

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

May 12, 2015

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Third Quarter FY 2015 Financial Report

This third quarter forecast of revenues and expenditures, prepared by the Department of Budget and Evaluation, is an analysis of actual performance for the first nine months of the fiscal year (July through March) and a projection of financial activity for the remaining three months (April through June). In our first quarter report, we projected a revenue shortfall of (\$2.4 million) and an expenditure surplus of \$3.4 million, resulting in a forecasted net surplus of approximately \$971,000 in the General Fund. By the second quarter, we projected a revenue shortfall of (\$2.5 million) and an expenditure surplus of \$4.0 million, for a projected surplus of \$1.5 million. For the third quarter, a year-end General Fund surplus of approximately \$6.0 million is anticipated based on revenue surplus of \$396,000 and expenditure savings of \$5.6 million. This does certainly show how the projections in the first and second quarter are based on revenue numbers that are not very conclusive.

Revenues

Total revenues are expected to exceed the budgeted amounts by \$396,000 or 0.1%. This is an improvement of anticipated revenue performance of \$2.1 million from the second quarter projection.

With the first half of the current real estate taxes received by the end of the second quarter, there has been a marginal change in the activity in which to project a difference in collections. If the Current Real Estate Tax revenue collection rate for the second half of the tax year is consistent with the experience during the first half, total Current Real Estate Tax revenue will exceed the adopted budget estimate by about \$1.8 million, once adjusted for tax relief deductions. This is due to higher than anticipated collections and lower than estimated tax relief offset for eligible citizens.

Delinquent Real Estate Taxes are slightly higher than last year's pace, and are projected to be right at the \$4.1 million level that was budgeted for this fiscal year. It is anticipated that Personal Property Tax receipts will continue to lag behind the estimate. By the end of the third quarter, 51% of the \$48.6 million Personal Property Tax estimate was been received, generating an anticipated \$1.4 million shortfall for this revenue source, unless the pace of collections increases prior to year-end. Machinery and Tools Taxes continue to perform well, at 54% collected by the end of the third quarter and are projected to exceed the \$19.8 million estimate by \$1.6 million.

Local taxes and fees continue to be collected at the same predicted level as last quarter. For the most part, these revenue items are generally tracking to meet or marginally exceed their individual estimates. Consumer sensitive revenues of Sales and Meals taxes are projected to be slightly higher than estimated, suggesting continued consistent performance in these areas for this quarter as well. The year-end Sales Tax revenue projections are consistent with the previous quarter's assessment with an average of \$1.912 million in tax revenues per month. As an indication of a stabilizing economy, our January Sales Tax revenue was \$173,000 more than January 2014. With this type of consistent performance, it projected that we will meet our \$23.3 million estimate. Meal Tax receipts are anticipated to be \$800,000 more than the \$23 million estimate. Lodging Taxes are maintaining a flat pace, with one notable exception, detailed later in this report, and are projected to exceed the revenue estimate of \$3.3 million by at least \$50,000. Cigarette Taxes continue to be level in their performance of prior years, and it is probable that receipts will be (\$100,000) lower than \$5.2 million budget.

By the end of the third quarter, the majority of the \$16.45 million Business, Professional and Occupational Licenses (BPOL) receipts had been collected, with varied results. Two areas (Retail Sales and Professional Services) had stronger than anticipated showing, exceeding their combined revenue estimates by over \$181,000. The remaining BPOL segments (Wholesalers, Contractors, Repairs, Public Service Corporations, and those areas associated with prior year collections and interest on penalties) are just short of meeting the FY 2015 estimate. The net revenue for all BPOL taxes is projected to be less than the combined estimate by (\$393,000).

Building Permit revenue collections through the end of the third quarter remain marginally below the estimate for this fiscal year and are projected to experience a shortfall of (\$160,000) in the major permit categories of Building, Mechanical, Electrical, and Plumbing estimate of \$947,000. With the moderate weather experienced in the early spring building season, associated Engineering permits (site plans, review, and inspections) appear to be meeting the overall projection.

