

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

November 28, 2017

TO: The Honorable City Council
FROM: City Manager
SUBJECT: First Quarter FY 2018 Financial Report

The first quarter forecast of the current fiscal year operating budget is prepared by the Department of Budget and Evaluation, and provides budgetary projections based on actual performance of revenues and expenditures for the first three months (July through September), and a forecast of financial activities for the remaining nine months.

The first quarter revenues are always difficult to predict as this quarter occurs prior to the semi-annual collection of the major revenues sources (Real Estate, Personal Property, and Machinery and Tools Taxes). At the end of the first quarter, less than 2% of the \$268 million of the entire General Property Tax revenue category had been collected. To further illustrate this point, only \$98,000 in Current Real Estate Taxes was received by the end of September of the \$181.6 million estimate. Generally speaking, overall revenue performance during this first quarter is consistent with collections during the same period last fiscal year.

Revenues

At this early point in the fiscal year, revenues are expected to be collected as estimated for the fiscal year, with a few deficits projected in some areas.

One exception is the budgeted use of \$4.7 million in General Fund reserves to support the FY 2018 Operating Budget. As reported at the end of FY 2017, a portion of the budgeted fund balance reserves was used to balance revenues and expenses at year-end. In order to reverse this trend, it is judicious to plan well in advance of year-end at June 30 2018, and not to use these reserves as budgeted. We will work to balance all revenues and expenses for the fiscal year within the revenues generated from all

other sources. This quarterly report shows the General Fund revenue status without the use of these reserves.

A second exception is the use of bond funds to recover the cost of staff support on General Fund Capital Improvement Projects (CIP). Beginning in FY 2015, an estimated \$585,000 was budgeted to be recouped from CIP projects for the cost of City services and staff time. This use of this revenue will not be collected in FY 2018.

In the Other Local Taxes revenue category, Sales Tax revenue is performing monthly slightly better compared to the prior fiscal year. At the present time collections are averaging \$2.032 million per month; that is approximately \$36,000 more per month than FY 2017. It is anticipated that the Sales Tax \$24.7 million estimate will be met this fiscal year. Meal Tax receipts were good during the first quarter, and are anticipated to equal the \$25.9 million estimate. Lodging Tax collections appear to be doing well, slightly ahead of collections at the same point last year, and should meet the \$3.8 million estimate. One lagging economic indicator showing that existing housing market continues on a path of slow recovery is the Grantees Tax on Deeds. Collections are about \$100,000 less than this point last fiscal year, projecting slightly under the \$1.9 million revenue estimate by approximately \$300,000. Any surge in sales in the housing market could turnaround a slight projected shortfall for this revenue source.

The receipts from Business Professional and Occupational Licenses (BPOL) taxes remain unknown at this point, as the majority of the BPOL taxes will not be received until March 2018. For the past two fiscal years, there was a mixed performance experience in these taxes, with an aggregate under-collection from this revenue group. Based on these recent occurrences, BPOL revenues are forecasted to slightly underperform to the estimate for this fiscal year; there is cautious optimism that the revenues collected in March 2018 will meet the \$17.3 million estimate.

In all the other revenue categories there are some moderate fluctuations that are mostly seasonal in nature. When taken as a whole, the variances at this point do not suggest any cause for concern.

Expenditures

The projected expenditure savings at the end of the first quarter is slightly more than \$1.3 million.

The combined employee compensation categories of Personnel Services (salaries) and Fringe Benefits are projected to be underspent at this time by \$648 thousand. While overtime costs continue to be higher than budgeted in a few departments, several steps have been taken or are in the process of being implemented to control this expense during the fiscal year.

With salary and fringe benefits category savings totaling 49% of the total projected savings that leaves \$681 thousand or 51% in potential year-end savings in all other expenditure categories. Of the remaining categories, there are projected savings in Contractual Services, Operating Materials, and vehicle fuel. These projected savings are offset by likely higher utility costs, primarily for streetlight operating costs, and the anticipated true-up for Hampton Roads Transit (HRT). Although the City has fully paid the FY 2016 HRT true-up, upon further review of FY 2016 amounts, Hampton Roads Transit recalculated the year end expenses and notified the six participating localities that their true-up allocation had changed; for Newport News that means an additional \$46,000. For FY 2017, the unaudited true-up amount is estimated at the \$125,000 range.


Combined Results

The City will not use budgeted fund reserves. If the fiscal year were to proceed as projected by this first quarter report, the combined results of a revenue shortfall of \$6.5 million, is offset by an expenditure savings of \$1.3 million. This would create an overall projected shortfall of \$5.3 million. To achieve a balanced budget by year end, I have instituted several expenditure controls. First, we are holding all vacant positions that become unfilled after November 15, 2017. Only essential positions that are critical to the core functions of the operating departments will be filled. Exempt from this are uniformed police and fire personnel, police dispatchers, deputy sheriff positions, and juvenile services counselor positions. In addition, there are certain budgeted expenditures, generally capital in nature that will be held in abeyance until the end of the second quarter, to ensure there is sufficient revenue to cover vital City operations.

