

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

March 2, 2016

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** Second Quarter FY 2016 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 \$2.7 million and an expenditure surplus of \$3 million. When taken together, this resulted in forecasted fiscal year-end net surplus of \$231,000 for the General Fund. In the second quarter, we are projecting a revenue shortfall of \$2.105 million and an expenditure surplus of \$2.796 million. When taken together, this results in a forecasted fiscal year-end net surplus of \$691,000.

### *Revenues*

Revenues are expected to be less than the budgeted amounts by (\$2.105) million, or (0.5%). This is an improvement of \$682,000 in the year-end revenue position than the first quarter projection. While some revenue streams are showing increases, the difference between the first and second quarter is that overall the revenue receipts are falling within a very tight range, and are 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 50.5% of this year's estimate, which if straight lined, could result in exceeding the fiscal year estimate of approximately \$167 million by over \$600,000. Collections of delinquent real estate taxes are slightly higher than last year's pace, and are projected

to be just above the \$4.2 million revenue estimate by \$200,000. Current Personal Property Tax receipts continue to be slightly above the estimate and are projected to be over of the fiscal year estimate by \$200,000. By the end of the second quarter, 48% of the Current Personal Property Tax estimate of \$48.1 million estimate had been received. In contrast, Delinquent Personal Property Taxes are significantly exceeding last year's total collections, and have already surpassed the \$3.8 million estimate by \$700,000. Machinery and Tools Taxes are performing well, with 50.6% collected at the end of the second quarter, extrapolated to be over the \$21.8 million estimate by \$250,000.

One of our more sensitive local economy barometers, Sales Tax revenue, is performing on a monthly basis better as compared to the prior fiscal year. At the present time we are collecting an average of just under \$1.971 million per month; this is approximately \$40,000 more per month than FY 2015. We currently anticipate meeting the Sales Tax estimate of \$23.9 million, if not exceeding it due to growing consumer confidence in a stabilizing economy, coupled with unduplicated new retail venues open in the City. Meals taxes continue to be stable performing revenue, projecting at this time to meet \$24 million estimate. Lodging taxes are 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 prior years activity, and it is probable that receipts will be (\$200,000) 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 4% of the \$17 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 right on the \$923,000 estimate, showing slight upticks in revenue over this same period last year. 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. One lagging indicator showing that existing housing market continues on the path of slow recovery is the Grantees Tax on Deeds. Collections are lower than this point last fiscal

year by \$50,000 which could project to be under the \$1.6 million revenue estimate by \$200,000.

A trend that has been consistent during the first six months of this fiscal year is lower receipts from court fines and fees. This revenue category is comprised of various fines or fees applied by to court actions, including parking fines, traffic, juvenile/domestic, and criminal court fines. While a smaller General Fund revenue source of the total budget (almost \$2.4 million), this revenue category as a whole is projected to be \$850,000 less than estimated. This category shortfall is 40% of the overall revenue underperformance at the end of the second quarter.

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 \$750,000 in revenue that will be offset by more than \$914,000 in program reductions.

### *Expenditures*

Departments are carefully managing their budgets and expenditures are expected to be \$2.796 million or 0.6% under budget.

Beginning in mid May 2015, and again in December 2015, we have made significant improvements in addressing several areas where salary disparities have existed. By adjusting the pay of certain positions that earned less than \$40,000 in salary annually, as well as those in our important Public Safety roles (Police, Fire, and Sheriff), we are focusing on our most pressing salary class needs. To fully fund these alterations, we have fully used our budgeted salary adjustment funds. Combined salary and fringe benefits savings are approximately \$71,000 of the potential expenditure surplus. In addition, we have been aggressively filling some of the most difficult to recruit and retain positions, those in the Human Services Department. By moving towards more full employment in that department, there will not be the scale of vacancy savings generated in

prior years. In general, personnel savings cannot be depended on to deliver a sizable surplus at year-end as it has been in the past.

