

CITY OF NEWPORT NEWS

Office of the City Manager

October 13, 2015

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

This year-end report describes the budgetary performance of revenues and expenditures for FY 2015 and was prepared by the Department of Budget and Evaluation. The Fourth Quarter Financial Report uses preliminary and unaudited results of operations for the financial year ending June 30, 2015. While the final steps for closing the fiscal year are not complete, this report provides City Council a reasonably up to date estimate of the FY 2015 results for the General Fund. The official and final accounting statements will be issued in the November/December timeframe, when the City publishes its Comprehensive Annual Financial Report (CAFR).

Fiscal Year 2015 represented the first full fiscal year that the City faced consistently increasing revenue, after almost six years of sustained loss of funds from the City's main source of revenue, Real Estate Tax collections. This fiscal year was the first time since the beginning of the recession that we budgeted our revenues not only to meet current collection levels, but to also reflect expected growth and expansion due to a better, stable economic recovery outlook.

Revenues

The Fourth Quarter FY 2015 Revenues continued to perform higher than forecasted. In local taxes and fees, there was stronger activity with several elements exceeding estimates.

The second half of the Current Real Estate Tax collections for FY 2015 was higher than anticipated. With actual receipts posted through the end of June 2015, the City has received a total of \$165,184,208 from this revenue source. Included in this figure is approximately \$1.3 million in Real Estate Tax Relief (that is, Current Real Estate Tax revenue that is deferred for qualified elderly and disabled citizens) and \$734,000 tax relief for eligible

disabled veterans. Taking into consideration the actual value of the two tax relief programs of \$2,030,596, total Current Real Estate Tax receipts exceeded the adopted budget estimate of \$163,565,192 (when adjusted for tax relief) by \$1,619,016. This revenue is 1% more than expected, and it is the first time that we have met or exceeded our Real Estate Tax revenue estimate to this high percentage since the recession began in late 2008.

Delinquent real estate tax collections performed well this fiscal year and were higher by \$716 thousand than last year's total. With current receipts of \$4.5 million, delinquent collections were \$467 thousand more than the \$4.1 million estimated. The collection of delinquent real estate taxes from prior fiscal years is beneficial in the City's cash flow; a high level of activity should not be anticipated as a constant reoccurring revenue source in any fiscal year, as the recent trend appears to be that current taxes are paid on time to avoid any additional penalties to the individual.

Current Personal Property Tax receipts consistently were lower than estimated, with collections minimally stronger in the second half of the fiscal year than in the first. This lag can be attributed to lower values on used car sales than expected. By the end of the fourth quarter, \$1.4 million less than the \$48.6 million estimate had been received.

Machinery and Tools tax receipts ended the fiscal year at almost \$19.9 million or nearly \$1.7 million over the estimate. When Machinery and Tools tax receipts from Public Service Corporations (PSC) are added at \$1.9 million, which was \$304 thousand over the estimate, total collections from this combined revenue is just short of \$21.8 million, which will most likely make Newport News have one of the highest collections among the localities in the State of this revenue source.

Consumer sensitive revenues of sales, meals, and lodging taxes were projected to be consistently stable each quarter, with the anticipation that each would meet or exceed their individual revenue estimate, within minor fluctuations. This remained true throughout the fiscal year, with the actual revenue gain higher than anticipated, again through stronger receipts in the fourth quarter. Sales Tax revenue collections were \$166 thousand less than the estimate of \$23.3 million. On the surface this may not appear to be positive in nature, but it is important to remember that included in the overall FY 2015 Sales Tax estimate was approximately \$300,000 more anticipated to be collected associated with full Tech Center retail growth. As there is still construction being completed in the area, this slight under

collection in FY 2015 equates to meeting and exceeding our baseline Sales Tax goal for the year. Meal Tax receipts were exceptional, exceeding by \$1.061 million more than the \$23.074 million estimate, indicating dining outside the home is 4.6% higher than first anticipated. Lodging Tax revenue also exceeded its estimated amount with a year-end recording of \$66 thousand above the \$3.315 million estimate. This can be attributed in part to the lower than anticipated vehicle fuel prices that were experienced during large portions of the fiscal year. Both Sale and Meal taxes are highly responsive consumer revenue streams, and when taken as a whole seem to indicate a growing stabilization in certain areas of the local economy. As we mentioned previously, we did experience some bump with the One City Marathon guests that came to our city.

