

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

November 20, 2013

TO: The Honorable City Council
FROM: City Manager
SUBJECT: First Quarter FY 2014 Financial Report

This first quarter forecast of revenues and expenditures for the current fiscal year prepared by the Department of Budget and Evaluation provides budgetary projections based on actual performance for the first three months (July through September 2013) and a projection of financial activities over the remaining nine months.

As a reminder, the first quarter revenues are the most difficult to predict. This quarter falls just prior to the collection of the majority of our semi-annual revenues (Real Estate Taxes, Personal Property Taxes, and Machinery and Tools Taxes). At the end of the first quarter, for example, just 2.0% of the \$242.3 million in the entire General Property Tax revenue category has been collected. To further illustrate this point, only \$67,000 in Current Real Estate Taxes was received by the end of September 2013 against an estimate of \$164.5 million. Broadly speaking, revenue performance during the first quarter is consistent with collections during the same period last fiscal year. It is important to keep in mind that the estimate for this category of revenues is higher than FY 2013 by \$13.1 million, due to the increased Real Estate tax rate adopted for the current fiscal year.

Revenues

Revenues are expected to be less than the budgeted amounts by \$3.9 million, or (0.9%). This deficit is spread throughout all the revenue categories for various reasons, with a majority of the projected shortfall in the Other Local Taxes revenue category. The City's first quarter overlaps the final quarter of the federal fiscal year, and in this same time period we began to see the impact of the federal worker furloughs due to sequestration. This was compounded in September 2013 by the lack of a congressionally adopted budget for the new federal fiscal year.

With the high mix of military and other federal employees in our region, consumer sensitive revenues of sales, meals, and lodging, showed a drop in collections and were lower than the last quarter of FY 2013. You will recall that during the budget preparation for FY 2014, an adjustment for lesser collections to reflect the sequestration influence was incorporated into these particular revenue sources and was included as part of the final budget. Unfortunately, what was not anticipated was a second federal budgetary impasse. Unless there is a more stable federal budget adopted, we can anticipate collections substantially lower than estimated for this fiscal year in this category. Sales Tax revenue is projected to end the fiscal year \$450,000 below the estimate of \$22.4 million. Meal Tax receipts are anticipated to lag the \$21.9 million estimate by \$500,000 at this time. Lodging Tax collections appear to under by the \$3.3 million estimate by \$200,000.

Collections of delinquent real estate taxes are a little higher than last year's pace but are anticipated to be at the \$3.8 million budgeted level. As the first payments of current real estate and personal property taxes have yet to be collected, we have limited information on which to project these collections. A loss factor has been incorporated into each of these major revenue sources to accommodate slippage in collections that would not be seen until the end of the second quarter. Unless there is a marked increase in current real estate tax non-payments, we expect collections to be relatively on target. Relative to the same period in Fiscal Year 2013, personal property taxes appear to be lagging the budget estimate by \$500,000. Nationwide, new car sales have been climbing this calendar year. However, the City's year-to-date receipts are not reflecting the same level of national growth at this time, again as a possible result of sequestration and federal government shut down. While somewhat early for a year-long projection, this trend will be closely monitored during the second quarter, when the first half Personal Property taxes are received.

Two significant unknowns at this point are receipts from Machinery and Tools and Business Professional and Occupational Licenses (BPOL) taxes. The majority of these taxes will not be received until March. We are forecasting these revenues to perform as estimated for this fiscal year and they will be watched closely.

In all the other revenue categories there are some moderate fluctuations, mostly seasonal in nature, and taken as a whole do not suggest at this point in time any additional cause for concern.

Expenditures

The projected expenditure savings at the end of the first quarter is \$3.5 million. While hiring suspension continues to provide the bulk of the under-expenditure, with fringe benefits category savings totaling \$1.8 million or 52% of the total projected savings, the Personnel Services (salaries) is projected to be overspent by slightly more than \$400,000. We have aggressively used attrition savings (budgeted at almost \$6.4 million in the General Fund FY 2014) to balance the budget in prior years. However, with fewer employees providing essentially the same level of services, the need to fill the positions quickly has become more essential. That leaves \$2 million 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 2014 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. The majority of these savings is found in the overall slow use of Human Services programs, lower utilities costs due to a relatively moderate summer condition, and vehicle fuel. Vehicle fuel will continue to be difficult to estimate. Budgeted at 30 cents less per gallon than last fiscal year, fuel expenses should stay within the budget amount as long as only minor fluctuations in cost continue.

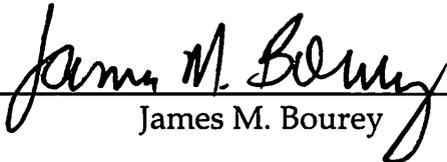
Combined Surplus

When creating the final revenue projections for FY 2014, the FY 2013 revenue receipts and year-end projections to date were used and moderated for the potential impact of sequestration. In other words, the FY 2014 revenue projections closely resemble where the City ended the prior fiscal year. Therefore, at this point we cannot expect the revenue collections exceeding the estimates at the close of the first quarter.

