



City of Newport News
Office of the City Manager

November 22, 2023

TO: The Honorable City Council
FROM: Acting City Manager
SUBJECT: First Quarter FY 2024 Financial Report

The first quarter forecast of the FY 2024 operating budget is prepared by the Department of Budget and Evaluation, and provides budgetary projections based on actual performance of revenues and expenditures for the first three months (July through September) of the fiscal year, and a forecast of financial activities for the remaining nine months.

The first quarter of any fiscal year is the most difficult to project. The best indicator for the first quarter revenue projections is the results of FY 2023. Based on continuing inflation at a pace elevated above the Federal Reserve target range, this projection assumes sustained higher expenditure costs, along with the potential for moderate recession impacts in the later part of FY 2024. As a reminder, the FY 2024 Operating Budget was structured to recognize the possibility for both continuing inflation as well as lower revenue collections due to a recession.

Revenues

Overall General Fund Revenues are projected to be slightly lower than budgeted, by \$2.1 million or 0.4%. The City's primary tax base of Real Estate, Personal Property, and Machinery and Tools remain strong, and are currently forecasted to meet budget. While the semi-annual collection of the City's major revenues sources occurs during the second quarter, overall revenue performance to date for these major tax categories is consistent with the same period last fiscal year.

The Other Local Taxes revenue category includes the most consumer sensitive revenue of sales, meals, lodging, amusement, and Business, Professional and Occupational License (BPOL) taxes. Each one of these

revenue budgets were reduced for the FY 2024 budget in anticipation of a pending recession. While these revenues are showing stable individual performance at this time, in the abundance of caution, revenue projections are forecasted to meet budgetary estimates for this first quarter projection. Any delay or less severity of a recession could result in these revenue items exceeding their budgetary estimates at the end of the fiscal year. BPOL taxes are projected to be consistent with the FY 2024 estimate of \$20.6 million. As a reminder, BPOL taxes are based on gross receipts earned over the calendar year 2023; BPOL taxes will be collected in March 2024.

Expenditures

General Fund expenditures are anticipated to be within the adopted budget for the fiscal year. Almost all expenditure categories continue to be impacted by month over month shifting inflationary pressure. This is seen in several areas from fuel, food services, all purchased goods, to contractual services and staffing.

Combined Results

The overall General Fund Operating Budget is projected to end the year with a nominal surplus, primarily driven by managed expenditure controls. We will continue to monitor revenue collections as the first half of the major General Fund revenues are collected over the next several weeks.



Alan K. Archer

AKA:LJC;jlt

c: Director of Budget and Evaluation

**FY 2024 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

First Quarter - July 2023 through September 2023

GENERAL FUND

| <u>REVENUES</u> | Adopted Budget | Revised Budget | YTD Receipts | Projected Total Receipts | <i>Difference from Revised Budget</i> | |
|--------------------------------------|----------------------|----------------------|---------------------|-----------------------------|---|---------------|
| | | | | | Surplus/(Deficit) Amount | Percent |
| Real Estate Taxes ¹ | \$263,912,912 | \$263,912,912 | \$2,468,305 | \$263,912,912 | \$0 | 0.0% |
| Personal Property Taxes ² | 67,678,000 | 67,678,000 | 4,750,982 | 67,678,000 | 0 | 0.0% |
| Machinery & Tools Taxes ³ | 28,810,000 | 28,810,000 | 266 | 28,810,000 | 0 | 0.0% |
| Other General Property Taxes | 3,165,000 | 3,165,000 | 764,428 | 3,165,000 | 0 | 0.0% |
| Other Local Taxes | 119,571,667 | 119,571,667 | 16,164,203 | 118,571,667 | (1,000,000) | (0.8%) |
| Permits and Fees | 3,060,661 | 3,060,661 | 250,647 | 3,060,661 | 0 | 0.0% |
| Fines and Forfeitures | 1,140,027 | 1,140,027 | 384,771 | 1,140,027 | 0 | 0.0% |
| Revenue from Use-Money & Prop | 5,561,153 | 5,561,153 | 580,446 | 6,311,153 | 750,000 | 13.5% |
| Charges for Services | 7,684,490 | 7,684,490 | 2,093,850 | 7,405,490 | (279,000) | (3.6%) |
| Miscellaneous Revenue | 27,476,267 | 27,476,267 | 1,171,233 | 27,476,267 | 0 | 0.0% |
| Recovered Costs | 16,144,380 | 16,144,380 | 5,274,916 | 16,413,380 | 269,000 | 1.7% |
| Non-Categorical Aid | 829,000 | 829,000 | 220,438 | 549,000 | (280,000) | (33.8%) |
| Shared Expenses | 11,349,196 | 11,349,196 | 1,877,339 | 10,744,196 | (605,000) | (5.3%) |
| Categorical Aid | 39,987,247 | 39,987,247 | 8,087,311 | 38,987,247 | (1,000,000) | (2.5%) |
| Non-Revenue Receipts | 9,700,000 | 9,700,000 | 2,472,290 | 9,700,000 | 0 | 0.0% |
| TOTAL REVENUES | \$606,070,000 | \$606,070,000 | \$46,561,425 | \$603,925,000 | (\$2,145,000) | (0.4%) |

