CITY OF NEWPORT NEWS

Office of the City Manager

January 21, 2011

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Second Quarter FY 2011 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 $2.1 million and an expenditure surplus of $3.9 million which taken together resulted in forecasted fiscal year-end net surplus of $1.8 million in the General Fund. In the second quarter, we are projecting a revenue shortfall of $2.3 million and an expenditure surplus of $3.3 million, when taken together results in a forecasted fiscal year-end net surplus of $1,015,530.

Revenues

Revenues are expected to be less than the budgeted amounts by $2.3 million, or (0.6%). This is a net change of almost $160,000 less than the first quarter projection.

With the first half of the current real estate and personal property taxes now being received, we have better activity on which to project collections. Current Real Estate Tax revenue collections are just at 49% of this year's estimate, which if not collected over the next six months, could result in approximately $2.2 million loss in revenue. Offsetting this loss is Personal Property Tax receipts that are projecting higher than anticipated. By the end of the second quarter, 52% of the $38.9 million estimate had been received. While 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 also showing a good performance,

with 52% collected at the end of the second quarter, projecting to be over the $16.2 million estimate by $1.1 million. Collections of delinquent real estate taxes are lower than last year's pace, but still projected to meet the revenue estimate with current year receipts of $2.2 million at 58% 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 directly as estimated. Consumer sensitive revenues of sales, meals, and lodging tax, have been showing within the same ranges as the previous fiscal year, suggesting that there is consistent performance in these areas. Sales Tax revenue is projected to be only $150,000 above the estimate of $20.6 million. Meal Tax receipts are right at the level to meet the $17.5 million estimate. A modest increase of $200,000 in Lodging Tax is estimated at this time, which is an improvement over the first quarter estimated loss of $67,000.

There are two revenue sources in the category of consumer taxes that are projecting a loss. The Grantors Tax on Deeds, which is the amount of tax applied to any taxable deed that is filed in the City, is projecting to be $400,000 less than estimated. Tied directly to real estate transactions, the tax is applied to the value of the deed or value of the property conveyed, so there is an apparent connection between declining real estate values and the amount of this tax collected. A slight loss in Vehicle License Fee revenue of $200,000 on the $3.9 million estimate is projected at this time, but is anticipated to recover as the fiscal year progresses.

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.

Expenditures

Once again, departments are prudently managing their budgets, and expenditures are expected to be $3.3 million or 1.0% under budget. Reduced spending for salaries and benefits is the principal reason for the surplus.

The hiring suspension continues to be the majority of the salary savings and is coupled with lower than expected health insurance costs for the remainder of the fiscal year, resulting in $2.9 million (or 88%) of the total under-expenditure. This is consistent with the projections from the first quarter report. That leaves $421,008 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 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.

The projected over-expense in the Operating Materials and Supplies category is a net value. However, higher payments to the Regional Jail for greater-than-budgeted populations are projecting toward an over-expense of $57,000. The higher populations are due to the renovations of the Public Safety building and are anticipated to last for the remainder of this fiscal year.

Combined Surplus

The combined forecasted budget surplus of just at $1 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 and Machinery and Tools and Sales, Meals, and Lodging receipts will cover the projected Real Estate Tax shortfall.

Use of Fund Balance

To date, City Council has approved the use of $12 million in General Fund Balance reserves to create the Special Project Fund, to allow for various supplemental appropriations separate from the General Fund Balance reserves for unspecified special projects.

It appears now that our forecasted FY 2011 year-end surplus will not offset this draw-down from Reserves. This means that the General Fund Balance, which totaled $103 million at the end of FY 2010, will be lower as

of the close of FY 2011. The bond rating agencies do not view repeated fund balance declines positively. We are fortunate to have finished FY 2009 and FY 2010 with no draws on General Fund Reserves and with a strong fund balance increase. It is imperative, therefore, that this one-time planned decline in FY 2011 not be repeated next year. As we begin our budget planning, we should not count on the use of reserves to supplement our standard operating revenue sources.

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 condition.

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 any necessary action to address them.

