CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

November 3, 2010

TO: The Honorable City Council

FROM: City Manager

SUBJECT: First Quarter FY 2011 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.

First quarter revenues are the most difficult to project. The first quarter falls just prior to the majority of our semi-annual revenues collections of Real Estate Taxes, Personal Property Taxes, and Machinery and Tools Taxes. At the end of the first quarter, only 1.3% of the $227.8 million in the General Property Tax revenue category has been collected, making a year-end projection for these sources challenging at best in an economy where the housing market recovery continues to lag. In particular, only $111,000 of the Current Real Estate Tax estimate was collected by the end of September. 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 remarkably close to the same level of collections at the end of September 2009. Current year revenue projections are tracking directly to this fiscal year's revenue estimate. 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. In response to that forecast and in light of the continued uncertainty in the housing market, I instructed that the hiring suspension be continued for all positions, with the exception of uniformed fire, police, and sheriff personnel. 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.

Revenues

Revenues are expected to be less than the budgeted amounts by $2.2 million, or 0.5%. The majority of this deficit is $1.6 million in State revenue reductions for the fiscal year. Consumer sensitive revenues of sales, meals, and lodging tax, continue to be stable, and reflect similar collections as in the last quarter of FY 2010. Sales Tax revenue is projected to be only $67,000 less than the estimate of $20 million. Meal Tax receipts are less than $6,000 of the anticipated $17.5 million estimate. There is a modest increase of $12,000 in Lodging Tax collections as compared to this time last fiscal year.

Collections of delinquent real estate taxes are slightly lower than last year's pace, and could slightly miss the budgeted level of $3.8 million. As the first payments of current real estate and personal property taxes are now being collected, we have limited activity on which to project 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. However, based on the assessment levies, unless there is a marked increase in current real estate tax non-payment, we expect collections to be on target at this time. A significant unknown at this point are 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 will be monitored closely.

Expenditures

The projected expenditure savings at the end of the first quarter is $3.9 million. The hiring suspension continues to provide the bulk of the under-expenditure, with salary and fringe benefits category savings totaling $3.4 million, or 86% of the total projection. That leaves $564,000 in potential year-end savings in all other expenditure categories. It is important to recall that significant line item reduction for other operating expenses occurred as part of the FY 2011 budget development process. The General Fund alone was reduced from $421 million to $411 million, a 2.4% reduction. This leaves little room 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 73 cents more per gallon than last fiscal year, the year-end expense

should stay within the budget amount as long as minor fluctuations in cost continue.

Combined Surplus

The combined forecasted budget surplus of slightly more than $1.7 million allows a minor level of comfort. With the major revenue sources to be collected over the next month and with additional receipts from consumer generated taxes and fees, a more focused forecast for the remainder of this fiscal year can be provided in the second quarter.

Conclusion

While any projected revenue shortfall for the current fiscal year is a warning, I feel that with our current projected expenditure surplus and continual conscious cost saving actions will mitigate this projected shortfall. I believe that we are in a good 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.

Neil A. Morgan

NAM:LJC:wmp

Attachment

cc: Lisa Cipriano, Director of Budget and Evaluation

FY 2011 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	Variance	Percent
Real Estate Taxes	$167,177,488	$1,534,657	$166,677,488	(500,000)	-0.3%
Personal Property Taxes	44,434,001	1,416,655	44,434,001	0	0.0%
Machinery & Tools Taxes	16,205,000	1,148	16,205,000	0	0.0%
Other Local Taxes	85,506,288	10,779,563	84,956,288	(550,000)	-0.6%
Permits and Fees	2,498,178	784,083	2,498,178	0	0.0%
Fines and Forfeitures	1,986,833	486,516	1,986,833	0	0.0%
Revenue from Use-Money & Prop	2,336,542	232,442	2,336,542	0	0.0%
Charges for Services	5,690,506	1,665,229	5,525,506	(165,000)	-2.9%
Miscellaneous Revenue	16,768,045	591,622	16,768,045	0	0.0%
Recovered Costs	9,352,702	1,179,145	8,947,834	(404,868)	-4.3%
Non-Categorical Aid	245,289	248,940	364,696	119,407	48.7%
Shared Expenses	9,384,675	1,500,812	8,704,675	(680,000)	-7.2%
Categorical Aid	38,360,695	7,529,017	38,297,799	(62,896)	-0.2%
Non-Revenue Receipts	10,500,000	0	10,500,000	0	0.0%
Payments from Other Funds	553,758	0	553,758	0	0.0%
TOTAL REVENUES	**$411,000,000**	**$27,949,829**	**$408,756,643**	**(2,243,357)**	**-0.5%**

EXPENDITURES

	Revised Budget	YTD Expenses	Projected Expense	Variance	Percent
Personnel Services	$117,915,411	$29,939,213	$116,681,031	$1,234,380	1.0%
Taxes, Benefits, Insurance	55,534,172	11,950,361	53,371,702	2,162,470	3.9%
Contractual Services	14,275,400	5,139,669	14,069,515	205,885	1.4%
Vehicle Costs	4,498,880	0	4,498,880	0	0.0%
Fuel	2,149,988	514,183	2,128,300	21,688	1.0%
Utilities	7,172,426	1,066,384	7,118,054	54,372	0.8%
Operating Materials, Supplies, Ins	21,198,115	5,563,835	21,015,435	182,680	0.9%
Equipment (Except Vehicles)	1,519,944	784,316	1,449,944	70,000	4.6%
Leases, Rentals	5,034,536	2,389,959	5,014,959	19,577	0.4%
Community Support	7,672,239	3,062,041	7,672,239	0	0.0%
Transfer to Schools	109,200,000	0	109,200,000	0	0.0%
Debt Service/Cash Capital	38,279,213	0	38,279,213	0	0.0%
Payments to Other Funds	7,984,564	652,147	7,974,564	10,000	0.1%
Direct Program Costs - DHS	18,565,112	4,367,744	18,565,112	0	0.0%
TOTAL EXPENDITURES	**$411,000,000**	**$65,429,852**	**$407,038,948**	**$3,961,052**	**1.0%**