| <u>EXPENDITURES</u> | Adopted Budget | Revised Budget | YTD Exp/Enc | Projected Total Expense | <i>Difference from Revised Budget</i> | |
|------------------------------------|----------------------|----------------------|----------------------|----------------------------|---|-------------|
| | | | | | Surplus/(Deficit) Amount | Percent |
| Personnel Services | \$185,562,450 | \$185,562,450 | \$37,010,961 | \$184,145,836 | \$1,416,614 | 0.8% |
| Taxes, Benefits, Insurance | 95,090,427 | 95,090,427 | 20,986,823 | 90,793,308 | 4,297,119 | 4.5% |
| Contractual Services | 24,271,428 | 24,346,428 | 14,395,667 | 25,589,565 | (1,243,137) | (5.1%) |
| Vehicle Costs | 8,227,850 | 8,227,850 | 2,056,962 | 8,227,850 | 0 | 0.0% |
| Fuel | 2,173,270 | 2,173,270 | 344,850 | 2,021,976 | 151,294 | 7.0% |
| Utilities | 6,342,332 | 6,342,332 | 744,074 | 6,186,621 | 155,711 | 2.5% |
| Operating Materials, Supplies, Ins | 42,219,212 | 42,219,212 | 13,964,674 | 42,043,669 | 175,543 | 0.4% |
| Equipment (Except Vehicles) | 1,972,723 | 1,972,723 | 865,041 | 1,972,723 | 0 | 0.0% |
| Leases, Rentals | 8,906,428 | 8,831,428 | 4,775,023 | 8,830,203 | 1,225 | 0.0% |
| Community Support | 13,171,900 | 13,171,900 | 4,880,159 | 13,141,900 | 30,000 | 0.2% |
| Transfer to Schools | 119,589,307 | 119,589,307 | 29,897,327 | 119,589,307 | 0 | 0.0% |
| Debt Service/Cash Capital | 69,796,847 | 69,796,847 | 22,594,900 | 69,796,847 | 0 | 0.0% |
| Payments to Other Funds | 18,748,724 | 18,748,724 | 166,813 | 18,748,724 | 0 | 0.0% |
| Direct Program Costs - DHS | 9,997,102 | 9,997,102 | 2,499,137 | 10,097,102 | (100,000) | (1.0%) |
| TOTAL EXPENDITURES | \$606,070,000 | \$606,070,000 | \$155,182,410 | \$601,185,631 | \$4,884,369 | 0.8% |
| TOTAL DIFFERENCE | | | | | \$2,739,369 | 0.5% |

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 | <i>Surplus/ (Deficit)</i> | |
|--|---------------------|-----------------------|---------------------------|---------------------------|---------------|
| | | | | Amount | Percent |
| Auto Liability Fund | \$1,734,100 | \$1,734,100 | \$1,734,100 | \$0 | 0.0% |
| General Liability Fund | \$1,999,900 | \$2,019,900 | \$2,019,900 | \$0 | 0.0% |
| Worker's Compensation Fund | \$3,405,000 | \$3,405,000 | \$3,331,564 | \$73,436 | 2.2% |
| Recreation Revolving Fund | \$5,088,400 | \$3,878,875 | \$4,148,855 | (\$269,980) | (7.0%) |
| Golf Course Fund | \$1,923,000 | \$1,832,560 | \$1,871,602 | (\$39,042) | (2.1%) |
| Leeward Marina Fund | \$297,000 | \$286,737 | \$243,845 | \$42,892 | 15.0% |
| TOTAL | \$14,447,400 | \$13,157,172 | \$13,349,866 | (\$192,694) | (1.5%) |

TOTAL PROJECTED DIFFERENCE - Combined

\$2,546,675