

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

May 7, 2014

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Third Quarter FY 2014 Financial Report

This third quarter forecast of revenues and expenditures, prepared by the Department of Budget and Evaluation, is an analysis of actual performance for the first nine months of the fiscal year (July through March) and a projection of financial activity for the remaining three months (April through June). In our first quarter report, we projected a revenue shortfall of (\$3.9 million) and an expenditure surplus of \$3.5 million, resulting in a forecasted net deficit of approximately (\$400,000) in the General Fund. By the second quarter, we projected a revenue shortfall of (\$1 million) and an expenditure surplus of \$3.6 million, for a projected surplus of \$2.6 million. For the third quarter, a year-end General Fund surplus of approximately \$3.7 million is anticipated based on revenue surplus of \$82,000 and expenditure savings of \$3.69 million.

Revenues

Total revenues are expected to exceed the budgeted amounts by \$82,000 or 0.02%. This is an improvement of anticipated revenue performance of \$970,000 from the second quarter projection.

With the first half of the current real estate taxes received by the end of the second quarter, there has been a marginal change in the activity in which to project a difference in collections. If the Current Real Estate Tax revenue collection rate for the second half of the tax year is consistent with the experience during the first half, total Current Real Estate Tax revenue will exceed the adopted budget estimate by at least \$500,000, once adjusted for tax relief deductions. This is due to several projects under construction that were not anticipated to be completed until later in FY 2014 that were finished ahead of schedule. Delinquent Real Estate

Taxes are slightly higher than last year's pace and are projected to be \$100,000 more than the \$3.8 million budgeted. It is anticipated that Personal Property Tax receipts will be higher than the second quarter estimate. By the end of the third quarter, 52% of the \$47.6 million Personal Property Tax estimate had been received, generating an anticipated \$300,000 surplus for this revenue source. Machinery and Tools Taxes continue to perform well, at 52% collected by the end of the third quarter and are projected to exceed the \$19.4 million estimate by \$600,000.

Local taxes and fees are being collected at the same pace as last quarter and last year. For the most part, these revenue items are generally tracking to exceed their individual estimates. Consumer sensitive revenues of sales and meals are projected to be slightly higher than estimated, suggesting continued consistent performance in these areas. The year-end Sales Tax revenue projections are consistent with the previous quarter's assessment and indicative that we have now recovered from the consumer hesitation experienced during the first quarter of this fiscal year (attributable to the lack of a federal budget), and is now estimated to exceed the budget of \$22.4 million by \$300,000. Meal Tax receipts are on target to be \$400,000 more than the \$21.9 million estimate. Lodging Taxes are maintaining a flat pace, and are projected to meet the revenue estimate of \$3.3 million. Cigarette Taxes continue to be level in their performance of prior years, and it is probable that receipts will be (\$40,000) lower than \$5.2 million budget.

As a note of caution, there is one revenue source in this category of consumer taxes that is continuing to project a loss. The Telecommunications Sales and Use Tax is the five percent tax (set by state law) applied to utility bills associated with cell phones, land lines, cable subscriptions, Internet bandwidth service, and satellite cable/radio services, etc. Beginning on January 1, 2007, the City receives a portion of the revenue generated by this tax. Logically, with the ever growing use of cell phones, Internet, and satellite cable/radio services, our revenue base should increase. However, the use of land lines and cable subscriptions are declining. Based on the collections to date, this revenue source is projected to be under budget by (\$500,000).

By the end of the third quarter, the majority of Business, Professional and Occupational Licenses (BPOL) receipts had been collected, with varied

results. Some areas (Retail Sales, Professional Services, and Public Service Corporations - PSC) had stronger than anticipated showing, exceeding their combined revenue estimates by over \$330,000. Disappointingly, the remaining BPOL segments (Wholesalers, Contractors, Repairs, and those areas associated with prior year collections and interest on penalties) have yet to meet the FY 2014 estimate. The net revenue for all BPOL taxes is projected to be less than the combined estimate by (\$541,000). The resulting combined revenue could signal a mixed message: stronger than anticipated retail and service industry recovering at this time, while construction is still lagging.

