

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

October 24, 2011

TO: The Honorable City Council
FROM: City Manager
SUBJECT: First Quarter FY 2012 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 when the majority of our semi-annual revenues—Real Estate Taxes, Personal Property Taxes, and Machinery and Tools Taxes—begin to be collected. At the end of the first quarter, only 1.3% of the \$227.2 million in the General Property Tax revenue category has been collected, making a year-end projection for these sources challenging at best. This is the same level of collections at this point for FY 2011, with the budget for this category of revenues lower than the prior fiscal year. In particular, only \$51,000 in Current Real Estate Taxes was collected by the end of September, as compared to an estimate of \$158.7 million. 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 slightly lower than the level of collections at the end of September 2010. An added element to the current year revenue projections is the Disabled Veteran's tax relief implementation. Presently, 168 eligible veterans have been processed, with the tax relief tracking close to this fiscal year's revenue loss estimate. In early June 2011, the State announced final local budget reductions for FY 2012, after the City's budget had been adopted. The FY 2012 additional State budget reductions are projected to be \$1.6 million. However, a majority of these reductions were anticipated in the budget formulation process, so at this time, it is anticipated that the City will lose an additional "unbudgeted" \$500,000 of the State's projected aid to localities. In response to the tenuous recovery from the recession, I instructed that the hiring suspension be continued for most positions, with the exception of

uniformed fire, police, and sheriff personnel. 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%). This deficit is spread throughout all the revenue categories for various reasons, with a majority of the projected shortfall in the 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 the last quarter of FY 2011. Sales Tax revenue is projected to be right on target of the estimated \$21.1 million. Meal Tax receipts are anticipated to exceed the \$17.6 million estimate by \$150,000 at this time. There is a modest increase of \$25,000 more in Lodging Tax collections as compared to this time last fiscal year.

Collections of delinquent real estate taxes are slightly higher than last year's pace, and could slightly exceed the budgeted level of \$3.8 million. As the first payments of current real estate and personal property taxes have yet to be 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 \$2.4 million. The hiring suspension continues to provide the bulk of the under-expenditure, with salary and fringe benefits category savings totaling \$1.9 million, or 76% of the total projection. That leaves \$583,000 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 2012 budget development process. This leaves little capacity for any activity other than essential program costs, with a small margin for any additional savings in these categories.

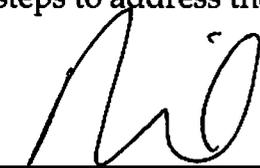
Vehicle fuel will continue to be difficult to estimate. Budgeted at 78 cents more per gallon than last fiscal year, the year-end expense should stay within the budget amount as long as only minor fluctuations in cost continue.

Combined Surplus

When creating the final revenue projections for FY 2012, the FY 2011 receipts and projections to date were used. In other words, the FY 2012 revenue projections closely resemble where the City ended the prior fiscal year. Therefore, there is very little room for an expectation of exceeding the revenue collections at the close of the first quarter. The combined forecasted budget surplus is slightly more than \$266,000; this is a very narrow margin, allowing for a minor level of comfort that we will meet our budget projections. With the major revenue sources to be collected over the next month and with additional receipts from consumer generated taxes and fees, the forecast for the remainder of this fiscal year that will be provided in the second quarter will bring more clarity to a potential year-end result.

Conclusion

While this projected revenue shortfall for the current fiscal year is similar to the same level as the previous fiscal year, any revenue shortfall during this economic environment must be viewed as a warning. I believe that we are in a 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

Attachment

cc: Director of Budget and Evaluation

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

First Quarter - July 2011 to September 2011

GENERAL FUND

REVENUES

| | Revised <u>Budget</u> | YTD Receipts | Projected <u>Total Receipts</u> | <u>Variance</u> | <u>Percent</u> |
|-------------------------------|--------------------------|---------------------|------------------------------------|----------------------|----------------|
| Real Estate Taxes | \$163,664,362 | \$1,675,027 | \$163,214,362 | (\$450,000) | -0.3% |
| Personal Property Taxes | 45,408,469 | 1,515,451 | 45,399,712 | (8,757) | 0.0% |
| Machinery & Tools Taxes | 18,179,619 | 3,626 | 18,179,619 | 0 | 0.0% |
| Other Local Taxes | 87,840,285 | 11,032,849 | 87,565,285 | (275,000) | -0.3% |
| Permits and Fees | 3,057,163 | 789,290 | 3,036,163 | (21,000) | -0.7% |
| Fines and Forfeitures | 2,224,000 | 627,732 | 2,274,000 | 50,000 | 2.2% |
| Revenue from Use-Money & Prop | 2,427,076 | 331,531 | 2,297,076 | (130,000) | -5.4% |
| Charges for Services | 5,967,525 | 1,541,203 | 5,867,525 | (100,000) | -1.7% |
| Miscellaneous Revenue | 17,215,580 | 792,535 | 17,228,580 | 13,000 | 0.1% |
| Recovered Costs | 9,537,485 | 2,453,055 | 9,212,485 | (325,000) | -3.4% |
| Non-Categorical Aid | 676,810 | 294,508 | 676,810 | 0 | 0.0% |
| Shared Expenses | 9,223,040 | 1,487,470 | 8,998,040 | (225,000) | -2.4% |
| Categorical Aid | 37,972,359 | 7,227,860 | 37,222,359 | (750,000) | -2.0% |
| Non-Revenue Receipts | 10,709,519 | 2,666,269 | 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 | \$414,648,519 | \$32,438,406 | \$412,426,762 | (\$2,221,757) | -0.5% |

