

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

November 9, 2012

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** First Quarter FY 2013 Financial Report

I am providing the first quarter forecast of revenues and expenditures for the current fiscal year, prepared by the Department of Budget and Evaluation. These projections are based on actual performance for the first three months (July through September) and a projection of financial activities over the remaining nine months.

As a reminder, the first quarter revenues are the most difficult to project. This quarter falls just prior to the collection of the majority of our semi-annual revenues (Real Estate Taxes, Personal Property Taxes, and Machinery and Tools Taxes). At the end of the first quarter, only 1.8% of the \$225.1 million in the total General Property Tax revenue category has been booked, making for a broad year-end projection for these sources, based on prior fiscal years' activities. There is a marginally higher level of collections at this point than for last fiscal year, keeping in mind that the budget for this category of revenues is lower than FY 2012 by \$2.1 million. To illustrate this point, only \$72,000 in Current Real Estate Taxes was received by the end of September against an estimate of \$155.2 million. When individual year-to-date activity for each revenue source is compared to its performance at this same point last year, the majority of the individual revenue sources are level or flat with the collections at the end of September 2011.

There is one notable exception, and that is Real Estate Tax Deferral for the Elderly and Disabled. The number of affirmed applicants for this program dropped by 41% from the previous fiscal year, causing the amount of tax deferral to be less by \$300,000 than the \$1.9 million estimated for FY 2013. In contrast, the revenue loss for the State-mandated Disabled Veteran's Real Estate tax relief program will exceed this fiscal year's revenue relief estimate by an additional \$129,000. For FY 2012, there were 188 eligible veterans enrolled in the program. For

FY 2013, that number grew by 41% or 78 additional individuals being processed, for a total of 266 participants.

In early June 2012, the State announced final local budget reductions for FY 2013, after the City's budget had been adopted. The FY 2013 additional State budget reductions are projected to be close to \$1.4 million. The majority of these reductions were anticipated in the budget formulation process, however, when combined with departmental vacancies, it is anticipated that the City will lose \$900,000 of the State's projected aid to localities cut.

### *Revenues*

Revenues are expected to be less than the budgeted amounts by \$2.9 million, or (0.7%). This deficit is spread throughout all the revenue categories for various reasons, with a majority of the projected shortfall in State revenue reductions. Consumer-sensitive revenues of sales, meals, and lodging continue to be stable and reflect similar collections as the last quarter of FY 2012. You will recall that during the budget preparation for FY 2013, the anticipated higher collections for these particular revenue sources were included as part of the final proposed budget. Unless there is a more rapid recession recovery, we cannot anticipate collections substantially higher than estimated for this fiscal year. Sales Tax revenue is projected to have a minor increase of \$200,000 over the target of the estimated \$21.6 million. Meal Tax receipts are anticipated to exceed the \$17.6 million estimate by \$100,000 at this time. Lodging Tax collections appear to be level at \$3.1 million.

Collections of delinquent real estate taxes are a little higher than last year's pace, but are anticipated to be right at the \$4 million budgeted level. As the first payments of current real estate and personal property taxes have yet to be collected, we have limited activity on which to project these collections. A minor loss factor has initially been incorporated into each of these major revenue sources to accommodate any slippage in collections that would not be seen until the end of the second quarter. Unless there is a marked increase in current real estate tax non-payments, we expect collections to be relatively on target. It is possible for Personal Property taxes to trend higher than estimated. Nationwide, new car sales have been climbing this calendar year. The City's year-to-date receipts are mirroring this, with some moderate change in collections from the same

point in the prior fiscal year. While somewhat early for a year-long projection, this trend will be closely monitored during the second quarter, when the first half Personal Property taxes are received. A significant unknown at this point are receipts from Machinery and Tools (due to an industry taxpayer in the City being idle at the beginning of the tax period) and Business Professional and Occupational Licenses (BPOL) taxes. The majority of these will not be received until March. We are forecasting these revenues to perform as estimated for this fiscal year and will be watched closely.

