

CITY OF NEWPORT NEWS

Office of the City Manager

October 13, 2020

TO: The Honorable City Council
FROM: City Manager
SUBJECT: FY 2020 Fourth Quarter Financial Report

This Fourth Quarter FY 2020 Financial Report, prepared by the Department of Budget and Evaluation, describes the budgetary performance of revenues and expenditures for FY 2020. This report uses preliminary and unaudited results of operations for the fiscal year ending June 30, 2020. While the final steps for closing the fiscal year are not complete, this report provides City Council with a reasonably accurate estimate of fiscal year outcomes 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).

With the emergence of the COVID-19 pandemic in March 2020, the ability to accurately provide budgetary projections was challenged, as the nature of the event and the federal, state, and local responses to it were constantly changing. As an immediate response to the potential significant revenue loss, we established a hiring freeze for non-essential positions, as well as other expenditure restrictions, to ensure that revenues generated for the remainder of the fiscal year would cover costs to date.

While we braced for the worst of revenue losses, General Fund revenues performed better than anticipated. A pre-pandemic nine months of strong revenue performance combined with less severe impacts from COVID-19 than originally projected to some of the City's more consumer sensitive revenues resulted in FY 2020 General Fund Revenues exceeding the \$497.6 million budget by nearly \$ 6.9 million.

General Fund expenditure savings also contributed positively to ending the fiscal year on solid footing. As a result of departments' diligence in holding non-essential position vacancies, controlling spending and finding innovative ways to deliver City services, total General Fund expenditures ended the year approximately \$6.3 million below budget. As revenues were stronger than initially anticipated, these savings provided the opportunity to fund cash capital reserves as a hedge against continued uncertainty surrounding the

coronavirus. In total, the revenue surplus, when combined with expenditures, resulted in a net projected year-end surplus of \$3.3 million.

Revenues

Local taxes from the three major revenue drivers, Real Estate, Personal Property, and Machinery and Tools, were consistent in collections, and all exceeded FY 2020 projections.

The City's revenue has a solid foundation in its real estate tax base. Total collections of \$196.2 million, factoring in Real Estate Tax Relief programs, modestly exceeded budget estimates. In part, the success of these revenue collections was enhanced by the City Treasurer's approach of extending and offering the tax payment arrangement program to all citizens and businesses experiencing a financial hardship due to the pandemic. This program allowed for current taxes owed by June 5th to be paid by August 5th, without the assessment of late payment penalty or interest. A total of 940 accounts were established in the payment arrangement program, totaling \$2.0 million in revenue (primarily Real Estate Taxes), with only \$18,000 outstanding as unpaid at this time.

Combined Current and Delinquent Personal Property Tax receipts exceeded budget estimates by \$2.8 million or 5.1% higher than projected. This amount was primarily due to a one-time FY 2019 delinquent payment of \$1.5 million captured in this fiscal year. Machinery and Tools Taxes was 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 \$1.8 million more than the \$24.4 million budgeted. Machinery and Tools tax collections makes Newport News one of the highest generators of this revenue source in the State.

Consumer sensitive revenues of sales, meals, and lodging taxes were the most vulnerable during the height of the pandemic, particularly under the state's stay at home order. For the first nine months of the fiscal year, all of these revenues were projected to be consistently stable each quarter, with anticipation that each would meet or exceed their individual revenue estimate.

While there was a reduction in collections for March and April 2020, Sales Tax revenues have been strong throughout the year with the year-end revenue almost \$1.5 million more than the estimate of \$25.7 million. Meal Tax receipts also showed consistent, increased performance during the first nine months of the fiscal year; however, this revenue source has been slower to recover

from the impact of the pandemic ending the year approximately \$1.5 million lower than the \$26.7 million estimate.

Lodging and Amusement tax revenues were also impacted by social distancing mandates falling short of their combined \$4.9 million budget by \$845,000.

Business Professional and Occupational Licenses (BPOL) has been a strong performer this fiscal year. These taxes are based on business activity from the prior calendar year and the majority of these taxes are collected in early March. Collections exceeded the \$16.9 million estimate by almost \$1.5 million or 8.7% higher. It is anticipated that the FY 2021 revenue will be lower than this amount, reflecting the sustained business operational closures for part of calendar 2020.

