

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

June 14, 2022

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** Third Quarter FY 2022 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.

The third quarter projection has significantly improved from the previous quarter driven by strong revenue performance. As a reminder, it is important to note that modest reductions were made during the FY 2022 budget preparation cycle in several revenue categories due to the ongoing implications of the COVID-19 pandemic at that time. These more conservative revenue budgets coupled with the economic impacts of record high inflationary periods have contributed to General Fund Revenues trending higher than budget by \$16.9 million. Inflationary pressures are also impacting expenditures. While several expenditure categories have exceeded the planned level of expense, we expect to end FY 2022 within the overall budget.

### **Revenues**

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.

Real Estate Tax collections are currently forecasted to exceed the revenue estimate of \$215 million by \$2.4 million. Personal Property Tax receipts are on course to exceed this year's revenue \$58.6 million estimate by slightly more than \$4 million, with \$2.5 million of this amount coming from delinquent payments. While vehicle assessments for calendar year 2022 were anticipated to average 33% higher than 2021, this revenue reflects only

a modest increase over prior year collection due to a 25% reduction in the automobile/truck assessment ratio approved for calendar year 2022, by City Council in March 2022. This ratio reduction provided relief to residents impacted by inflation on both new and used cars. The Machinery and Tools Taxes are also showing strong collections to date; these are projected to be over the \$27.7 million estimate by \$2.9 million.

The Other Local Taxes revenue category includes the most consumer sensitive revenue types of sales tax, meals tax, Business Professional and Occupational License (BPOL) and lodging and amusement taxes. At the end of the third quarter, Sales and Meals tax revenue is projected to exceed budget by \$2.5 and \$2.2 million respectfully. This growth in Sales and Meals tax continues to exceed expectations and can be attributed to an increase in retail sales and the rapid rise in inflation.

At the end of the third quarter, the majority of the estimated \$17.5 million Business, Professional and Occupational Licenses (BPOL) receipts had been collected. BPOL taxes are based on a business' gross receipts earned over the 2021 calendar year. BPOL revenue is showing strong performance, with collections surpassing the estimate across all the major categories; it is expected to exceed the FY 2022 estimate by \$3.4 million or 19.5%.

Housing market sales remain strong; however, we are beginning to see the effects of the Federal Reserve's effort to slow inflation. For the current year, the Grantees Tax on Deeds Collections are still averaging about \$50,000 more per month than this point last fiscal year, with collections slightly lower for the past two months. At the third quarter mark, revenue from this source have exceeded the FY 2022 \$2.1 million estimate by \$727,000.

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**

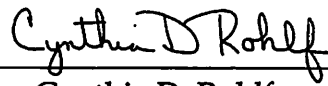
General Fund expenditures are anticipated to be within the adopted budget for the fiscal year. As a reminder, two important expenditure changes occurred after the FY 2022 Budget adoption. First, to be competitive in this continuing tight job market, sworn Public Safety personnel and Dispatchers (Police, 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. Separately, 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. As has been our long standing practice, we will continue to operate within budgeted amounts, holding expenses as necessary to ensure that operating costs are contained within the budgeted levels.