In other local economy generated revenue, there was good news as well. Business Professional and Occupational Licenses (BPOL) taxes ended the fiscal year with amounts almost equal to the anticipated receipts. Overall, the net revenue over the estimate for all BPOL taxes is just under by \$91 thousand or 0.5% lower than the estimate of \$16.4 million. We had forecasted these revenues to perform higher than prior fiscal years, predicting good recovery in all areas for this fiscal year. The strongest collections from these sources were in the areas of Retail Sales and Professional Services. On the lower end were the receipts associated with Prior taxes due and resulting penalties and interest. This suggests to some degree that BPOL taxes are being paid in full and on time to avoid any additional costs.

The City receives a recordation tax on deeds that are primarily property transactions. This was one of the revenue sources that we expanded the annual estimate higher by \$125,000 in FY 2015 than in the prior year as part of the overall economic recovery. At the end of the fiscal year, this revenue source was approximately 90% of the \$1.5 million estimate. While a moderate increase over the prior fiscal year, the stabilization of this revenue source is consistent with indicating that the volume of property transactions in the City seems to be increasing. Vehicle License Fees, the alternative local tax when vehicle decals were eliminated, showed relatively flat activity, collecting approximately \$90,205 less than the estimated \$4.1 million for this revenue source. With this slightly lower collection, the FY 2015 Vehicle License Fees collection remains well within the range for the past five fiscal years. These last two items, taken together, could be a sign that we have reached a certain stage of stabilization and an

indication that we could be looking forward to a slight upswing in those areas in the future.

Building permits revenue was below the \$947 thousand estimate by approximately \$43,000 (or 5% lower) in the major permit categories of Building, Mechanical, Electrical, and Plumbing. Major construction projects in FY 2015, namely the retail portion of the Tech Center project, and with that contributed to an overall successful revenue collection. While not yet restored to the pre-recession FY 2008 levels, it is a signal that there continues to be new construction throughout the City. The City earned more on Interest Earnings on Bank Deposits, reaching \$17,400 over the \$315,000 estimate. This is due in part of aggressive efforts by the City Treasurer to maximum investments during a continuing historically low interest rate environment.

In general, revenue activity for FY 2015 showed improved results in most areas. While the revenue estimates were maximized for the best realistic anticipated collections for this fiscal year, the increases were conservative, in light of lingering uncertain economic pressures that were still affecting all levels of government. Our local consumer sensitive taxes are showing sustained growth. When taken from a longer view, the City's revenues are performing reasonably well within the parameters set for FY 2015.

Expenditures

Continuation of monitoring the hiring of vacant positions and closely controlled spending by departments has resulted in a total projected savings of about \$3.2 million in normal budgetary expenditures, prior to final adjustments (which will be discussed later). Salary and fringe benefits expenses were budgeted at \$196.6 million or 44% of the total General Fund annual operating costs. The salary savings were not manifested at the levels as in prior fiscal years. These personnel savings continue to decrease annually, as we use attrition credits, eliminate positions, and delay hiring as methods to balance our annual operating budget and still provide the minimal level of staffing needed to provide current service levels. Fringe Benefits savings were the majority of the savings at close to \$1.5 million or 2.3% under budget. Combined, salary and fringe benefits savings were \$2.4 million or 3% below the budgeted amount. As evidenced in this fiscal year, these personnel savings cannot continue to be relied upon to balance revenue shortfalls at the risk of not providing services to our citizens.

FY 2015 Vehicle fuel was budgeted at five cents less per gallon (at \$3.25 per gallon) than last fiscal year. Lower than budgeted Vehicle Fuel costs have been experienced for a majority of this fiscal year. The price per gallon paid monthly by the City fluctuated between a low of \$1.19 (January 2015) and a high of \$2.66 (July 2014). This price variance resulted in an average of \$2.97 per gallon, resulting in an under-expenditure of \$614,931 or 24.3% savings in fuel costs.

