CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

May 8, 2013

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Third Quarter FY 2013 Financial Report

I am providing the forecast of revenues and expenditures for the current fiscal year, prepared by the Department of Budget and Evaluation. Analysis of actual performance for the first nine months of the fiscal year (July through March) allows for the projection of financial activity over the remaining three months (April through June). In our first quarter report, we projected a revenue shortfall of ($2.9) million and an expenditure surplus of $3.1 million, resulting in a forecasted net surplus of $189,000 in the General Fund. By the second quarter, we projected a revenue shortfall of ($4.2) million and an expenditure surplus of $3.0 million, for a projected year-end shortfall of ($1.2) million. For the third quarter, a year-end General Fund surplus of approximately $1.8 million is anticipated based on revenue shortfall of ($3.1) million and expenditure savings of $4.9 million.

Revenues

Total revenues are expected to be less than the budgeted amounts by ($3.1) million, or (0.7%). This is an improvement of anticipated revenue performance of $1.1 million from the second quarter projection. Of the total revenue shortfall, $1.1 million (or 35% of total General Fund shortfall) is associated with declining activity in the Human Services Department Foster Care and Adoptions program. Offsetting the loss of program revenue, $1.2 million of expenditures for the Foster Care and Adoptions program will not be incurred for the remainder of this fiscal year. When adjusting for the loss of Foster Care and Adoptions reimbursement, less than $2 million, or (0.5%), of General Fund revenue is projected not to be received.

With the first half of the current real estate taxes received, there has been a marginal change in the activity on which to project a difference in collections. Several projects under construction that were not anticipated to come on line until later in FY 2013 were completed ahead of schedule. If the Current Real Estate Tax revenue collection rate for the second half of the tax year is consistent with the experience during the first half, total Current Real Estate Tax revenue will equal the adopted budget estimate (once adjusted for tax relief deductions). Delinquent Real Estate Taxes are slightly higher than last year's pace and are projected to be $100,000 more than the $4 million revenue estimate. It is anticipated that Personal Property Tax receipts will be higher than last quarter due to the impact of the higher tax rate adopted for FY 2013 (which came into effect in the June 2013 billing cycle). By the end of the third quarter, 52% of the $44.4 million Personal Property Tax estimate has been received, generating an anticipated $350,000 surplus for this revenue source. Machinery and Tools Taxes continue to perform well, at 54% collected by the end of the third quarter and are projected to exceed the $16.8 million estimate by $850,000.

Local taxes and fees are being collected at the same pace as last quarter and last year. For the most part, these revenue items are generally tracking with their individual estimates. Consumer-sensitive revenues of sales, meals, and lodging tax are projected to be slightly higher than estimated, suggesting continued consistent performance in these areas. The year-end Sales Tax revenue projections are consistent with the previous quarter's estimate, $150,000 more than the budget of $21.6 million. Meal Tax receipts are on target to be $400,000 more than the $20.4 million estimate. Lodging Taxes are maintaining a flat pace, and are projected to meet the revenue estimate of $3.1 million. Cigarette Taxes continue to lag in their performance of prior years, and it is probable that receipts will be ($100,000) lower than budget. As a note of caution, this group of revenues is the most susceptible to fluctuations in economic changes. With a prolonged period of time until the end of the current federal fiscal year (in September 2013), the federal sequestration may impact this fiscal year as well as next.

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. The net revenue for all BPOL taxes (Retail Sales, Professional Services, Wholesalers, and those areas associated with prior year collections, Public Service Corporations (PSC), and interest on penalties) is projected to exceed the estimate by $300,000.

Building Permit revenue collections through the end of the third quarter remain below the estimate for this fiscal year and are projected to experience a shortfall of ($254,000) in the major permit categories of Building, Mechanical, Electrical, and Plumbing. Even with the moderate weather for the early spring building season, associated Engineering permits (site plans, review, and inspections) remain low by ($200,000).