### *Expenditures*

The projected expenditure savings at the end of the first quarter is \$3.1 million. The hiring suspension continues to provide the bulk of the under-expenditure, with salary and fringe benefits category savings totaling \$1.9 million or 61% of the total projected savings. That leaves \$1.2 million in potential year-end savings in all other expenditure categories. It is important to recall that significant line item reductions for other operating expenses occurred as part of the FY 2013 budget development process, as well as over the past four fiscal years. This leaves little capacity for any activity other than essential program costs, with a small margin for any additional savings in these categories. Vehicle fuel will continue to be difficult to estimate. Budgeted at 10 cents more per gallon than last fiscal year, fuel expenses should stay within the budget amount as long as only minor fluctuations in cost continue.

### *Combined Surplus*

When creating the final revenue projections for FY 2013, the FY 2012 revenue receipts and year-end projections to date were used. In other words, the FY 2013 revenue projections closely resemble where the City ended the prior fiscal year. Therefore, at this point we cannot expect the revenue collections to exceed estimates at the close of the first quarter.

The combined forecasted budget surplus is slightly more than \$189,000 and this is a very narrow margin, allowing for a minor level of comfort that we will meet our budget projections. With the major revenue sources to be collected over the next month and with the potential of additional receipts from consumer generated taxes and fees as we move through

economic recovery, the forecast for the remainder of this fiscal year that will be provided in the second quarter will bring more clarity to a potential year-end result.

*Conclusion*

While this projected revenue shortfall for the current fiscal year is similar to the same level as the previous fiscal year, any revenue shortfall during this economic environment must be viewed as a warning. To be cautious of any potential economic downward trend, as the Federal Government works to resolve sequestration, I have no choice but to continue the hiring suspension for all positions, with the exception of uniformed fire, police, and sheriff. All other vacancies will be held open, unless there is a compelling reason to fill the position prior to the end of the fiscal year. I feel that with our current projected expenditure surplus, we will be in a position to balance this year's budget without extreme measures. However, should these revenue shortfalls become more pronounced, we will take any necessary steps to address them.



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Neil A. Morgan

NAM:LJC:rsw

Attachment

cc: Director of Budget and Evaluation

**FY 2013 OPERATING BUDGET  
PROJECTED RESULTS OF OPERATIONS**

*First Quarter - July 2012 to September 2012*

**GENERAL FUND**

**REVENUES**

	Revised Budget	YTD Receipts	Projected Total Receipts	Difference	Percent
Real Estate Taxes	\$156,826,739	\$1,783,646	\$156,542,739	(\$284,000)	(0.2%)
Personal Property Taxes	47,610,000	2,256,213	47,710,000	100,000	0.2%
Machinery & Tools Taxes	18,456,000	8,330	18,256,000	(200,000)	(1.1%)
Other General Property Taxes	2,225,201	187,280	2,103,201	(122,000)	(5.5%)
Other Local Taxes	93,826,659	11,565,159	93,667,659	(159,000)	(0.2%)
Permits and Fees	3,409,794	555,826	3,259,794	(150,000)	(4.4%)
Fines and Forfeitures	2,838,551	868,442	2,823,551	(15,000)	(0.5%)
Revenue from Use-Money & Prop	2,290,363	356,960	2,261,363	(29,000)	(1.3%)
Charges for Services	6,485,636	1,539,973	6,505,636	20,000	0.3%
Miscellaneous Revenue	17,665,271	490,530	17,615,271	(50,000)	(0.3%)
Recovered Costs	9,916,306	2,512,195	9,816,306	(100,000)	(1.0%)
Non-Categorical Aid	740,598	173,562	640,598	(100,000)	(13.5%)
Shared Expenses	9,119,842	1,464,198	8,727,842	(392,000)	(4.3%)
Categorical Aid	31,939,701	6,210,674	30,425,623	(1,514,078)	(4.7%)
Non-Revenue Receipts	10,641,000	2,660,250	10,641,000	0	0.0%
Payments from Other Funds	529,339	0	529,339	0	0.0%
<b>TOTAL REVENUES</b>	<b>\$414,521,000</b>	<b>\$32,633,238</b>	<b>\$411,525,922</b>	<b>(\$2,995,078)</b>	<b>(0.7%)</b>

