

CITY OF NEWPORT NEWS

Office of the City Manager

November 22, 2022

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Unaudited Preliminary FY 2022 Fourth Quarter Financial Report

This Fourth Quarter FY 2022 Financial Report, prepared by the Department of Budget and Evaluation, describes the budgetary performance of revenues and expenditures at the end of the fiscal year. This report uses preliminary and unaudited results of operations, in a Budget to Actual comparison, for the fiscal year ending June 30, 2022. While the audit for the fiscal year is not yet complete, this report provides City Council with a reasonably accurate estimate of fiscal year outcomes for the General Fund. The official results will be issued in December when the City publishes its Annual Comprehensive Financial Report (ACFR).

General Fund revenues performed better than anticipated. With strong Real Estate Tax collections, and continued growth of some consumer sensitive revenues during the year, General Fund Revenues exceeded the revised \$536.5 million budget by \$26.1 million or 4.9%. General Fund expenditure savings also contributed positively to ending the fiscal year on solid footing with \$4.5 million in savings prior to year-end adjustments.

In total, including the other General Fund supported operating funds, the revenue surplus when combined with expenditures resulted in a net projected year-end surplus of \$20.3 million.

Revenues

It is important to note that modest reductions were made to budget estimates during the FY 2022 budget preparation cycle in several revenue categories due to the ongoing implications of the COVID-19 pandemic at that time. These more conservative revenue estimates were developed well in advance of the economic impacts of record high inflationary periods experienced during the fiscal year which have had a significant impact on revenue collections.

Local taxes from the three major revenue drivers of Real Estate, Personal Property, and Machinery and Tools exceeded FY 2022 projections. The City's revenue continues to have a solid foundation in its real estate tax base. Total collections of \$215.9 million, factoring in Real Estate Tax Relief programs, slightly exceeded the total revenue estimate by \$226,000. Machinery and Tools Taxes exceeded revenue estimates by \$1.3 million or 5% more than the \$27.7 million budgeted. Machinery and Tools tax collections continue to make Newport News one of the highest generators of this revenue source in the State.

Personal Property Tax revenue exceeded budget estimates by almost \$6.7 million or 11.6%. Of the \$6.7 million surplus, \$4.6 million represents collections for Current Personal Property Taxes and \$2.1 million represents collections for Delinquent Personal Property Taxes. As a reminder, in March 2022, it was anticipated that inflation and demand for used vehicles would cause an anomaly in the Personal Property Tax assessment for automobiles and trucks, with the average vehicle assessment increasing by 33% over the prior year. It was expected that this rapid value escalation was temporary and accordingly, City Council acted in March 2022 to mitigate the tax burden impact for one year, Calendar Year 2022, by temporarily reducing the assessment rate on automobiles and trucks from 100% to 75%. The 75% assessment ratio is effect for the Personal Property billing cycles of June 5th and December 5th of 2022.

The Other Local Taxes revenue category includes the most consumer sensitive revenues of sales, meals, lodging, amusement, and BPOL taxes. Sales Tax revenues outpaced expectations throughout the year, with revenue \$4.0 million higher than the \$28.6 million estimate. Meal Tax revenue also had significant growth, ending the year approximately \$5.8 million more than the \$26.5 million estimate. This significant growth in Sales and Meals tax is attributed to an increase in retail sales and the prolonged period of higher inflation. Accordingly, as consumer goods cost more, more local sales and meals tax is collected. Lodging and Amusement tax revenues have not only recovered but also exceeded pre-pandemic levels. Lodging tax revenues exceeded the \$3.6 million estimate by \$937,000 and Amusement Tax exceeded the \$250,000 estimate by \$517,000.

Business Professional and Occupational Licenses (BPOL) also performed strongly this fiscal year. Collections exceeded the \$17.5 million estimate by \$3.4 million. BPOL taxes are based on a business' gross receipts earned over the prior calendar (2021) year. BPOL revenue has remained solid over the past several fiscal years, with collections surpassing the estimate across all the

major categories in FY 2022; this demonstrates resilience and continued growth of our Newport News businesses.

Housing market sales continued to remain strong and growing throughout the fiscal year, a trend that was experienced at local, state, and national levels during the fiscal year. The Grantees Tax on Deeds Collections averaged \$47 thousand more per month than last fiscal year, with revenue collections \$913 thousand above the \$2.1 million estimate.

