

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

April 21, 2011

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Third 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 nine months (July - March), which allows for a projection of financial activity over the remaining three months (April - June). In our first quarter report we projected a revenue shortfall of \$2.2 million and an expenditure surplus of \$3.9 million which taken together forecasted a year-end net surplus of \$1.7 million in the General Fund. By the second quarter, we projected a similar revenue shortfall of \$2.3 million and an expenditure surplus of \$3.3 million, for a year-end surplus of \$1 million. This trend improved in the third quarter with a minor variation, with a slightly lower revenue shortfall of \$1.8 million and an increased expenditure surplus to \$3.9 million, for a projected year-end surplus of \$2.1 million.

Revenues

Revenues are expected to be less than the budgeted amounts by \$1.8 million, or (0.4%). This is an improvement of \$492,000 from the second quarter projection.

With the first half of the current real estate and personal property taxes received, there has not been significant change in the activity on which to project any difference in collections. If Current Real Estate Tax revenue collections for the second half of the tax year are collected at the same rate as the first half (at just at 49% of this year's estimate), this could result in approximately \$2.2 million loss in revenue. This was projected in the second quarter report. Offsetting this loss is Personal Property Tax receipts that are projecting higher than anticipated over last quarter. By

the end of the third quarter, 56% of the \$38.9 million estimate has been received, generating an anticipated \$200,000 in year-end projections for this revenue source. Machinery and Tools Taxes are also showing a good performance with 54% collected at the end of the third quarter, projecting to be over the \$16.2 million estimate by \$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 \$2.8 million at 73% of the \$3.8 million estimate.

Local taxes and fees are performing at the same pace and level as last quarter and as well as last year. They are generally tracking directly as estimated. Consumer sensitive revenues of sales, meals, and lodging tax are projected within the same ranges as FY 2010 suggesting that there is continued consistent performance in these areas. The year-end Sales Tax revenue projections showed some improvement, increasing by \$50,000 over last quarter's estimate, with the projection to be \$200,000 above the estimate of \$20.6 million. Meal Tax receipts are right at the level to meet the \$17.5 million estimate. Lodging Taxes are maintaining the projected modest increase of \$200,000 over the estimate, which is consistent with the second quarter projection.

There is one revenue source in this category of consumer taxes that is continuing to project 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 \$500,000 less than estimated. Tied directly to real estate transactions, the tax is applied on 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. Vehicle License Fee revenue appears to be recovering from the second quarter anticipated loss of \$200,000 on the \$3.9 million estimate; it now appears that we will meet this estimate by year-end.

The full impact of the FY 2011 state revenue reductions were realized in the third quarter in all areas. The first quarter forecast included \$1.6 million in State revenue reductions for the fiscal year. This forecast has remained fairly consistent through the past nine months.

By the end of the third quarter, the majority of Business Professional and Occupational Licenses (BPOL) receipts had been collected, with a stronger than anticipated showing. Overall, the net revenue over the estimate for

all BPOL taxes is over \$650,000. We had forecasted these revenues to perform right at their estimated levels for this fiscal year. Stronger than anticipated revenues were in the areas of Retail Sales, Professional Services, and Repairs. Building Permit revenue is projecting to meet or marginally exceed the current year estimate of \$756,000 in the major permit categories of Building, Mechanical, Electrical, and Plumbing. The early spring building season has shown increased activity in these areas, but it remains to be determined if this level will continue.

Expenditures

Continuation of the hiring suspension implemented in September 2009 and closely controlled spending by departments has resulted in a projected savings of about \$3.9 million. Under-expenditures in the combined Salary and Fringe Benefits categories are projected at \$2.9 million; this is 75% of the total savings. That leaves approximately \$1 million in potential year-end savings in all other 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. This leaves little room for any activity other than essential program costs, with a small margin for any additional savings. There is a potential utilities savings of over \$94,000, however the warmer spring/early summer months have yet to occur. Slowing expenditures for operating supplies and contractual services represent an additional savings of close to \$935,162, or 92% of the non-personnel related savings.

Higher Vehicle fuel costs are projected to continue, resulting in a negligible savings of \$3,600 at this time. FY 2011 Vehicle fuel was budgeted at 73 cents more per gallon than last fiscal year. Any increases in fuel prices over the next month will eliminate this meager savings.

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 to an over-expense of \$44,000. In the previous quarters, the higher populations are due to the renovations of the Public Safety building, which are now complete.

