

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

February 8, 2012

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Second Quarter FY 2012 Financial Report

I am providing the 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 six months (July - December) and a projection of financial activity over the remaining six months (January - June). In our first quarter report, we projected a revenue shortfall of \$2.2 million and an expenditure surplus of \$2.48 million, which taken together resulted in forecasted fiscal year-end net surplus of \$280,000 in the General Fund. In the second quarter, we are projecting a revenue shortfall of \$3.6 million and an expenditure surplus of \$5.8 million, when taken together results in a forecasted fiscal year-end net surplus of \$2.2 million.

Revenues

Revenues are expected to be less than the budgeted amounts by \$3.6 million, or (0.9%). This is a net change of almost \$1.4 million more than the first quarter projection.

With the first half of the current real estate and personal property taxes now mostly collected, we have better activity on which to project. Current Real Estate Tax collections are 49% of this year's estimate, which if straight lined, could result in a loss of \$1.3 million. Personal Property Tax receipts are projected higher than anticipated and will help to offset the projected shortfall in Real Estate taxes. By the end of the second quarter, 53% of the \$40.5 million estimate had been received. While these higher-than-normal collections are helpful in balancing other revenue losses in the General Fund, this sustained level of revenue collection should not be anticipated for the remainder of the fiscal year. Machinery and Tools Taxes are showing a lagging performance with 45% collected at the end of the second quarter, projecting to be under the \$16.3 million estimate by \$400,000. Collections of delinquent real estate taxes are higher than last

year's pace and are projected to exceed the revenue estimate, with current year receipts of \$2.4 million at 64% of the \$3.8 million estimate.

Local taxes and fees are performing at the same pace and level as this time last year and are generally tracking as estimated. Consumer-sensitive revenues of sales, meals, and lodging tax, have been performing within the same ranges as the previous fiscal year, and in some cases are greater than the revenue estimate. This suggests that there is consistent performance in these areas. Sales Tax revenue is projected to be right at the estimate of \$21.1 million. Meal Tax receipts are currently tracking at higher than anticipated, and are expected to exceed the \$17.5 million estimate by \$200,000. A modest increase of \$90,000 in Lodging Tax is estimated at this time, which is an improvement over the first quarter when higher collections of \$25,000 were estimated. Cigarette Taxes were increased in FY 2012, and it is probable that receipts will be \$400,000 higher than budget.

There are two revenue sources in the category of consumer taxes that are projecting a moderate loss. The Electric/Gas Utility Tax that is applied to both residential and consumer bills is projecting to be \$600,000 less than estimated. Tied directly to use by the metered location, there is an apparent connection between the mild winter that has been experienced to date and the amount of this tax collected. A slight loss of \$200,000 in Telecommunications and Use Tax (that tax that is applied to cell phones, landlines, cable usage, and similar activities) is expected from the \$12.3 million estimate. The decline is due to refunds paid to service providers by the State.

Beginning in January of 2012, the Virginia Department of Social Services took over administering child care payments. The result of this change is that the anticipated revenue from the State as reimbursement for this program will not be received. However, the majority of the City's corresponding expense will not be incurred for the remainder of this fiscal year. In the most general of terms, the City will not receive approximately \$3 million in revenue, which will be offset by more than \$2 million in program reductions.

A significant unknown at this point continues to be receipts from Business Professional and Occupational Licenses (BPOL), the majority of which will

not be received until March. We are forecasting these revenues to perform as estimated for this fiscal year, and they will be monitored closely.

In early June 2010, the State announced final local budget reductions for FY 2011, after the City's budget had been adopted. The FY 2011 additional State budget reductions are projected to be \$1.6 million, and are anticipated to take full effect by the third quarter of this fiscal year. As a reminder, a majority of these reductions were anticipated in the budget formulation process, so at this time, it is anticipated that the City will lose \$500,000 of the State's projected aid to localities cut.