The projected savings from Vehicle Fuel at the end of December 2015 was \$445,767 for the General Fund. As this report captures the time period of July 2015 to December 2015, the projection was based on average weekly fuel prices to date. Budgeted at 85 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 are level to the anticipated costs for the Second Quarter, due to generally milder autumn and winter seasons, with a few exceptions. The consistent above average temperatures experienced in January and February 2016 will more than likely maintain the projected savings of \$50,280 in this category.

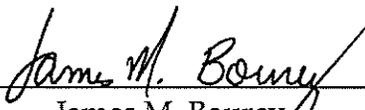
Without the under expenditure in Human Services programs of \$914,000, there is \$1.3 million in potential year-end savings in all other expenditure categories. It is important to recall that line item reductions for other operating expenses occurred as part of the FY 2016 budget development process. 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 \$691,000 million is approximately \$460,000 more than the FY 2016 First Quarter projection. 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 receipts in other categories. Our consumer taxes continue to improve in this second quarter. 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 \$850,000 or 40% of the revenue loss is from lower fines and fees charged by court cases. Any overall revenue shortfall is not taken lightly, and will be diligently monitored. 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

Attachment

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

**FY 2016 OPERATING BUDGET  
PROJECTED RESULTS OF OPERATIONS**

Second Quarter - July 2015 through December 2015

**GENERAL FUND**

**REVENUES**

|                                      | Revised<br>Budget    | YTD Receipts         | Projected<br>Total Receipts | <u>Projected Difference<br/>from Revised Budget</u><br>Surplus/(Deficit) |               |
|--------------------------------------|----------------------|----------------------|-----------------------------|--|---------------|
|                                      |                      |                      |                             | Amount   | Percent       |
| Real Estate Taxes <sup>1</sup>       | \$176,845,937        | \$89,068,575         | \$177,755,937               | \$910,000  | 0.5%          |
| Personal Property Taxes <sup>2</sup> | 52,155,000           | 28,039,156           | 53,155,000                  | 1,000,000  | 1.9%          |
| Machinery & Tools Taxes <sup>3</sup> | 21,880,000           | 11,008,303           | 22,130,000                  | 250,000  | 1.1%          |
| Other General Property Taxes         | 1,729,000            | 852,257              | 1,729,000                   | 0  | 0.0%          |
| Other Local Taxes                    | 103,487,010          | 35,552,437           | 102,487,010                 | (1,000,000)  | (1.0%)        |
| Permits and Fees                     | 3,418,048            | 1,814,452            | 3,368,048                   | (50,000)   | (1.5%)        |
| Fines and Forfeitures                | 2,353,968            | 664,348              | 1,503,968                   | (850,000)  | (36.1%)       |
| Revenue from Use-Money & Prop        | 2,297,302            | 873,249              | 2,143,302                   | (154,000)  | (6.7%)        |
| Charges for Services                 | 6,190,604            | 2,717,503            | 5,638,604                   | (552,000)  | (8.9%)        |
| Miscellaneous Revenue                | 23,979,912           | 5,750,467            | 23,679,912                  | (300,000)  | (1.3%)        |
| Recovered Costs                      | 12,773,560           | 6,030,083            | 12,685,560                  | (88,000)   | (0.7%)        |
| Non-Categorical Aid                  | 1,128,137            | 511,044              | 1,000,137                   | (128,000)  | (11.3%)       |
| Shared Expenses                      | 10,207,149           | 3,885,420            | 9,814,149                   | (393,000)  | (3.9%)        |
| Categorical Aid                      | 31,523,066           | 13,984,751           | 30,773,066                  | (750,000)  | (2.4%)        |
| Non-Revenue Receipts                 | 14,000,000           | 4,750,000            | 14,000,000                  | 0  | 0.0%          |
| Payments from Other Funds            | 278,307              | 0                    | 278,307                     | 0  | 0.0%          |
| <b>TOTAL REVENUES</b>                | <b>\$464,247,000</b> | <b>\$205,502,045</b> | <b>\$462,142,000</b>        | <b>(\$2,105,000)</b>   | <b>(0.5%)</b> |