Neil A. Morgan

NAM:LJC

Attachment

cc: 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	$82,467,347	$164,977,488	($2,200,000)	-1.3%
Personal Property Taxes	44,434,000	22,591,090	45,334,000	900,000	2.0%
Machinery & Tools Taxes	16,205,001	8,511,470	17,305,001	1,100,000	6.8%
Other Local Taxes	85,506,288	29,045,788	85,726,288	220,000	0.3%
Permits and Fees	2,596,178	1,725,617	2,770,178	174,000	6.7%
Fines and Forfeitures	1,986,833	976,108	2,042,833	56,000	2.8%
Revenue from Use-Money & Prop	2,336,542	576,246	2,124,542	(212,000)	-9.1%
Charges for Services	5,592,506	2,595,824	5,373,506	(219,000)	-3.9%
Miscellaneous Revenue	16,768,045	5,100,872	16,808,045	40,000	0.2%
Recovered Costs	9,352,702	4,313,224	7,544,702	(1,808,000)	-19.3%
Non-Categorical Aid	245,289	365,379	448,727	203,438	82.9%
Shared Expenses	9,384,675	3,048,778	8,853,675	(531,000)	-5.7%
Categorical Aid	38,360,695	12,968,733	38,297,799	(62,896)	-0.2%
Non-Revenue Receipts	10,500,000	5,250,000	10,500,000	0	0.0%
Payments from Other Funds	553,758	0	553,758	0	0.0%
Subtotal REVENUES	**$411,000,000**	**$179,536,476**	**$408,660,542**	**($2,339,458)**	**-0.6%**
Use of Fund Balance	$12,000,000	$12,000,000			
TOTAL REVENUES	***$423,000,000***	***$191,536,476***			

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Expense	Variance	Percent
Personnel Services	$120,021,353	$59,199,679	$118,958,929	$1,062,424	0.9%
Taxes, Benefits, Insurance	54,522,302	25,353,268	52,651,312	1,870,990	3.4%
Contractual Services	14,247,700	6,518,480	14,041,607	206,093	1.4%
Vehicle Costs	4,498,880	2,249,440	4,498,880	0	0.0%
Fuel	2,149,988	816,009	2,122,410	27,578	1.3%
Utilities	7,172,426	2,518,546	7,104,120	68,306	1.0%
Operating Materials, Supplies, Ins	20,131,143	7,471,540	20,207,955	(76,812)	-0.4%
Equipment (Except Vehicles)	1,519,944	935,664	1,429,901	90,043	5.9%
Leases, Rentals	5,035,136	3,530,676	5,033,770	1,366	0.0%
Community Support	7,672,239	4,974,794	7,667,239	5,000	0.1%
Transfer to Schools	109,200,000	54,600,000	109,200,000	0	0.0%
Debt Service/Cash Capital	38,279,213	11,284,123	38,279,213	0	0.0%
Payments to Other Funds	7,984,564	2,721,676	7,884,564	100,000	1.3%
Direct Program Costs - DHS	18,565,112	9,320,768	18,565,112	0	0.0%
Subtotal EXPENDITURES	**$411,000,000**	**$191,494,663**	**$407,645,012**	**$3,354,988**	**0.8%**
Use of Fund Balance	$12,000,000	$12,000,000			
TOTAL EXPENDITURES	***$423,000,000***	***$203,494,663***			

TOTAL PROJECTED VARIANCE **$1,015,530**

OTHER GENERAL FUND SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/(Deficit)	% Variance to Proj Revenue
Auto Liability Fund	$1,384,500	$1,484,500	$1,500,996	($16,496)	-1.1%
General Liability Fund	1,244,100	1,244,100	1,302,342	($58,242)	-4.7%
Worker's Compensation Fund	3,321,600	3,321,600	3,321,600	$0	0.0%
Recreation Revolving Fund	4,904,000	4,125,000	4,127,614	($2,614)	-0.1%
Historical Services Fund	1,129,000	1,110,543	1,080,614	$29,929	2.7%
Golf Course Fund	1,697,000	1,396,752	1,681,878	($285,126)	-20.4%
Leeward Marina Fund	265,000	254,000	253,168	$832	0.3%
Tourism Fund	1,215,000	1,300,000	1,215,536	$84,464	6.5%
TOTAL	**$15,160,200**	**$14,236,495**	**$14,483,748**	**($247,253)**	**-1.7%**
PROJECTED VARIANCE (OTHER FUNDS)				**($247,253)**	**-1.7%**
TOTAL PROJECTED VARIANCE				**$768,277**	

