

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

November 3, 2014

TO: The Honorable City Council
FROM: City Manager
SUBJECT: First Quarter FY 2015 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) and a forecast of financial activities for the remaining nine months.

The first quarter revenues are the most difficult to predict as it 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 \$245.3 million of the entire General Property Tax revenue category has been collected. To further illustrate this point, only \$142,000 in Current Real Estate Taxes was received by the end of September against an estimate of \$165.5 million. Generally 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 2014 by approximately \$3 million due to higher anticipated Real Estate tax collections estimated for the current fiscal year during the FY 2015 budget development cycle.

Revenues

Revenues are expected to be as estimated for the fiscal year, with some minor deficits projected in some budgeted amounts at this early point in the fiscal year, spread through all the revenue categories for various reasons. The largest example of these is the announced but not received State reductions in Aid to Localities.

In September 2014, the Governor announced a bipartisan agreement to close Virginia's FY 2015-2016 biennial budget shortfall. The agreement bridges the FY 2015 \$346 million gap and addresses the \$536 million shortfall for Fiscal Year 2016. Part of the State's cost savings strategy is to once again reduce its Aid to Localities. The City has yet to receive the official notification of potential program reductions, but it is anticipated that this latest round of State funding cuts could result in less revenue in the current fiscal year of amounts in the \$800,000 to \$1.4 million. This potential \$800,000 loss of State reimbursements is included in this quarterly projection. As a reminder, the Aid to Localities reductions from FY 2009 to FY 2013 for the City resulted in \$7.9 million less in State reimbursements. The State plans to release the projected revenue reductions by mid-November, and at that time, I will be able to advise you of the impact of the State reductions. Also during September 2014, the Virginia Department of Taxation notified the City of a settlement of a statewide claim for a refund on Bank Franchise taxes. The Newport News portion of this refund is approximately \$125,000 and is also included in this quarter's projection.

In the Other Local Taxes revenue category, Sales Tax revenue is performing on a monthly basis slightly better as compared to the prior fiscal year. At the present time we are collecting an average of \$1.902 million per month, that is slightly more than \$52,000 more per month average than FY 2014. With the large scale retail project at the Tech Center in full development, we are anticipating meeting or exceeding the Sales Tax estimate of \$23.3 million. Meal Tax receipts strong during the first quarter, and are anticipated to exceed the \$23 million budgeted estimate by \$400,000 at this time. Lodging Tax collections appear to be right on target for the \$3.3 million estimate. Coupled with this revenue is the \$1 per day room tax that was adopted for FY 2015. With the institution of the collections beginning on August 1st, by the end of the first quarter, we are projected to meet the \$800,000 estimate.

Collections of delinquent real estate taxes are slightly less than last year's pace, but are anticipated to be close to the current year \$4.1 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. Unless there is a marked increase in current real estate tax non-payments, we expect collections to be relatively on target.

The receipts from two significant revenue sources remain unknown at this point, those being revenues from Machinery and Tools and Business Professional and Occupational Licenses (BPOL) taxes. The majority of the BPOL 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 \$3.4 million. While hiring suspension continues to provide the bulk of the under-expenditure, Personnel Services (salaries) are projected to be under spent by slightly more than \$620,000, and with the fringe benefits category totals \$1.4 million or 43% of the total projected savings. Although adjusted to more practical levels for the current fiscal year, we continue to use attrition savings (budgeted at over \$5.6 million in the General Fund FY 2015) to balance the budget. However, with fewer employees providing essentially the same level of services, the need to fill the positions quickly has become more essential, resulting in marginal amounts for any anticipated additional salary savings. That leaves \$1.3 million in potential year-end savings in all other expenditure categories. It is important to recall that line item reductions for other operating expenses occurred as part of the FY 2015 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 lower projections are found in the overall slow use of Human Services programs, minor utilities costs savings due to a relatively moderate summer condition, and vehicle fuel. Vehicle fuel will continue to be difficult to estimate. Budgeted at 5 cents less per gallon than last fiscal year, fuel expenses should be lower than the budget amount. With the more pronounced falling fuel rates occurring in October 2014, the next quarterly report may see higher potential savings.

Combined Surplus

When creating the final revenue projections for FY 2015, the FY 2014 revenue receipts and year-end projections to date were used and moderated for potential economic impact changes. In other words, the FY 2015 revenue projections closely resemble where the City ended the

prior fiscal year. At this point we expect the revenue collections to be on pace and to be close to the estimates at the close of the first quarter.

