

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

October 26, 2021

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Unaudited Preliminary FY 2021 Fourth Quarter Financial Report

This Fourth Quarter FY 2021 Financial Report, prepared by the Department of Budget and Evaluation, describes the budgetary performance of revenues and expenditures at the end of the fiscal year. This report uses preliminary and unaudited results of operations, in a Budget to Actual comparison, for the fiscal year ending June 30, 2021. 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).

From the initial onset of the COVID-19 pandemic in March 2020, we have consistently prepared and adjusted for the potential of significant revenue losses. Accordingly, we continued the hiring freeze for non-essential positions that was established at the end of FY 2020 in addition to other expenditure restrictions to ensure that revenues generated for the fiscal year would cover vital operating costs.

With each month, General Fund revenues performed better than anticipated. With a strong Real Estate Tax collection, and stabilization of some consumer sensitive revenues during the year, General Fund Revenues exceeded the \$515.5 million budget by nearly \$4.6 million.

General Fund expenditure savings also contributed positively to ending the fiscal year on solid footing. The expenditure savings will be detailed further in this memorandum.

In total, the revenue surplus, when combined with expenditures, resulted in a net projected year-end surplus of \$1.9 million.

Revenues

Local taxes from the three major revenue drivers of Real Estate, Personal Property, and Machinery and Tools met or exceeded FY 2021 projections. The City's revenue continues to have a solid foundation in its real estate tax base. Total collections of \$204.2 million, factoring in Real Estate Tax Relief programs, just missed the total revenue estimate by \$145 thousand or (0.1%).

Personal Property Tax receipts exceeded budget estimates by almost \$2.3 million or 3.9% higher than projected. Machinery and Tools Taxes also exceed revenue estimates with \$1.9 million more than the \$26.9 million budgeted. Machinery and Tools tax collections continue to make Newport News one of the highest generators of this revenue source in the State.

The Other Local Taxes revenue category includes the most consumer sensitive revenues of sales, meals, lodging, amusement, and BPOL taxes. Sales Tax revenues have been resilient throughout the year, showing month to month increased collections over the prior fiscal year, with revenue \$4.7 million more than the estimate of \$26.1 million. Meal Tax receipts appeared to be highly volatile at the beginning of the fiscal year, but routinely showed increased performance, ending the year approximately \$336 thousand more than the \$27.9 million estimate. Lodging and Amusement tax revenues underperformed, never fully recovering to pre-pandemic levels, falling short of their combined \$5 million estimate by almost \$1.5 million.

Business Professional and Occupational Licenses (BPOL) also performed strongly this fiscal year. Collections exceeded the \$17.9 million estimate by \$1.5 million. BPOL taxes are based on a business' gross receipts earned over the prior calendar year. With both temporary and permanent business closures beginning in March 2020, it was anticipated this revenue would underperform its estimate. These strong collections show the resilience of our Newport News businesses.

Housing market sales continued to remain strong and growing throughout the fiscal year, a trend that was experienced at local, state, and national levels. The Grantees Tax on Deeds Collections averaged \$49 thousand more per month than last fiscal year, with revenue collections \$747 thousand above the \$1.7 million estimate.

Due to pandemic restrictions, underperformance of several consumer sensitive revenue categories was anticipated. While this condition held true

and many of these revenue categories continue to lag, they have been offset by strong performance in the City's major property tax categories.

Expenditures

The Operating Departments did an outstanding job controlling expenditures in FY 2021, and as a result, the total General Fund expenditures ended the year below budget prior to year-end adjustments.

These savings were primarily attributed to three major areas. First, as a result of departments' diligence in holding non-essential positions vacant coupled with sustained vacancies in hard to fill positions, total General Fund personnel expenditures ended the year approximately \$6.5 million below budget.

In addition, \$9.3 million of remaining federal CARES Act funding was applied to salary expenses. These allowable payroll expenses represent primarily public safety positions substantially dedicated to mitigating or responding to COVID-19, and were recognized as part of closing out the CARES funding for FY 2021.

Finally, operating budget expenditure restrictions and reduced operating costs due to COVID conditions also contributed to the savings. Most notably was debt service savings resulting from issuing bonds later than planned. By stretching existing bond cash further and issuing bonds in March 2021, coupled with a superior interest rate, approximately \$4.2 million in debt principle and interest payments were able to be redirected to the debt service reserve.

Revenues being stronger than initially anticipated, combined with operational savings, provided the opportunity to continue our practice of funding cash capital and debt service reserves, as a hedge against future debt borrowing, and to continue to have the flexibility in being prepared for the long term economic impacts of the COVID-19 pandemic.

Year-End Adjustments

As part of the year-end closing process, adjustments were made to allocate the estimated year-end surplus to Debt/Cash Capital, to establish a Pension Fund reserve, and to provide for additional funding to our self-insurance reserves. These allocations allow the City to have ready access to funds without having to use General Fund Balance reserves or to acquire additional debt, and grants

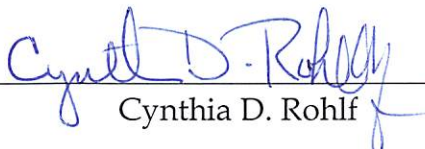
a degree of flexibility for future years in stabilizing potential Pension contribution increases.

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 one-time Federal CARES Act funding that helped supplement our pandemic response efforts and assisted in our efforts to control spending.

