

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

October 16, 2019

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

This Fourth Quarter FY 2019 Financial Report, prepared by the Department of Budget and Evaluation, describes the budgetary performance of revenues and expenditures for FY 2019. This report uses preliminary and unaudited results of operations for the fiscal year ending June 30, 2019. While the final steps for closing the fiscal year are not complete, this report provides City Council with a reasonably accurate estimate of the FY 2019 results for the General Fund. The official results will be issued in the November/December timeframe, when the City publishes its Comprehensive Annual Financial Report (CAFR).

At the end of the third quarter, there was a small projected revenue shortfall for the current fiscal year, driven primarily by conservative projections as collections for the second half of the major revenues of real estate, personal property, and machinery and tool taxes do not begin until May 2019.

We are very pleased that the remainder of the fiscal year showed improvement in local revenue sources. During the final quarter, total revenue resulted in exceeding the projected budget, and when combined with expenditures, resulted in a net project year-end surplus of \$3.2 million.

### *Revenues*

As noted, revenue results from the Fourth Quarter FY 2019 improved from the third quarter projections. Primarily, local taxes on personal property and machinery and tools demonstrated stronger activity than the second quarter collections as well as the prior fiscal year.

With the second half of the Real Estate Tax collections for FY 2019, the City has received a total of \$190,301,148. The total collections for Real Estate taxes in FY 2019 are \$6.1 million higher than FY 2018. The City's Real Estate Tax revenue was impacted by the Tax Relief programs estimating a total of \$2.4 million (\$850,000 for qualified elderly/disabled citizens, \$100,000 for hardship tax exemption, and \$1.5 million for eligible disabled veterans).

Combined Personal Property Tax receipts exceeded budget estimates by \$1.9 million or 3.6% higher than projected. Machinery and Tools Taxes were a revenue stream anticipated for additional growth this fiscal year based on prior performance and local business expansion. The actual revenue collected exceeded the initial estimate ending the year with \$2.5 million more than the \$23 million budgeted.

Consumer sensitive revenues of sales, meals, and lodging taxes were projected to be consistently stable each quarter. The actual revenue was higher than anticipated, again through stronger receipts in the fourth quarter.

Sales Tax collections showed relatively consistent improvement throughout the year, with the year-end revenue \$1.1 million more than the estimate of \$24.8 million. Meal Tax receipts also showed consistent, increased performance during the year, recovering from lower than average collections during the winter months, to exceed the \$25.9 million budget by \$1.4 million. Both Sales and Meal taxes are highly responsive consumer revenue streams and, when taken as a whole, seem to indicate continued stabilization and confidence in certain areas of the local economy.

Business Professional and Occupational Licenses (BPOL) taxes ended the fiscal year exceeding the FY 2019 estimate of \$17.0 million by \$920,000 and the prior year by \$776,000, signaling stabilization in the local economy.

### ***Expenditures***

Management of positions and associated fringe benefits experience resulted in savings of approximately \$3.4 million in the combined employee compensation categories of Personnel Services and Fringe Benefits. Continued optimization of City services resulted in a combined savings of

\$3.3 million in the Contractual Services and Operating Materials and Supplies categories.

The All Other Payments category includes an accounting adjustment to write off accounts receivable of approximately \$10 million.

### *Year-End Adjustments*

As part of the year-end closing process, two adjustments were made in the Payment to Other Funds and Debt/Cash Capital categories for a combined amount of \$4.0 million. The first adjustment allocated \$2.6 million of the year-end surplus to the Cash Capital Fund. This allows the City to have ready access to funds without either having to use General Fund Balance reserves or to acquire additional debt for projects. The Cash Capital Fund grants a degree of flexibility and responsiveness, should any unbudgeted capital requirements be necessary during the fiscal year.

The second adjustment was to build a one-time debt service reserve of \$1.4 million for the upcoming fiscal year. By setting aside some funds from the current fiscal year as a debt service reserve, it will help to lessen, for one year, the impact of higher debt costs if several large-scale projects are included in the upcoming Capital Improvement Plan.


Prior to any other adjustments, the General Fund year-end surplus of \$3.2 million will be used in part to balance any over-expenditures in the Other General Fund Operating Budgets and as an additional General Fund Balance contribution. The City's General Fund Balance Policy requires the Undesignated/Unassigned Fund Balance to be 7.5% of the year-end General Fund revenues. The City's practice has been to establish an Undesignated/Unassigned General Fund Balance level of 11% or more, whenever possible. At FY 2019 year-end, the General Fund unassigned balance will increase from 12.1% for FY 2018 to an estimated 14% level for FY 2019. This growth is an important element in the City's overall strong financial management to build reserves, when possible.

***Conclusion***

This combined year-end projection does not reflect year-end unanticipated accounting charges that may change the year-end status.