The full impact of FY 2013 State revenue reductions was realized in the third quarter in all areas. At this time, with State revenue reductions and the reduced level of reimbursement for salaries, it is projected that we will lose ($950,000) in State revenue for the fiscal year. In addition, the State has been slow to reimburse for certain services, which has impacted the projection of total year-end revenue levels.

Expenditures

The operating departments continue to closely control spending in their budgets. Expenditures are expected to be nearly $4.9 million, or 1.2% below budget.

As expected, the hiring suspension implemented in September 2009 has generated the majority of the projected savings. The combined savings in the Salary and Fringe Benefits categories equals approximately $2.2 million, or 46% of the total expenditure savings projected at the end of the third quarter. Once adjusted for savings associated with the Human Services Foster Care and Adoption programs of $1.2 million, all other projected year-end savings are $1.5 million. It is important to recall that significant expense line item reductions have occurred as part of the last four annual budget development processes. This has left little room for any activity other than essential programs and services, with a small

margin for additional savings. There is a potential utilities savings of more than $144,000, resulting from a mild winter and early spring season. However, the warmer spring/early summer months have yet to occur. Expenditure savings in operating supplies and contractual services equal nearly $195,000.

Lower-than-budgeted Vehicle Fuel costs have been experienced for a majority of this fiscal year. Continued pricing experienced during the last nine months would have the potential to deliver vehicle fuel savings of $225,000 for the fiscal year. Any sustained increases in fuel prices over the next months would offset this projected surplus.

One expense that has yet to be included as part of the projection for this fiscal year but may have an impact on the amount of the year-end surplus is the cost to the City for labor and asset damages caused by the unnamed storms of August 25th and 28th in 2012. As part of any emergency operation, we track the personnel and damage repair costs separately from the annual operating budget. Initially, the State did not declare that the locally incurred costs would be reimbursed. However, in recent months, the State has asked the City for an accounting of our expenses, with the marginal potential for offset of some of the costs associated with the events. These reviews may extend beyond the end of this fiscal year before any cost-sharing determination is made. An early consideration would have a positive impact on FY 2013 General Fund performance.

Combined Surplus

The forecasted surplus of approximately $1.8 million allows for some certainty for a positive outcome. If the collection of second half major revenue sources (Real Estate, Personal Property, and Machinery and Tool taxes) mirrors the first half, combined with steady, consistent collections in consumer-generated taxes and fees (Sales, Meals, and Lodging taxes), we may exceed this present surplus forecast of $1.8 million.

Conclusion

The projected surplus of approximately $1.8 million places us in a position to respond to any further revenue shortfall. It appears that we have a

degree of stability in our non-real-estate revenue sources that indicates cautious recovery in our local economy. Federal sequestration and fluctuating vehicle fuel prices will have an effect on the continued recovery from the recession. These issues will impact both the national and local recovery. I feel confident that we have a sound plan in place to alert us to any potential change in the local economic condition.

I believe that we are in a good position to end the current fiscal year in balance without taking any additional steps at this time. However, should things change for the worse, we will take necessary action.

