CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

February 27, 2018

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Second Quarter FY 2018 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.

The first quarter report detailed that due to use of a portion of General Fund reserves to balance the prior fiscal year, it was judicious that the revenue estimated from the same source for FY 2018 would not be used. This created a revenue shortfall of $4.7 million from this single source alone. In order to offset this, a strategic hiring protocol, along with outright expenditure suspensions on Cash Capital projects and major equipment purchases surplus was instituted until further notice. A second exception to the revenue forecast 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.

These two revenue sources alone equal almost $5.3 million or 63% of the projected revenue shortfall for FY 2018. All FY 2018 quarterly reports will show the General Fund revenue status without the use of these reserves.

In the second quarter, there is a projected a revenue shortfall of $8.4 million, inclusive of the reserves noted above, and an expenditure surplus principally generated by expenditure controls of $11.0 million. When taken together, this results in a forecasted fiscal year-end net surplus of $2,644,140.

Revenues

Revenues are expected to be less than the budgeted amounts by ($8.4) million, or (1.7%). This is driven predominantly by the planned non-use of reserves in the amount of $5.3 million. 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.

With the first half of the current real estate and personal property taxes now mostly collected, there is 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 $179 million. This projected shortfall is approximately $1.5 million for the fiscal year, or only 0.8% off the estimate. A portion of this shortfall is driven by increased participation in the Disabled Veteran Tax Exemption program. For FY 2018, there are an increasing number of participants, generating exemptions higher than estimated. This is a reoccurring trend since the inception of the state program in FY 2012, there were 168 participants. For the current fiscal year, there are 570.

Current Personal Property Tax receipts continue to do well, and are above the estimate, projecting to exceed the fiscal year estimate by $200,000. By the end of the second quarter, 50.2% of the Current Personal Property Tax estimate of $50 million estimate had been received. Machinery and Tools Taxes are another category showing good year to date collections, and is projected to be over the $22.6 million estimate by $250,000.

One of the more sensitive local economy indicators, Sales Tax revenue, continues to perform well on a monthly basis as compared to the prior fiscal year. At the present time, the average monthly collection is approximately $2.075 million per month; this is approximately $60,000 more per month than FY 2017. It is anticipated the Sales Tax estimate of $24.7 million will be met. Meals taxes continue to be a steady revenue stream, projecting at this time to be slightly under the $25.9 million estimate by $200,000. 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.

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, collections are only 3.5% of the $17.3 million estimate. This forecast predicts 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. While this normal construction lag was further hampered by significant poor weather in January 2018, with major construction projects anticipated to begin over the next few months, it is anticipated that the early spring building season will make up for the $50,000 shortfall currently projected in this revenue group. One lagging economic indicator is that existing housing market continues on a frustrating path of slow of recovery. The Grantees Tax on Deeds Collections are $200,000 less than this point last fiscal year and are projecting slightly under the $1.9 million revenue estimate by approximately $585,000. Any surge in sales in the housing market could turnaround the projected shortfall for this revenue source.

All other revenue projections in the other categories reflect a mixture of some increases or decreases, but the fluctuations are within normal ranges, and generally not a reason for concern.

Expenditures

Overall, Departmental operating expenses are expected to be $11.0 million or 2.3% under budget, primarily attributable to expenditure restrictions established in November 2017.

As noted in the first quarter projection, in response to the need to meet projected revenues, several expenditure controls were put into place. First, all vacant positions after November 15, 2017 would not be recruited to be filled unless essential and critical to the core functions of the operating departments. Exempt from this are uniformed police and fire personnel, police dispatchers, deputy sheriff positions, and juvenile services counselor positions. Second, some operating budget capital expenditures are defunded until it is clear there is sufficient revenue to cover vital City operations.

As a result of strategic hiring practices, the combined employee compensation categories of Personnel Services (salaries) and Fringe Benefits are projected to be underspent at this time by $1.8 million.

The projected savings from Vehicle Fuel at the end of December 2017 was $361,832 for the General Fund. This savings projection will vary to year-end, assuming future price changes continue to be at same level as the past six months. For utilities costs, this projected shortfall is due to fluctuations in City Jail usage, and by unintentional under budgeting for some city facilities caused by some rate increases.

Combined Results

While there is a projected revenue shortfall for the current fiscal year, it is primarily nested in the resolute plan to avoid using fund balance reserves as revenue for this fiscal year.

