed that we work to close our Central Warehouse function at the beginning of this fiscal year. In general, with the wide array of other efficient and effective purchasing options for goods and supplies used daily by the City Departments, maintaining a fully staffed and stocked warehouse has become unnecessary. The projected over expenditure for the Purchasing Office reflects the steps to close out the warehouse function for a full fiscal year, rather than six months, as initially planned in the FY 2017 budget.

The projected savings from Vehicle Fuel at the end of December 2016 was \$80,157 for the General Fund. As this report captures the time period of July 2016 to December 2016, the projection was based on average weekly fuel prices to date. Budgeted at 24 cents less per gallon than last fiscal

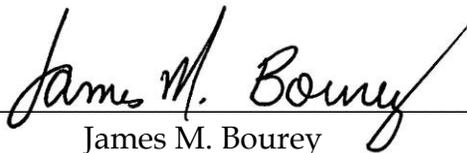
year, this surplus takes into consideration the average rate per gallon for City consumption estimated at \$1.66 for the year. This savings projection will vary to year-end, assuming future price fluctuations continue to be at same level as the past six months.

### *Combined Results*

While there is a projected revenue shortfall for the current fiscal year, it is primarily nested in the still slow real estate market recovery and State revenue shortfall dedicated to constitutional officer functions.

With six months remaining in the fiscal year, it is possible that the second half Real Estate Tax revenue collections will be stronger, helping to close any potential gap. We believe that our consumer taxes will remain consistent and will continue to improve in this second quarter. March will also be an important month, as BPOL tax revenue begins to be collected. This is another important gauge on which we measure local business performance.

Any overall revenue shortfall is not taken lightly. While we will look to revenues to improve over the remaining months of this fiscal year, we will be assertive now. We will not end this fiscal year in a deficit due to spending. Aside from the expense to fill our critical public safety vacancies, I will direct the operating departments to limit all operating expenses to those that are vital and essential to service delivery. All expenses will be diligently monitored. With our current projected expenditure surplus, combined with careful practices for the remaining six months, we will be in a position to balance this year's budget without any other extraordinary expenditure reductions. As we review revenue collections on a daily basis, if these revenue shortfalls become more pronounced, we will take the necessary steps to address them.

  
James M. Bourey

JMB:LJC:wmp

Attachment

cc: Lisa J. Cipriano, Director of Budget and Evaluation

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

Second Quarter - July 2016 through December 2016

**GENERAL FUND**

**REVENUES**

	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Real Estate Taxes <sup>1</sup>	\$184,209,696	\$90,536,932	\$182,909,696	(\$1,300,000)	(0.7%)
Personal Property Taxes <sup>2</sup>	53,075,000	27,786,703	53,875,000	800,000	1.5%
Machinery & Tools Taxes <sup>3</sup>	22,955,000	11,263,673	22,655,000	(300,000)	(1.3%)
Other General Property Taxes	2,445,000	1,310,115	2,505,000	60,000	2.5%
Other Local Taxes	104,746,411	35,796,580	104,366,411	(380,000)	(0.4%)
Permits and Fees	3,731,577	1,817,795	3,547,577	(184,000)	(4.9%)
Fines and Forfeitures	1,724,500	830,219	1,634,500	(90,000)	(5.2%)
Revenue from Use-Money & Prop	2,368,913	1,049,704	2,368,913	0	0.0%
Charges for Services	6,183,599	3,196,890	6,109,599	(74,000)	(1.2%)
Miscellaneous Revenue	25,079,396	7,801,851	24,874,396	(205,000)	(0.8%)
Recovered Costs	13,490,178	6,649,133	12,922,178	(568,000)	(4.2%)
Non-Categorical Aid	1,027,619	584,431	1,057,619	30,000	2.9%
Shared Expenses	10,220,464	3,910,701	8,625,464	(1,595,000)	(15.6%)
Categorical Aid	32,293,964	15,968,483	33,439,964	1,146,000	3.5%
Non-Revenue Receipts	15,265,603	5,032,802	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>\$213,536,012</b>	<b>\$476,440,276</b>	<b>(\$2,660,000)</b>	<b>(0.6%)</b>

**EXPENDITURES**

	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Personnel Services	\$140,834,313	\$69,349,562	\$142,521,329	(\$1,687,016)	(1.2%)
Taxes, Benefits, Insurance	71,863,060	34,919,137	70,883,568	979,492	1.4%
Contractual Services	20,613,639	16,706,914	19,879,129	734,510	3.6%
Vehicle Costs	6,311,583	3,155,280	6,311,583	0	0.0%
Fuel	1,390,856	659,885	1,310,679	80,177	5.8%
Utilities	6,442,635	3,010,922	6,442,635	0	0.0%
Operating Materials, Supplies, Ins	21,279,621	12,204,131	20,768,968	510,653	2.4%
Equipment (Except Vehicles)	1,876,153	741,660	1,577,774	298,379	15.9%
Leases, Rentals	6,163,012	4,599,436	5,694,312	468,700	7.6%
Community Support	11,147,870	5,537,523	11,147,870	0	0.0%
Transfer to Schools	118,300,000	59,150,000	118,300,000	0	0.0%
Debt Service/Cash Capital	45,621,216	33,103,605	45,621,216	0	0.0%
Payments to Other Funds	18,351,118	8,470,410	18,351,118	0	0.0%
Direct Program Costs - DHS	8,905,200	4,923,401	8,595,126	310,074	3.5%
<b>TOTAL EXPENDITURES</b>	<b>\$479,100,276</b>	<b>\$256,531,866</b>	<b>\$477,405,307</b>	<b>\$1,694,969</b>	<b>0.4%</b>