Neil A. Morgan

NAM:LJC:rsw

Attachment

cc: Director of Budget and Evaluation

FY 2013 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS

Third Quarter - July 2012 through March 2013

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	Difference	Percent
Real Estate Taxes[1]	$156,826,739	$80,051,806	$156,651,739	($175,000)	(0.1%)
Personal Property Taxes[2]	47,610,000	26,877,327	47,960,000	350,000	0.7%
Machinery & Tools Taxes[3]	18,456,000	9,949,791	19,306,000	850,000	4.6%
Other General Property Taxes	2,225,201	1,389,207	1,897,201	(328,000)	(14.7%)
Other Local Taxes	93,826,659	67,187,204	93,773,659	(53,000)	(0.1%)
Permits and Fees	3,409,794	2,072,437	2,817,794	(592,000)	(17.4%)
Fines and Forfeitures	2,838,551	2,273,160	2,767,551	(71,000)	(2.5%)
Revenue from Use-Money & Prop	2,290,363	1,529,843	2,148,363	(142,000)	(6.2%)
Charges for Services	6,485,636	4,260,443	5,550,636	(935,000)	(14.4%)
Miscellaneous Revenue	17,941,537	9,468,811	17,874,537	(67,000)	(0.4%)
Recovered Costs	9,916,306	7,732,035	9,685,306	(231,000)	(2.3%)
Non-Categorical Aid	740,598	602,013	800,598	60,000	8.1%
Shared Expenses	9,119,842	5,990,728	8,174,842	(945,000)	(10.4%)
Categorical Aid	31,981,008	22,772,701	31,181,008	(800,000)	(2.5%)
Non-Revenue Receipts	12,241,000	9,580,750	12,241,000	0	0.0%
Payments from Other Funds	529,339	0	529,339	0	0.0%
TOTAL REVENUES	**$416,438,573**	**$251,738,256**	**$413,359,573**	**($3,079,000)**	**(0.7%)**

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Difference	Percent
Personnel Services	$121,199,126	$89,595,948	$119,739,655	$1,459,471	1.2%
Taxes, Benefits, Insurance	61,451,234	44,965,649	60,689,471	761,763	1.2%
Contractual Services	14,065,576	11,018,259	13,998,321	67,255	0.5%
Vehicle Costs	4,396,558	3,297,418	4,396,558	0	0.0%
Fuel	3,012,152	1,917,764	2,786,277	225,875	7.5%
Utilities	6,874,037	4,583,599	6,729,704	144,333	2.1%
Operating Materials, Supplies, Ins	19,772,643	15,505,808	19,644,710	127,933	0.6%
Equipment (Except Vehicles)	1,461,413	1,447,275	1,455,272	6,141	0.4%
Leases, Rentals	5,001,224	4,104,073	4,911,386	89,838	1.8%
Community Support	8,504,876	7,419,436	8,504,876	0	0.0%
Transfer to Schools	113,400,000	85,050,000	113,400,000	0	0.0%
Debt Service/Cash Capital	39,124,571	32,208,028	39,124,571	0	0.0%
Payments to Other Funds	7,933,126	4,962,255	7,370,768	562,358	7.1%
Direct Program Costs - DHS	10,242,037	6,387,106	8,817,281	1,424,756	13.9%
TOTAL EXPENDITURES	**$416,438,573**	**$312,462,618**	**$411,568,850**	**$4,869,723**	**1.2%**
TOTAL PROJECTED DIFFERENCE				**$1,790,723**	

[1]Includes Current, Delinquent, Tax Relief, PSC Real Estate Taxes

[2]Includes Current and Delinquent Personal Property Taxes

[3]Includes Current PSC Machinery & Tools Taxes

OTHER GENERAL FUND SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/(Deficit)	% Difference to Projected Revenue
Auto Liability Fund	$1,357,900	$1,357,900	$1,357,900	$0	0.0%
General Liability Fund	1,248,600	1,248,600	1,540,573	($291,973)	(23.4%)
Worker's Compensation Fund	3,132,000	3,132,000	2,932,000	$200,000	6.4%
Recreation Revolving Fund	4,707,800	4,418,116	4,796,106	($377,990)	(8.6%)
Historical Services Fund	1,103,700	1,097,401	1,069,623	$27,778	2.5%
Golf Course Fund	1,795,700	1,550,700	1,960,434	($409,734)	(26.4%)
Leeward Marina Fund	262,600	281,168	248,184	$32,984	11.7%
Tourism Fund	1,655,900	1,480,944	1,572,742	($91,798)	(6.2%)
TOTAL	**$15,264,200**	**$14,566,829**	**$15,477,562**	**($910,733)**	**(6.3%)**