Building Permit revenue collections through the end of the third quarter remain marginally below the estimate for this fiscal year and are projected to experience a shortfall of (\$60,000) or (7%) in the major permit categories of Building, Mechanical, Electrical, and Plumbing estimate of \$890,000. With the moderate weather experienced in the early spring building season, associated Engineering permits (site plans, review, and inspections) appear to be meeting the overall projection.

As a reminder, the City has been experiencing revenue reductions primarily related to the Department of Human Services programs of Foster Care and Adoptions, due to lower program participation. In recent years, these expenses, which are fully reimbursable, have been declining. 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 \$430,000 in revenue that will be offset by more than \$933,000 in program reductions.

Expenditures

The operating departments continue to closely control spending in their budgets. Expenditures are expected to be nearly \$3.69 million, or 0.9%, below budget.

As expected, employee expenses category is generating the majority of the projected savings. The combined savings in the Salary and Fringe Benefits categories equals approximately \$1.8 million, or 49% of the total expenditure savings projected at the end of the third quarter. Once adjusted for savings associated with the Human Services Foster Care and Adoption programs of \$1 million, all other projected year-end savings

total \$848,000. The significant expense line item reductions that have occurred as part of the last five annual budgets, have left little room for any activity other than essential programs and services, with a small margin for residual savings. There is a potential utilities savings of more than \$112,000, however not all the utility billings from the more extreme winter for our region have yet to be paid at this juncture and the warmer spring/early summer months have yet to occur. Expenditure savings in operating supplies, equipment, and contractual services equal nearly \$348,000 or only 9.4% of the projected savings.

Lower than budgeted Vehicle Fuel costs have been experienced for a majority of this fiscal year. Continued pricing experienced during the last nine months has the potential to deliver vehicle fuel savings of \$275,400 for the fiscal year. Any sustained increases in fuel prices over the next months would offset this projected surplus.

Combined Surplus

The forecasted surplus of approximately \$3.7 million allows for some certainty for a positive outcome at year-end. If the collection of second half major revenue sources (Real Estate, Personal Property, and Machinery and Tool taxes) mirrors the first half, and we experience consistent collections in consumer generated taxes and fees (Sales, Meals, and Lodging taxes), we may exceed this present surplus forecast of \$3.7 million.

Conclusion

The projected surplus of approximately \$3.7 million places us in a position to respond to further revenue shortfall. It appears that we have a degree of stability in both our real estate and non-real estate revenue sources that indicates cautious recovery in our local economy. At this point, the level of projected surplus that may be generated at the end of this fiscal year is a positive note. It is important to recall that \$3 million of any FY 2014 year-end surplus is committed to FY 2015 to fund one-time cash capital investments, as part of our FY 2015 Adopted Capital Improvements Plan (CIP). I feel confident that we will be able to meet this level of savings to ensure our funding commitment to the upcoming fiscal year.

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I believe that we are in a good position to balance this year's budget without taking any additional steps at this time.



