

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

February 23, 2021

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** Second Quarter FY 2021 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.

At the end of the second quarter, there is adequate financial activity to project both revenues and expenditures for the remaining half of the fiscal year. This projection is conservative and assumes that the economic implications of the COVID pandemic will continue through the end of FY 2021.

### *Revenues*

General Fund Revenues are projected to be lower than budgeted by \$7.1 million, or 1.4%. While the City's primary tax base of Real Estate, Personal Property, and Machinery and Tool taxes remains strong, there continue to be several revenue categories associated with social activity (meals, lodging and travel, festivals, entertainment, sports participation, etc.) that reflect lagging revenue collections consistent with limited group access or closed/cancelled activity.

To continue to assist taxpayers, the City Treasurer Payment Arrangement program was applied to the December 2020 tax cycle. The tax payment arrangement program was available to all citizens and businesses experiencing a financial hardship due the pandemic, allowing for current taxes owed on December 5<sup>th</sup> to be paid by February 5<sup>th</sup> without late payment penalty or interest.

With the first half of real estate, personal property, and machinery and tools taxes now mostly collected, there is better activity on which to project. These revenue categories have performed well. Current Real Estate Tax collections are above the 50% mark, and are currently forecasted to exceed the revenue estimate of \$204 million by \$768,000.

Current Personal Property Tax receipts are good, and are on course to exceed this year's revenue \$58.2 million estimate by \$325,000. Machinery and Tools Taxes are another category showing good collections to date, and is projected to be over the \$26.9 million estimate by \$576,000.

Sales Tax revenue, a sensitive local economy indicator, is performing well even during pandemic conditions. Collections are averaging approximately \$2.3 million per month which is about \$175,000 more per month than the same period last year. Sales Tax revenues is currently projected to exceed the FY 2021 estimate of \$26.1 million by \$1.9 million.

The Other Local Taxes revenue category includes the most consumer sensitive revenue of meals, lodging, amusement, and BPOL taxes. While Sales Tax is exceeding budget, almost all other revenue in this category is projected to be less than budgeted due to COVID impacts. A considerable unknown at this point is receipts from Business Professional and Occupational Licenses (BPOL), as the majority of this revenue will not be received until March. BPOL taxes are based on a business' gross receipts earned over the 2020 calendar year. With both temporary and permanent business closures beginning in March 2020, it is anticipated revenue will be varied based on the BPOL category. These revenues will be monitored closely.

Housing market sales remain strong. For the current year, the City is seeing higher than anticipated revenue in this area; this trend is also being exhibited at the State level 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 2021 are at 70% of the \$1.7 million estimate for the year. Any continued growth in housing market sales could contribute to exceeding the estimated revenue from this source by over \$400,000.

As the economically impacted General Fund revenues are currently forecast to be below budget, this quarterly revenue estimate is based on the continued trends experienced to date, and anticipating prolonged pandemic conditions for the remainder of this fiscal year.

***Expenditures***

With a second quarter projected revenue shortfall, the General Fund expenditure restrictions instituted in March 2020 will continue. These include a hiring freeze except for essential and critical positions, and other expenditure restrictions, to ensure that revenues collected for this fiscal year cover operating costs.

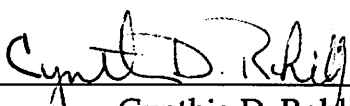
The expenditure restrictions are projected to generate savings to cover the potential second quarter revenue shortfall, with anticipated Departmental savings of \$8.3 million or 1.6% under budget.

These expenditure projections do not include the application of Federal CARES Act Funds. We are in the final stages of the CARES expenditure review. The CARES funds will be applied to any eligible General Fund expenditures in the current fiscal year.

***Combined Results***

In light of the evolving pandemic effect on economic conditions that in turn touch our revenues, at the second quarter, the overall General Fund Operating Budget is projected to end the year with a slight surplus, primarily driven by managed expenditure controls prior to application of CARES funds.

We will continue to monitor revenue collections and departmental spending. With continued, careful expense practices for the remaining six months and allocation of CARES funds, this year's budget is structurally sound without any additional expenditure restraint measures.