**EXPENDITURES**

|                                    | Revised<br>Budget    | YTD Exp/Enc          | Projected<br>Total Expense | <u>Projected Difference<br/>from Revised Budget</u><br>Surplus/(Deficit) |             |
|------------------------------------|----------------------|----------------------|----------------------------|--|-------------|
|                                    |                      |                      |                            | Amount   | Percent     |
| Personnel Services                 | \$113,849,375        | \$66,436,396         | \$113,849,375              | \$0  | 0.0%        |
| Taxes, Benefits, Insurance         | 69,563,114           | 33,696,030           | 69,491,531                 | 71,583   | 0.1%        |
| Contractual Services               | 18,042,279           | 14,259,746           | 17,556,331                 | 485,948  | 2.7%        |
| Vehicle Costs                      | 6,329,072            | 3,164,536            | 6,250,386                  | 78,686   | 1.2%        |
| Fuel                               | 1,910,845            | 638,489              | 1,465,078                  | 445,767  | 23.3%       |
| Utilities                          | 6,666,749            | 2,884,496            | 6,616,469                  | 50,280   | 0.8%        |
| Operating Materials, Supplies, Ins | 41,119,139           | 12,575,955           | 40,494,255                 | 624,884  | 1.5%        |
| Equipment (Except Vehicles)        | 1,633,678            | 1,150,627            | 1,633,678                  | 0  | 0.0%        |
| Leases, Rentals                    | 5,556,775            | 3,369,754            | 5,432,487                  | 124,288  | 2.2%        |
| Community Support                  | 10,426,824           | 5,456,618            | 10,426,824                 | 0  | 0.0%        |
| Transfer to Schools                | 118,300,000          | 59,150,000           | 118,300,000                | 0  | 0.0%        |
| Debt Service/Cash Capital          | 44,957,874           | 28,477,000           | 44,957,874                 | 0  | 0.0%        |
| Payments to Other Funds            | 17,176,500           | 4,509,042            | 17,176,500                 | 0  | 0.0%        |
| Direct Program Costs - DHS         | 8,714,776            | 4,683,729            | 7,800,000                  | 914,776  | 10.5%       |
| <b>TOTAL EXPENDITURES</b>          | <b>\$464,247,000</b> | <b>\$240,452,418</b> | <b>\$461,450,788</b>       | <b>\$2,796,212</b>   | <b>0.6%</b> |

**TOTAL PROJECTED DIFFERENCE**

**\$691,212**

<sup>1</sup>Includes Current, Delinquent, Tax Relief, Public Service Corp (PSC) Real Estate Taxes

<sup>2</sup>Includes Current and Delinquent Personal Property Taxes

<sup>3</sup>Includes 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        | \$1,419,300         | \$1,388,763         | \$1,348,546            | \$40,217                    | 2.9%           |
| General Liability Fund     | 1,763,000           | 1,757,264           | 2,617,646              | (\$860,382)                 | (49.0%)        |
| Worker's Compensation Fund | 3,253,500           | 3,253,500           | 3,211,489              | \$42,011                    | 1.3%           |
| Recreation Revolving Fund  | 4,608,000           | 2,357,690           | 2,431,672              | (\$73,982)                  | (3.1%)         |
| Historical Services Fund   | 1,069,000           | 513,514             | 549,444                | (\$35,930)                  | (7.0%)         |
| Golf Course Fund           | 1,663,000           | 735,619             | 889,498                | (\$153,879)                 | (20.9%)        |
| Leeward Marina Fund        | 271,000             | 132,431             | 105,359                | \$27,072                    | 20.4%          |
| Tourism Fund               | 1,384,000           | 172,967             | 584,785                | (\$411,818)                 | (238.1%)       |
| <b>TOTAL</b>               | <b>\$15,430,800</b> | <b>\$10,311,748</b> | <b>\$11,738,439</b>    | <b>(\$1,426,691)</b>        | <b>(13.8%)</b> |