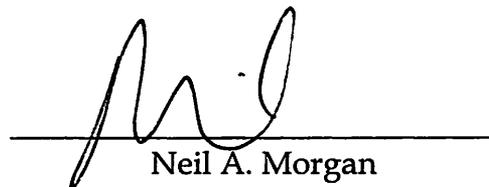
Combined Surplus

The combined forecasted surplus of slightly more than \$2.1 million allows for some surety for a positive outcome of the remainder of this fiscal year. If the second half of the major revenue sources collections (Real Estate, Personal Property, and Machinery and Tool taxes) continues to mirror the first half, combined with steady and consistent collections in consumer generated taxes and fees (Sales, Meals, and Lodging taxes), we could meet this present surplus forecast.

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. At this point, it appears that we have a certain degree of stability in our non-real estate revenue sources that may indicate an initial economic recovery. The cautionary issue is the impact that continuing increasing vehicle fuel prices could have on the slow economic recovery from the recession. This will continue to be one major issue in both national and local 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 things change for the worse, we will take any necessary action to address them.



Neil A. Morgan

NAM/LJC

Attachment

cc: Lisa Cipriano, Director of Budget and Evaluation

**FY 2011 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Third Quarter - July 2010 to March 2011

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	Variance	Percent
Real Estate Taxes	\$167,177,488	\$84,478,592	\$164,977,488	(\$2,200,000)	-1.3%
Personal Property Taxes	44,434,000	25,046,085	45,534,000	1,100,000	2.5%
Machinery & Tools Taxes	16,205,001	8,859,585	17,305,001	1,100,000	6.8%
Other Local Taxes	85,506,288	62,356,839	85,726,288	220,000	0.3%
Permits and Fees	2,596,178	2,295,198	2,779,178	183,000	7.0%
Fines and Forfeitures	1,986,833	1,690,615	2,019,833	33,000	1.7%
Revenue from Use-Money & Prop	2,336,542	1,564,904	2,078,542	(258,000)	-11.0%
Charges for Services	5,592,506	4,129,497	5,367,506	(225,000)	-4.0%
Miscellaneous Revenue	17,268,695	9,619,123	17,308,695	40,000	0.2%
Recovered Costs	9,352,702	7,055,521	7,952,702	(1,400,000)	-15.0%
Non-Categorical Aid	245,289	475,739	510,289	265,000	108.0%
Shared Expenses	9,384,675	6,176,391	8,884,675	(500,000)	-5.3%
Categorical Aid	38,396,709	27,232,826	38,191,709	(205,000)	-0.5%
Non-Revenue Receipts	10,500,000	8,000,000	10,500,000	0	0.0%
Payments from Other Funds	<u>553,758</u>	<u>0</u>	<u>553,758</u>	<u>0</u>	<u>0.0%</u>
Subtotal REVENUES	\$411,536,664	\$248,980,915	\$409,689,664	(\$1,847,000)	-0.4%
Use of Fund Balance	<u>\$12,000,000</u>	<u>\$12,000,000</u>			
TOTAL REVENUES	\$423,536,664	\$260,980,915			

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Variance	Percent
Personnel Services	\$118,242,126	\$87,567,354	\$117,004,164	\$1,237,962	1.0%
Taxes, Benefits, Insurance	54,565,585	38,168,388	52,831,511	1,734,074	3.2%
Contractual Services	15,081,627	10,555,655	14,555,402	526,225	3.5%
Vehicle Costs	4,498,880	3,374,160	4,498,880	0	0.0%
Fuel	2,152,488	1,533,427	2,148,843	3,645	0.2%
Utilities	7,171,611	4,186,158	7,077,489	94,122	1.3%
Operating Materials, Supplies, Ins	21,591,545	14,956,107	21,182,608	408,937	1.9%
Equipment (Except Vehicles)	1,594,398	1,026,574	1,591,859	2,539	0.2%
Leases, Rentals	5,037,276	4,288,212	5,067,113	(29,837)	-0.6%
Community Support	7,672,239	6,860,248	7,666,696	5,543	0.1%
Transfer to Schools	109,200,000	81,900,000	109,200,000	0	0.0%
Debt Service/Cash Capital	38,279,213	28,705,278	38,279,213	0	0.0%
Payments to Other Funds	7,884,564	3,881,431	7,884,564	0	0.0%
Direct Program Costs - DHS	<u>18,565,112</u>	<u>13,148,493</u>	<u>18,565,112</u>	<u>0</u>	<u>0.0%</u>
Subtotal EXPENDITURES	\$411,536,664	\$300,151,485	\$407,553,454	\$3,983,210	1.0%
Use of Fund Balance	<u>\$12,000,000</u>	<u>\$12,000,000</u>			
TOTAL EXPENDITURES	\$423,536,664	\$312,151,485			