Approximately \$600,000 total Human Services program revenues associated the adoption and special needs adoption with were not collected due to under use of the programs. There were some areas where the program revenue exceeded the estimate, mainly in administration costs and direct eligibility payments. Reduced Human Services program expenditures of \$1.4 million offset any revenue loss.

Final Adjustments

Prior to final adjustments required for year-end closing, the budget to actual General Fund surplus will be approximately \$3.2 million. One transaction that will be made at year-end is adjustments in the Payment to Other Funds and Debt/Cash Capital categories at \$6 million, causing in part those categories to be overspent. This year-end adjustment allowed for using the year-end surplus as a contribution to the Cash Capital Fund, helping us meet our self-disciplined cash obligation, and to fund the Southeast development project with cash. This use of the year-end surplus allows us to have ready access to funds without either having to use General Fund Balance reserves or to acquire additional debt for projects. The Cash Capital Fund grants us a certain degree of flexibility and responsiveness, as the needs present themselves during the fiscal year.

At this point, prior to any other adjustments, the year-end General Fund \$3.2 million will be used in part to balance any over-expenditures in the Other General Fund Operating Budgets (as shown on Page 2 of the attached report) and as an additional General Fund Balance contribution. While our General Fund Balance Policy requires us to increase the undesignated/unassigned of at least 7.5% of the actual General Fund revenues for the previous fiscal year, it has been the actual practice of the City is to establish an Undesignated/Unassigned General Fund Balance growth of 11%, whenever possible. The remaining uncommitted balance of the \$3.2 million surplus will be a supplemental contribution over and above the 11% level. This intentional contribution is a signal to the bond rating

agencies that it is part of our overall strong financial management to build reserves, as possible, with the eventual goal to reach the 20% reserve level in the future.

Combined Surplus and Use of Fund Balance

The final combined forecasted budget surplus of \$3.2 million is approximately \$1 million more in revenue than anticipated by the end of the third quarter in FY 2015. This combined surplus does not reflect year-end write offs for bad debts or other unanticipated accounting charges that typically reduce the year-end surplus.

This combined surplus reflects the financial activity as it relates to the adopted budget as compared to the actual results. For FY 2015, there was an estimated use of \$3 million of Fund Balance that did not have to materialize to balance the Operating Budget due to better than estimated revenue receipts. By building up the Cash Capital Fund with previous prior year reserves, we have been able to have funds readily available for supporting the Southeast Community grocery building effort while avoiding new debt.

Conclusion

Through careful planning and continued cost saving measures, the City ended this fiscal year with a very positive surplus. This surplus will be used to supplement our General Fund balance reserves and cash capital fund projects, to be used during present and future fiscal years. The local economy, caught for several years in the effects of the national recession and federal budget sequestration issues, has at least at this time moved beyond those restraints, with consistent elements of growth, and helped to deliver more revenue than anticipated, resulting in the year-end surplus. We are very pleased to be able to report to you this positive financial performance. I once again thank our outstanding Budget Staff for continuing to guide us through the challenging times and lead us clearly into a time of prosperity.



