

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

February 19, 2014

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

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

In our first quarter report, we projected a revenue shortfall of \$3.9 million and an expenditure surplus of \$3.5 million. When taken together, this resulted in forecasted fiscal year-end net deficit of slightly less than \$400,000 for the General Fund. With the second quarter results, we can now project a revenue shortfall of only \$1.0 million and an expenditure surplus of \$3.6 million. When taken together, this results in a forecasted fiscal year-end net surplus of \$2.6 million.

Revenues

Revenues are expected to be less than the budgeted amounts by \$1.0 million, or 0.2%. This is a net change of \$2.8 million more in the year-end revenue position than the first quarter projection.

With the first half of the current real estate and personal property taxes now mostly collected, we have better activity on which to project. Current Real Estate Tax collections are right at 50% of this year's estimate, which if straight lined, could result in meeting the fiscal year estimate of approximately \$165 million. Collections of delinquent real estate taxes are slightly higher than last year's pace, and are projected to meet the \$3.8 million revenue estimate. Current Personal Property Tax receipts continue to be slightly below the estimate and are projected to be short of

the fiscal year estimate by \$300,000. By the end of the second quarter, just barely 50% of the \$51.1 million estimate had been received. Machinery and Tools Taxes are performing well, with 52% collected at the end of the second quarter, extrapolated to be over the \$19.4 million estimate by \$300,000.

For the first quarter projection, we were facing the possibility of sustained low revenue receipts from our consumer sensitive taxes. This was primarily the result of the impact of the federal worker furloughs due to sequestration, compounded by the uncertainty in September by the lack of a congressionally adopted budget for the new federal fiscal year. We projected that with the high mix of military and other federal employees in our region, revenues from sales, meals, and lodging taxes would show a drop in collections. Fortunately, the length of the projected furloughs was greatly curtailed and the federal budget was adopted. While we did experience some retrenchment in those specific taxes during the first quarter, local taxes and fees are showing that they are now at the same pace and level as this time last year, and are generally tracking as estimated.

By the end of the second quarter, Sales Tax receipts were showing a certain level of stabilization after the first quarter downturn. During the first quarter, Sales Taxes were over \$800,000 lower than during the same time period in the previous fiscal year. There were small but moderate increases in collections for October and November 2013, with the December collections finally showing some strength. Revenue in December 2013 was \$411,000 higher than December 2012. Taking into consideration sales tax receipts that were generated from the December sales, we are just now back to the 50% collection level, and are projecting to meet the \$22.4 million estimate for this fiscal year. Meals taxes are performing well, projecting at this time to be \$400,000 over the estimate of almost \$22 million. Lodging taxes have been performing within the same ranges as the previous fiscal year, and for the most part are tracking directly with the estimate for this fiscal year of \$3.3 million, and appear to be steady. Cigarette Taxes are under their performance in prior years, and it is probable that receipts will be \$250,000 lower than estimated.

A significant unknown at this point continues to be 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 they will be monitored closely.

Other local fees and charges, building permits, mechanical, electrical, and plumbing permits are currently projecting to be \$264,000 less than estimated. While the second quarter receipts tend to fall in the low construction season, the associated Engineering permits (site plans, review, inspections, and sanitary sewer connection fees) are also lower by \$200,000.

While there are various other revenue projections in the other categories that reflect some fluctuations, one that is of note is in the Department of Human Services program revenue. The City has been experiencing reductions related primarily to Foster Care and Adoptions, due to lower program use. In recent years, these expenses, which are fully reimbursable, have been declining. However, the majority of the City's corresponding expense will not be incurred for the remainder of this fiscal year. In the most general of terms, the City will not receive approximately \$430,000 in revenue that will be offset by more than \$933,000 in program reductions.

Expenditures

Departments are prudently managing their budgets and expenditures are expected to be \$3.6 million or 0.8% under budget.