The combined forecasted budget deficit is slightly more than \$389,000. While we can anticipate the consumer sensitive taxes to remain below average collections for the month of October 2013 (which will be reported in the Second Quarter) as a product of the federal government shutdown, we are hoping to see a growth in the receipts equal to the same levels prior to sequestration. While the deficit is at a very narrow margin at this point, this does allow 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 the potential of additional receipts from consumer generated taxes and fees as we move through economic recovery, 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

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. To be cautious of any potential sustained economic downward trend as the Federal government works to resolve sequestration and any future budgetary impasse, we will continue the hiring suspension for all positions, with the exception of uniformed fire, police, and sheriff. All other vacancies will be held open, unless there is a compelling reason to fill the position prior to the end of the fiscal year. I feel that with our current projected expenditure surplus and continued monitoring of all costs, we will be 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.


James M. Bourey

JMB:lc

cc: Lisa Cipriano, Director, Budget and Evaluation

FY 2014 OPERATING BUDGET PROJECTED RESULTS OF OPERATIONS

First Quarter - July 2013 through September 2013

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	Projected Difference from Revised Budget	
				Surplus/(Deficit) Amount	Percent
Real Estate Taxes ¹	\$170,328,712	\$142,223	\$170,128,712	(\$200,000)	(0.1%)
Personal Property Taxes ²	51,170,000	2,425,515	50,870,000	(300,000)	(0.6%)
Machinery & Tools Taxes ³	19,400,002	13,988	19,400,002	0	0.0%
Other General Property Taxes	1,479,500	2,370,598	1,154,500	(325,000)	(22.0%)
Other Local Taxes	97,354,896	12,039,293	95,354,896	(2,000,000)	(2.1%)
Permits and Fees	3,087,067	680,894	2,803,067	(284,000)	(9.2%)
Fines and Forfeitures	2,721,751	660,434	2,291,751	(430,000)	(15.8%)
Revenue from Use-Money & Prop	2,344,149	330,680	2,244,149	(100,000)	(4.3%)
Charges for Services	5,362,240	1,617,207	5,512,240	150,000	2.8%
Miscellaneous Revenue	17,983,716	772,081	18,018,716	35,000	0.2%
Recovered Costs	9,987,584	3,181,007	9,906,584	(81,000)	(0.8%)
Non-Categorical Aid	764,645	245,766	808,645	44,000	5.8%
Shared Expenses	9,270,023	1,432,420	9,126,023	(144,000)	(1.6%)
Categorical Aid	31,490,104	6,449,269	31,190,104	(300,000)	(1.0%)
Non-Revenue Receipts	10,141,000	2,535,250	10,141,000	0	0.0%
Payments from Other Funds	527,611	0	527,611	0	0.0%
TOTAL REVENUES	\$433,413,000	\$34,896,625	\$429,478,000	(\$3,935,000)	(0.9%)

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Projected Difference from Revised Budget	
				Surplus/(Deficit) Amount	Percent
Personnel Services	\$127,839,080	\$31,833,823	\$128,250,434	(\$411,354)	(0.3%)
Taxes, Benefits, Insurance	62,749,200	14,779,595	60,872,928	1,876,272	3.0%
Contractual Services	17,838,109	7,364,082	17,401,490	436,619	2.4%
Vehicle Costs	4,627,750	1,156,938	4,627,750	0	0.0%
Fuel	2,802,433	642,572	2,776,367	26,066	0.9%
Utilities	6,781,878	992,550	6,675,252	106,626	1.6%
Operating Materials, Supplies, Ins	19,871,490	67,605	18,691,852	1,179,638	5.9%
Equipment (Except Vehicles)	1,527,755	750,982	1,427,755	100,000	6.5%
Leases, Rentals	5,355,439	2,049,488	5,334,028	21,411	0.4%
Community Support	9,087,886	3,567,967	9,027,886	60,000	0.7%
Transfer to Schools	115,300,000	28,824,999	115,300,000	0	0.0%
Debt Service/Cash Capital	40,014,636	18,084,379	40,014,636	0	0.0%
Payments to Other Funds	10,399,786	1,900,839	10,249,786	150,000	1.4%
Direct Program Costs - DHS	9,217,558	2,399,536	9,217,558	0	0.0%
TOTAL EXPENDITURES	\$433,413,000	\$114,415,355	\$429,867,722	\$3,545,278	0.8%

TOTAL PROJECTED DIFFERENCE

(\$389,722)