Expenditures

The Operating Departments did an outstanding job controlling expenditures in FY 2022 in the face of constantly escalating operating costs due to higher than anticipated inflation levels. While almost all expenditure categories were impacted by month over month inflationary pressure, an overall measured approach in holding expenses ensured that operating costs were contained within the budgeted levels while still providing essential services.

In addition to inflationary pressures, two important expenditure changes occurred after the FY 2022 Budget adoption. First, to be competitive in this continuing tight job market, sworn Public Safety personnel and dispatchers (Police, Fire and Sheriff Departments) were provided additional salary adjustments, resulting in higher than budgeted personnel expense in these departments. Second, a new citywide security workforce contract was reissued during the second quarter. At current market rates, this contract exceeded budgeted amounts for the fiscal year by \$1.8 million. Even with these additional pressures on the budget, the total General Fund ended the year with an overall expenditure savings of \$4.5 million or 0.8% of the \$536.5 million budget prior to year-end transfers.

These expenditures savings were primarily attributed to two areas; personnel expenditure savings due to sustained vacancies and hard to fill positions and operating materials, and supplies savings primarily due to the delay of materials related supply chain issues.

The expenditures savings, combined with revenues being stronger than initially anticipated, provided the opportunity to continue the practice of funding cash capital reserves as a hedge against future debt borrowing. As part of the year-end closing process, an adjustment was made allocating \$7.5 million of year-end surplus to Debt/Cash Capital. This allocation allows the City to have ready access to funds without having to use General Fund Balance reserves or to acquire additional debt. It grants a degree of flexibility

for future years when our anticipated debt service will escalate due to upcoming large capital investments.

Combined Results

The overall General Fund Operating Budget ended the year with a surplus, primarily driven by strong revenue receipts and managed expenditure controls. This projection does not include any final year-end adjustments for GASB (Governmental Accounting Standards Board) compliance made as part of the annual audit.

The combined General Fund year-end surplus is anticipated to be \$20.3 million, after a portion of the surplus is used to balance any over-expenditures in the Other General Fund Operating Budgets. This surplus will increase the Fund Balance of the City's General Fund. The City's General Fund-Fund Balance Policy requires the Unassigned Fund Balance to be 7.5% of the year-end General Fund revenues. The City's practice has been to establish an Unassigned General Fund-Fund Balance level of 11% or more, when possible. At FY 2022 year-end, the General Fund unassigned balance is anticipated to be over the 14% level. This level of fund balance reserve is an important element in the City's overall strong financial management and is viewed favorably by the bond rating agencies.

I am pleased to report that the hard work by the operating departments to mitigate costs, bolstered by strong collections in our core revenue sources resulted in a solid fiscal position. The City will end the year with critical cash capital reserves and an overall General Fund surplus.



Cynthia D. Rohlf

CDR: LJC

Attachment

cc: Lisa Cipriano, Director of Budget and Evaluation

FY 2022 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS
 Fourth Quarter - July 2021 through June 2022

GENERAL FUND

<u>REVENUES</u>	Adopted Budget	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Difference</u> <u>from Revised Budget</u> Surplus/ (Deficit)	
					Amount	Percent
Real Estate Taxes ¹	\$215,757,590	\$215,757,590	\$215,983,807	\$215,983,807	\$226,217	0.1%
Personal Property Taxes ²	58,665,000	58,665,000	65,450,856	65,450,856	6,785,856	11.6%
Machinery & Tools Taxes ³	27,725,000	27,725,000	29,118,706	29,118,706	1,393,706	5.0%
Other General Property Taxes	2,982,000	2,982,000	4,026,501	4,026,501	1,044,501	35.0%
Other Local Taxes	106,732,000	106,732,000	122,392,560	122,392,560	15,660,560	14.7%
Permits and Fees	3,340,051	3,340,051	3,601,745	3,601,745	261,694	7.8%
Fines and Forfeitures	1,487,200	1,487,200	1,033,735	1,033,735	(453,465)	(30.5%)
Revenue from Use-Money & Prop	4,014,687	4,014,687	2,835,855	2,835,855	(1,178,832)	(29.4%)
Charges for Services	6,009,232	6,009,232	7,917,528	7,917,528	1,908,296	31.8%
Miscellaneous Revenue	24,679,250	25,049,793	26,115,503	26,115,503	1,065,710	4.3%
Recovered Costs	14,481,148	14,481,148	14,051,253	14,051,253	(429,895)	(3.0%)
Non-Categorical Aid	638,000	638,000	936,464	936,464	298,464	46.8%
Shared Expenses	10,481,000	10,481,000	11,241,705	11,241,705	760,705	7.3%
Categorical Aid	38,131,102	38,193,474	37,365,963	37,365,963	(827,511)	(2.2%)
Non-Revenue Receipts	20,983,740	20,983,740	20,631,819	20,631,819	(351,921)	(1.7%)
TOTAL REVENUES	\$536,107,000	\$536,539,915	\$562,704,001	\$562,704,001	\$26,164,086	4.9%