TOTAL PROJECTED VARIANCE

\$2,136,210

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	\$1,584,500	\$1,776,500	\$1,656,663	\$119,837	6.7%
General Liability Fund	1,694,100	1,689,953	1,811,559	(\$121,606)	-7.2%
Worker's Compensation Fund	3,321,600	3,321,600	3,245,969	\$75,631	2.3%
Recreation Revolving Fund	4,904,000	4,125,000	4,300,461	(\$175,461)	-4.3%
Historical Services Fund	1,129,000	1,110,543	1,081,134	\$29,409	2.6%
Golf Course Fund	1,697,000	1,396,752	1,698,125	(\$301,373)	-21.6%
Leeward Marina Fund	265,000	254,000	260,750	(\$6,750)	-2.7%
Tourism Fund	<u>1,215,000</u>	<u>1,216,000</u>	<u>1,215,536</u>	<u>\$464</u>	<u>0.0%</u>
TOTAL	\$15,810,200	\$14,890,348	\$15,270,197	(\$379,849)	-2.6%

PROJECTED VARIANCE (OTHER FUNDS)

(\$379,849) -2.6%

TOTAL PROJECTED VARIANCE

\$1,756,361

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	\$10,917,000	\$10,300,000	\$10,300,000	\$0	0.0%
Solid Waste Fund	\$12,764,000	\$11,600,000	\$11,600,000	\$0	0.0%
Wastewater Fund	\$17,497,000	\$17,497,000	\$17,497,000	\$0	0.0%
Public Utilities Fund	\$83,597,800	\$78,691,576	\$79,592,378	(\$900,802)	-1.1%

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	\$321,739	\$214,229	\$303,688	\$18,051	5.6%
City Clerk	385,671	282,173	367,240	18,431	4.8%
City Manager	1,916,669	1,342,833	1,823,202	93,467	4.9%
Human Resources	1,418,030	912,732	1,237,355	130,675	9.2%
City Attorney	1,689,233	1,255,457	1,635,229	54,004	3.2%
Internal Auditor	532,318	383,671	519,785	12,533	2.4%
Commissioner of the Revenue	2,811,944	1,998,777	2,728,222	83,722	3.0%
Real Estate Assessor	1,685,547	1,245,919	1,666,884	18,663	1.1%
City Treasurer	2,185,852	1,550,367	2,101,418	84,434	3.9%
Finance	1,270,156	941,853	1,270,156	0	0.0%
Budget and Evaluation	665,468	502,036	665,468	0	0.0%
Information Technology	8,433,585	6,541,464	8,335,986	97,599	1.2%
Purchasing	1,427,094	1,141,711	1,427,094	0	0.0%
Registrar	477,875	341,804	432,247	45,628	9.5%
Judiciary	1,573,038	1,024,863	1,441,460	131,578	8.4%
Circuit Court Clerk	1,618,512	1,156,122	1,575,450	43,062	2.7%
Commonwealth's Attorney	3,732,549	2,659,847	3,565,021	142,528	3.8%
Police	45,501,290	33,196,283	45,147,739	328,551	0.7%
Fire	31,248,969	23,839,549	31,748,969	(500,000)	-1.6%
Sheriff	19,474,980	14,309,168	18,592,739	782,241	4.0%
Adult Corrections	4,560,903	3,361,324	4,493,290	67,613	1.5%
Juvenile Services	8,077,796	5,942,671	7,777,129	260,667	3.2%
Codes Compliance	2,904,027	2,043,763	2,746,296	132,731	4.6%
Engineering	7,309,669	5,046,967	7,059,373	210,296	2.9%
Public Works	21,208,264	14,617,452	20,778,867	404,397	1.9%
Health	2,076,441	1,468,538	1,935,435	141,006	6.8%
Mental Health	1,523,521	1,142,641	1,523,521	0	0.0%
Human Services	43,327,039	30,545,329	42,263,737	863,302	2.0%
Parks, Recreation, and Tourism	13,377,751	10,153,360	13,221,306	156,445	1.2%
Libraries	5,000,490	3,597,489	4,948,927	51,563	1.0%
Development	1,643,515	1,181,117	1,580,798	62,717	3.8%
Planning	1,162,824	833,124	1,124,164	38,660	3.3%
Appointed Boards	117,361	66,377	111,118	3,103	2.6%
Nondepartmental-Contingencies	7,840,528	3,963,522	7,623,668	0	0.0%
Community Support	7,672,239	6,860,248	7,666,696	5,543	0.1%
Transfers to Schools	109,200,000	81,900,000	109,200,000	0	0.0%
Debt Service/Cash Capital	38,279,213	28,705,278	38,279,213	0	0.0%
All Other Payments	<u>7,884,564</u>	<u>3,881,427</u>	<u>7,884,564</u>	<u>0</u>	<u>0.0%</u>
Subtotal Expenditures	\$411,536,664	\$300,151,485	\$406,803,454	\$3,983,210	1.0%
Use of Fund Balance	<u>\$12,000,000</u>	<u>\$12,000,000</u>			
TOTAL EXPENDITURES	\$423,536,664	\$312,151,485			