Expenditures

As previously noted, Departments did an outstanding job controlling expenditures in FY 2020 and as a result the total General Fund expenditures ended the year approximately \$6.3 million below budget prior to year-end adjustments.

The combined employee compensation categories of Salaries and Fringe Benefits reflect a savings of \$1.6 million generated in part by the hiring freeze on non-essential positions, and the application of nearly \$2 million of CARES funds to allowable payroll expenses for employees, primarily in public safety roles, substantially dedicated to mitigating or responding to COVID-19.

The projected savings in Contractual Services of \$2.7 million mainly reflects delaying the spring street paving contracts as a cost savings measure during the pandemic. While any essential paving continued to move forward, larger expansive projects were moved to the fall 2020 schedule.

Similarly, Operational Supplies and Equipment savings of almost \$2.5 million represent department holds on a variety of routine expenditures, including the purchase of library books and materials, parks and recreation functions, traffic markings and supplies, and routine office supplies and equipment. These savings were either directly associated with operational closures and teleworking, or were the result of expenditure restrictions put in place to mitigate the potential revenue loss expected from the pandemic.

Year-End Adjustments

As part of the year-end closing process, one adjustment was made to allocate \$9.0 million of year-end surplus to Payment to Other Funds and Debt/Cash


Capital. This allocation allows the City to have ready access to funds without having to use General Fund Balance reserves or to acquire additional debt, and grants a degree of flexibility for future years which is especially critical given the continued uncertainty surrounding COVID-19.

Combined Results

At the onset of the pandemic, we instituted critical safeguards and contingency plans to ensure that the City was fiscally stable and able to deliver crucial services to citizens. We were fortunate to receive CARES funds from the Commonwealth of Virginia, which supplemented our actions to control spending, and reduced the unforeseen costs in the pandemic response.

The combined General Fund year-end surplus is anticipated to be \$3.3 million, after a portion of the surplus is used to balance any over-expenditures in the Other General Fund Operating Budgets. This surplus will increase the City's General Fund Balance. 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 2020 year-end, the General Fund unassigned balance will increase from 13.68% for FY 2019 to an estimated 14% level. This growth is an important element in the City's overall strong financial management, to build reserves, when possible.

I am extremely pleased to report that the hard work by the operating departments to mitigate costs, bolstered by a strong initial three quarters of the fiscal year, resulted in the best of situations in a volatile time. The City will not only end the year with sufficient revenues to cover expenses, but will end the year with critical cash capital reserves and an overall General Fund surplus.



Cynthia D. Rohlf

CDR: LJC

Attachment

cc: Lisa Cipriano, Director of Budget and Evaluation

FY 2020 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS
 Fourth Quarter - July 2019 through June 2020, Unaudited

GENERAL FUND

<u>REVENUES</u>	Adopted Budget	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Difference</u> <u>from Revised Budget</u>	
					Surplus/ (Deficit) Amount	Percent
Real Estate Taxes ¹	\$196,133,959	\$196,133,959	\$196,233,116	\$196,233,116	\$99,157	0.1%
Personal Property Taxes ²	56,495,000	56,495,000	59,365,797	59,365,797	\$2,870,797	5.1%
Machinery & Tools Taxes ³	24,400,000	24,400,000	26,287,217	26,287,217	\$1,887,217	7.7%
Other General Property Taxes	2,907,000	2,907,000	2,747,452	2,747,452	(\$159,548)	(5.5%)
Other Local Taxes	106,341,600	106,341,600	105,856,538	105,856,538	(\$485,062)	(0.5%)
Permits and Fees	4,033,302	4,033,302	3,224,665	3,224,665	(\$808,637)	(20.0%)
Fines and Forfeitures	1,757,800	1,757,800	1,399,907	1,399,907	(\$357,893)	(20.4%)
Revenue from Use-Money & Prop	3,711,394	3,711,394	4,926,997	4,926,997	\$1,215,603	32.8%
Charges for Services	6,428,825	6,428,825	6,506,430	6,506,430	\$77,605	1.2%
Miscellaneous Revenue	24,307,543	24,294,781	25,064,663	25,064,663	\$769,882	3.2%
Recovered Costs	14,789,590	14,789,590	15,037,014	15,037,014	\$247,424	1.7%
Non-Categorical Aid	1,009,455	1,009,455	1,145,425	1,145,425	\$135,970	13.5%
Shared Expenses	9,366,146	9,366,146	10,651,750	10,651,750	\$1,285,604	13.7%
Categorical Aid	35,427,646	35,465,449	36,398,875	36,398,875	\$933,426	2.6%
Non-Revenue Receipts	10,533,740	10,783,740	10,033,740	10,033,740	(\$750,000)	(7.0%)
TOTAL REVENUES	\$497,643,000	\$497,918,041	\$504,879,586	\$504,879,586	\$6,961,545	1.4%

