

CITY OF NEWPORT NEWS

Office of the City Manager

February 25, 2020

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Second Quarter FY 2020 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.

By the end of the second quarter, there is adequate financial activity base to report both the revenue collections and expenses trends projected for the remaining six months of the fiscal year. A conservative revenue projection for the rest of this fiscal year has been developed, as cautionary preparation for a potential recession, and to anticipate the continued effects of international trade impacts on the region.

In the second quarter, there is a projected a revenue surplus of \$3.6 million, and a projected expenditure deficit of \$1.1 million. When taken together, this results in an adjusted forecasted fiscal year-end net surplus of \$2,533,458.

Revenues

Revenue collections are expected to be higher than budgeted by \$3.6 million, or 0.7%. This is driven predominantly by the final real estate tax levy being higher than anticipated, and personal property taxes continuing to remain strong through business development. The consumer sensitive taxes of sales, meals, and lodging all show consistent month-over-month increased performance. Other revenue streams are showing trends as expected, with collection patterns 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 just slightly above the 50% mark, which if straight lined, could result in being over the fiscal year revenue estimate of approximately \$196 million. This projected excess is approximately \$700,000 for the fiscal year, 0.4% higher than the estimate. As an advisory note, there continues to be increased participation in the Disabled Veteran Tax Exemption program. For FY 2020, there are a higher number of exemptions than initially estimated. This is a reoccurring movement since the inception of the state program in FY 2012, when there were 168 participants. For the current fiscal year, there are 676.

Current Personal Property Tax receipts continue to do well, and are on course to exceed this year's revenue \$56.5 million estimate by \$1.7 million, primarily due to business growth. Machinery and Tools Taxes are another category showing good year to date collections, and is projected to be over the \$24.4 million estimate by \$760,000.

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. Through the end of December 2019, to include the holiday sales period, the average monthly collection is approximately \$2.3 million per month; this is approximately \$209,000 more per month than the same time period of FY 2019. It is anticipated the Sales Tax estimate of \$25.7 million will be exceeded by \$800,000, barring any recessionary activity. Meals taxes continue to be a steady revenue stream, projecting at this time to be slightly over the \$26.7 million estimate by \$600,000. Lodging taxes are within the same ranges as the previous fiscal year, and will meet the estimate for this fiscal year of \$3.9 million.

A considerable 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. By the end of the second quarter, collections were only 4.2% of the \$16.9 million estimate. While the prior fiscal year results were strong, exceeding the FY 2019 estimate by over \$900,000, this FY 2020 forecast predicts these revenues to perform as estimated for this fiscal year; they will be monitored closely.

For other local fees and charges, one lagging economic indicator is that housing market sales. For the current year, the State is seeing higher than anticipated revenue in this area; this trend is also being exhibited locally as well. The Grantees Tax on Deeds Collections are averaging \$50,000 more per month than this point last fiscal year; collections at the mid-point of FY 2020 are almost equal to the total collections of last year. Any continued stabilization in sales in the housing market could contribute to exceeding the estimated \$1.6 million revenue from this source.

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

Expenditures

Overall, Departmental operating expenses could be projected to be \$1.1 million or 0.2% over budget.

The combined employee compensation categories of Salaries and Fringe Benefits are probable to be overspent at this time by \$1.6 million. There continues to be vacancies throughout the organization, primarily in the public safety sector, which in turn is offset by higher than budgeted overtime costs. In a highly competitive job market, recruitment remains a challenge, however mitigating steps have been taken since the beginning this fiscal year, including additional police and fire training academies, which are anticipated to moderate this trend during the second half of FY 2020.


Combined Results

At the end of the second quarter, the overall General Fund Operating Budget is projected to end the year as budgeted, primarily driven by conservative revenue projections and managed expenditure controls.

With six months remaining in the fiscal year, it is possible that the second half Real Estate Tax revenue collections will continue to be strong, with consumer taxes being consistent in their current revenue trends. March is an important month, as BPOL tax revenue

begins to be collected. This is another important gauge on which to measure local business performance.