While the City's ongoing hiring suspension continues to generate the salary savings, only \$115,000 of the total expenditure savings (or 0.1%) can be attributed to this category. The Taxes, Benefits, and Insurance category is tracking towards \$1.8 million in savings, primarily generated by FICA and health insurance premiums savings from unfilled positions. Combined salary and fringe benefits savings are \$1.9 million, or 52% of the potential expenditure surplus. In order to meet declining revenue projections over the past several budget development cycles, we have instituted higher vacancy savings goals for operating departments, totaling \$8.7 million citywide, with almost \$6.4 million (or 74%) of those savings accounted for in the General Fund alone. It appears that the City is also experiencing a lower staff turnover rate than in previous years, making attaining the vacancy savings more difficult. With a reduction in the overall number of positions, a high vacancy savings budgeted for at

the onset of the fiscal year, and low turnover during it, personnel savings cannot be depended on to deliver large surpluses at year-end. We are now achieving a flat staffing level, more so than in prior years, causing the high attrition credit in the departments to erode the true operating expenses for current program costs.

Aside from the non-expenditure associated with lower State revenues from Foster Care and Adoption Services from the Human Services Department (as discussed in the Revenue section of this memorandum), there is only \$808,423 in potential year-end savings in all other expenditure categories. Of this amount, \$151,234 of the projected savings is from Vehicle Fuel. As this report captures the time period of July 2013 to December 2013, the projection was based on average weekly fuel prices to date. Budgeted at 30 cents less per gallon than last fiscal year, and taking into consideration the relatively flat price per gallon since the beginning of the fiscal year, it is most likely that this savings projection will be reached by year-end, assuming future price fluctuations continue to be at same minor level as the past six months.

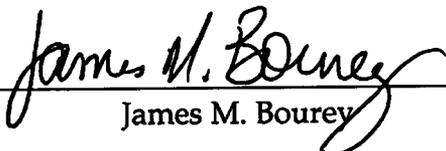
Overall Utilities costs remained low for the Second Quarter, due to generally milder autumn and early winter seasons. However, the consistent below zero weather experienced in January 2014 will more than likely erode the projected savings of \$160,285 in this category.

Combined Projection

The combined forecasted budget surplus of \$2.6 million is approximately \$3.0 million dollars more than the FY 2014 First Quarter projection, with the majority of the change in revenue performance. If second half Real Estate Tax revenue collections continue to be similar to the first half, it is possible that it will cover any potential deficits by lagging Personal Property receipts. The Sales Tax revenue for January 2014 will not be known until early March, and that will be a critical indicator on our local economy stabilization. March will also be an important month, as the BPOL tax revenue begins to be collected, as this is another gauge on which we will measure local business performance.

Conclusion

While there is a projected revenue shortfall for the current fiscal year, it is not the pronounced levels that we have experienced in previous fiscal years and we are currently projecting a year end surplus due to expenditures being lower than budgeted. Not to be taken lightly, any revenue shortfall must be viewed with some concern. I feel that with our current projected expenditure surplus, we will be in a position to balance this year's budget without any additional expenditure reductions. However, should these revenue shortfalls become more pronounced, we will take any necessary steps to address them.