**EXPENDITURES**

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Difference	Percent
Personnel Services	\$118,909,100	\$29,269,726	\$117,922,432	\$986,668	0.8%
Taxes, Benefits, Insurance	63,805,014	15,158,098	62,849,311	955,703	1.5%
Contractual Services	13,494,224	8,541,049	13,477,578	16,646	0.1%
Vehicle Costs	4,396,558	1,099,139	4,396,558	0	0.0%
Fuel	3,012,152	699,548	2,990,630	21,522	0.7%
Utilities	6,717,037	1,228,286	6,755,529	(38,492)	(0.6%)
Operating Materials, Supplies, Ins	19,725,581	6,738,081	19,788,396	(62,815)	(0.3%)
Equipment (Except Vehicles)	1,854,500	918,996	1,729,510	124,990	6.7%
Leases, Rentals	5,002,224	1,987,065	5,001,193	1,031	0.0%
Community Support	8,504,876	3,502,607	8,504,876	0	0.0%
Transfer to Schools	113,400,000	28,350,000	113,400,000	0	0.0%
Debt Service/Cash Capital	37,524,571	14,963,487	37,524,571	0	0.0%
Payments to Other Funds	7,933,126	1,212,751	7,801,726	131,400	1.7%
Direct Program Costs - DHS	10,242,037	2,205,667	9,194,136	1,047,901	10.2%
<b>TOTAL EXPENDITURES</b>	<b>\$414,521,000</b>	<b>\$115,874,500</b>	<b>\$411,336,446</b>	<b>\$3,184,554</b>	<b>0.8%</b>

**TOTAL PROJECTED DIFFERENCE**

**\$189,476**

**OTHER GENERAL FUND SUPPORTED FUNDS**

	<u>Budget</u>	<u>Projected Revenues</u>	<u>Projected Expenditures</u>	<u>Projected Surplus/(Deficit)</u>	<u>% Difference to Projected Revenue</u>
Auto Liability Fund	\$1,357,900	\$1,357,900	\$1,357,900	\$0	0.0%
General Liability Fund	1,248,600	1,248,600	1,182,324	\$66,276	5.3%
Worker's Compensation Fund	3,132,000	3,132,000	3,137,608	(\$5,608)	(0.2%)
Recreation Revolving Fund	4,707,800	4,435,917	4,876,799	(\$440,882)	(9.9%)
Historical Services Fund	1,103,700	1,093,660	1,084,102	\$9,558	0.9%
Golf Course Fund	1,795,700	1,550,700	1,885,897	(\$335,197)	(21.6%)
Leeward Marina Fund	262,600	280,574	251,487	\$29,087	10.4%
Tourism Fund	1,413,000	1,480,944	1,333,380	\$147,564	10.0%
<b>TOTAL</b>	<b>\$15,021,300</b>	<b>\$14,580,295</b>	<b>\$15,109,497</b>	<b>(\$529,202)</b>	<b>(3.6%)</b>

**PROJECTED DIFFERENCE (OTHER FUNDS)****(\$529,202) (3.6%)****TOTAL PROJECTED DIFFERENCE****(\$339,726)****USER FEE SUPPORTED FUNDS**

	<u>Budget</u>	<u>Projected Revenues</u>	<u>Projected Expenditures</u>	<u>Projected Surplus/(Deficit)</u>	<u>% Difference to Projected Revenue</u>
Stormwater Management Fund	\$12,915,000	\$12,915,000	\$12,915,000	\$0	0.0%
Solid Waste Fund	\$13,288,700	\$13,288,700	\$13,191,531	\$97,169	0.7%
Wastewater Fund	\$18,845,000	\$18,845,000	\$18,690,609	\$154,391	0.8%
Public Utilities Fund	\$81,400,000	\$77,609,081	\$81,400,000	(\$3,790,919)	(4.9%)

**EXPENDITURES BY DEPARTMENT**

(This is a departmental breakdown of the General Fund expenditures shown on page 1.)