In general, revenue activity for FY 2019 showed improved results in the fourth quarter of the fiscal year, and exceeded conservative performance estimates in most areas. The increases appear to be sustainable, in the short term, pending any potential economic pressures that may affect all levels of government. Our local consumer sensitive taxes are showing sustained growth. When taken from a longer view, the City's revenues are performing well within the parameters set for the current fiscal year, FY 2020.

The local economy continues to show consistent elements of growth that helped to deliver more revenue than anticipated, resulting in the year-end surplus.

  
Cynthia D. Rohlf

CDR:LJC

pc: Lisa J. Cipriano, Director, Department of Budget and Evaluation  
Susan M. Goodwin, Director, Department of Finance

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

UNAUDITED - Initial Projections as of June 30, 2019

**GENERAL FUND**

<b><u>REVENUES</u></b>	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Projected Difference from Revised Budget</u>	
				Surplus/(Deficit) Amount	Percent
Real Estate Taxes <sup>1</sup>	\$193,022,205	\$190,301,148	\$190,301,148	(\$2,721,057)	(1.4%)
Personal Property Taxes <sup>2</sup>	\$54,845,000	\$56,823,163	56,823,163	\$1,978,163	3.6%
Machinery & Tools Taxes <sup>3</sup>	\$23,075,001	\$25,668,475	25,668,475	\$2,593,474	11.2%
Other General Property Taxes	\$2,717,000	\$3,443,053	3,443,053	\$726,053	26.7%
Other Local Taxes	\$105,421,385	\$107,764,452	107,764,452	\$2,343,067	2.2%
Permits and Fees	\$3,808,637	\$4,019,230	4,019,230	\$210,593	5.5%
Fines and Forfeitures	\$1,765,500	\$1,834,016	1,834,016	\$68,516	3.9%
Revenue from Use-Money & Prop	\$2,975,966	\$5,408,041	5,408,041	\$2,432,075	81.7%
Charges for Services	\$6,431,774	\$6,478,974	6,478,974	\$47,200	0.7%
Miscellaneous Revenue	\$23,968,997	\$24,059,415	24,059,415	\$90,418	0.4%
Recovered Costs	\$13,958,920	\$14,775,083	14,775,083	\$816,163	5.8%
Non-Categorical Aid	\$1,062,000	\$942,590	942,590	(\$119,410)	(11.2%)
Shared Expenses	\$9,710,034	\$10,274,343	10,274,343	\$564,309	5.8%
Categorical Aid	\$34,098,448	\$35,928,659	35,928,659	\$1,830,211	5.4%
Non-Revenue Receipts	\$10,533,740	\$10,033,740	10,033,740	(\$500,000)	(4.7%)
Payments from Other Funds	\$40,562	\$0	0	(\$40,562)	(100.0%)
<b>TOTAL REVENUES</b>	<b>\$487,435,169</b>	<b>\$497,754,382</b>	<b>\$497,754,382</b>	<b>\$10,319,213</b>	<b>2.1%</b>

<b><u>EXPENDITURES</u></b>	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Projected Difference from Revised Budget</u>	
				Surplus/(Deficit) Amount	Percent
Personnel Services	\$146,106,172	\$145,495,840	\$145,495,840	\$610,332	0.4%
Taxes, Benefits, Insurance	\$76,949,376	\$74,146,448	74,146,448	\$2,802,928	3.6%
Contractual Services	\$21,083,170	\$20,016,770	20,016,770	\$1,066,400	5.1%
Vehicle Costs	\$6,456,928	\$6,456,928	6,456,928	\$0	0.0%
Fuel	\$1,645,504	\$1,503,228	1,503,228	\$142,276	8.6%
Utilities	\$6,940,093	\$7,259,453	7,259,453	(\$319,360)	(4.6%)
Operating Materials, Supplies, Ins	\$22,219,466	\$19,923,224	19,923,224	\$2,296,242	10.3%
Equipment (Except Vehicles)	\$1,781,538	\$1,040,696	1,040,696	\$740,842	41.6%
Leases, Rentals	\$6,588,161	\$6,505,100	6,505,100	\$83,061	1.3%
Community Support	\$11,358,356	\$11,140,758	11,140,758	\$217,598	1.9%
Transfers to Schools	\$110,889,307	\$110,889,307	110,889,307	\$0	0.0%
Debt Service/Cash Capital	\$50,941,749	\$53,541,738	53,541,749	(\$2,600,000)	(5.1%)
All Other Payments	\$15,628,797	\$27,337,991	27,337,991	(\$11,709,194)	(74.9%)
Direct Program Costs - DHS	\$8,846,552	\$9,257,968	9,257,968	(\$411,416)	(4.7%)
<b>TOTAL EXPENDITURES</b>	<b>\$487,435,169</b>	<b>\$494,515,449</b>	<b>\$494,515,460</b>	<b>(\$7,080,291)</b>	<b>(1.5%)</b>

**TOTAL PROJECTED DIFFERENCE**

**\$3,238,922**

<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