

CITY OF NEWPORT NEWS

Office of the City Manager

February 22, 2022

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Second Quarter FY 2022 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 sufficient financial activity to forecast both revenues and expenditures for the remaining half of the fiscal year. This quarterly projection does not include any funding support from the American Rescue Plan Act (ARPA) for on-going COVID-related eligible expense.

Revenues

General Fund Revenues are projected to be higher than budgeted by \$6.8 million, or 1.3%. The City's primary tax base of Real Estate, Personal Property, and Machinery and Tool taxes is strong, and is anticipated to have higher than estimated collections. As a reminder, in the FY 2022 budget preparation cycle, modest reductions were made in some revenue estimates, with the goal of being careful amid the continued implications of the COVID pandemic at the time. These revenues were sales and meals taxes, lodging and travel, and entertainment.

Real Estate Tax collections are at the 50% mark, and are currently forecasted to meet the revenue estimate of \$215 million. Personal Property Tax receipts are on course to exceed this year's revenue \$58.6 million estimate by almost \$2.5 million. For this calendar year, it is important to note that the collection rate is impacted by inflationary forces on both new and used cars. Machinery and Tools Taxes are also showing strong collections to date; these are projected to be over the \$27.7 million estimate by \$1.7 million.

At the end of the second quarter, sales tax revenue is higher than projected, driven in part by inflation. Collections are averaging approximately \$2.7 million per month; this is about \$248,000 more per month than the same period last year. Sales Tax revenues are currently projected to exceed the FY 2022 estimate of \$28.6 million by \$3.2 million. Meals Tax revenue is equally stable, and is also anticipated to exceed the \$26.5 million estimate by \$3.2 million.

The Other Local Taxes revenue category includes the most consumer sensitive revenue of lodging, amusement, and BPOL taxes, all of which are projected to meet or slightly exceed their individually estimated budgets. During the preparation of the FY 2022 budget, modest reductions were made to some of these revenue estimates, with a goal of being careful amid the continued implications of the COVID pandemic at that time. An unknown at this point is Business Professional and Occupational Licenses (BPOL) receipts, as the majority of this revenue will not be received until March. BPOL taxes are based on a business' gross receipts earned over the 2021 calendar year. These revenues will be monitored very closely.

Housing market sales remain strong. For the current year, 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 2022 are at 69% of the \$2.1 million estimate for the year. Any continued growth in housing market sales could contribute to exceeding the estimated revenue from this source by approximately \$700,000.

As General Fund revenues are currently projected to be above budget, this quarterly revenue estimate is based on the continued trends experienced to date, and anticipating moderating inflation conditions for the remainder of this fiscal year.

Expenditures


General Fund expenditures are anticipated to be within the adopted budget for the fiscal year. Two important expenditure changes occurred after the FY 2022 Budget adoption. First, to be competitive in this continuing tight job market, sworn Public Safety personnel and Dispatchers (Police, Fire, and Sheriff Departments) were provided additional salary adjustments, resulting in higher than budgeted personnel expense in these departments. Second, a new citywide security workforce contract was reissued during

the second quarter. At current market rates, this contract exceeded budgeted amounts for the fiscal year. In addition, to these two changes that occurred after the budget adoption almost all categories of expenditures are being impacted by month over month inflationary pressure. This is seen in several areas from fuel, food services, all purchased goods, to contractual services and staffing.

Combined Results

The overall General Fund Operating Budget is projected to end the year with a surplus, primarily driven by strong revenue receipts and managed expenditure controls. This projection does not include the application of American Rescue Plan Act (ARPA) funds. ARPA funds may be applied to eligible General Fund expenditures over the four year grant period.