Expenditures

Once again, Departments are prudently managing their budgets and expenditures are expected to be \$5.8 million or 1.4% under budget. Reduced spending for salaries and benefits is the principle reason for the surplus.

The hiring suspension continues to be the majority of the salary savings, and for the remainder of the fiscal year is projected to result in \$1.1 million (or 18%) of the total under-expenditure. There was a slightly higher-than-expected health insurance premium increase for the second half of the fiscal year. However, it does not materially impact the potential savings projection for the Taxes, Benefits, and Insurance category. This is tracking towards \$1.8 million in savings. Aside from the non-expenditure associated with the State's assuming responsibility for Day Care activities from the Human Services Department (as discussed in the Revenue section of this memorandum), there is only \$444,649 in potential year-end savings in all other expenditure categories. Vehicle fuel will continue to be difficult to estimate. Budgeted at 78 cents more per gallon than last fiscal year, and taking into consideration the escalation of price per gallon during December 2011, the year-end expense is currently estimated to be overspent by \$29,393, assuming future price fluctuations are minor.

The projected over-expense in the Contractual Services category is a net value. A new contract was issued early in this fiscal year for inmate health and mental health care in the Jail facility. While on the surface the contractual costs are higher for the vendor, psychiatric care was included for the first time in the services provided by the vendor. In addition, there

are Sheriff Department operational savings for Overtime (for inmate transportation to the hospital), and for Part Time Nurse staffing that is now provided by the contract.

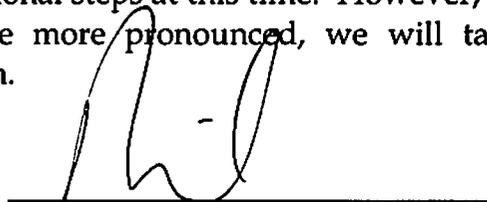
Combined Surplus

The combined forecasted budget surplus of \$2.2 million allows only for minimal changes in revenue performance. If second half Real Estate Tax revenue collections continue to be similar to the first half, I am hopeful that any further increases in Personal Property, Sales, Meals, and Lodging receipts will cover the projected Real Estate and Machinery and Tools taxes shortfall.

Conclusion

The marginal surplus that we are projecting places us in a reasonable position to respond to any further revenue shortfall for the current fiscal year, if one should arise. However, it appears that we have a certain degree of stability in our non-real-estate revenue sources that may indicate an initial economic recovery. I feel confident that we have a sound plan in place to be alert to any potential change in the local economic conditions.

I continue to believe that we are in a good position to balance this year's budget without taking any additional steps at this time. However, should these revenue shortfalls become more pronounced, we will take the necessary actions to address them.



Neil A. Morgan

NAM:LJC

Attachment

cc: Director of Budget and Evaluation

**FY 2012 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Second Quarter - July 2011 to December 2011

GENERAL FUND

REVENUES

	Revised <u>Budget</u>	YTD Receipts	Projected <u>Total Receipts</u>	Variance	Percent
Real Estate Taxes	\$163,664,362	\$80,859,535	\$162,992,362	(\$672,000)	-0.4%
Personal Property Taxes	45,408,469	31,374,723	46,288,469	880,000	1.9%
Machinery & Tools Taxes	18,179,619	897,986	17,684,619	(495,000)	-2.7%
Other Local Taxes	87,840,285	30,996,399	87,784,285	(56,000)	-0.1%
Permits and Fees	3,057,163	1,734,391	3,067,163	10,000	0.3%
Fines and Forfeitures	2,224,000	1,296,340	2,424,000	200,000	9.0%
Revenue from Use-Money & Prop	2,427,076	730,459	2,141,076	(286,000)	-11.8%
Charges for Services	5,967,525	2,794,801	5,982,525	15,000	0.3%
Miscellaneous Revenue	17,215,580	5,174,237	17,103,580	(112,000)	-0.7%
Recovered Costs	9,537,485	5,377,374	9,310,485	(227,000)	-2.4%
Non-Categorical Aid	676,810	504,741	524,810	(152,000)	-22.5%
Shared Expenses	9,223,040	3,830,946	8,492,040	(731,000)	-7.9%
Categorical Aid	38,006,359	16,961,898	36,006,359	(2,000,000)	-5.3%
Non-Revenue Receipts	10,709,519	5,389,019	10,709,519	0	0.0%
Payments from Other Funds	<u>545,227</u>	<u>0</u>	<u>545,227</u>	<u>0</u>	<u>0.0%</u>
TOTAL REVENUES	\$414,682,519	\$187,922,849	\$411,056,519	(\$3,626,000)	-0.9%

