

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

February 18, 2015

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Second Quarter FY 2015 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 \$2,435 million and an expenditure surplus of \$3,406 million. When taken together, this resulted in forecasted fiscal year-end net surplus of \$971,000 for the General Fund. In the second quarter, we are projecting a revenue shortfall of \$2,508 million and an expenditure surplus of \$4.0 million. When taken together, this results in a forecasted fiscal year-end net surplus of \$1.492 million.

Revenues

Revenues are expected to be less than the budgeted amounts by (\$2.5) million, or (0.6%). This is a net change of (\$73,000) less in the year-end revenue position than the first quarter projection. Another way to consider the revenue difference between the first and second quarter is that overall, the revenue receipts are falling within a very tight range, and generally as initially estimated for the fiscal year.

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 51% of this year's estimate, which if straight lined, could result in exceeding the fiscal year estimate of

approximately \$165 million by over \$500,000. Collections of delinquent real estate taxes are slightly lower than last year's pace, and are projected to be just below the \$4.1 million revenue estimate by \$300,000. Current Personal Property Tax receipts continue to be slightly below the estimate and are projected to be short of the fiscal year estimate by (\$800,000). By the end of the second quarter, 48% of the Current Personal Property Tax estimate of \$48.6 million estimate had been received. In contrast, Delinquent Personal Property Taxes are above last year's total collections, and are estimated to exceed the \$3.6 million estimate by \$200,000. Machinery and Tools Taxes are performing well, with 53% collected at the end of the second quarter, extrapolated to be over the \$19.8 million estimate by \$1.1 million.

By the end of the second quarter, 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 just under \$1.9 million per month, that is slightly more than \$50,000 more per month average than FY 2014. We are currently anticipating meeting the Sales Tax estimate of \$23.3 million, if not exceeding it due to growing consumer confidence in a stabilizing economy. Meals taxes are performing well, projecting at this time to be \$400,000 over the estimate of almost \$23.4 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 (\$100,000) 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. At this point, we have collected only 15% of the \$16.4 million estimate. We are forecasting these revenues to perform as estimated for this fiscal year and they will be monitored closely.

For other local fees and charges, building permits, mechanical, electrical, and plumbing permits are currently projecting to be (\$108,000) less than estimated. While the second quarter receipts tend to fall in the low construction season, we will be watching this trend as the early spring building season progress over the next several months. As a positive sign of the existing housing market recovery, the Grantees Tax on Deeds, is holding in a strong pattern. Collections are, is approximately \$100,000

more than this point last fiscal year, and are projected to meet the \$1.5 million revenue estimate.

In November 2014, the City received the official notification of what the FY 2015 State Aid to Localities reduction. You will recall that in September 2014, the Governor announced a bipartisan agreement to close Virginia's FY 2015-2016 biennial budget shortfall. Part of the State's cost savings strategy is to once again reduce Aid to Localities. This latest round of State funding resulted in \$896,499 less revenue and 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.

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 \$300,000 in revenue that will be offset by more than \$530,000 in program reductions.

Expenditures

Departments are prudently managing their budgets and expenditures are expected to be \$4.03 million or 0.9% under budget.

While the City's ongoing hiring suspension continues to generate the salary savings, only \$713,000 of the total expenditure savings (or 0.5%) can be attributed to this category. The Taxes, Benefits, and Insurance category is tracking towards \$1.4 million in savings, primarily generated by FICA and health insurance premiums savings from unfilled positions. Combined salary and fringe benefits savings are \$2.1 million, or 54% of the potential expenditure surplus. It appears that the City continues to experience a relatively low staff turnover rate than in previous years, making the ability to generate vacancy savings more difficult. In general,

personnel savings cannot be depended on to deliver large surpluses at year-end as it has been in the past.

The projected savings from Vehicle Fuel at the end of December 2014 was \$360,000 for the General Fund and approximately \$500,000 for the City as a whole. As this report captures the time period of July 2014 to December 2014, the projection was based on average weekly fuel prices to date. Budgeted at 5 cents less per gallon than last fiscal year, and taking into consideration the continuing downward price per gallon since the beginning of the fiscal year, it is most likely that this savings projection will be higher 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 average temperatures experienced in January and February 2015 will more than likely erode the projected savings of \$106,772 in this category.

Without the under expenditure in Human Services programs of \$529,000, there is \$868,000 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.

Combined Projection

The combined forecasted budget surplus of \$1.5 million is approximately \$558,000 more than the FY 2015 First Quarter projection, with the little 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 December 2014 will be known in the coming week, and that will be an important indicator of local economy performance. March will also be an important month, as BPOL tax revenue begins to be collected. This is another important gauge on which we will measure local business performance.

