

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

May 14, 2019

TO: The Honorable City Council
FROM: City Manager
SUBJECT: FY 2019 Third Quarter Financial Report

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

In the third quarter, there is a projected revenue shortfall of \$471,000 offset by an expenditure surplus of \$517,347 resulting in an adjusted forecasted fiscal year-end surplus of \$46,347.

Revenues

Revenue collections are expected to be less than budgeted by \$471,000, or (0.1%). This is determined predominantly by adjusting the consumer sensitive taxes of personal property, sales, meals, amusement, and lodging, refining the analysis of the revenue patterns that have occurred after the federal shutdown, and prior to the collections of the second half of our major taxes. Other revenue streams are showing performances as expected, with collection patterns generally as initially budgeted for the fiscal year.

Consistent with the second quarter projections, Real Estate Tax collections are just slightly below the 50% mark, which if straight lined, could result in being slightly under the fiscal year revenue estimate of approximately \$193 million. This projected shortfall is approximately \$1.8 million for the fiscal year, 0.9%. As identified in the FY 2019 Second Quarter report, a portion of this shortfall continues to be driven by increased participation in the Disabled Veteran Tax Exemption program.

Personal Property Tax receipts continue to do well, and are on course to exceed this year's \$54.8 million estimate. Being conservative for the short

term, this estimate is projected to be over by \$598,000, until more receipts from the second half of the tax year become available over the next few weeks. Machinery and Tools Taxes are another category showing good year to date collections and is projected to be over the \$23 million estimate by \$1.6 million.

Sales Tax revenue continues to perform well on a monthly basis as compared to the prior fiscal year. We are anticipating exceeding the \$24.8 million estimate by \$200,000, even with the impacts of the 35-day federal shutdown. Meals taxes also continue to be a reliable revenue stream, projecting at this time to be slightly over the \$25.9 million estimate by \$200,000. Lodging taxes are within the same ranges as the previous fiscal years and are on target to meet the estimate for this fiscal year of \$3.9 million.

At the end of the third quarter, the majority of the estimated \$17 million Business, Professional and Occupational Licenses (BPOL) receipts had been collected. While the Contractors category is slightly lagging, the combined BPOL revenue appears to show a stronger recovery than anticipated, becoming more uniform across all the major categories and is expected to exceed the FY19 estimate by \$774,500 or 4.5%.

Other local fees and charges, building permits, mechanical, electrical, and plumbing permits are currently projecting to be slightly higher than the \$985,000 estimate by \$63,000. One lagging economic indicator is that existing housing market sales might be impacted by increasing interest rates on home mortgages. Any continued stabilization in sales in the housing market could impact 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 show some improvement over the second quarter projection.

Expenditures

Overall, Departmental operating expenses are expected to be \$517,347 or 0.1% under budget.

The combined employee compensation categories of Salaries and Fringe Benefits are projected to be underspent at year end by \$570,000 after accounting for public safety overtime costs as a result of vacancies during the year and the mid-year public safety salary adjustments.

At the end of March 2019, the projected savings from Vehicle Fuel was \$160,808 for the General Fund. Vehicle Fuel costs have been experiencing a slow upward track since the beginning of this calendar year. For Utilities costs, this projected shortfall is due to fluctuations in City Jail usage, as well as some other city facilities.

Combined Results

While there is a small projected revenue shortfall for the current fiscal year, it is both primarily and temporarily driven by conservative projections until the collections begin for the second half of the major revenues of real estate, personal property, and machinery and tool taxes. With three 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 rest of the fiscal year.

Any potential revenue shortfall is not taken lightly and collections are regularly reviewed. While at the same time anticipating that revenues will improve over the remaining months of this fiscal year, expenses continue to be diligently monitored. It is not our practice to spend out any balances of the operating budget at year-end. It is important to take a consistent, measured approach throughout the year, to ensure that all expenses are within the revenues generated. With the current projected expenditure surplus, combined with closely monitoring the remaining three months, this year's budget is anticipated to be structurally sound.