EXPENDITURES

	Revised <u>Budget</u>	YTD Exp/Enc	Projected <u>Total Expense</u>	Variance	Percent
Personnel Services	\$119,987,078	\$58,408,804	\$118,882,980	\$1,104,098	0.9%
Taxes, Benefits, Insurance	57,580,537	27,361,341	55,764,283	1,816,254	3.2%
Contractual Services	14,262,954	8,269,259	14,386,244	(123,290)	-0.9%
Vehicle Costs	4,447,811	2,223,905	4,447,811	0	0.0%
Fuel	2,865,040	1,358,016	2,894,433	(29,393)	-1.0%
Utilities	6,895,624	2,983,383	6,780,023	115,601	1.7%
Operating Materials, Supplies, Ins	19,263,991	9,276,053	18,861,250	402,741	2.1%
Equipment (Except Vehicles)	1,525,490	827,436	1,460,490	65,000	4.3%
Leases, Rentals	4,971,602	3,086,723	4,957,612	13,990	0.3%
Community Support	7,864,055	4,723,898	7,864,055	0	0.0%
Transfer to Schools	112,200,000	56,100,000	112,200,000	0	0.0%
Debt Service/Cash Capital	37,306,007	17,369,018	37,306,007	0	0.0%
Payments to Other Funds	7,724,693	1,967,037	7,724,693	0	0.0%
Direct Program Costs - DHS	<u>17,787,637</u>	<u>7,886,266</u>	<u>15,287,637</u>	<u>2,500,000</u>	<u>14.1%</u>
TOTAL EXPENDITURES	\$414,682,519	\$201,841,139	\$408,817,518	\$5,865,001	1.4%

TOTAL PROJECTED VARIANCE

\$2,239,001

OTHER GENERAL FUND SUPPORTED FUNDS

	<u>Budget</u>	<u>Projected Revenues</u>	<u>Projected Expenditures</u>	<u>Projected Surplus/(Deficit)</u>	<u>% Variance to Proj Revenue</u>
Auto Liability Fund	\$1,379,200	\$1,343,200	\$1,429,200	(\$86,000)	-6.4%
General Liability Fund	1,198,700	1,161,534	1,163,700	(\$2,166)	-0.2%
Worker's Compensation Fund	3,320,400	3,320,400	2,924,325	\$396,075	11.9%
Recreation Revolving Fund	4,668,000	4,200,000	4,745,466	(\$545,466)	-13.0%
Historical Services Fund	1,112,000	1,110,000	1,110,595	(\$595)	-0.1%
Golf Course Fund	1,737,700	1,400,000	1,760,271	(\$360,271)	-25.7%
Leeward Marina Fund	253,500	255,000	236,355	\$18,645	7.3%
Tourism Fund	<u>1,334,100</u>	<u>1,400,000</u>	<u>1,205,974</u>	<u>\$194,026</u>	<u>13.9%</u>
TOTAL	\$15,003,600	\$14,190,134	\$14,575,886	(\$385,752)	-2.7%

PROJECTED VARIANCE (OTHER FUNDS)