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/(Deficit)	Percent
Stormwater Management Fund	$10,917,000	$10,067,000	$10,067,000	$0	0.0%
Solid Waste Fund	$12,764,000	$11,964,000	$11,964,000	$0	0.0%
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	$142,918	$303,406	$18,333	5.7%
City Clerk	385,671	197,798	378,777	6,894	1.8%
City Manager	1,916,669	892,708	1,853,235	63,434	3.3%
Human Resources	1,418,030	601,171	1,307,474	110,556	7.8%
City Attorney	1,689,233	823,202	1,650,512	38,721	2.3%
Internal Auditor	532,318	254,911	519,645	12,673	2.4%
Commissioner of the Revenue	2,811,944	1,350,711	2,686,502	125,442	4.5%
Real Estate Assessor	1,685,547	851,380	1,682,498	3,049	0.2%
City Treasurer	2,185,852	1,064,007	2,134,561	51,291	2.3%
Finance	1,270,156	665,165	1,270,156	0	0.0%
Budget and Evaluation	665,468	322,966	661,672	3,796	0.6%
Information Technology	8,433,585	4,956,624	8,390,294	43,291	0.5%
Purchasing	1,427,094	867,418	1,427,094	0	0.0%
Registrar	477,875	254,237	444,296	33,579	7.0%
Judiciary	1,573,038	653,009	1,420,212	152,826	9.7%
Circuit Court Clerk	1,582,498	735,281	1,522,815	59,683	3.8%
Commonwealth's Attorney	3,732,549	1,776,027	3,629,986	102,563	2.7%
Police	45,501,290	22,166,748	45,258,994	242,296	0.5%
Fire	31,248,969	16,108,509	31,748,969	(500,000)	-1.6%
Sheriff	19,474,980	9,736,606	18,603,691	871,289	4.5%
Adult Corrections	4,560,903	2,326,153	4,531,432	29,471	0.6%
Juvenile Services	8,077,796	4,114,237	8,018,956	58,840	0.7%
Codes Compliance	2,904,027	1,359,138	2,802,749	101,278	3.5%
Engineering	7,209,669	3,318,414	7,017,052	192,617	2.7%
Public Works	20,807,614	8,182,286	20,557,218	250,396	1.2%
Health	2,076,441	34,302	2,074,766	1,675	0.1%
Mental Health	1,523,521	1,142,641	1,523,521	0	0.0%
Human Services	43,327,039	19,824,230	42,416,660	910,379	2.1%
Parks, Recreation, and Tourism	13,377,751	7,418,410	13,226,832	150,919	1.1%
Libraries	5,000,490	2,495,903	4,896,325	104,165	2.1%
Development	1,643,515	796,696	1,581,857	61,658	3.8%
Planning	1,162,824	559,800	1,158,005	4,819	0.4%
Appointed Boards	117,361	39,122	73,306	44,055	37.5%
Nondepartmental-Contingencies	7,740,528	3,086,707	7,740,528	0	0.0%
Community Support	7,672,239	3,848,691	7,667,239	5,000	0.1%
Transfers to Schools	109,200,000	54,600,000	109,200,000	0	0.0%
Debt Service/Cash Capital	38,279,213	11,284,123	38,279,213	0	0.0%
All Other Payments	7,984,564	2,642,414	7,984,564	0	0.0%
Subtotal Expenditures	**$411,000,000**	**$191,494,663**	**$407,645,012**	**$3,354,988**	**0.8%**
Use of Fund Balance	$12,000,000	$12,000,000			
TOTAL EXPENDITURES	***$423,000,000***	***$203,494,663***			