James M. Boyrey

JMB: LJC
Attachment
c: Director of Budget and Evaluation

FY 2015 OPERATING BUDGET PROJECTED RESULTS OF OPERATIONS

Unaudited - Initial Projections as of June 30, 2015

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	\$174,048,938	\$174,048,938	\$2,887,226	1.7%
Personal Property Taxes ²	52,302,000	51,054,658	51,054,658	(1,247,342)	(2.4%)
Machinery & Tools Taxes ³	19,805,000	21,791,860	21,791,860	1,986,860	10.0%
Other General Property Taxes	2,104,000	2,267,100	2,267,100	163,100	7.8%
Other Local Taxes	101,068,230	100,362,448	100,362,448	(705,782)	(0.7%)
Permits and Fees	3,133,547	3,865,489	3,865,489	731,942	23.4%
Fines and Forfeitures	2,708,251	2,247,099	2,247,099	(461,152)	(17.0%)
Revenue from Use-Money & Prop	2,132,687	2,257,646	2,257,646	124,959	5.9%
Charges for Services	5,866,453	5,967,581	5,967,581	101,128	1.7%
Miscellaneous Revenue	19,750,413	19,470,478	19,470,478	(279,935)	(1.4%)
Recovered Costs	12,107,181	12,402,259	12,402,259	295,078	2.4%
Non-Categorical Aid	813,057	977,545	977,545	164,488	20.2%
Shared Expenses	9,260,336	9,681,347	9,681,347	421,011	4.5%
Categorical Aid	31,562,262	32,576,582	32,576,582	1,014,320	3.2%
Non-Revenue Receipts	14,050,000	10,250,000	10,250,000	(3,800,000)	(27.0%)
Payments from Other Funds	310,908	283,356	283,356	(27,552)	(8.9%)
TOTAL REVENUES	\$448,136,037	\$449,504,386	\$449,504,386	\$1,368,349	0.3%

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Projected Difference from Revised Budget	
				Surplus/ (Deficit) Amount	Percent
Personnel Services	\$130,866,380	\$129,973,496	\$129,973,496	\$892,884	0.7%
Taxes, Benefits, Insurance	65,777,854	64,278,075	64,278,075	1,499,779	2.3%
Contractual Services	18,352,532	18,253,178	18,253,178	99,354	0.5%
Vehicle Costs	5,711,427	5,714,376	5,711,427	0	0.0%
Fuel	2,534,090	1,919,159	1,919,159	614,931	24.3%
Utilities	6,929,832	6,947,576	6,947,576	(17,744)	(0.3%)
Operating Materials, Supplies, Ins	20,899,253	19,605,289	19,906,285	992,968	4.8%
Equipment (Except Vehicles)	1,838,621	2,136,668	1,838,621	0	0.0%
Leases, Rentals	5,347,510	5,334,989	5,334,989	12,521	0.2%
Community Support	9,682,111	9,609,266	9,609,266	72,845	0.8%
Transfer to Schools	115,300,000	115,300,000	115,300,000	0	0.0%
Debt Service/Cash Capital	44,978,252	41,887,218	44,978,252	0	0.0%
Payments to Other Funds	10,863,725	10,153,999	14,573,451	(3,709,726)	(34.1%)
Direct Program Costs - DHS	9,054,450	7,634,810	7,634,810	1,419,640	15.7%
TOTAL EXPENDITURES	\$448,136,037	\$438,748,099	\$446,258,585	\$1,877,452	0.4%

TOTAL PROJECTED DIFFERENCE

\$3,245,801

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

	Revised Budget	Projected Revenues	Projected Expenditures	<i>Projected</i> <i>Surplus/ (Deficit)</i>	
				Amount	Percent
Auto Liability Fund	\$1,429,000	\$1,531,466	\$1,214,225	\$317,241	20.7%
General Liability Fund	1,693,000	1,799,754	2,256,868	(457,114)	(25.4%)
Worker's Compensation Fund	3,250,200	3,608,404	2,931,530	676,874	18.8%
Recreation Revolving Fund	4,518,000	4,510,702	4,843,551	(332,849)	(7.4%)
Historical Services Fund	1,060,800	1,023,225	1,039,716	(16,491)	(1.6%)
Golf Course Fund	1,675,700	1,303,371	1,835,824	(532,453)	(40.9%)
Leeward Marina Fund	274,000	237,504	311,286	(73,782)	(31.1%)
Tourism Fund	1,402,100	1,482,061	1,533,707	(51,646)	(3.5%)
TOTAL	\$15,302,800	\$15,496,487	\$15,966,707	(\$470,220)	(3.0%)

PROJECTED DIFFERENCE (OTHER FUNDS)

(\$470,220) (3.0%)