We had very interesting change in revenues for the month of March 2015 as we particularly surveyed those associated with travel activities. What we found was:

1. Lodging Tax in March 2015 was \$115,628 higher than March 2014
2. Meal Tax in March 2015 was \$508,807 higher than March 2014
3. Car Rental Tax in March 2015 was \$59,504 higher than March 2014

After taking into consideration any other potential travel related holidays or events (Easter holiday, school spring breaks, etc.), the only remaining defining factor was the One City Marathon. Without full in depth research as to the specific sources from which these revenues were generated (we are very limited in accessing the information), I believe we are safe in saying that a majority of this could have been the result of the visitors represented by the 28 states and surrounding locals that came to our inaugural event.

As the FY 2015 General Fund budget was being built, we were anticipating some year-end surplus generated by better than estimated revenues in FY 2014. With this in mind, we planned to use \$3 million of that surplus as revenue to fund one-time expenses for the current fiscal year. In the first half of this fiscal year, we were projecting lower and estimated overall revenue receipts, and projected the need to use these surplus funds. However, at this point of the fiscal year, the necessity of using those funds is now mitigated. This quarterly report still reflects the use of that \$3 million as current year revenue; however the intended purpose may now be re-directed to an alternative need which is to have ready cash available for the grocery store development in the Southeast Community. As next month we move to the next round of real estate, personal property, and machinery and tools tax collections, our largest revenue generators in the General Fund, I will keep you apprised on the potential need to use these prior year revenues for this most critical project.

As a reminder, we are still projecting the full impact of the FY 2015 State Aid to Localities reduction at \$896,499 less revenue than adopted for the fiscal year and it is included in this quarterly projection. Even with this revenue amount reduction, we are still anticipating almost \$396,000 more in revenue than the \$447.7 million estimated.

Expenditures

The operating departments continue to closely control spending in their budgets. Expenditures are expected to be nearly \$5.6 million, or 1.3%, below budget.

The employee expenses category continues to generate the majority of the projected savings. The combined savings in the Salary and Fringe Benefits categories equals approximately \$1.8 million, or 32% of the total expenditure savings projected at the end of the third quarter. Once adjusted for savings associated with the Human Services programs of \$1.366 million, all other projected year-end savings total \$2.4 million.

Due to the timing of our last bond refunding in May 2014, the savings generated by that refinancing is reflected in this year's projected surplus in the amount of \$400,000. In the combined Payments to Other Funds and Nondepartmental categories, there is a potential savings of \$550,000 from a variety of areas such as underutilized Local Grant Match funds, equipment purchases, and other lower than anticipated expenses.

Lower than budgeted Vehicle Fuel costs have been experienced for a majority of this fiscal year. Continued pricing experienced during the last nine months has the potential to deliver vehicle fuel savings of \$567,530 for the fiscal year. However, with the increases in price per gallon fuel during this quarter, this level of savings will not be sustained. As an example of the fluctuations in the cost, at January 1, 2015, the City was experiencing an average cost per gallon of \$1.71, as compared to today's rates of \$1.81. This reflects a \$0.10 or 6% change of the past three months. As a cautionary note, any sustained increases in fuel prices over the next months would offset this projected surplus.

Combined Surplus

The forecasted surplus of approximately \$6.0 million allows for some certainty for a positive outcome at year-end. If the collection of second half major revenue sources (Real Estate, Personal Property, and Machinery and Tool taxes) mirrors the first half, and we experience consistent collections in consumer generated taxes and fees (Sales, Meals, and Lodging taxes), we may exceed this present surplus forecast.

Conclusion

The projected surplus places us in a position to respond to emerging capital needs and to build our fund balance to a higher capacity against any further revenue shortfall. It appears that we have a degree of stability in both our real estate and non-real estate revenue sources that indicates continuous recovery in our local economy. At this point, the level of projected surplus that may be generated at the end of this fiscal year is a positive note. It is important to recall that \$4 million of any FY 2015 year-end surplus is committed to FY 2016 to fund one-time cash capital investments, as part of our FY 2016 Adopted Capital Improvements Plan (CIP). I feel confident that we will be able to meet this level of savings to ensure our funding commitment to the upcoming fiscal year.

I believe that we are in a good position to balance this year's budget without taking any additional steps at this time.