<u>EXPENDITURES</u>	Adopted Budget	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Difference</u> <u>from Revised Budget</u>	
					Surplus/ (Deficit) Amount	Percent
Personnel Services	\$150,648,721	\$150,266,957	\$149,723,552	\$149,723,552	\$543,405	0.4%
Taxes, Benefits, Insurance	75,925,182	75,943,041	74,873,438	74,873,438	\$1,069,603	1.4%
Contractual Services	21,680,282	22,347,210	19,669,456	19,669,456	\$2,677,754	12.0%
Vehicle Costs	6,401,097	6,401,097	6,401,097	6,401,097	\$0	0.0%
Fuel	1,786,544	1,620,875	1,187,995	1,187,995	\$432,880	26.7%
Utilities	6,920,093	6,961,122	7,285,493	7,285,493	(\$324,371)	(4.7%)
Operating Materials, Supplies, Ins	23,315,499	23,200,411	21,117,757	21,117,757	\$2,082,653	9.0%
Equipment (Except Vehicles)	1,672,698	1,762,335	1,551,945	1,551,945	\$210,390	11.9%
Leases, Rentals	7,035,063	7,044,975	6,886,047	6,886,047	\$158,928	2.3%
Community Support	11,593,768	11,593,768	11,340,970	11,340,970	\$252,798	2.2%
Transfer to Schools	110,889,307	110,889,307	110,889,307	110,889,307	\$0	0.0%
Debt Service/Cash Capital	54,625,530	54,625,530	63,625,530	63,625,530	(\$9,000,000)	(16.5%)
Payments to Other Funds	15,806,889	15,917,586	16,756,410	16,756,410	(\$838,824)	(5.3%)
Direct Program Costs - DHS	9,342,327	9,343,827	9,290,171	9,290,171	\$53,656	0.6%
TOTAL EXPENDITURES	\$497,643,000	\$497,918,041	\$500,599,168	\$500,599,168	(\$2,681,127)	(0.5%)

TOTAL DIFFERENCE

\$4,280,419

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

<u>OTHER GENERAL FUND SUPPORTED FUNDS</u>	Adopted Budget	YTD Revenues	YTD Expenditures	<u>Surplus/ (Deficit)</u>	
				Amount	Percent
Auto Liability Fund	\$1,400,000	\$1,441,530	\$1,656,965	(\$215,434)	(14.9%)
General Liability Fund	\$1,671,900	\$1,705,417	\$1,597,243	108,175	6.3%
Worker's Compensation Fund	\$3,146,600	\$2,886,532	\$3,255,438	(\$368,907)	(12.8%)
Recreation Revolving Fund	\$5,154,900	\$4,957,950	\$4,901,648	56,302	1.1%
Historical Services Fund	\$1,135,500	\$1,230,310	\$1,232,543	(2,234)	(0.2%)
Golf Course Fund	\$1,734,000	\$1,173,518	\$1,759,990	(\$586,472)	(50.0%)
Leeward Marina Fund	\$267,100	\$259,184	\$262,748	(3,564)	(1.4%)
Tourism Fund	<u>\$1,452,000</u>	<u>\$1,450,147</u>	<u>\$1,369,175</u>	<u>80,972</u>	<u>5.6%</u>
TOTAL	\$15,962,000	\$15,104,588	\$16,035,750	(\$931,162)	(6.2%)
TOTAL PROJECTED DIFFERENCE - Combined	\$513,880,041	\$519,984,174	\$516,634,918	\$3,349,256	