(\$385,752) -2.7%

TOTAL PROJECTED VARIANCE

\$1,853,249

USER FEE SUPPORTED FUNDS

	<u>Budget</u>	<u>Projected Revenues</u>	<u>Projected Expenditures</u>	<u>Projected Surplus/(Deficit)</u>	<u>Percent</u>
Stormwater Management Fund	\$10,855,000	\$10,800,000	\$10,800,000	\$0	0.0%
Solid Waste Fund	\$13,232,500	\$12,100,000	\$12,100,000	\$0	0.0%
Wastewater Fund	\$17,863,500	\$17,000,000	\$17,000,000	\$0	0.0%
Public Utilities Fund	\$82,843,000	\$75,000,000	\$78,900,000	(\$3,900,000)	-5.2%

EXPENDITURES BY DEPARTMENT

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

	<u>Revised Budget</u>	<u>YTD Exp/Enc</u>	<u>Projected Total Expense</u>	<u>Variance</u>	<u>Percent</u>
City Council	\$318,152	\$155,459	\$308,115	\$10,037	3.2%
City Clerk	367,772	172,446	336,265	31,507	8.6%
City Manager	1,914,669	881,180	1,882,380	32,289	1.7%
Human Resources	1,411,206	631,567	1,276,559	134,647	9.5%
City Attorney	1,755,740	825,625	1,637,283	118,457	6.7%
Internal Auditor	547,910	260,130	540,694	7,216	1.3%
Commissioner of the Revenue	2,792,707	1,258,575	2,654,682	138,025	4.9%
Real Estate Assessor	1,733,765	796,621	1,655,930	77,835	4.5%
City Treasurer	2,229,735	1,106,947	2,185,020	44,715	2.0%
Finance	1,282,924	637,257	1,217,146	65,778	5.1%
Budget and Evaluation	748,071	284,707	604,994	143,077	19.1%
Information Technology	8,452,547	4,903,588	8,135,229	317,318	3.8%
Purchasing	1,501,303	743,841	1,439,550	61,753	4.1%
Registrar	469,204	216,748	418,856	50,348	10.7%
Judiciary	1,410,836	671,119	1,381,332	29,504	2.1%
Circuit Court Clerk	1,615,004	792,830	1,583,605	31,399	1.9%
Commonwealth's Attorney	3,819,422	1,820,352	3,812,511	6,911	0.2%
Police	47,139,454	23,754,154	47,047,794	91,660	0.2%
Fire	32,965,671	16,938,429	33,710,195	(744,524)	-2.3%
Sheriff	19,436,230	9,843,236	18,895,038	541,192	2.8%
Adult Corrections	4,547,119	2,387,041	4,488,669	58,450	1.3%
Juvenile Services	8,217,145	3,877,461	8,079,470	137,675	1.7%
Codes Compliance	2,944,800	1,407,557	2,903,232	41,568	1.4%
Engineering	7,305,495	3,493,969	7,134,355	171,140	2.3%
Public Works	20,685,601	8,778,852	20,308,926	376,675	1.8%
Health	2,097,835	90,546	2,097,835	0	0.0%
Mental Health	1,523,521	761,760	1,523,521	0	0.0%
Human Services	43,022,857	19,489,878	38,840,099	4,182,758	9.7%
Parks, Recreation, and Tourism	13,176,793	7,421,754	13,591,791	(414,998)	-3.1%
Libraries	5,078,518	2,569,558	5,046,317	32,201	0.6%
Development	1,606,718	798,975	1,601,075	5,643	0.4%
Planning	1,182,806	553,838	1,132,806	50,000	4.2%
Appointed Boards	107,741	44,325	72,996	34,745	32.2%
Nondepartmental-Contingencies	6,178,493	3,310,861	6,178,493	0	0.0%
Community Support	7,864,055	4,723,898	7,864,055	0	0.0%
Transfers to Schools	112,200,000	56,100,000	112,200,000	0	0.0%
Debt Service/Cash Capital	37,306,007	17,369,018	37,306,007	0	0.0%
All Other Payments	<u>7,724,693</u>	<u>1,967,037</u>	<u>7,724,693</u>	0	<u>0.0%</u>
TOTAL EXPENDITURES	\$414,682,519	\$201,841,139	\$408,817,518	\$5,865,001	1.4%