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

OTHER GENERAL FUND SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	<i>Projected Surplus/ (Deficit)</i>	
				Amount	Percent
Auto Liability Fund	\$1,382,800	\$1,369,028	\$1,445,897	(\$76,869)	(5.6%)
General Liability Fund	1,540,000	1,535,108	1,678,931	(\$143,823)	(9.4%)
Worker's Compensation Fund	3,144,800	3,144,800	3,519,523	(\$374,723)	(11.9%)
Recreation Revolving Fund	4,824,000	4,415,700	5,098,973	(\$683,273)	(15.5%)
Historical Services Fund	1,052,000	1,074,300	1,026,263	\$48,037	4.5%
Golf Course Fund	1,823,400	1,297,300	1,929,218	(\$631,918)	(48.7%)
Leeward Marina Fund	284,000	259,600	292,424	(\$32,824)	(12.6%)
Tourism Fund	1,402,100	1,404,700	1,339,445	\$65,255	4.6%
TOTAL	\$15,453,100	\$14,500,536	\$16,330,675	(\$1,830,139)	(12.6%)

PROJECTED DIFFERENCE (OTHER FUNDS)

(\$1,830,139) (12.6%)

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

(\$2,219,861)

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	<i>Projected Surplus/ (Deficit)</i>	
				Amount	Percent
Stormwater Management Fund	\$14,409,000	\$14,409,000	\$14,310,880	\$98,120	0.7%
Solid Waste Fund	\$13,604,000	\$12,916,471	\$13,007,034	(\$90,563)	(0.7%)
Wastewater Fund	\$18,684,000	\$18,098,374	\$17,555,280	\$543,094	3.0%
Public Utilities Fund	\$81,200,000	\$83,281,063	\$81,214,244	\$2,066,819	2.5%

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	<i>Projected Difference from Revised Budget</i>	
				Surplus/(Deficit) Amount	Percent
City Council	\$279,070	\$66,424	\$269,132	\$9,938	3.6%
City Clerk	310,230	93,984	310,075	155	0.0%
City Manager	1,873,813	414,791	1,745,533	128,280	6.8%
Human Resources	1,206,183	312,414	1,167,170	39,013	3.2%
City Attorney	1,645,862	408,675	1,634,522	11,340	0.7%
Internal Auditor	505,695	127,025	505,695	0	0.0%
Commissioner of the Revenue	2,488,699	592,887	2,293,907	194,792	7.8%
Real Estate Assessor	1,605,590	374,552	1,579,339	26,251	1.6%
City Treasurer	2,104,477	689,788	2,035,973	68,504	3.3%
Finance	1,202,390	317,554	1,160,084	42,306	3.5%
Budget and Evaluation	695,850	112,609	511,374	184,476	26.5%
Information Technology	7,986,966	3,000,798	7,742,289	244,677	3.1%
Purchasing	1,375,034	367,145	1,189,801	185,233	13.5%
Registrar	447,053	93,917	447,053	0	0.0%
Judiciary	1,358,447	335,353	1,264,479	93,968	6.9%
Circuit Court Clerk	1,430,225	364,466	1,422,549	7,676	0.5%
Commonwealth's Attorney	3,510,760	858,010	3,416,112	94,648	2.7%
Police	43,172,939	11,281,900	43,287,988	(115,049)	(0.3%)
Fire	30,324,386	8,236,636	30,165,208	159,178	0.5%
Sheriff	18,653,497	6,141,052	18,664,263	(10,766)	(0.1%)
Adult Corrections	4,371,241	1,330,807	4,353,253	17,988	0.4%
Juvenile Services	7,423,772	2,247,599	7,407,699	16,073	0.2%
Codes Compliance	2,721,885	658,310	2,645,712	76,173	2.8%
Engineering	6,270,616	1,607,158	6,056,822	213,794	3.4%
Public Works	20,045,638	4,218,801	19,918,564	127,074	0.6%
Health	2,149,213	23,260	2,149,213	0	0.0%
Mental Health	1,523,521	761,761	1,523,521	0	0.0%
Human Services	32,180,283	8,235,811	31,128,150	1,052,133	3.3%
Parks, Recreation, and Tourism	12,924,027	4,805,730	13,135,323	(211,296)	(1.6%)
Libraries	4,523,844	1,380,504	4,523,655	189	0.0%
Development	1,539,739	388,851	1,515,383	24,356	1.6%
Planning	996,388	250,549	971,577	24,811	2.5%
Customer Service-311 Call Center	461,688	88,182	392,181	69,507	15.1%
Appointed Boards	103,273	28,421	98,399	4,874	4.7%
Nondepartmental-Contingencies	39,198,398	9,274,324	38,643,416	554,982	1.4%
Community Support	9,087,886	3,567,967	9,027,886	60,000	0.7%
Transfers to Schools	115,300,000	28,825,000	115,300,000	0	0.0%
Debt Service/Cash Capital	40,014,636	12,081,492	40,014,636	0	0.0%
All Other Payments	10,399,786	450,848	10,249,786	150,000	1.4%
TOTAL EXPENDITURES	\$433,413,000	\$114,415,355	\$429,867,722	\$3,545,278	0.8%