James M. Bourey

JMB: LJC

Attachment

cc: Lisa Cipriano, Director, Department of Budget and Evaluation

FY 2015 OPERATING BUDGET PROJECTED RESULTS OF OPERATIONS

Third Quarter - January 2015 through March 2015

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	<i>Projected Difference from Revised Budget</i>	
				Surplus/ (Deficit) Amount	Percent
Real Estate Taxes ¹	\$171,161,712	\$89,495,418	\$173,461,712	\$2,300,000	1.3%
Personal Property Taxes ²	52,302,000	28,375,416	\$51,186,000	(1,116,000)	(2.1%)
Machinery & Tools Taxes ³	19,805,000	10,771,454	\$21,405,000	1,600,000	8.1%
Other General Property Taxes	2,104,000	936,646	\$1,881,000	(223,000)	(10.6%)
Other Local Taxes	101,068,230	69,345,538	\$100,642,230	(426,000)	(0.4%)
Permits and Fees	3,133,547	2,624,957	\$3,164,547	31,000	1.0%
Fines and Forfeitures	2,708,251	1,738,875	\$2,228,251	(480,000)	(17.7%)
Revenue from Use-Money & Prop	2,132,687	1,435,531	\$2,142,687	10,000	0.5%
Charges for Services	5,866,453	4,413,036	\$5,689,453	(177,000)	(3.0%)
Miscellaneous Revenue	19,331,376	14,032,996	\$19,333,376	2,000	0.0%
Recovered Costs	12,107,181	9,492,197	\$11,929,181	(178,000)	(1.5%)
Non-Categorical Aid	813,057	790,976	\$867,057	54,000	6.6%
Shared Expenses	9,260,336	6,301,548	\$8,825,336	(435,000)	(4.7%)
Categorical Aid	31,562,262	23,166,159	\$30,996,262	(566,000)	(1.8%)
Non-Revenue Receipts	14,050,000	7,687,500	\$14,050,000	0	0.0%
Payments from Other Funds	310,908	0	\$310,908	0	0.0%
TOTAL REVENUES	\$447,717,000	\$270,608,247	\$448,113,000	\$396,000	0.1%

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	<i>Projected Difference from Revised Budget</i>	
				Surplus/ (Deficit) Amount	Percent
Personnel Services	\$131,684,580	\$96,800,001	\$130,762,644	\$921,936	0.7%
Taxes, Benefits, Insurance	65,798,115	48,204,129	\$64,924,002	\$874,113	1.3%
Contractual Services	17,380,775	13,709,094	\$16,809,761	\$571,014	3.3%
Vehicle Costs	5,711,427	4,283,570	\$5,711,427	\$0	0.0%
Fuel	2,635,023	1,507,883	\$2,067,493	\$567,530	21.5%
Utilities	6,712,900	4,698,831	\$6,587,315	\$125,585	1.9%
Operating Materials, Supplies, Ins	20,799,887	16,868,017	\$20,603,699	\$196,188	0.9%
Equipment (Except Vehicles)	1,688,872	1,350,631	\$1,618,981	\$69,891	4.1%
Leases, Rentals	5,326,883	4,357,304	\$5,326,883	\$0	0.0%
Community Support	9,682,111	8,634,537	\$9,682,111	\$0	0.0%
Transfer to Schools	115,300,000	86,475,001	\$115,300,000	\$0	0.0%
Debt Service/Cash Capital	44,978,252	37,189,634	\$44,578,252	\$400,000	0.9%
Payments to Other Funds	10,963,725	4,884,346	\$10,413,725	\$550,000	5.0%
Direct Program Costs - DHS	9,054,450	5,935,965	\$7,687,577	\$1,366,873	15.1%
TOTAL EXPENDITURES	\$447,717,000	\$334,898,943	\$442,073,870	\$5,643,130	1.3%

TOTAL PROJECTED DIFFERENCE

\$6,039,130

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	\$1,503,281	\$1,206,666	\$296,615	19.7%
General Liability Fund	1,693,000	1,801,714	1,821,351	(\$19,637)	(1.1%)
Worker's Compensation Fund	3,250,200	3,619,596	3,127,530	\$492,066	13.6%
Recreation Revolving Fund	4,518,000	4,526,441	4,656,216	(\$129,775)	(2.9%)
Historical Services Fund	1,060,800	1,019,229	1,027,083	(\$7,854)	(0.8%)
Golf Course Fund	1,675,700	1,309,930	1,658,540	(\$348,610)	(26.6%)
Leeward Marina Fund	274,000	242,400	248,407	(\$6,007)	(2.5%)
Tourism Fund	1,402,100	1,432,138	1,423,450	\$8,688	0.6%
TOTAL	\$15,302,800	\$15,454,729	\$15,169,243	\$285,486	1.8%