### **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.

  
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Cynthia D. Rohlf

Attachment

cc: Lisa Cipriano, Director of Budget and Evaluation

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

Third Quarter - July 2021 through March 2022

**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>	\$215,757,590	\$215,757,590	\$110,901,560	\$218,157,590	\$2,400,000	1.1%
Personal Property Taxes <sup>2</sup>	58,665,000	58,665,000	36,962,144	63,115,000	4,450,000	7.6%
Machinery & Tools Taxes <sup>3</sup>	27,725,000	27,725,000	15,006,112	30,625,000	2,900,000	10.5%
Other General Property Taxes	2,982,000	2,982,000	2,641,955	3,526,800	544,800	18.3%
Other Local Taxes	106,732,000	106,732,000	83,800,373	115,832,000	9,100,000	8.5%
Permits and Fees	3,340,051	3,340,051	2,558,917	3,311,051	(29,000)	(0.9%)
Fines and Forfeitures	1,487,200	1,487,200	1,059,726	1,119,200	(368,000)	(24.7%)
Revenue from Use-Money & Prop	4,014,687	4,014,687	1,768,149	2,814,687	(1,200,000)	(29.9%)
Charges for Services	6,009,232	6,009,232	5,625,662	6,834,232	825,000	13.7%
Miscellaneous Revenue	24,679,250	25,049,793	12,045,449	25,397,993	348,200	1.4%
Recovered Costs	14,481,148	14,481,148	9,871,477	13,724,148	(757,000)	(5.2%)
Non-Categorical Aid	638,000	638,000	739,844	900,000	262,000	41.1%
Shared Expenses	10,481,000	10,481,000	7,032,775	10,606,000	125,000	1.2%
Categorical Aid	38,131,102	38,131,102	28,191,879	36,514,102	(1,617,000)	(4.2%)
Non-Revenue Receipts	20,983,740	20,983,740	20,030,884	20,983,740	0	0.0%
<b>TOTAL REVENUES</b>	<b>\$536,107,000</b>	<b>\$536,477,543</b>	<b>\$338,236,906</b>	<b>\$553,461,543</b>	<b>\$16,984,000</b>	<b>3.2%</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	\$156,487,521	\$156,434,215	\$94,686,527	\$157,555,215	(\$1,121,000)	(0.7%)
Taxes, Benefits, Insurance	80,353,993	80,341,422	56,705,730	78,727,360	1,614,062	2.0%
Contractual Services	21,711,681	22,183,002	21,828,945	24,429,218	(2,246,216)	(10.1%)
Vehicle Costs	6,775,859	6,775,859	5,081,894	6,775,859	0	0.0%
Fuel	1,687,513	1,692,513	1,269,943	1,915,915	(223,402)	(13.2%)
Utilities	4,861,623	4,861,623	3,003,022	4,653,241	208,382	4.3%
Operating Materials, Supplies, Ins	33,846,808	33,876,279	25,131,054	32,488,889	1,387,390	4.1%
Equipment (Except Vehicles)	1,687,398	1,702,678	1,125,245	1,597,108	105,570	6.2%
Leases, Rentals	7,834,299	7,849,647	6,885,137	7,737,379	112,268	1.4%
Community Support	11,765,902	11,765,902	10,539,912	11,765,902	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	65,563,657	65,563,657	44,658,776	65,563,657	0	0.0%
Payments to Other Funds	20,099,962	19,999,962	6,452,085	19,749,962	250,000	1.3%
Direct Program Costs - DHS	10,041,477	10,041,477	7,099,203	9,241,477	800,000	8.0%
<b>TOTAL EXPENDITURES</b>	<b>\$536,107,000</b>	<b>\$536,477,543</b>	<b>\$369,509,455</b>	<b>\$535,590,490</b>	<b>\$887,053</b>	<b>0.2%</b>

**TOTAL DIFFERENCE**

**\$17,871,053 3.3%**

<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	<u>Surplus/ (Deficit)</u>	
				Amount	Percent
Auto Liability Fund	\$1,576,300	\$1,583,280	\$1,789,900	(\$206,620)	(13.1%)
General Liability Fund	\$1,764,600	\$1,838,151	\$2,267,163	(\$429,012)	(23.3%)
Worker's Compensation Fund	\$3,159,100	\$2,979,894	\$3,154,225	(\$174,331)	(5.9%)
Recreation Revolving Fund	\$4,607,400	\$2,992,818	\$2,992,818	\$0	0.0%
Historical Services Fund	\$1,273,000	\$1,108,714	\$1,266,170	(\$157,456)	(14.2%)
Golf Course Fund	\$1,735,000	\$1,476,931	\$2,032,934	(\$556,003)	(37.6%)
Leeward Marina Fund	\$275,000	\$280,078	\$272,232	\$7,846	2.8%
Tourism Fund	\$1,451,000	\$1,451,000	\$1,447,368	\$3,632	0.3%
<b>TOTAL</b>	<b>\$15,841,400</b>	<b>\$13,710,866</b>	<b>\$15,222,810</b>	<b>(\$1,511,944)</b>	<b>(11.0%)</b>

**TOTAL PROJECTED DIFFERENCE - Combined**

**\$16,359,109**