James M. Bourey

JMB:LJC:wmp

Attachment

cc: Lisa Cipriano, Director, Department of Budget and Evaluation

**FY 2014 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Third Quarter - July 2013 through March 2014

GENERAL FUND

REVENUES

	Revised		Projected		<u>Projected Difference from Revised Budget</u>	
	Budget	YTD Receipts	Total Receipts	Amount	Percent	Surplus/ (Deficit)
Real Estate Taxes ¹	\$169,751,712	\$88,597,131	\$170,351,712	\$600,000	0.4%	
Personal Property Taxes ²	51,170,000	27,935,985	51,470,000	300,000	0.6%	
Machinery & Tools Taxes ³	19,400,002	10,109,523	20,000,002	600,000	3.1%	
Other General Property Taxes	2,056,500	1,466,983	2,156,500	100,000	4.9%	
Other Local Taxes	97,354,896	66,324,600	97,214,896	(140,000)	(0.1%)	
Permits and Fees	3,087,067	2,384,090	2,987,067	(100,000)	(3.2%)	
Fines and Forfeitures	2,721,751	1,779,964	2,471,751	(250,000)	(9.2%)	
Revenue from Use-Money & Prop	2,344,149	1,396,814	2,134,149	(210,000)	(9.0%)	
Charges for Services	5,362,240	4,451,838	5,617,240	255,000	4.8%	
Miscellaneous Revenue	17,983,716	9,826,964	17,933,716	(50,000)	(0.3%)	
Recovered Costs	9,987,584	7,705,124	9,714,584	(273,000)	(2.7%)	
Non-Categorical Aid	764,645	661,175	864,645	100,000	13.1%	
Shared Expenses	9,270,023	5,375,111	8,970,023	(300,000)	(3.2%)	
Categorical Aid	31,568,971	19,211,539	31,018,971	(550,000)	(1.7%)	
Non-Revenue Receipts	10,455,000	7,919,749	10,455,000	0	0.0%	
Payments from Other Funds	527,611	0	527,611	0	0.0%	
TOTAL REVENUES	\$433,805,867	\$255,146,590	\$433,887,867	\$82,000	0.0%	

EXPENDITURES

	Revised		Projected		<u>Projected Difference from Revised Budget</u>	
	Budget	YTD Exp/Enc	Total Expense	Amount	Percent	Surplus/ (Deficit)
Personnel Services	\$127,764,435	\$95,195,904	\$127,461,945	\$302,490	0.2%	
Taxes, Benefits, Insurance	62,751,321	44,832,768	61,226,070	1,525,251	2.4%	
Contractual Services	17,851,965	14,363,519	17,623,872	228,093	1.3%	
Vehicle Costs	4,627,750	3,470,813	4,627,750	0	0.0%	
Fuel	2,802,433	1,765,810	2,527,028	275,405	9.8%	
Utilities	6,781,878	4,654,612	6,669,687	112,191	1.7%	
Operating Materials, Supplies, Ins	19,946,405	14,699,451	19,857,682	88,723	0.4%	
Equipment (Except Vehicles)	1,590,375	1,250,061	1,559,075	31,300	2.0%	
Leases, Rentals	5,355,439	4,269,861	5,355,439	0	0.0%	
Community Support	9,087,886	6,646,218	9,087,886	0	0.0%	
Transfer to Schools	115,300,000	86,475,000	115,300,000	0	0.0%	
Debt Service/Cash Capital	40,328,636	32,987,224	40,328,636	0	0.0%	
Payments to Other Funds	10,399,786	5,620,312	10,287,313	112,473	1.1%	
Direct Program Costs - DHS	9,217,558	5,331,070	8,196,714	1,020,844	11.1%	
TOTAL EXPENDITURES	\$433,805,867	\$321,562,623	\$430,109,097	\$3,696,770	0.9%	

TOTAL PROJECTED DIFFERENCE

\$3,778,770

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

OTHER GENERAL FUND SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	<u>Projected</u> Surplus/(Deficit)	
				Amount	Percent
Auto Liability Fund	\$1,382,800	\$1,369,028	\$1,517,518	(\$148,490)	(10.8%)
General Liability Fund	1,540,000	1,540,000	1,544,297	(\$4,297)	(0.3%)
Worker's Compensation Fund	3,144,800	3,540,756	3,141,577	\$399,179	11.3%
Recreation Revolving Fund	4,824,000	4,415,700	4,815,271	(\$399,571)	(9.0%)
Historical Services Fund	1,052,000	1,009,920	1,009,871	\$49	0.0%
Golf Course Fund	1,823,400	1,367,550	1,954,983	(\$587,433)	(43.0%)
Leeward Marina Fund	284,000	339,000	310,869	\$28,131	8.3%
Tourism Fund	1,402,100	1,402,100	1,378,845	\$23,255	1.7%
TOTAL	\$15,453,100	\$14,984,054	\$15,673,231	(\$689,177)	(4.6%)

PROJECTED DIFFERENCE (OTHER FUNDS)

(\$689,177) (4.6%)