PROJECTED DIFFERENCE (OTHER FUNDS)

\$285,486 1.8%

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

\$6,324,616

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	\$16,449,169	\$350,831	2.1%
Solid Waste Fund	\$14,554,000	\$14,250,000	\$14,233,082	\$16,918	0.1%
Wastewater Fund	\$21,084,000	\$20,350,000	\$20,206,221	\$143,779	0.7%
Public Utilities Fund	\$83,950,000	\$87,408,945	\$82,718,863	\$4,690,082	5.4%

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	\$203,093	\$268,164	\$17,026	6.0%
City Clerk	353,343	280,271	353,343	0	0.0%
City Manager	1,944,575	1,412,392	1,883,929	60,646	3.1%
Human Resources	1,187,454	885,773	1,170,315	17,139	1.4%
City Attorney	1,670,170	1,224,030	1,633,059	37,111	2.2%
Internal Auditor	530,379	394,309	518,312	12,067	2.3%
Commissioner of the Revenue	2,494,556	1,740,939	2,401,274	93,282	3.7%
Real Estate Assessor	1,619,259	1,175,687	1,565,343	53,916	3.3%
City Treasurer	2,116,237	1,613,616	2,111,891	4,346	0.2%
Finance	1,215,808	943,492	1,180,872	34,936	2.9%
Budget and Evaluation	687,858	442,770	602,145	85,713	12.5%
Purchasing	1,396,754	1,021,861	1,313,877	82,877	5.9%
Information Technology	8,331,047	6,393,892	7,901,099	429,948	5.2%
Registrar	429,948	309,314	428,251	1,697	0.4%
Judiciary	1,352,799	950,681	1,311,067	41,732	3.1%
Circuit Court Clerk	1,568,699	1,116,116	1,520,225	48,474	3.1%
Commonwealth's Attorney	3,626,057	2,636,764	3,592,112	33,945	0.9%
Police	44,499,832	32,777,287	43,780,690	719,142	1.6%
Fire	31,390,944	24,166,274	31,606,696	(215,752)	(0.7%)
Sheriff	19,634,194	15,286,884	19,753,614	(119,420)	(0.6%)
Adult Corrections	4,414,356	3,217,557	4,162,113	252,243	5.7%
Juvenile Services	7,484,218	5,850,287	7,575,521	(91,303)	(1.2%)
Codes Compliance	2,817,742	2,093,544	2,807,626	10,116	0.4%
Engineering	5,571,710	4,191,854	5,288,949	282,761	5.1%
Public Works	20,850,186	15,382,549	20,766,595	83,591	0.4%
Health	1,958,125	1,952,668	1,957,125	1,000	0.1%
Mental Health	1,523,521	1,523,521	1,523,521	0	0.0%
Human Services	32,830,146	23,602,714	31,113,305	1,716,841	5.2%
Parks, Recreation, and Tourism	12,955,068	10,269,128	12,744,546	210,522	1.6%
Libraries	4,575,197	3,291,696	4,543,298	31,899	0.7%
Development	1,577,822	1,122,557	1,483,966	93,856	5.9%
Planning	1,024,967	713,716	960,552	64,415	6.3%
Customer Service-311 Call Center	510,731	329,365	448,833	61,898	12.1%
Appointed Boards	102,198	68,831	79,445	22,753	22.3%
Nondepartmental-Contingencies	42,411,907	29,129,993	41,898,194	513,713	1.2%
Community Support	9,682,111	8,634,537	9,682,111	0	0.0%
Transfers to Schools	115,300,000	86,475,001	115,300,000	0	0.0%
Debt Service/Cash Capital	44,828,167	37,189,634	44,428,167	400,000	0.9%
All Other Payments	10,963,725	4,884,346	10,413,725	550,000	5.0%
TOTAL EXPENDITURES	\$447,717,000	\$334,898,943	\$442,073,870	\$5,643,130	1.3%