Conclusion

While there is a projected revenue shortfall for the current fiscal year, it must be pointed out that nearly \$900,000 or 36% of the revenue loss was imposed on the City by the State after the fiscal year had been budgeted. This is not to be taken lightly, as any revenue shortfall must be diligently watched. I feel that with our current projected expenditure surplus, combined with additional vehicle fuel savings for the remaining six months, 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 the necessary steps to address them.


James M. Bourey

JMB:LJC

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

FY 2015 OPERATING BUDGET PROJECTED RESULTS OF OPERATIONS

Second Quarter - October 2014 through December 2014

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	Projected Difference from Revised Budget	
				Surplus/(Deficit) Amount	Percent
Real Estate Taxes ¹	\$171,161,712	\$83,568,490	\$171,661,712	\$500,000	0.3%
Personal Property Taxes ²	52,302,000	25,885,324	51,502,000	(800,000)	(1.5%)
Machinery & Tools Taxes ³	19,805,000	10,590,169	20,905,000	1,100,000	5.6%
Other General Property Taxes	2,104,000	2,384,475	1,746,000	(358,000)	(17.0%)
Other Local Taxes	101,068,230	31,348,230	100,668,230	(400,000)	(0.4%)
Permits and Fees	3,133,547	1,879,575	3,035,547	(98,000)	(3.1%)
Fines and Forfeitures	2,708,251	1,154,145	2,248,251	(460,000)	(17.0%)
Revenue from Use-Money & Prop	2,132,687	809,929	2,132,687	0	0.0%
Charges for Services	5,866,453	3,027,934	5,652,453	(214,000)	(3.6%)
Miscellaneous Revenue	19,331,376	5,600,327	19,254,376	(77,000)	(0.4%)
Recovered Costs	12,107,181	6,287,460	11,852,181	(255,000)	(2.1%)
Non-Categorical Aid	813,057	607,676	833,057	20,000	2.5%
Shared Expenses	9,260,336	3,868,051	8,360,336	(900,000)	(9.7%)
Categorical Aid	31,562,262	14,875,180	30,996,262	(566,000)	(1.8%)
Non-Revenue Receipts	14,050,000	5,125,000	14,050,000	0	0.0%
Payments from Other Funds	310,908	0	310,908	0	0.0%
TOTAL REVENUES	\$447,717,000	\$197,011,965	\$445,209,000	(\$2,508,000)	(0.6%)

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Projected Difference from Revised Budget	
				Surplus/(Deficit) Amount	Percent
Personnel Services	\$131,684,580	\$64,932,424	\$130,971,183	\$713,397	0.5%
Taxes, Benefits, Insurance	65,798,115	31,975,040	64,339,312	1,458,803	2.2%
Contractual Services	17,380,775	12,088,491	17,064,600	316,175	1.8%
Vehicle Costs	5,711,427	2,855,713	5,711,427	0	0.0%
Fuel	2,635,023	1,149,477	2,275,023	360,000	13.7%
Utilities	6,712,900	2,909,745	6,606,128	106,772	1.6%
Operating Materials, Supplies, Ins	20,799,887	10,797,281	20,539,942	259,945	1.2%
Equipment (Except Vehicles)	1,688,872	1,485,250	1,558,189	130,683	7.7%
Leases, Rentals	5,326,883	3,350,177	5,315,524	11,359	0.2%
Community Support	9,682,111	4,926,178	9,682,111	0	0.0%
Transfer to Schools	115,300,000	57,650,000	115,300,000	0	0.0%
Debt Service/Cash Capital	44,978,252	18,711,168	44,978,252	0	0.0%
Payments to Other Funds	10,963,725	3,948,926	10,813,725	150,000	1.4%
Direct Program Costs - DHS	9,054,450	4,162,549	8,524,465	529,985	5.9%
TOTAL EXPENDITURES	\$447,717,000	\$220,942,419	\$443,679,881	\$4,037,119	0.9%