EXPENDITURES

| | Revised <u>Budget</u> | YTD Exp/Enc | Projected <u>Total Expense</u> | <u>Variance</u> | <u>Percent</u> |
|------------------------------------|--------------------------|----------------------|-----------------------------------|--------------------|----------------|
| Personnel Services | \$120,023,078 | \$29,182,728 | \$118,893,651 | \$1,129,427 | 0.9% |
| Taxes, Benefits, Insurance | 57,544,537 | 13,434,080 | 56,768,923 | 775,614 | 1.3% |
| Contractual Services | 13,775,686 | 6,864,486 | 13,728,809 | 46,877 | 0.3% |
| Vehicle Costs | 4,447,811 | 1,111,953 | 4,447,811 | 0 | 0.0% |
| Fuel | 2,863,540 | 537,595 | 2,831,022 | 32,518 | 1.1% |
| Utilities | 6,901,204 | 1,270,270 | 6,901,204 | 0 | 0.0% |
| Operating Materials, Supplies, Ins | 19,758,158 | 5,737,692 | 19,506,409 | 251,749 | 1.3% |
| Equipment (Except Vehicles) | 1,511,533 | 704,531 | 1,461,533 | 50,000 | 3.3% |
| Leases, Rentals | 4,940,580 | 1,961,192 | 4,938,404 | 2,176 | 0.0% |
| Community Support | 7,864,055 | 2,815,323 | 7,864,055 | 0 | 0.0% |
| Transfer to Schools | 112,200,000 | 28,050,000 | 112,200,000 | 0 | 0.0% |
| Debt Service/Cash Capital | 37,306,007 | 12,993,592 | 37,306,007 | 0 | 0.0% |
| Payments to Other Funds | 7,724,693 | 892,795 | 7,524,693 | 200,000 | 2.6% |
| Direct Program Costs - DHS | <u>17,787,637</u> | <u>4,271,010</u> | <u>17,787,637</u> | <u>0</u> | <u>0.0%</u> |
| TOTAL EXPENDITURES | \$414,648,519 | \$109,827,247 | \$412,160,158 | \$2,488,361 | 0.6% |

TOTAL PROJECTED VARIANCE

\$266,604

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 | \$1,339,200 | \$1,452,752 | (\$113,552) | -8.5% |
| General Liability Fund | 1,198,700 | 1,170,700 | 1,174,653 | (\$3,953) | -0.3% |
| Worker's Compensation Fund | 3,320,400 | 3,320,400 | 2,928,201 | \$392,199 | 11.8% |
| Recreation Revolving Fund | 4,668,000 | 4,300,000 | 4,611,122 | (\$311,122) | -7.2% |
| Historical Services Fund | 1,112,000 | 1,110,000 | 1,103,807 | \$6,193 | 0.6% |
| Golf Course Fund | 1,737,700 | 1,475,000 | 1,734,914 | (\$259,914) | -17.6% |
| Leeward Marina Fund | 253,500 | 253,000 | 243,355 | \$9,645 | 3.8% |
| Tourism Fund | <u>1,334,100</u> | <u>1,334,100</u> | <u>1,314,974</u> | <u>\$19,126</u> | <u>1.4%</u> |
| TOTAL | \$15,003,600 | \$14,302,400 | \$14,563,778 | (\$261,378) | -1.8% |

PROJECTED VARIANCE (OTHER FUNDS)**(\$261,378) -1.8%****TOTAL PROJECTED VARIANCE****\$5,226****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 | \$10,855,000 | \$10,666,510 | \$188,490 | 1.7% |
| Solid Waste Fund | \$13,232,500 | \$13,232,500 | \$13,136,703 | \$95,797 | 0.7% |
| Wastewater Fund | \$17,863,500 | \$17,863,500 | \$17,339,906 | \$523,594 | 2.9% |
| Public Utilities Fund | \$82,843,000 | \$81,000,000 | \$80,600,000 | \$400,000 | 0.5% |