With the anticipation of meeting our revenue estimates and an early potential for not fully expending planned operating costs, the General Fund budget is projected to end the fiscal year with a surplus. We can anticipate the consumer sensitive taxes to be at their average collections for the month of October, but we are hoping to see some growth in the receipts as the economy continues to slowly stabilize. With the major revenue sources to be collected over the next month, and the potential of additional receipts from consumer generated taxes and fees, the second quarter projections will bring more clarity to a potential year-end result.

Conclusion

As we move forward through this fiscal year, we will continue to monitor our revenue activity closely. I feel that with our current projected expenditure surplus and continued development throughout the City, we will be in a position to balance this year's budget as planned, with the prospective of a moderate surplus.


James M. Bourey

JMB:LJC

Attachment

c: Director of Budget and Evaluation

**FY 2015 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

First Quarter - July 2014 through September 2014

GENERAL FUND

<u>REVENUES</u>	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Real Estate Taxes ¹	\$171,161,712	\$2,206,949	\$171,161,712	\$0	0.0%
Personal Property Taxes ²	52,302,000	2,572,079	51,702,000	(600,000)	(1.1%)
Machinery & Tools Taxes ³	19,805,000	0	19,805,000	0	0.0%
Other General Property Taxes	2,104,000	137,856	1,904,000	(200,000)	(9.5%)
Other Local Taxes	101,068,230	11,272,340	100,568,230	(500,000)	(0.5%)
Permits and Fees	3,133,547	565,347	2,963,547	(170,000)	(5.4%)
Fines and Forfeitures	2,708,251	591,828	2,198,251	(510,000)	(18.8%)
Revenue from Use-Money & Prop	2,132,687	365,138	2,132,687	0	0.0%
Charges for Services	5,866,453	1,611,861	6,091,453	225,000	3.8%
Miscellaneous Revenue	19,331,376	927,461	19,131,376	(200,000)	(1.0%)
Recovered Costs	12,107,181	3,160,236	12,007,181	(100,000)	(0.8%)
Non-Categorical Aid	813,057	352,911	903,057	90,000	11.1%
Shared Expenses	9,260,336	1,462,291	9,052,336	(208,000)	(2.2%)
Categorical Aid	31,494,262	6,406,578	31,232,262	(262,000)	(0.8%)
Non-Revenue Receipts	14,050,000	2,562,500	14,050,000	0	0.0%
Payments from Other Funds	310,908	0	310,908	0	0.0%
TOTAL REVENUES	\$447,649,000	\$34,195,375	\$445,214,000	(\$2,435,000)	(0.5%)

<u>EXPENDITURES</u>	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Personnel Services	\$131,711,941	\$32,385,709	\$131,091,365	\$620,576	0.5%
Taxes, Benefits, Insurance	65,801,060	15,700,189	64,335,825	1,465,235	2.2%
Contractual Services	17,349,968	9,248,816	17,120,224	229,744	1.3%
Vehicle Costs	5,711,427	1,427,857	5,711,427	0	0.0%
Fuel	2,635,023	637,371	2,593,564	41,459	1.6%
Utilities	6,717,990	1,241,848	6,692,946	25,044	0.4%
Operating Materials, Supplies, Ins	20,842,638	7,435,549	20,728,935	113,703	0.5%
Equipment (Except Vehicles)	1,586,872	894,505	1,383,091	203,781	12.8%
Leases, Rentals	5,313,543	2,078,944	5,286,792	26,751	0.5%
Community Support	9,682,111	2,428,056	9,682,111	0	0.0%
Transfer to Schools	115,300,000	28,825,000	115,300,000	0	0.0%
Debt Service/Cash Capital	44,978,252	16,637,392	44,978,252	0	0.0%
Payments to Other Funds	10,963,725	1,146,039	10,813,725	150,000	1.4%
Direct Program Costs - DHS	9,054,450	2,296,230	8,524,465	529,985	5.9%
TOTAL EXPENDITURES	\$447,649,000	\$122,383,505	\$444,242,722	\$3,406,278	0.8%