With the anticipation of achieving the FY 2018 revenue estimates (with the exception of the use of fund balance reserves) and controls on operations expenditures, there will be judicious management of the General Fund budget to end the fiscal year with a the goal of a surplus. While there is

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always the prospective to see some growth in the consumer sensitive revenue receipts as the economy continues to stabilize, we are electing to actively control expenses. With the major revenue sources to be collected over the next month, the second quarter projections will bring more clarity to year-end results. We will continue to monitor our revenue activity closely, and reduce or withhold expenses to match revenue collections.



Cynthia D. Rohlf

CDR:LJC

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

**FY 2018 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

First Quarter - July 2017 through September 2017

GENERAL FUND

REVENUES

	Revised		Projected Total Receipts	<u>Projected Difference from Revised Budget</u> Surplus/ (Deficit)	
	Budget	YTD Receipts		Amount	Percent
Real Estate Taxes ¹	\$188,264,148	\$1,944,175	\$188,264,148	\$0	0.0%
Personal Property Taxes ²	54,528,000	2,400,773	54,528,000	0	0.0%
Machinery & Tools Taxes ³	22,605,000	0	22,605,000	0	0.0%
Other General Property Taxes	2,662,000	556,451	2,662,000	0	0.0%
Other Local Taxes	105,896,900	12,888,581	104,896,900	(1,000,000)	(0.9%)
Permits and Fees	3,554,122	888,132	3,618,122	64,000	1.8%
Fines and Forfeitures	1,665,820	414,497	1,668,820	3,000	0.2%
Revenue from Use-Money & Prop	2,551,258	573,032	2,542,258	(9,000)	(0.4%)
Charges for Services	6,502,810	1,640,715	6,467,810	(35,000)	(0.5%)
Miscellaneous Revenue	24,722,473	681,617	23,837,473	(885,000)	(3.6%)
Recovered Costs	13,050,144	3,659,136	13,036,144	(14,000)	(0.1%)
Non-Categorical Aid	1,128,000	296,055	1,087,000	(41,000)	(3.6%)
Shared Expenses	10,069,010	1,445,946	9,800,010	(269,000)	(2.7%)
Categorical Aid	33,259,219	5,632,914	33,256,219	(3,000)	(0.0%)
Non-Revenue Receipts	15,233,740	2,508,435	10,533,740	(4,700,000)	(30.9%)
Payments from Other Funds	283,356	0	283,356	0	0.0%
TOTAL REVENUES	\$485,976,000	\$35,530,459	\$479,087,000	(\$6,889,000)	(1.4%)

EXPENDITURES

	Revised		Projected Total Expense	<u>Projected Difference from Revised Budget</u> Surplus/ (Deficit)	
	Budget	YTD Exp/Enc		Amount	Percent
Personnel Services	\$145,217,849	\$33,630,506	\$146,158,454	(\$940,605)	(0.6%)
Taxes, Benefits, Insurance	76,884,455	16,905,478	75,295,729	1,588,726	2.1%
Contractual Services	20,322,781	11,153,110	19,765,811	556,970	2.7%
Vehicle Costs	6,303,045	1,575,796	6,303,045	0	0.0%
Fuel	1,661,944	318,469	1,446,332	215,612	13.0%
Utilities	6,458,915	1,300,806	6,958,272	(499,357)	(7.7%)
Operating Materials, Supplies, Ins	21,583,094	9,510,826	21,131,418	451,676	2.1%
Equipment (Except Vehicles)	1,912,949	300,202	1,742,111	170,838	8.9%
Leases, Rentals	6,417,725	2,637,272	6,407,951	9,774	0.2%
Community Support	11,182,521	4,632,430	11,388,691	(206,170)	(1.8%)
Transfer to Schools	119,000,000	29,750,000	119,000,000	0	0.0%
Debt Service/Cash Capital	43,349,491	30,726,731	43,349,491	0	0.0%
Payments to Other Funds	16,779,209	2,804,473	16,679,209	100,000	0.6%
Direct Program Costs - DHS	8,902,022	2,821,885	9,019,961	(117,939)	(1.3%)
TOTAL EXPENDITURES	\$485,976,000	\$148,067,984	\$484,646,475	\$1,329,525	0.3%

TOTAL PROJECTED DIFFERENCE

(\$5,559,475)

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

²Includes Current and Delinquent Personal Property Taxes

³Includes Current and Public Service Corp (PSC) Machinery & Tools Taxes