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

\$3,089,593

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	<u>Projected</u> Surplus/(Deficit)	
				Amount	Percent
Stormwater Management Fund	\$14,409,000	\$14,509,000	\$13,356,119	\$1,152,881	7.9%
Solid Waste Fund	\$13,604,000	\$13,198,550	\$13,186,715	\$11,835	0.1%
Wastewater Fund	\$18,684,000	\$18,091,557	\$18,025,471	\$66,086	0.4%
Public Utilities Fund	\$81,200,000	\$83,901,947	\$81,542,808	\$2,359,139	2.8%

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	<u>Projected Difference from Revised Budget</u>	
				Surplus/(Deficit) Amount	Percent
City Council	\$279,070	\$204,025	\$275,466	\$3,604	1.3%
City Clerk	310,230	248,492	310,230	0	0.0%
City Manager	1,873,813	1,337,896	1,769,995	103,818	5.5%
Human Resources	1,206,183	857,135	1,134,368	71,815	6.0%
City Attorney	1,645,862	1,194,621	1,611,693	34,169	2.1%
Internal Auditor	505,695	381,179	504,045	1,650	0.3%
Commissioner of the Revenue	2,488,699	1,792,852	2,361,447	127,252	5.1%
Real Estate Assessor	1,605,590	1,184,708	1,578,122	27,468	1.7%
City Treasurer	2,104,477	1,589,455	2,038,710	65,767	3.1%
Finance	1,202,390	871,395	1,127,693	74,697	6.2%
Budget and Evaluation	695,850	359,062	521,337	174,513	25.1%
Information Technology	7,986,966	6,310,393	7,804,831	182,135	2.3%
Purchasing	1,398,034	991,504	1,336,159	61,875	4.4%
Registrar	447,053	341,136	447,053	0	0.0%
Judiciary	1,358,447	947,070	1,290,144	68,303	5.0%
Circuit Court Clerk	1,509,092	1,112,316	1,471,357	37,735	2.5%
Commonwealth's Attorney	3,510,760	2,575,480	3,436,883	73,877	2.1%
Police	43,172,939	32,087,526	43,061,993	110,946	0.3%
Fire	30,324,386	23,187,199	30,500,899	(176,513)	(0.6%)
Sheriff	18,653,497	13,767,981	18,376,513	276,984	1.5%
Adult Corrections	4,371,241	3,250,936	4,238,385	132,856	3.0%
Juvenile Services	7,423,772	5,736,006	7,395,299	28,473	0.4%
Codes Compliance	2,721,885	1,992,384	2,658,733	63,152	2.3%
Engineering	6,270,616	4,643,828	6,032,110	238,506	3.8%
Public Works	20,045,638	15,045,143	19,966,477	79,161	0.4%
Health	2,149,213	141,035	2,147,634	1,579	0.1%
Mental Health	1,523,521	1,523,521	1,523,521	0	0.0%
Human Services	32,180,283	22,690,914	30,847,405	1,332,878	4.1%
Parks, Recreation, and Tourism	12,924,027	10,598,648	12,831,227	92,800	0.7%
Libraries	4,523,844	3,213,740	4,437,669	86,175	1.9%
Development	1,539,739	1,154,523	1,524,667	15,072	1.0%
Planning	996,388	739,780	983,721	12,667	1.3%
Customer Service-311 Call Center	461,688	286,975	383,181	78,507	17.0%
Appointed Boards	103,273	66,719	81,806	21,467	20.8%
Nondepartmental-Contingencies	39,175,398	26,883,834	39,082,016	93,382	0.2%
Community Support	9,087,886	6,646,218	9,087,886	0	0.0%
Transfers to Schools	115,300,000	86,475,000	115,300,000	0	0.0%
Debt Service/Cash Capital	40,328,636	32,987,224	40,328,636	0	0.0%
All Other Payments	10,399,786	5,620,312	10,299,786	100,000	1.0%
TOTAL EXPENDITURES	\$433,805,867	\$321,038,165	\$430,109,097	\$3,696,770	0.9%