James M. Bourey

JMB:LJC

Attachment

cc: Lisa J. Cipriano, Director of Budget and Evaluation

**FY 2014 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Second Quarter - October 2013 through December 2013

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Projected Difference from Revised Budget</u>	
				Surplus/(Deficit) Amount	Percent
Real Estate Taxes ¹	\$169,751,712	\$86,917,511	\$169,651,712	(\$100,000)	(0.1%)
Personal Property Taxes ²	51,170,000	25,669,319	50,870,000	(300,000)	(0.6%)
Machinery & Tools Taxes ³	19,400,002	10,090,425	19,700,002	300,000	1.5%
Other General Property Taxes	2,056,500	630,418	1,956,500	(100,000)	(4.9%)
Other Local Taxes	97,354,896	33,604,214	97,734,896	380,000	0.4%
Permits and Fees	3,087,067	1,609,384	2,803,067	(284,000)	(9.2%)
Fines and Forfeitures	2,721,751	1,304,635	2,371,751	(350,000)	(12.9%)
Revenue from Use-Money & Prop	2,344,149	789,176	2,144,149	(200,000)	(8.5%)
Charges for Services	5,362,240	3,052,672	5,512,240	150,000	2.8%
Miscellaneous Revenue	17,983,716	1,399,250	17,983,716	0	0.0%
Recovered Costs	9,987,584	5,750,717	9,937,584	(50,000)	(0.5%)
Non-Categorical Aid	764,645	436,699	806,645	42,000	5.5%
Shared Expenses	9,270,023	3,801,220	9,030,023	(240,000)	(2.6%)
Categorical Aid	31,568,971	15,048,269	31,268,971	(300,000)	(1.0%)
Non-Revenue Receipts	10,455,000	5,384,500	10,455,000	0	0.0%
Payments from Other Funds	527,611	0	527,611	0	0.0%
TOTAL REVENUES	\$433,805,867	\$195,488,409	\$432,753,867	(\$1,052,000)	(0.2%)

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Projected Difference from Revised Budget</u>	
				Surplus/(Deficit) Amount	Percent
Personnel Services	\$127,839,080	\$63,524,568	\$127,723,559	\$115,521	0.1%
Taxes, Benefits, Insurance	62,749,200	29,659,252	60,946,813	1,802,387	2.9%
Contractual Services	17,838,109	10,788,039	17,810,000	28,109	0.2%
Vehicle Costs	4,627,750	2,313,875	4,627,750	0	0.0%
Fuel	2,802,433	1,197,934	2,651,199	151,234	5.4%
Utilities	6,781,878	2,449,366	6,621,593	160,285	2.4%
Operating Materials, Supplies, Ins	19,871,490	10,709,017	19,773,274	98,216	0.5%
Equipment (Except Vehicles)	1,606,622	1,414,622	1,481,302	125,320	7.8%
Leases, Rentals	5,355,439	2,789,207	5,270,180	85,259	1.6%
Community Support	9,087,886	6,066,838	9,027,886	60,000	0.7%
Transfer to Schools	115,300,000	57,650,000	115,300,000	0	0.0%
Debt Service/Cash Capital	40,328,636	21,416,622	40,328,636	0	0.0%
Payments to Other Funds	10,399,786	3,901,657	10,299,786	100,000	1.0%
Direct Program Costs - DHS	9,217,558	3,817,831	8,284,524	933,034	10.1%
TOTAL EXPENDITURES	\$433,805,867	\$217,698,828	\$430,146,502	\$3,659,365	0.8%

TOTAL PROJECTED DIFFERENCE

\$2,607,365

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	Projected Surplus/ (Deficit)	
				Amount	Percent
Auto Liability Fund	\$1,382,800	\$1,369,028	\$1,568,424	(\$199,396)	(14.6%)
General Liability Fund	1,540,000	1,540,000	1,618,298	(\$78,298)	(5.1%)
Worker's Compensation Fund	3,144,800	3,144,800	3,141,800	\$3,000	0.1%
Recreation Revolving Fund	4,824,000	4,415,000	4,644,733	(\$229,733)	(5.2%)
Historical Services Fund	1,052,000	1,052,000	1,004,130	\$47,870	4.6%
Golf Course Fund	1,823,400	1,400,000	1,896,599	(\$496,599)	(35.5%)
Leeward Marina Fund	284,000	284,000	252,789	\$31,211	11.0%
Tourism Fund	1,402,100	1,402,100	1,247,050	\$155,050	11.1%
TOTAL	\$15,453,100	\$14,606,928	\$15,373,823	(\$766,895)	(5.3%)

PROJECTED DIFFERENCE (OTHER FUNDS)