TOTAL PROJECTED DIFFERENCE

\$971,278

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	\$1,429,000	\$1,384,590	\$1,260,997	\$123,593	8.9%
General Liability Fund	1,693,000	1,718,758	1,633,439	\$85,319	5.0%
Worker's Compensation Fund	3,250,200	3,594,909	3,247,919	\$346,990	9.7%
Recreation Revolving Fund	4,518,000	4,400,000	4,537,755	(\$137,755)	(3.1%)
Historical Services Fund	1,060,800	1,027,696	1,153,809	(\$126,113)	(12.3%)
Golf Course Fund	1,675,700	1,424,345	1,660,820	(\$236,475)	(16.6%)
Leeward Marina Fund	274,000	268,520	254,620	\$13,900	5.2%
Tourism Fund	1,402,100	1,402,100	1,390,669	\$11,431	0.8%
TOTAL	\$15,302,800	\$15,220,918	\$15,140,028	\$80,890	0.5%

PROJECTED DIFFERENCE (OTHER FUNDS)

\$80,890 0.5%

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

\$1,052,168

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/ (Deficit)	
				Amount	Percent
Stormwater Management Fund	\$16,800,000	\$16,600,000	\$16,522,749	\$77,251	0.5%
Solid Waste Fund	\$14,554,000	\$14,500,000	\$14,377,328	\$122,672	0.8%
Wastewater Fund	\$21,084,000	\$20,500,000	\$20,399,458	\$100,542	0.5%
Public Utilities Fund	\$83,950,000	\$86,116,246	\$82,434,848	\$3,681,398	4.3%

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/ Amount	(Deficit) Percent
City Council	\$285,190	\$65,935	\$268,531	\$16,659	5.8%
City Clerk	319,823	98,755	319,823	0	0.0%
City Manager	1,944,575	469,652	1,881,071	63,504	3.3%
Human Resources	1,187,454	318,686	1,183,907	3,547	0.3%
City Attorney	1,670,170	446,083	1,657,260	12,910	0.8%
Internal Auditor	530,379	132,987	528,649	1,730	0.3%
Commissioner of the Revenue	2,494,556	622,810	2,193,325	301,231	12.1%
Real Estate Assessor	1,619,259	396,255	1,586,632	32,627	2.0%
City Treasurer	2,116,237	603,523	2,062,347	53,890	2.5%
Finance	1,215,808	309,139	1,132,976	82,832	6.8%
Budget and Evaluation	687,858	137,245	585,608	102,250	14.9%
Purchasing	1,396,754	417,068	1,238,226	158,528	11.3%
Information Technology	8,331,047	3,193,175	8,004,286	326,761	3.9%
Registrar	429,948	94,327	402,030	27,918	6.5%
Judiciary	1,352,799	326,223	1,277,242	75,557	5.6%
Circuit Court Clerk	1,500,699	356,033	1,421,034	79,665	5.3%
Commonwealth's Attorney	3,626,057	884,942	3,582,177	43,880	1.2%
Police	44,499,832	11,656,328	44,462,140	37,692	0.1%
Fire	31,390,944	8,535,139	31,377,441	13,503	0.0%
Sheriff	19,634,194	6,562,232	19,629,949	4,245	0.0%
Adult Corrections	4,414,356	1,287,675	4,271,946	142,410	3.2%
Juvenile Services	7,484,218	2,300,191	7,743,307	(259,089)	(3.5%)
Codes Compliance	2,809,177	684,539	2,709,576	99,601	3.5%
Engineering	5,571,710	1,567,704	5,326,381	245,329	4.4%
Public Works	20,850,186	5,772,744	20,801,205	48,981	0.2%
Health	1,850,125	11,564	1,848,925	1,200	0.1%
Mental Health	1,523,521	761,761	1,523,521	0	0.0%
Human Services	32,830,146	8,393,820	31,883,514	946,632	2.9%
Parks, Recreation, and Tourism	12,955,068	4,678,997	13,057,321	(102,253)	(0.8%)
Libraries	4,575,197	1,330,157	4,533,830	41,367	0.9%
Development	1,577,822	415,643	1,545,567	32,255	2.0%
Planning	1,024,967	229,509	986,767	38,200	3.7%
Customer Service-311 Call Center	510,731	116,217	459,679	51,052	10.0%
Appointed Boards	102,198	32,269	91,519	10,679	10.4%
Nondepartmental-Contingencies	42,411,907	10,154,533	41,890,922	520,985	1.2%
Community Support	9,682,111	2,428,056	9,682,111	0	0.0%
Transfers to Schools	115,300,000	28,825,000	115,300,000	0	0.0%
Debt Service/Cash Capital	44,978,252	16,637,392	44,978,252	0	0.0%
All Other Payments	10,963,725	1,146,039	10,813,725	150,000	1.4%
TOTAL EXPENDITURES	\$447,649,000	\$122,400,346	\$444,242,722	\$3,406,278	0.8%