PROJECTED DIFFERENCE (OTHER FUNDS)	**($910,733)**	**(6.3%)**
TOTAL PROJECTED DIFFERENCE	**$879,990**	

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/(Deficit)	% Difference to Projected Revenue
Stormwater Management Fund	$12,915,000	$12,900,000	$12,844,721	$55,279	0.4%
Solid Waste Fund	$13,288,700	$13,368,589	$13,368,589	$0	0.0%
Wastewater Fund	$18,845,000	$17,078,606	$17,078,606	$0	0.0%
Public Utilities Fund	$81,400,000	$76,400,000	$81,400,000	($5,000,000)	(6.5%)

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	Difference	Percent
City Council	$282,588	$199,970	$264,523	$18,065	6.4%
City Clerk	332,895	236,165	314,982	17,913	5.4%
City Manager	1,769,354	1,281,800	1,715,995	53,359	3.0%
Human Resources	1,196,315	856,271	1,140,999	55,316	4.6%
City Attorney	1,593,027	1,129,093	1,536,822	56,205	3.5%
Internal Auditor	474,411	350,304	474,411	0	0.0%
Commissioner of the Revenue	2,454,874	1,559,769	2,199,042	255,832	10.4%
Real Estate Assessor	1,538,721	1,112,061	1,515,869	22,852	1.5%
City Treasurer	2,009,901	1,521,502	1,988,599	21,302	1.1%
Finance	1,121,976	836,864	1,085,050	36,926	3.3%
Budget and Evaluation	632,179	411,481	560,093	72,086	11.4%
Information Technology	7,508,791	6,409,499	7,410,468	98,323	1.3%
Purchasing	1,345,288	1,051,751	1,311,422	33,866	2.5%
Registrar	419,371	405,722	419,371	0	0.0%
Judiciary	1,312,316	906,712	1,207,148	105,168	8.0%
Circuit Court Clerk	1,403,328	998,134	1,348,234	55,094	3.9%
Commonwealth's Attorney	3,362,999	2,408,283	3,319,851	43,148	1.3%
Police	40,409,902	30,373,256	40,479,076	(69,174)	(0.2%)
Fire	28,364,875	21,771,432	28,602,735	(237,860)	(0.8%)
Sheriff	17,514,280	12,745,368	17,014,280	500,000	2.9%
Adult Corrections	4,126,008	3,034,458	3,980,789	145,219	3.5%
Juvenile Services	7,078,070	5,587,652	7,078,070	0	0.0%
Codes Compliance	2,595,978	1,886,492	2,548,603	47,375	1.8%
Engineering	5,999,588	4,417,376	5,878,777	120,811	2.0%
Public Works	18,660,308	12,945,049	18,559,733	100,575	0.5%
Health	2,045,587	2,160,757	2,044,741	846	0.0%
Mental Health	1,523,521	1,142,641	1,523,521	0	0.0%
Human Services	32,159,064	22,455,457	30,513,172	1,645,892	5.1%
Parks, Recreation, and Tourism	12,782,721	9,772,268	12,803,867	(21,146)	(0.2%)
Libraries	4,595,240	3,294,448	4,504,154	91,086	2.0%
Development	1,471,668	1,015,691	1,388,680	82,988	5.6%
Planning	959,703	655,297	888,960	70,743	7.4%
Customer Service-311 Call Center	333,738	157,810	262,800	70,938	21.3%
Appointed Boards	102,948	63,776	78,148	24,800	24.1%
Nondepartmental-Contingencies	38,094,467	27,668,290	37,173,292	921,175	2.4%
Community Support	8,504,876	7,419,436	8,504,876	0	0.0%
Transfers to Schools	113,400,000	85,050,000	113,400,000	0	0.0%
Debt Service/Cash Capital	39,024,571	32,208,028	39,024,571	0	0.0%
All Other Payments	7,933,126	4,962,255	7,503,126	430,000	5.4%
TOTAL EXPENDITURES	**$416,438,573**	**$312,462,618**	**$411,568,850**	**$4,869,723**	**1.2%**