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

\$2,775,581

USER FEE SUPPORTED FUNDS

	Revised Budget	Projected Revenues	Projected Expenditures	<i>Projected</i> <i>Surplus/ (Deficit)</i>	
				Amount	Percent
Stormwater Management Fund	\$16,800,000	\$17,669,964	\$14,684,817	\$2,985,147	16.9%
Solid Waste Fund	\$14,554,000	\$14,139,681	\$13,791,886	\$347,795	2.5%
Wastewater Fund	\$21,084,000	\$20,526,796	\$19,563,506	\$963,290	4.7%
Public Utilities Fund	\$83,950,000	\$90,670,727	\$79,117,874	\$11,552,853	12.7%

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/ <i>(Deficit)</i> Amount	Percent
City Council	\$286,393	\$275,961	\$275,961	\$10,432	3.6%
City Clerk	350,693	350,693	350,693	0	0.0%
City Manager	1,946,933	1,904,579	1,904,579	42,354	2.2%
Human Resources	1,188,055	1,170,341	1,170,341	17,714	1.5%
City Attorney	1,670,677	1,668,348	1,668,348	2,329	0.1%
Internal Auditor	530,470	515,576	515,576	14,894	2.8%
Commissioner of the Revenue	2,497,554	2,348,126	2,348,126	149,428	6.0%
Real Estate Assessor	1,619,425	1,591,348	1,591,348	28,077	1.7%
City Treasurer	2,118,695	2,108,661	2,108,661	10,034	0.5%
Finance	1,217,186	1,215,237	1,215,237	1,949	0.2%
Budget and Evaluation	687,998	596,150	596,150	91,848	13.4%
Purchasing	1,397,540	1,343,376	1,343,376	54,164	3.9%
Information Technology	8,337,045	7,938,582	7,938,582	398,463	4.8%
Registrar	430,393	387,296	387,296	43,097	10.0%
Judiciary	1,355,566	1,276,066	1,276,066	79,500	5.9%
Circuit Court Clerk	1,568,699	1,579,655	1,579,655	(10,956)	(0.7%)
Commonwealth's Attorney	3,632,930	3,611,856	3,611,856	21,074	0.6%
Police	44,516,006	44,209,139	44,209,139	306,867	0.7%
Fire	31,397,784	31,512,931	31,512,931	(115,147)	(0.4%)
Sheriff	19,683,104	19,765,234	19,765,234	(82,130)	(0.4%)
Adult Corrections	4,414,548	4,066,285	4,066,285	348,263	7.9%
Juvenile Services	7,534,323	7,679,188	7,679,188	(144,865)	(1.9%)
Codes Compliance	2,812,007	2,833,582	2,833,582	(21,575)	(0.8%)
Engineering	5,593,708	5,287,419	5,287,419	306,289	5.5%
Public Works	21,273,991	21,303,255	21,303,255	(29,264)	(0.1%)
Health	1,968,546	1,957,760	1,957,760	10,786	0.5%
Mental Health	1,523,521	1,523,521	1,523,521	0	0.0%
Human Services	32,856,086	31,227,583	31,227,583	1,628,503	5.0%
Parks, Recreation, and Tourism	13,206,949	13,203,753	13,203,753	3,196	0.0%
Libraries	4,584,806	4,473,777	4,473,777	111,029	2.4%
Development	1,580,986	1,458,928	1,458,928	122,058	7.7%
Planning	1,027,657	963,077	963,077	64,580	6.3%
Customer Service-311 Call Center	510,731	435,909	435,909	74,822	14.6%
Appointed Boards	102,198	91,128	91,128	11,070	10.8%
Nondepartmental-Contingencies	41,888,746	39,923,296	39,923,296	1,965,450	4.7%
Community Support	9,682,111	9,609,266	9,609,266	72,845	0.8%
Transfers to Schools	115,300,000	115,300,000	115,300,000	0	0.0%
Debt Service/Cash Capital	44,978,252	41,887,218	44,978,252	0	0.0%
All Other Payments	10,863,725	10,153,999	14,573,451	(3,709,726)	(34.1%)
TOTAL EXPENDITURES	\$448,136,037	\$438,748,099	\$446,258,585	\$1,877,452	0.4%