With six months remaining in the fiscal year, it is possible that the second half Real Estate Tax revenue collections will be stronger and will help close any potential gap. It is anticipated consumer taxes will remain consistent through the second half of the fiscal year. March will also be an important month, as BPOL tax revenue begins to be collected. This is another important gauge on which to measure local business performance.

Any overall revenue shortfall is not taken lightly. Revenue collections are reviewed on a daily basis and any significant revenue changes or trends are known quickly. While it is anticipated that revenues should continue to improve over the remaining months of this fiscal year, the strategic hiring protocol and expenditure controls will remain in place. It is the clear goal to end this fiscal year with a surplus. All departments have been directed to limit all operating expenses to those that are vital and essential to service delivery. Expenses are being diligently monitored.

With the current projected expenditure surplus, combined with careful practices for the remaining six months, this year's budget should be structurally sound without any other extraordinary expenditure reductions.

Cynthia D. Rohlf

CDR:LJC

Attachment

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

FY 2018 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS

Second Quarter - July 2017 through December 2017

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	*Projected Difference from Revised Budget* Surplus/(Deficit) Amount	Percent
Real Estate Taxes[1]	$188,264,148	$92,312,635	$187,013,748	($1,250,400)	(0.7%)
Personal Property Taxes[2]	54,528,000	27,539,815	54,338,000	(190,000)	(0.3%)
Machinery & Tools Taxes[3]	22,605,000	11,515,178	22,855,000	250,000	1.1%
Other General Property Taxes	2,662,000	1,547,831	2,895,000	233,000	8.8%
Other Local Taxes	105,896,900	35,735,126	104,578,900	(1,318,000)	(1.2%)
Permits and Fees	3,554,122	2,000,384	3,632,122	78,000	2.2%
Fines and Forfeitures	1,665,820	804,590	1,671,820	6,000	0.4%
Revenue from Use-Money & Prop	2,551,258	1,574,520	2,721,258	170,000	6.7%
Charges for Services	6,502,810	3,175,001	6,277,810	(225,000)	(3.5%)
Miscellaneous Revenue	24,826,364	8,258,703	23,857,364	(969,000)	(3.9%)
Recovered Costs	13,050,144	6,754,737	12,934,144	(116,000)	(0.9%)
Non-Categorical Aid	1,128,000	509,387	902,000	(226,000)	(20.0%)
Shared Expenses	10,069,010	3,871,699	9,534,010	(535,000)	(5.3%)
Categorical Aid	33,259,219	15,118,904	33,616,719	357,500	1.1%
Non-Revenue Receipts	15,233,740	5,016,870	10,533,740	(4,700,000)	(30.9%)
Payments from Other Funds	283,356	0	283,356	0	0.0%
TOTAL REVENUES	**$486,079,891**	**$215,735,380**	**$477,644,991**	**($8,434,900)**	**(1.7%)**

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	*Projected Difference from Revised Budget* Surplus/(Deficit) Amount	Percent
Personnel Services	$145,211,797	$66,935,430	$145,852,918	($641,121)	(0.4%)
Taxes, Benefits, Insurance	76,884,455	35,291,350	74,440,077	2,444,378	3.2%
Contractual Services	20,435,814	12,887,040	17,660,690	2,775,124	13.6%
Vehicle Costs	6,303,045	2,735,111	5,144,535	1,158,510	18.4%
Fuel	1,661,944	631,254	1,300,112	361,832	21.8%
Utilities	6,458,915	3,049,191	7,035,145	(576,230)	(8.9%)
Operating Materials, Supplies, Ins	21,680,004	13,490,607	20,778,814	901,190	4.2%
Equipment (Except Vehicles)	1,912,949	1,248,314	1,831,737	81,212	4.2%
Leases, Rentals	6,417,725	4,379,931	6,401,580	16,145	0.3%
Community Support	11,182,521	5,633,094	11,388,691	(206,170)	(1.8%)
Transfers to Schools	119,000,000	59,500,000	119,000,000	0	0.0%
Debt Service/Cash Capital	43,349,491	30,726,731	38,836,491	4,513,000	10.4%
All Other Payments	16,679,209	8,768,678	16,496,709	182,500	1.1%
Direct Program Costs - DHS	8,902,022	4,982,956	8,833,352	68,670	0.8%
TOTAL EXPENDITURES	**$486,079,891**	**$250,259,687**	**$475,000,851**	**$11,079,040**	**2.3%**

TOTAL PROJECTED DIFFERENCE **$2,644,140**

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

[2]Includes Current and Delinquent Personal Property Taxes

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