(\$766,895) (5.3%)

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

\$1,840,470

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/ (Deficit)	
				Amount	Percent
Stormwater Management Fund	\$14,409,000	\$14,409,000	\$13,123,876	\$1,285,124	8.9%
Solid Waste Fund	\$13,604,000	\$13,055,512	\$13,053,158	\$2,354	0.0%
Wastewater Fund	\$18,684,000	\$17,942,257	\$17,887,411	\$54,846	0.3%
Public Utilities Fund	\$81,200,000	\$83,013,920	\$80,747,460	\$2,266,460	2.7%

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	\$156,117	\$269,246	\$9,824	3.5%
City Clerk	310,230	172,044	309,341	889	0.3%
City Manager	1,873,813	866,641	1,734,242	139,571	7.4%
Human Resources	1,206,183	570,023	1,150,330	55,853	4.6%
City Attorney	1,645,862	799,638	1,604,618	41,244	2.5%
Internal Auditor	505,695	254,692	504,245	1,450	0.3%
Commissioner of the Revenue	2,488,699	1,131,533	2,313,422	175,277	7.0%
Real Estate Assessor	1,605,590	757,993	1,580,824	24,766	1.5%
City Treasurer	2,104,477	1,127,632	2,046,519	57,958	2.8%
Finance	1,202,390	598,459	1,155,380	47,010	3.9%
Budget and Evaluation	695,850	231,136	484,737	211,113	30.3%
Information Technology	7,986,966	4,658,249	7,711,893	275,073	3.4%
Purchasing	1,375,034	670,685	1,345,259	29,775	2.2%
Registrar	447,053	234,670	441,734	5,319	1.2%
Judiciary	1,358,447	625,614	1,282,658	75,789	5.6%
Circuit Court Clerk	1,509,092	705,760	1,495,089	14,003	0.9%
Commonwealth's Attorney	3,510,760	1,696,774	3,426,436	84,324	2.4%
Police	43,172,939	21,712,490	43,228,139	(55,200)	(0.1%)
Fire	30,324,386	15,724,699	30,227,675	96,711	0.3%
Sheriff	18,653,497	9,799,679	18,318,142	335,355	1.8%
Adult Corrections	4,371,241	2,276,860	4,243,614	127,627	2.9%
Juvenile Services	7,423,772	4,015,704	7,322,888	100,884	1.4%
Codes Compliance	2,721,885	1,313,131	2,631,816	90,069	3.3%
Engineering	6,270,616	3,001,802	6,009,270	261,346	4.2%
Public Works	20,045,638	9,351,695	19,902,689	142,949	0.7%
Health	2,149,213	87,722	2,147,707	1,506	0.1%
Mental Health	1,523,521	761,761	1,523,521	0	0.0%
Human Services	32,180,283	15,532,509	31,162,716	1,017,567	3.2%
Parks, Recreation, and Tourism	12,924,027	7,659,665	13,200,099	(276,072)	(2.1%)
Libraries	4,523,844	2,303,089	4,495,707	28,137	0.6%
Development	1,539,739	762,742	1,529,323	10,416	0.7%
Planning	996,388	494,522	978,632	17,756	1.8%
Customer Service-311 Call Center	461,688	188,565	377,621	84,067	18.2%
Appointed Boards	103,273	46,295	76,264	27,009	26.2%
Nondepartmental-Contingencies	39,198,398	18,373,121	38,958,398	240,000	0.6%
Community Support	9,087,886	6,066,838	9,027,886	60,000	0.7%
Transfers to Schools	115,300,000	57,650,000	115,300,000	0	0.0%
Debt Service/Cash Capital	40,328,636	21,416,622	40,328,636	0	0.0%
All Other Payments	10,399,786	3,901,657	10,299,786	100,000	1.0%
TOTAL EXPENDITURES	\$433,805,867	\$217,698,828	\$430,146,502	\$3,659,365	0.8%