

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

May 25, 2021

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

In the third quarter, there is a revenue shortfall of \$3,599,000 offset by an expenditure surplus of \$9,145,618, resulting in an adjusted forecasted surplus of \$5,546,618. This projection, which improved from the previous quarter, is conservative and assumes that the economic implications of the COVID pandemic will continue through the end of FY 2021, but at an upgraded recovery pace.

### *Revenues*

General Fund Revenues are projected to be lower than budgeted by \$3.6 million, or 0.7%. The lower projection can be attributed to the ongoing impact that the pandemic has had on revenue categories associated with social activities. For example, meals, lodging and travel, festivals, entertainment, sports participation, etc. are lagging in estimated collections, reflecting limited group or public access or closed/cancelled activities

The City's primary tax base of Real Estate, Personal Property, and Machinery and Tool taxes have met or exceeded anticipated collections, and are expected to fully achieve the revenue estimates for the year.

With the first half of Real Estate, Personal Property, and Machinery and Tools Taxes now collected, these revenue categories have performed well. Current Real Estate Tax collections are above the 51% mark, and are currently forecasted to exceed the \$204 million revenue estimate by \$939,000.

Current Personal Property Tax receipts are on course to exceed this year's revenue \$58.3 million estimate by \$1.1 million. Machinery and Tools Taxes are another category showing good collections to date, and is projected to be over the \$26.9 million estimate by \$390,000.

Sales Tax revenue, a sensitive local economy indicator, is performing beyond anticipation for the pandemic conditions. Collections are averaging approximately \$2.2 million per month which is more than about \$200,000 more per month than the same period last year. Sales Tax revenues are currently projected to exceed the FY 2021 estimate of \$26.1 million by \$2.4 million.

The Other Local Taxes revenue category includes the most consumer sensitive revenue of meals, lodging, amusement, and Business, Professional and Occupational Licenses (BPOL) taxes. While a few revenue items, like Sales Tax and BPOL, are exceeding the estimate, almost all other revenue in this category is projected to be less than budgeted due to COVID impacts.

At the end of the third quarter, the majority of the estimated \$17.9 million BPOL receipts had been collected. 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 was anticipated revenue would underperform the estimate. BPOL revenue is showing stronger performance than anticipated, with collections surpassing the estimate across all the major categories; it is expected to exceed the FY 2021 estimate by \$958,000 or 5.3%.

Housing market sales continue to remain strong and growing, a trend that is experienced at both the State and City level. The Grantees Tax on Deeds Collections are averaging \$38,000 more per month than this point last fiscal year, with revenue collection now above the \$1.7 million estimate for the year by \$504,000. Any continued growth in housing market sales would contribute to exceeding the estimated revenue from this source even further by fiscal year end.

As previously noted, there are several revenue categories that are anticipated to have underperforming collections for the remainder of this fiscal year. With pandemic restrictions, limited social activity is the contributory condition impacting revenue from meals, lodging, and travel taxes. Income from festivals, entertainment and sports participation are lagging in estimated collections. A revenue example is Meal Tax, projected at the end of the third quarter to be under the \$27.6 million estimate by \$1.1 million. Other revenue loss reflects limited group or public access or closed/cancelled activities, this includes all City sponsored festivals (annual July 4th, Fall Fest, and Children's Festival, for example), programs, and seasonal sports activities.

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 pandemic conditions for the remainder of this fiscal year.

***Expenditures***

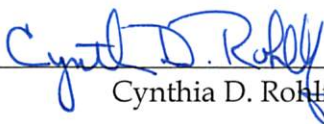
Overall, Departmental operating expenses are expected to be \$9,145,618 or 1.8% under budget. The major contributor to this level of savings continues to be the General Fund expenditure restrictions instituted in March 2020. These include a hiring freeze except for essential and critical positions, and other expenditure restrictions, to ensure that revenues collected for this fiscal year cover operating costs. One additional savings is in Debt Service payments; a full year of debt payments on the new bond issue was slated for FY 2021. By stretching the existing bond cash, and issuing bonds in March 2021, the City was able to save approximately \$1.2 million in debt principle and interest payments.

These expenditure projections do not include the application of Federal CARES Act Funds. The CARES funds will be applied to any eligible General Fund expenditures in the current fiscal year at year-end.

***Combined Results***

As the pandemic continues to have changing effects on economic conditions that in turn affect our revenues, the overall General Fund Operating Budget third quarter forecast is projected to end the year with a small surplus, primarily driven by managed expenditure controls prior to application of the CARES funds.