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 | \$71,981 | \$313,152 | \$5,000 | 1.6% |
| City Clerk | 367,772 | 94,879 | 353,419 | 14,353 | 3.9% |
| City Manager | 1,914,669 | 478,111 | 1,870,845 | 43,824 | 2.3% |
| Human Resources | 1,411,206 | 329,859 | 1,325,321 | 85,885 | 6.1% |
| City Attorney | 1,755,740 | 403,373 | 1,626,701 | 129,039 | 7.3% |
| Internal Auditor | 547,910 | 125,073 | 512,973 | 34,937 | 6.4% |
| Commissioner of the Revenue | 2,792,707 | 663,221 | 2,642,883 | 149,824 | 5.4% |
| Real Estate Assessor | 1,733,765 | 413,910 | 1,645,500 | 88,265 | 5.1% |
| City Treasurer | 2,229,735 | 625,713 | 2,175,312 | 54,423 | 2.4% |
| Finance | 1,282,924 | 343,128 | 1,230,370 | 52,554 | 4.1% |
| Budget and Evaluation | 748,071 | 150,441 | 709,009 | 39,062 | 5.2% |
| Information Technology | 8,452,547 | 2,839,667 | 8,261,406 | 191,141 | 2.3% |
| Purchasing | 1,501,303 | 432,394 | 1,368,855 | 132,448 | 8.8% |
| Registrar | 469,204 | 66,868 | 408,811 | 60,393 | 12.9% |
| Judiciary | 1,410,836 | 341,925 | 1,405,948 | 4,888 | 0.3% |
| Circuit Court Clerk | 1,581,004 | 378,102 | 1,541,169 | 39,835 | 2.5% |
| Commonwealth's Attorney | 3,819,422 | 912,022 | 3,848,439 | (29,017) | -0.8% |
| Police | 47,139,454 | 12,338,974 | 47,289,439 | (149,985) | -0.3% |
| Fire | 32,965,671 | 8,553,487 | 33,875,633 | (909,962) | -2.8% |
| Sheriff | 19,436,230 | 5,745,746 | 19,150,163 | 286,067 | 1.5% |
| Adult Corrections | 4,547,119 | 1,339,899 | 4,455,327 | 91,792 | 2.0% |
| Juvenile Services | 8,217,145 | 1,969,353 | 7,986,672 | 230,473 | 2.8% |
| Codes Compliance | 2,944,800 | 700,617 | 2,902,206 | 42,594 | 1.4% |
| Engineering | 7,305,495 | 1,732,589 | 7,112,438 | 193,057 | 2.6% |
| Public Works | 20,685,601 | 4,841,182 | 20,206,296 | 479,305 | 2.3% |
| Health | 2,097,835 | 55,183 | 2,096,183 | 1,652 | 0.1% |
| Mental Health | 1,523,521 | 380,880 | 1,523,521 | 0 | 0.0% |
| Human Services | 43,022,857 | 10,124,181 | 42,435,421 | 587,436 | 1.4% |
| Parks, Recreation, and Tourism | 13,176,793 | 4,526,858 | 13,111,509 | 65,284 | 0.5% |
| Libraries | 5,078,518 | 1,436,060 | 5,040,933 | 37,585 | 0.7% |
| Development | 1,606,718 | 420,608 | 1,587,075 | 19,643 | 1.2% |
| Planning | 1,182,806 | 286,584 | 1,154,777 | 28,029 | 2.4% |
| Appointed Boards | 107,741 | 23,652 | 98,204 | 9,537 | 8.9% |
| Nondepartmental-Contingencies | 6,178,493 | 1,929,017 | 5,999,493 | 179,000 | 2.9% |
| Community Support | 7,864,055 | 2,815,323 | 7,864,055 | 0 | 0.0% |
| Transfers to Schools | 112,200,000 | 28,050,000 | 112,200,000 | 0 | 0.0% |
| Debt Service/Cash Capital | 37,306,007 | 12,993,592 | 37,306,007 | 0 | 0.0% |
| All Other Payments | <u>7,724,693</u> | <u>892,795</u> | <u>7,524,693</u> | <u>200,000</u> | <u>2.6%</u> |
| TOTAL EXPENDITURES | \$414,648,519 | \$109,827,247 | \$412,160,158 | \$2,488,361 | 0.6% |