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



Cynthia D. Rohlf

Attachment

cc: Director of Budget and Evaluation

**FY 2022 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Second Quarter - July 2021 through December 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	\$215,757,590	\$215,757,590	\$108,314,336	\$215,793,590	\$36,000	0.0%
Personal Property Taxes ²	58,665,000	58,665,000	33,096,539	61,155,000	2,490,000	4.2%
Machinery & Tools Taxes ³	27,725,000	27,725,000	14,989,920	29,425,000	1,700,000	6.1%
Other General Property Taxes	2,982,000	2,982,000	1,488,843	3,008,000	26,000	0.9%
Other Local Taxes	106,732,000	106,732,000	40,901,846	113,741,000	7,009,000	6.6%
Permits and Fees	3,340,051	3,340,051	1,576,132	3,040,051	(300,000)	(9.0%)
Fines and Forfeitures	1,487,200	1,487,200	627,166	1,193,200	(294,000)	(19.8%)
Revenue from Use-Money & Prop	4,014,687	4,014,687	1,099,761	2,653,687	(1,361,000)	(33.9%)
Charges for Services	6,009,232	6,009,232	3,686,201	6,578,232	569,000	9.5%
Miscellaneous Revenue	24,679,250	24,679,250	6,297,301	24,837,250	158,000	0.6%
Recovered Costs	14,481,148	14,481,148	6,810,125	13,179,148	(1,302,000)	(9.0%)
Non-Categorical Aid	638,000	638,000	452,705	773,000	135,000	21.2%
Shared Expenses	10,481,000	10,481,000	4,859,398	10,196,000	(285,000)	(2.7%)
Categorical Aid	38,131,102	38,131,102	20,729,357	36,362,302	(1,768,800)	(4.6%)
Non-Revenue Receipts	20,983,740	20,983,740	5,141,870	20,983,740	0	0.0%
TOTAL REVENUES	\$536,107,000	\$536,107,000	\$250,071,501	\$542,919,200	\$6,812,200	1.3%

<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	\$156,487,521	\$156,484,315	\$76,070,352	\$158,361,791	(\$1,877,476)	(1.2%)
Taxes, Benefits, Insurance	80,353,993	80,353,749	37,468,685	79,500,318	853,431	1.1%
Contractual Services	21,711,681	21,746,908	14,757,699	22,518,320	(771,412)	(3.5%)
Vehicle Costs	6,775,859	6,775,859	3,387,929	6,775,859	0	0.0%
Fuel	1,687,513	1,692,513	826,285	1,620,145	72,368	4.3%
Utilities	4,861,623	4,861,623	1,910,189	4,628,998	232,625	4.8%
Operating Materials, Supplies, Ins	33,846,808	33,788,903	17,765,004	32,591,489	1,197,414	3.5%
Equipment (Except Vehicles)	1,687,398	1,693,178	1,013,284	1,577,845	115,333	6.8%
Leases, Rentals	7,834,299	7,849,647	5,355,716	7,720,382	129,265	1.6%
Community Support	11,765,902	11,765,902	5,658,876	11,765,902	0	0.0%
Transfer to Schools	113,389,307	113,389,307	56,694,654	113,389,307	0	0.0%
Debt Service/Cash Capital	65,563,657	65,563,657	28,995,689	65,563,657	0	0.0%
Payments to Other Funds	20,099,962	20,099,962	5,302,586	19,949,962	150,000	0.7%
Direct Program Costs - DHS	10,041,477	10,041,477	4,834,146	9,517,678	523,799	5.2%
TOTAL EXPENDITURES	\$536,107,000	\$536,107,000	\$260,041,095	\$535,481,653	\$625,347	0.1%

TOTAL DIFFERENCE

\$7,437,547 1.4%

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	\$1,576,300	\$1,576,300	\$1,708,028	(\$131,728)	(8.4%)
General Liability Fund	\$1,764,600	\$1,865,591	\$1,955,911	(\$90,320)	(4.8%)
Worker's Compensation Fund	\$3,159,100	\$2,989,234	\$3,323,761	(\$334,527)	(11.2%)
Recreation Revolving Fund	\$4,607,400	\$2,786,389	\$3,754,558	(\$968,169)	(34.7%)
Historical Services Fund	\$1,273,000	\$1,105,073	\$1,264,785	(\$159,712)	(14.5%)
Golf Course Fund	\$1,735,000	\$1,419,350	\$1,758,768	(\$339,418)	(23.9%)
Leeward Marina Fund	\$275,000	\$267,753	\$286,507	(\$18,754)	(7.0%)
Tourism Fund	\$1,451,000	\$1,451,000	\$1,447,594	\$3,406	0.2%
TOTAL	\$15,841,400	\$13,460,690	\$15,499,912	(\$2,039,222)	(15.1%)

TOTAL PROJECTED DIFFERENCE - Combined

\$5,398,325