Cynthia D. Rohlf

CDR:LJC

Attachment

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

**FY 2019 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Third Quarter - July 2018 through March 2019

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Real Estate Taxes ¹	\$193,022,205	\$97,237,998	\$191,222,205	(\$1,800,000)	(0.9%)
Personal Property Taxes ²	\$54,845,000	\$30,996,685	55,443,000	\$598,000	1.1%
Machinery & Tools Taxes ³	\$23,075,001	\$12,439,458	24,690,001	\$1,615,000	7.0%
Other General Property Taxes	\$2,717,000	\$2,263,204	2,877,000	\$160,000	5.9%
Other Local Taxes	\$105,421,385	\$74,337,770	104,907,385	(\$514,000)	(0.5%)
Permits and Fees	\$3,808,637	\$2,994,995	3,901,637	\$93,000	2.4%
Fines and Forfeitures	\$1,765,500	\$1,221,730	1,777,500	\$12,000	0.7%
Revenue from Use-Money & Prop	\$2,975,966	\$2,978,515	2,975,966	\$0	0.0%
Charges for Services	\$6,431,774	\$4,838,218	6,131,774	(\$300,000)	(4.7%)
Miscellaneous Revenue	\$24,063,244	\$14,095,659	23,698,244	(\$365,000)	(1.5%)
Recovered Costs	\$13,958,920	\$11,045,237	14,257,920	\$299,000	2.1%
Non-Categorical Aid	\$1,062,000	\$743,452	949,000	(\$113,000)	(10.6%)
Shared Expenses	\$9,710,034	\$6,213,393	9,110,034	(\$600,000)	(6.2%)
Categorical Aid	\$34,004,201	\$25,289,169	34,448,201	\$444,000	1.3%
Non-Revenue Receipts	\$10,533,740	\$7,525,305	10,533,740	\$0	0.0%
Payments from Other Funds	\$40,562	\$0	40,562	\$0	0.0%
TOTAL REVENUES	\$487,435,169	\$294,220,788	\$486,964,169	(\$471,000)	(0.1%)

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Personnel Services	\$146,689,203	\$106,477,183	\$146,689,203	\$0	0.0%
Taxes, Benefits, Insurance	\$77,241,314	\$54,280,431	76,671,187	\$570,127	0.7%
Contractual Services	\$20,754,457	\$19,778,551	20,754,457	\$0	0.0%
Vehicle Costs	\$6,456,928	\$4,842,696	6,456,928	\$0	0.0%
Fuel	\$1,653,966	\$1,117,363	1,493,158	\$160,808	9.7%
Utilities	\$6,473,821	\$5,067,876	6,946,950	(\$473,129)	(7.3%)
Operating Materials, Supplies, Ins	\$22,169,532	\$17,204,254	22,160,024	\$9,508	0.0%
Equipment (Except Vehicles)	\$1,635,094	\$1,026,745	1,359,578	\$275,516	16.9%
Leases, Rentals	\$6,601,846	\$5,383,778	6,605,872	(\$4,026)	(0.1%)
Community Support	\$11,358,356	\$8,360,672	11,358,356	\$0	0.0%
Transfers to Schools	\$110,889,307	\$83,166,980	110,889,307	\$0	0.0%
Debt Service/Cash Capital	\$50,941,749	\$36,012,326	50,941,749	\$0	0.0%
All Other Payments	\$15,723,044	\$11,748,500	15,688,044	\$35,000	0.2%
Direct Program Costs - DHS	\$8,846,552	\$6,857,054	8,903,009	(\$56,457)	(0.6%)
TOTAL EXPENDITURES	\$487,435,169	\$361,324,409	\$486,917,822	\$517,347	0.1%

TOTAL PROJECTED DIFFERENCE

\$46,347

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