We will continue to monitor revenue collections and departmental spending through to the end of the fiscal year. With continued, careful expense practices and allocation of CARES funds, this year's budget remains 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**

*Third Quarter - July 2020 through March 2021*

**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	\$105,608,699	\$205,345,362	\$939,000	0.5%
Personal Property Taxes <sup>2</sup>	58,265,000	58,265,000	33,309,050	59,385,000	1,120,000	1.9%
Machinery & Tools Taxes <sup>3</sup>	26,950,000	26,950,000	13,951,810	27,340,000	390,000	1.4%
Other General Property Taxes	2,966,000	2,966,000	2,047,706	2,664,000	(302,000)	(10.2%)
Other Local Taxes	107,721,600	107,721,600	74,569,730	107,748,600	27,000	0.0%
Permits and Fees	3,739,621	3,739,621	1,776,672	2,831,621	(908,000)	(24.3%)
Fines and Forfeitures	1,984,800	1,984,800	877,383	1,475,800	(509,000)	(25.6%)
Revenue from Use-Money & Prop	4,972,246	4,972,246	1,742,252	3,472,246	(1,500,000)	(30.2%)
Charges for Services	6,360,862	6,360,862	4,780,109	6,177,862	(183,000)	(2.9%)
Miscellaneous Revenue	24,212,679	24,212,679	9,538,026	24,144,679	(68,000)	(0.3%)
Recovered Costs	15,354,576	15,354,576	10,624,444	14,054,576	(1,300,000)	(8.5%)
Non-Categorical Aid	1,082,000	1,082,000	739,146	368,000	(714,000)	(66.0%)
Shared Expenses	9,792,391	9,792,391	6,773,754	10,187,391	395,000	4.0%
Categorical Aid	37,182,123	37,182,123	26,039,947	36,196,123	(986,000)	(2.7%)
Non-Revenue Receipts	10,083,740	10,083,740	7,562,805	10,083,740	0	0.0%
<b>TOTAL REVENUES</b>	<b>\$515,074,000</b>	<b>\$515,074,000</b>	<b>\$299,941,534</b>	<b>\$511,475,000</b>	<b>(\$3,599,000)</b>	<b>(0.7%)</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	\$108,540,285	\$152,125,173	\$2,746,820	1.8%
Taxes, Benefits, Insurance	79,029,333	78,993,774	56,148,983	77,725,547	1,268,227	1.6%
Contractual Services	22,776,017	22,724,218	21,436,196	22,721,701	2,517	0.0%
Vehicle Costs	6,829,111	6,829,111	5,121,833	6,829,111	0	0.0%
Fuel	1,751,046	1,751,046	757,580	1,135,943	615,103	35.1%
Utilities	7,529,960	7,527,960	4,754,066	6,878,432	649,528	8.6%
Operating Materials, Supplies, Ins	24,623,838	24,830,154	18,668,163	23,579,928	1,250,226	5.0%
Equipment (Except Vehicles)	1,621,898	1,652,901	736,636	1,554,923	97,978	5.9%
Leases, Rentals	7,590,469	7,543,358	6,360,431	7,362,136	181,222	2.4%
Community Support	11,945,141	11,945,141	8,353,599	11,945,141	0	0.0%
Transfer to Schools	113,389,307	113,389,307	85,041,980	113,389,307	0	0.0%
Debt Service/Cash Capital	55,315,689	55,315,689	38,430,701	54,036,171	1,279,518	2.3%
Payments to Other Funds	17,757,871	17,657,871	8,085,669	17,557,871	100,000	0.6%
Direct Program Costs - DHS	10,042,327	10,041,477	6,811,849	9,086,998	954,479	9.5%
<b>TOTAL EXPENDITURES</b>	<b>\$515,074,000</b>	<b>\$515,074,000</b>	<b>\$369,247,971</b>	<b>\$505,928,382</b>	<b>\$9,145,618</b>	<b>1.8%</b>

**TOTAL DIFFERENCE**

**\$5,546,618**

<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

<u>OTHER GENERAL FUND SUPPORTED FUNDS</u>	Adopted Budget	Projected Revenues	Projected Expenditures	Surplus/(Deficit)	
				Amount	Percent
Auto Liability Fund	\$1,446,400	\$1,443,169	\$1,685,610	(\$242,441)	(16.8%)
General Liability Fund	\$1,693,900	\$1,710,875	\$1,683,116	\$27,759	1.6%
Worker's Compensation Fund	\$3,152,900	\$2,943,061	\$3,052,930	(\$109,869)	(3.7%)
Recreation Revolving Fund	\$5,436,200	\$2,091,085	\$3,892,508	(\$1,801,423)	(86.1%)
Historical Services Fund	\$1,191,400	\$923,585	\$1,229,982	(\$306,397)	(33.2%)
Golf Course Fund	\$1,774,700	\$1,292,503	\$1,820,060	(\$527,557)	(40.8%)
Leeward Marina Fund	\$275,000	\$259,017	\$273,618	(\$14,601)	(5.6%)
Tourism Fund	\$1,452,000	\$1,450,000	\$1,243,005	\$206,995	14.3%
<b>TOTAL</b>	<b>\$16,422,500</b>	<b>\$12,113,295</b>	<b>\$14,880,829</b>	<b>(\$2,767,534)</b>	<b>(22.8%)</b>

**TOTAL PROJECTED DIFFERENCE - Combined**

**\$2,779,084**