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Difference	Percent
City Council	\$282,588	\$64,485	\$270,957	\$11,631	4.1%
City Clerk	328,345	87,283	296,620	31,725	9.7%
City Manager	1,749,744	400,162	1,674,866	74,878	4.3%
Human Resources	1,184,281	270,332	1,078,589	105,692	8.9%
City Attorney	1,567,001	366,071	1,528,329	38,672	2.5%
Internal Auditor	464,311	113,162	464,311	0	0.0%
Commissioner of the Revenue	2,421,328	551,917	2,277,259	144,069	5.9%
Real Estate Assessor	1,513,003	379,929	1,468,928	44,075	2.9%
City Treasurer	1,981,151	628,581	1,970,559	10,592	0.5%
Finance	1,109,338	294,416	1,093,306	16,032	1.4%
Budget and Evaluation	622,487	155,526	622,487	0	0.0%
Information Technology	7,434,451	2,916,150	7,342,147	92,304	1.2%
Purchasing	1,329,526	519,152	1,316,265	13,261	1.0%
Registrar	415,565	112,142	415,565	0	0.0%
Judiciary	1,301,138	317,084	1,275,409	25,729	2.0%
Circuit Court Clerk	1,338,091	325,007	1,317,970	20,121	1.5%
Commonwealth's Attorney	3,322,165	803,480	3,431,229	(109,064)	(3.3%)
Police	39,847,304	10,419,656	40,361,594	(514,290)	(1.3%)
Fire	27,939,473	7,632,907	28,095,084	(155,611)	(0.6%)
Sheriff	17,375,816	5,422,605	16,857,552	518,264	3.0%
Adult Corrections	4,071,270	1,222,673	4,006,672	64,598	1.6%
Juvenile Services	6,998,442	2,222,287	6,898,279	100,163	1.4%
Codes Compliance	2,554,926	637,679	2,530,922	24,004	0.9%
Engineering	5,917,368	1,513,317	5,756,675	160,693	2.7%
Public Works	18,254,168	6,110,057	18,254,168	0	0.0%
Health	2,045,587	26,438	2,045,281	306	0.0%
Mental Health	1,523,521	380,880	1,523,521	0	0.0%
Human Services	31,868,830	7,539,180	29,690,173	2,178,657	6.8%
Parks, Recreation, and Tourism	12,676,049	4,453,233	12,897,056	(221,007)	(1.7%)
Libraries	4,545,554	1,331,254	4,534,127	11,427	0.3%
Development	1,444,550	335,519	1,416,105	28,445	2.0%
Planning	947,353	225,843	922,900	24,453	2.6%
Customer Service-311 Call Center	332,508	30,627	292,148	40,360	12.1%
Appointed Boards	102,948	18,505	93,386	9,562	9.3%
Nondepartmental-Contingencies	40,348,247	10,018,116	40,303,434	44,813	0.1%
Community Support	8,504,876	3,502,607	8,504,876	0	0.0%
Transfers to Schools	113,400,000	28,350,000	113,400,000	0	0.0%
Debt Service/Cash Capital	37,524,571	14,963,487	37,524,571	0	0.0%
All Other Payments	7,933,126	1,212,751	7,583,126	350,000	4.4%
<b>TOTAL EXPENDITURES</b>	<b>\$414,521,000</b>	<b>\$115,874,500</b>	<b>\$411,336,446</b>	<b>\$3,184,554</b>	<b>0.8%</b>