**TOTAL PROJECTED DIFFERENCE**

**(\$965,031)**

<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> Surplus/ (Deficit)	
				Amount	Percent
Auto Liability Fund	\$1,364,000	\$1,452,188	\$1,423,030	\$29,158	2.0%
General Liability Fund	1,794,000	1,823,814	1,642,933	180,881	9.9%
Worker's Compensation Fund	3,170,000	2,945,676	2,822,735	122,941	4.2%
Recreation Revolving Fund	4,688,300	5,036,203	4,908,042	128,161	2.5%
Historical Services Fund	1,114,000	1,035,387	1,176,555	(141,168)	(13.6%)
Golf Course Fund	1,680,000	1,348,576	1,700,816	(352,240)	(26.1%)
Leeward Marina Fund	284,000	246,359	239,474	6,885	2.8%
Tourism Fund	1,426,000	1,499,679	1,490,207	9,472	0.6%
<b>TOTAL</b>	<b>\$15,520,300</b>	<b>\$15,387,882</b>	<b>\$15,403,792</b>	<b>(\$15,910)</b>	<b>(0.1%)</b>

**PROJECTED DIFFERENCE (OTHER FUNDS)**

**(\$15,910) (0.1%)**

**TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds**

**(\$980,941)**

**USER FEE SUPPORTED FUNDS**

	Budget	Projected Revenues	Projected Expenditures	<i>Projected</i> Surplus/ (Deficit)	
				Amount	Percent
Stormwater Management Fund	\$22,135,000	\$21,046,574	\$19,906,783	\$1,139,791	5.4%
Solid Waste Fund	\$14,943,000	\$14,778,748	\$14,524,809	\$253,939	1.7%
Wastewater Fund	\$21,797,000	\$21,608,256	\$20,850,431	\$757,825	3.5%
Waterworks Fund	\$88,750,000	\$89,109,784	\$88,157,312	\$952,472	1.1%

**EXPENDITURES BY DEPARTMENT**

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

	Revised Budget	YTD Exp/Enc	Projected Total Expense	<i>Projected Difference from Revised Budget</i>	
				Surplus/ Amount	(Deficit) Percent
City Council	\$278,892	\$133,565	\$268,177	\$10,715	3.8%
City Clerk	338,588	186,834	338,588	0	0.0%
City Manager	1,323,129	682,922	1,323,129	0	0.0%
Human Resources	1,579,974	714,124	1,425,341	154,633	9.8%
City Attorney	1,824,075	949,585	1,824,075	0	0.0%
Internal Auditor	541,482	284,888	535,291	6,191	1.1%
Commissioner of the Revenue	2,580,741	1,159,439	2,391,973	188,768	7.3%
Real Estate Assessor	1,631,966	787,498	1,578,885	53,081	3.3%
City Treasurer	2,243,911	1,195,731	2,235,989	7,922	0.4%
Finance	1,565,227	876,860	1,565,227	0	0.0%
Budget and Evaluation	687,512	296,443	595,821	91,691	13.3%
Purchasing	1,173,174	754,932	1,340,327	(167,153)	(14.2%)
Information Technology	9,392,608	6,564,439	8,916,732	475,876	5.1%
Registrar	442,313	357,781	442,313	0	0.0%
Judiciary	1,450,108	616,032	1,300,554	149,554	10.3%
Circuit Court Clerk	1,494,958	789,425	1,461,571	33,387	2.2%
Commonwealth's Attorney	3,906,628	1,913,409	3,867,203	39,425	1.0%
Police	46,556,130	24,216,018	46,596,471	(40,341)	(0.1%)
Fire	32,785,245	18,662,932	34,746,998	(1,961,753)	(6.0%)
Sheriff	21,357,198	11,820,057	21,332,850	24,348	0.1%
Juvenile Services	8,207,807	4,407,140	8,003,364	204,443	2.5%
Codes Compliance	3,087,160	1,373,470	2,960,454	126,706	4.1%
Engineering	5,788,797	3,019,705	5,610,235	178,562	3.1%
Public Works	23,405,697	15,039,671	23,302,674	103,023	0.4%
Health	2,020,376	26,576	2,020,376	0	0.0%
Mental Health	1,523,521	761,761	1,523,521	0	0.0%
Human Services	34,923,876	18,364,357	33,734,813	1,189,063	3.4%
Parks, Recreation, and Tourism	13,121,804	7,617,502	13,121,804	0	0.0%
Libraries	4,589,299	2,383,585	4,581,127	8,172	0.2%
Development	1,788,927	836,008	1,749,912	39,015	2.2%
Planning	1,152,132	562,159	1,130,751	21,381	1.9%
Communications	1,686,453	789,026	1,636,511	49,942	3.0%
Appointed Boards	112,662	52,071	107,739	4,923	4.4%
Nondepartmental-Contingencies	51,117,702	22,074,383	50,414,307	703,395	1.4%
Community Support	11,147,870	5,537,523	11,147,870	0	0.0%
Transfers to Schools	118,300,000	59,150,000	118,300,000	0	0.0%
Debt Service/Cash Capital	45,621,216	33,103,605	45,621,216	0	0.0%
All Other Payments	18,351,118	8,470,410	18,351,118	0	0.0%
<b>TOTAL EXPENDITURES</b>	<b>\$479,100,276</b>	<b>\$256,531,866</b>	<b>\$477,405,307</b>	<b>\$1,694,969</b>	<b>0.4%</b>