TOTAL PROJECTED DIFFERENCE

\$1,529,119

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	\$1,429,000	\$1,384,590	\$1,334,093	\$50,497	3.6%
General Liability Fund	1,693,000	1,718,758	1,716,874	\$1,884	0.1%
Worker's Compensation Fund	3,250,200	3,594,909	3,248,933	\$345,976	9.6%
Recreation Revolving Fund	4,518,000	4,400,000	4,657,718	(\$257,718)	(5.9%)
Historical Services Fund	1,060,800	1,027,696	1,157,421	(\$129,725)	(12.6%)
Golf Course Fund	1,675,700	1,424,345	1,666,517	(\$242,172)	(17.0%)
Leeward Marina Fund	274,000	268,520	248,380	\$20,140	7.5%
Tourism Fund	1,402,100	1,402,100	1,383,219	\$18,881	1.3%
TOTAL	\$15,302,800	\$15,220,918	\$15,413,155	(\$192,237)	(1.3%)

PROJECTED DIFFERENCE (OTHER FUNDS) **(\$192,237)** **(1.3%)**

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds **\$1,336,882**

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	<i>Projected Surplus/(Deficit)</i>	
				Amount	Percent
Stormwater Management Fund	\$16,800,000	\$16,800,000	\$16,447,779	\$352,221	2.1%
Solid Waste Fund	\$14,554,000	\$14,100,000	\$14,055,939	\$44,061	0.3%
Wastewater Fund	\$21,084,000	\$20,250,000	\$20,136,221	\$113,779	0.6%
Public Utilities Fund	\$83,950,000	\$86,116,246	\$82,773,181	\$3,343,065	3.9%

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	\$285,190	\$138,681	\$268,148	\$17,042	6.0%
City Clerk	319,823	201,187	319,823	0	0.0%
City Manager	1,944,575	926,460	1,864,162	80,413	4.1%
Human Resources	1,187,454	604,004	1,182,997	4,457	0.4%
City Attorney	1,670,170	820,441	1,641,869	28,301	1.7%
Internal Auditor	530,379	262,993	529,625	754	0.1%
Commissioner of the Revenue	2,494,556	1,168,333	2,263,410	231,146	9.3%
Real Estate Assessor	1,619,259	784,996	1,588,492	30,767	1.9%
City Treasurer	2,116,237	1,100,583	2,072,934	43,303	2.0%
Finance	1,215,808	624,340	1,174,848	40,960	3.4%
Budget and Evaluation	687,858	288,709	598,557	89,301	13.0%
Purchasing	1,396,754	750,266	1,273,050	123,704	8.9%
Information Technology	8,331,047	5,288,453	7,951,592	379,455	4.6%
Registrar	429,948	215,064	425,686	4,262	1.0%
Judiciary	1,352,799	653,087	1,286,590	66,209	4.9%
Circuit Court Clerk	1,568,699	700,565	1,469,214	99,485	6.3%
Commonwealth's Attorney	3,626,057	1,756,028	3,569,938	56,119	1.5%
Police	44,499,832	22,304,897	44,135,652	364,180	0.8%
Fire	31,390,944	16,229,217	31,341,335	49,609	0.2%
Sheriff	19,634,194	10,505,771	19,566,134	68,060	0.3%
Adult Corrections	4,414,356	2,278,330	4,211,264	203,092	4.6%
Juvenile Services	7,484,218	4,068,273	7,416,677	67,541	0.9%
Codes Compliance	2,809,177	1,370,368	2,737,459	71,718	2.6%
Engineering	5,571,710	2,934,833	5,438,178	133,532	2.4%
Public Works	20,850,186	11,082,667	20,786,863	63,323	0.3%
Health	1,850,125	27,055	1,849,081	1,044	0.1%
Mental Health	1,523,521	1,523,521	1,523,521	0	0.0%
Human Services	32,830,146	16,031,263	31,909,365	920,781	2.8%
Parks, Recreation, and Tourism	12,955,068	7,598,721	12,893,827	61,241	0.5%
Libraries	4,575,197	2,319,289	4,543,944	31,253	0.7%
Development	1,577,822	779,611	1,517,035	60,787	3.9%
Planning	1,024,967	471,207	982,821	42,146	4.1%
Customer Service-311 Call Center	510,731	219,027	418,363	92,368	18.1%
Appointed Boards	102,198	46,378	96,069	6,129	6.0%
Nondepartmental-Contingencies	42,411,907	19,631,529	42,057,270	354,637	0.8%
Community Support	9,682,111	4,926,178	9,682,111	0	0.0%
Transfers to Schools	115,300,000	57,650,000	115,300,000	0	0.0%
Debt Service/Cash Capital	44,978,252	18,711,168	44,978,252	0	0.0%
All Other Payments	10,963,725	3,948,926	10,813,725	150,000	1.4%
TOTAL EXPENDITURES	\$447,717,000	\$220,942,419	\$443,679,881	\$4,037,119	0.9%