Revenue collections are reviewed on a daily basis and any significant revenue changes or trends are known quickly. Expenses are diligently monitored. With the current projected positive year-end result, combined with continued careful expense practices for the remaining six months, this year's budget should be structurally sound without any additional expenditure restraint measures.



Cynthia D. Rohlf

CDR: LJC

Attachment

cc: Lisa Cipriano, Director of Budget and Evaluation

FY 2020 OPERATING BUDGET PROJECTED RESULTS OF OPERATIONS

Second Quarter - July 2019 through December 2019

GENERAL FUND

<u>REVENUES</u>	Revised		Projected		<u>Projected Difference from Revised Budget</u>	
	Budget	YTD Receipts	Total Receipts	Surplus/ (Deficit) Amount	Percent	
Real Estate Taxes ¹	\$196,133,959	\$99,245,340	\$196,833,959	\$700,000	0.4%	
Personal Property Taxes ²	56,495,000	31,054,202	58,195,000	1,700,000	3.0%	
Machinery & Tools Taxes ³	24,400,000	13,387,467	25,160,000	760,000	3.1%	
Other General Property Taxes	2,907,000	1,221,543	2,924,000	17,000	0.6%	
Other Local Taxes	106,341,600	38,107,029	107,291,600	950,000	0.9%	
Permits and Fees	4,033,302	1,752,043	3,783,302	(250,000)	(6.2%)	
Fines and Forfeitures	1,757,800	741,288	1,651,800	(106,000)	(6.0%)	
Revenue from Use-Money & Prop	3,711,394	2,307,175	3,689,394	(22,000)	(0.6%)	
Charges for Services	6,428,825	3,434,322	6,236,825	(192,000)	(3.0%)	
Miscellaneous Revenue	24,307,543	5,834,023	23,945,543	(362,000)	(1.5%)	
Recovered Costs	14,789,590	8,096,607	14,889,590	100,000	0.7%	
Non-Categorical Aid	1,009,455	587,513	1,046,455	37,000	3.7%	
Shared Expenses	9,366,146	3,959,538	8,921,146	(445,000)	(4.8%)	
Categorical Aid	35,427,646	17,821,822	36,200,646	773,000	2.2%	
Non-Revenue Receipts	10,533,740	5,016,870	10,533,740	0	0.0%	
Payments from Other Funds	0	0	0	0	0.0%	
TOTAL REVENUES	\$497,643,000	\$232,566,780	\$501,303,000	\$3,660,000	0.7%	

<u>EXPENDITURES</u>	Revised		Projected		<u>Projected Difference from Revised Budget</u>	
	Budget	YTD Exp/Enc	Total Expense	Surplus/ (Deficit) Amount	Percent	
Personnel Services	\$150,491,821	\$69,915,818	\$151,550,413	(\$1,058,592)	(0.7%)	
Taxes, Benefits, Insurance	75,925,182	35,619,269	76,520,366	(595,184)	(0.8%)	
Contractual Services	21,828,322	14,618,372	22,346,063	(517,741)	(2.4%)	
Vehicle Costs	6,401,097	3,200,585	6,401,097	0	0.0%	
Fuel	1,786,544	700,436	1,505,441	281,103	15.7%	
Utilities	6,920,093	3,372,295	7,417,213	(497,120)	(7.2%)	
Operating Materials, Supplies, Ins	23,324,359	13,446,640	23,108,574	215,785	0.9%	
Equipment (Except Vehicles)	1,672,698	448,296	1,470,213	202,485	12.1%	
Leases, Rentals	7,035,063	4,331,842	6,861,804	173,259	2.5%	
Community Support	11,593,768	3,808,393	11,593,768	0	0.0%	
Transfer to Schools	110,889,307	55,444,653	110,889,307	0	0.0%	
Debt Service/Cash Capital	54,625,530	31,358,392	54,625,530	0	0.0%	
Payments to Other Funds	15,806,889	4,969,870	14,777,309	1,029,580	6.5%	
Direct Program Costs - DHS	9,342,327	5,001,251	9,702,444	(360,117)	(3.9%)	
TOTAL EXPENDITURES	\$497,643,000	\$246,236,113	\$498,769,542	(\$1,126,542)	(0.2%)	

TOTAL PROJECTED DIFFERENCE

\$2,533,458

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