  
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Cynthia D. Rohlf

Attachment

cc: Lisa Cipriano, Director of Budget and Evaluation

**FY 2021 OPERATING BUDGET**  
**PROJECTED RESULTS OF OPERATIONS**

*Second Quarter - July 2020 through December 2020*

**GENERAL FUND**

<u>REVENUES</u>	Adopted Budget	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Difference from Revised Budget</u>	
					Surplus/(Deficit) Amount	Percent
Real Estate Taxes <sup>1</sup>	\$204,406,362	\$204,406,362	\$102,183,611	\$205,174,362	\$768,000	0.4%
Personal Property Taxes <sup>2</sup>	58,265,000	58,265,000	29,632,228	58,590,000	325,000	0.6%
Machinery & Tools Taxes <sup>3</sup>	26,950,000	26,950,000	13,808,327	27,526,000	576,000	2.1%
Other General Property Taxes	2,966,000	2,966,000	1,198,626	2,576,000	(390,000)	(13.1%)
Other Local Taxes	107,721,600	107,721,600	35,461,626	103,961,600	(3,760,000)	(3.5%)
Permits and Fees	3,739,621	3,739,621	1,280,662	3,241,621	(498,000)	(13.3%)
Fines and Forfeitures	1,984,800	1,984,800	564,219	1,417,800	(567,000)	(28.6%)
Revenue from Use-Money & Prop	4,972,246	4,972,246	1,178,084	4,874,246	(98,000)	(2.0%)
Charges for Services	6,360,862	6,360,862	3,126,126	5,942,862	(418,000)	(6.6%)
Miscellaneous Revenue	24,212,679	24,212,679	5,959,399	24,175,679	(37,000)	(0.2%)
Recovered Costs	15,354,576	15,354,576	6,734,127	14,301,576	(1,053,000)	(6.9%)
Non-Categorical Aid	1,082,000	1,082,000	532,463	836,000	(246,000)	(22.7%)
Shared Expenses	9,792,391	9,792,391	4,075,687	9,592,391	(200,000)	(2.0%)
Categorical Aid	37,182,123	37,182,123	17,154,755	35,586,332	(1,595,791)	(4.3%)
Non-Revenue Receipts	10,083,740	10,083,740	5,041,870	10,083,740	0	0.0%
<b>TOTAL REVENUES</b>	<b>\$515,074,000</b>	<b>\$515,074,000</b>	<b>\$227,931,811</b>	<b>\$507,880,209</b>	<b>(\$7,193,791)</b>	<b>(1.4%)</b>

<u>EXPENDITURES</u>	Adopted Budget	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Difference from Revised Budget</u>	
					Surplus/(Deficit) Amount	Percent
Personnel Services	\$154,871,993	\$154,871,993	\$73,994,670	\$153,557,503	\$1,314,490	0.8%
Taxes, Benefits, Insurance	79,029,333	78,993,774	37,077,311	77,378,433	1,615,341	2.0%
Contractual Services	22,776,017	22,710,391	18,603,101	22,633,721	76,670	0.3%
Vehicle Costs	6,829,111	6,829,111	3,414,555	6,829,111	0	0.0%
Fuel	1,751,046	1,751,046	478,981	1,157,171	593,875	33.9%
Utilities	7,529,960	7,529,960	2,959,704	7,085,560	444,400	5.9%
Operating Materials, Supplies, Ins	24,623,838	24,687,941	14,122,571	23,307,769	1,380,172	5.6%
Equipment (Except Vehicles)	1,621,898	1,652,930	505,074	1,498,997	153,933	9.3%
Leases, Rentals	7,590,469	7,597,369	4,848,860	7,350,198	247,171	3.3%
Community Support	11,945,141	11,945,141	7,525,169	11,945,141	0	0.0%
Transfer to Schools	113,389,307	113,389,307	56,694,653	113,389,307	0	0.0%
Debt Service/Cash Capital	55,315,689	55,315,689	29,373,425	54,036,171	1,279,518	2.3%
Payments to Other Funds	17,757,871	17,757,871	4,143,984	17,657,871	100,000	0.6%
Direct Program Costs - DHS	10,042,327	10,041,477	4,457,279	8,848,609	1,192,868	11.9%
<b>TOTAL EXPENDITURES</b>	<b>\$515,074,000</b>	<b>\$515,074,000</b>	<b>\$258,199,338</b>	<b>\$506,675,562</b>	<b>\$8,398,438</b>	<b>1.6%</b>

**TOTAL DIFFERENCE**

**\$1,204,647**

<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