<u>EXPENDITURES</u>	Adopted Budget	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Difference</u> <u>from Revised Budget</u> Surplus/ (Deficit)	
					Amount	Percent
Personnel Services	\$156,487,521	\$156,434,167	\$155,516,466	\$155,516,466	\$917,701	0.6%
Taxes, Benefits, Insurance	80,353,993	80,265,892	78,479,481	78,479,481	1,786,411	2.2%
Contractual Services	21,711,681	22,109,170	23,940,443	23,940,443	(1,831,273)	(8.3%)
Vehicle Costs	6,775,859	6,775,859	6,775,859	6,775,859	0	0.0%
Fuel	1,687,513	1,734,795	1,909,401	1,909,401	(174,606)	(10.1%)
Utilities	4,861,623	4,861,279	4,570,908	4,570,908	290,371	6.0%
Operating Materials, Supplies, Ins	33,846,808	34,022,316	31,551,744	31,551,744	2,470,571	7.3%
Equipment (Except Vehicles)	1,687,398	1,726,981	1,513,018	1,513,018	213,964	12.4%
Leases, Rentals	7,834,299	7,849,151	7,790,415	7,776,122	73,029	0.9%
Community Support	11,765,902	11,765,902	11,520,832	11,520,832	245,070	2.1%
Transfer to Schools	113,389,307	113,389,307	113,389,307	113,389,307	0	0.0%
Debt Service/Cash Capital	65,563,657	65,563,657	75,536,012	75,536,012	(9,972,355)	(15.2%)
Payments to Other Funds	20,099,962	19,999,962	20,208,240	20,208,240	(208,278)	(1.0%)
Direct Program Costs - DHS	10,041,477	10,041,477	9,321,600	9,321,600	719,877	7.2%
TOTAL EXPENDITURES	\$536,107,000	\$536,539,915	\$542,023,725	\$542,009,432	(\$5,469,517)	(1.0%)

TOTAL DIFFERENCE **\$20,694,569** **3.9%**

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

<u>OTHER GENERAL FUND SUPPORTED FUNDS</u>	Adopted Budget	Projected Revenues	Projected Expenditures	<u>Surplus/ (Deficit)</u>	
				Amount	Percent
Auto Liability Fund	\$1,576,300	\$1,587,584	\$1,626,476	(\$38,892)	(2.4%)
General Liability Fund	\$1,764,600	\$1,941,717	\$2,082,481	(\$140,765)	(7.2%)
Worker's Compensation Fund	\$3,159,100	\$2,979,894	\$3,210,245	(\$230,351)	(7.7%)
Recreation Revolving Fund	\$4,607,400	\$3,002,354	\$2,534,167	\$468,187	15.6%
Historical Services Fund	\$1,273,000	\$1,269,429	\$1,271,667	(\$2,238)	(0.2%)
Golf Course Fund	\$1,735,000	\$1,560,956	\$2,004,523	(\$443,567)	(28.4%)
Leeward Marina Fund	\$275,000	\$288,565	\$275,113	\$13,453	4.7%
Tourism Fund	\$1,451,000	\$1,451,682	\$1,475,491	(\$23,810)	(1.6%)
TOTAL	\$15,841,400	\$14,082,181	\$14,480,163	(\$397,983)	(2.8%)

TOTAL PROJECTED DIFFERENCE - Combined **\$20,296,586**