TOTAL PROJECTED VARIANCE **$1,717,695**

OTHER GENERAL FUND SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/(Deficit)	% Variance to Proj Revenue
Auto Liability Fund	$1,384,500	$1,415,425	$1,399,309	$16,116	1.1%
General Liability Fund	1,244,100	1,244,100	1,249,406	($5,306)	-0.4%
Worker's Compensation Fund	3,321,600	3,321,600	3,319,041	$2,559	0.1%
Recreation Revolving Fund	4,904,000	4,150,000	4,124,613	$25,387	0.6%
Historical Services Fund	1,129,000	1,110,543	1,103,256	$7,287	0.7%
Golf Course Fund	1,697,000	1,391,540	1,680,753	($289,213)	-20.8%
Leeward Marina Fund	265,000	250,000	248,113	$1,887	0.8%
Tourism Fund	1,215,000	1,300,000	1,215,000	$85,000	6.5%
TOTAL	**$15,160,200**	**$14,183,208**	**$14,339,491**	**($156,283)**	**-1.1%**
PROJECTED VARIANCE (OTHER FUNDS)				**($156,283)**	**-1.1%**
TOTAL PROJECTED VARIANCE				**$1,561,412**	

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/(Deficit)	Percent
Stormwater Management Fund	$10,917,000	$10,917,000	$10,580,581	$336,419	3.1%
Solid Waste Fund	$12,764,000	$12,764,000	$12,467,322	$296,678	2.3%
Wastewater Fund	$17,497,000	$17,497,000	$17,497,000	$0	0.0%
Public Utilities Fund	$83,597,800	$82,385,000	$81,445,000	$940,000	1.1%

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	Variance	Percent
City Council	$321,739	$72,129	$311,820	$9,919	3.1%
City Clerk	385,671	106,782	383,260	2,411	0.6%
City Manager	1,916,669	462,311	1,868,423	48,246	2.5%
Human Resources	1,418,030	319,925	1,355,272	62,758	4.4%
City Attorney	1,689,233	380,820	1,662,058	27,175	1.6%
Internal Auditor	532,318	124,848	522,066	10,252	1.9%
Commissioner of the Revenue	2,811,944	723,399	2,794,612	17,332	0.6%
Real Estate Assessor	1,685,547	451,376	1,683,906	1,641	0.1%
City Treasurer	2,185,852	611,858	2,162,046	23,806	1.1%
Finance	1,270,156	355,083	1,253,874	16,282	1.3%
Budget and Evaluation	665,468	159,413	659,426	6,042	0.9%
Information Technology	8,433,585	3,225,116	8,429,067	4,518	0.1%
Purchasing	1,427,094	486,943	1,410,045	17,049	1.2%
Registrar	477,875	117,260	476,964	911	0.2%
Judiciary	1,573,038	332,540	1,308,072	264,966	16.8%
Circuit Court Clerk	1,582,498	371,470	1,566,136	16,362	1.0%
Commonwealth's Attorney	3,732,549	881,144	3,644,458	88,091	2.4%
Police	45,501,290	10,710,568	44,910,007	591,283	1.3%
Fire	31,248,969	7,837,696	31,498,969	(250,000)	-0.8%
Sheriff	19,474,980	4,988,495	18,674,971	800,009	4.1%
Adult Corrections	4,560,903	1,256,439	4,509,636	51,267	1.1%
Juvenile Services	8,077,796	2,042,740	7,860,620	217,176	2.7%
Codes Compliance	2,904,027	666,928	2,744,574	159,453	5.5%
Engineering	7,209,669	1,633,029	7,034,599	175,070	2.4%
Public Works	20,807,614	4,158,012	20,429,445	378,169	1.8%
Health	2,076,441	24,031	2,074,697	1,744	0.1%
Mental Health	1,523,521	380,880	1,523,521	0	0.0%
Human Services	43,327,039	10,279,415	42,691,346	635,693	1.5%
Parks, Recreation, and Tourism	13,377,751	4,524,040	13,115,649	262,102	2.0%
Libraries	5,000,490	1,404,920	4,997,125	3,365	0.1%
Development	1,643,515	415,745	1,618,341	25,174	1.5%
Planning	1,162,824	287,049	1,145,935	16,889	1.5%
Appointed Boards	117,361	18,237	71,265	46,096	39.3%
Nondepartmental-Contingencies	7,740,528	1,889,116	7,620,727	119,801	1.5%
Community Support	7,672,239	3,062,041	7,672,239	0	0.0%
Transfers to Schools	109,200,000	0	109,200,000	0	0.0%
Debt Service/Cash Capital	38,279,213	0	38,279,213	0	0.0%
All Other Payments	7,984,564	668,054	7,874,564	110,000	1.4%
Total Expenditures	**$411,000,000**	**$65,429,852**	**$407,038,948**	**$3,961,052**	**1.0%**