The combined General Fund year-end surplus is anticipated to be \$949 thousand, 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 Fund Balance of the City's General Fund. The City's General Fund - 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 - Fund Balance level of 11% or more, whenever possible. At FY 2021 year-end, the General Fund unassigned balance is anticipated to remain near the 14% level. This fund balance reserve level is an important element in the City's overall strong financial management.

I am pleased to report that the hard work by the operating departments to mitigate costs, bolstered by strong collections in our core revenue sources resulted in the best of situations. 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 2021 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Unaudited - Initial Projections Fourth Quarter - July 2020 through June 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 ¹	\$204,406,362	\$204,406,362	\$204,168,245	\$204,260,597	(\$145,765)	(0.1%)
Personal Property Taxes ²	58,265,000	58,265,000	60,555,736	60,555,736	2,290,736	3.9%
Machinery & Tools Taxes ³	26,950,000	26,950,000	28,939,064	28,939,064	1,989,064	7.4%
Other General Property Taxes	2,966,000	2,966,000	3,349,902	3,257,550	291,550	9.8%
Other Local Taxes	107,721,600	107,721,600	112,282,967	112,282,967	4,561,367	4.2%
Permits and Fees	3,739,621	3,739,621	2,820,467	2,820,467	(919,154)	(24.6%)
Fines and Forfeitures	1,984,800	1,984,800	1,242,956	1,242,956	(741,844)	(37.4%)
Revenue from Use-Money & Prop	4,972,246	4,972,246	2,589,241	2,589,241	(2,383,005)	(47.9%)
Charges for Services	6,360,862	6,360,862	6,959,558	6,959,558	598,696	9.4%
Miscellaneous Revenue	24,212,679	24,602,600	25,385,766	25,385,766	783,166	3.2%
Recovered Costs	15,354,576	15,354,576	13,986,169	13,986,169	(1,368,407)	(8.9%)
Non-Categorical Aid	1,082,000	1,082,000	1,145,795	1,145,795	63,795	5.9%
Shared Expenses	9,792,391	9,792,391	10,708,214	10,708,214	915,823	9.4%
Categorical Aid	37,182,123	37,260,111	35,966,660	35,966,660	(1,293,451)	(3.5%)
Non-Revenue Receipts	10,083,740	10,083,740	10,083,740	10,083,740	0	0.0%
TOTAL REVENUES	\$515,074,000	\$515,541,909	\$520,184,480	\$520,184,480	\$4,642,571	0.9%

<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	\$154,874,641	\$142,123,065	\$142,123,065	\$12,751,576	8.2%
Taxes, Benefits, Insurance	79,029,333	78,997,791	75,875,422	75,875,422	3,122,369	4.0%
Contractual Services	22,776,017	23,177,411	23,002,950	23,002,950	174,461	0.8%
Vehicle Costs	6,829,111	6,829,111	6,829,111	6,829,111	0	0.0%
Fuel	1,751,046	1,751,046	1,132,592	1,132,592	618,454	35.3%
Utilities	7,529,960	7,527,960	7,066,935	7,066,935	461,026	6.1%
Operating Materials, Supplies, Ins	24,623,838	24,785,643	22,698,621	22,698,621	2,087,022	8.4%
Equipment (Except Vehicles)	1,621,898	1,729,387	1,616,241	1,616,241	113,146	6.5%
Leases, Rentals	7,590,469	7,543,358	7,415,493	7,415,493	127,865	1.7%
Community Support	11,945,141	11,945,141	10,919,885	10,919,885	1,025,256	8.6%
Transfer to Schools	113,389,307	113,389,307	113,389,307	113,389,307	0	0.0%
Debt Service/Cash Capital	55,315,689	55,315,689	78,315,689	78,315,689	(23,000,000)	(41.6%)
Payments to Other Funds	17,757,871	17,633,947	19,224,028	19,224,028	(1,590,081)	(9.0%)
Direct Program Costs - DHS	10,042,327	10,041,477	8,584,638	8,584,638	1,456,839	14.5%
TOTAL EXPENDITURES	\$515,074,000	\$515,541,909	\$518,193,977	\$518,193,977	(\$2,652,068)	(0.5%)

TOTAL DIFFERENCE

\$1,990,503

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	Projected Revenues	Projected Expenditures	<u>Surplus/(Deficit)</u>	
				Amount	Percent
Auto Liability Fund	\$1,446,400	\$1,475,472	\$1,720,255	(\$244,783)	(16.6%)
General Liability Fund	\$1,693,900	\$1,744,984	\$1,805,800	(\$60,816)	(3.5%)
Worker's Compensation Fund	\$3,152,900	\$2,894,133	\$3,242,824	(\$348,691)	(12.0%)
Recreation Revolving Fund	\$5,436,200	\$3,372,070	\$3,372,070	(\$0)	(0.0%)
Historical Services Fund	\$1,191,400	\$1,233,396	\$1,233,681	(\$285)	(0.0%)
Golf Course Fund	\$1,774,700	\$1,380,779	\$1,790,618	(\$409,839)	(29.7%)
Leeward Marina Fund	\$275,000	\$253,522	\$272,863	(\$19,341)	(7.6%)
Tourism Fund	\$1,452,000	\$1,450,718	\$1,407,790	\$42,928	\$0
TOTAL	\$16,422,500	\$13,805,073	\$14,845,901	(\$1,040,828)	(7.5%)
TOTAL PROJECTED DIFFERENCE - Combined	\$531,964,409	\$533,989,553	\$533,039,877	\$949,675	