**PROJECTED DIFFERENCE (OTHER FUNDS)** (\$1,426,691) (13.8%)

**TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds** (\$735,479)

**USER FEE SUPPORTED FUNDS**

|                            | Budget       | Projected Revenues | Projected Expenditures | Projected Surplus/(Deficit) |         |
|----------------------------|--------------|--------------------|------------------------|-----------------------------|---------|
|                            |              |                    |                        | Amount                      | Percent |
| Stormwater Management Fund | \$19,993,000 | \$19,965,060       | \$18,278,464           | \$1,686,596                 | 8.4%    |
| Solid Waste Fund           | \$14,706,000 | \$14,652,618       | \$13,970,490           | \$682,128                   | 4.7%    |
| Wastewater Fund            | \$21,484,000 | \$21,138,516       | \$19,518,738           | \$1,619,778                 | 7.7%    |
| Waterworks                 | \$86,950,000 | \$87,483,372       | \$85,800,518           | \$1,682,854                 | 1.9%    |

**EXPENDITURES BY DEPARTMENT**

(This is a departmental breakdown of the General Fund expenditures shown on page 1.)

|                                | Revised<br>Budget    | YTD Exp/Enc          | Projected<br>Total Expense | <i>Projected Difference<br/>from Revised Budget</i> |             |
|--------------------------------|----------------------|----------------------|----------------------------|---|-------------|
|                                |                      |                      |                            | Surplus/(Deficit)<br>Amount                         | Percent     |
| City Council                   | \$278,569            | \$133,994            | \$277,176                  | \$1,393   | 0.5%        |
| City Clerk                     | 326,231              | 182,304              | 326,231                    | 0   | 0.0%        |
| City Manager                   | 1,251,141            | 654,857              | 1,251,141                  | 0   | 0.0%        |
| Human Resources                | 1,252,266            | 600,399              | 1,196,997                  | 55,269  | 4.4%        |
| City Attorney                  | 1,661,854            | 851,668              | 1,628,513                  | 33,341  | 2.0%        |
| Internal Auditor               | 530,645              | 264,844              | 528,468                    | 2,177   | 0.4%        |
| Commissioner of the Revenue    | 2,512,281            | 1,173,484            | 2,350,262                  | 162,019   | 6.4%        |
| Real Estate Assessor           | 1,628,687            | 799,771              | 1,590,100                  | 38,587  | 2.4%        |
| City Treasurer                 | 2,174,555            | 1,038,081            | 2,111,395                  | 63,160  | 2.9%        |
| Finance                        | 1,214,709            | 691,523              | 1,209,895                  | 4,814   | 0.4%        |
| Budget and Evaluation          | 692,577              | 290,385              | 604,307                    | 88,270  | 12.7%       |
| Purchasing                     | 1,126,872            | 686,400              | 1,142,744                  | (15,872)  | (1.4%)      |
| Information Technology         | 8,377,001            | 5,724,082            | 8,050,537                  | 326,464   | 3.9%        |
| Registrar                      | 429,163              | 231,759              | 405,684                    | 23,479  | 5.5%        |
| Judiciary                      | 1,428,506            | 673,142              | 1,234,682                  | 193,824   | 13.6%       |
| Circuit Court Clerk            | 1,500,026            | 728,449              | 1,447,619                  | 52,407  | 3.5%        |
| Commonwealth's Attorney        | 3,697,929            | 1,816,190            | 3,691,154                  | 6,775   | 0.2%        |
| Police                         | 44,735,807           | 23,098,049           | 44,272,339                 | 463,468   | 1.0%        |
| Fire                           | 31,806,849           | 17,663,914           | 31,714,479                 | 92,370  | 0.3%        |
| Sheriff                        | 20,372,219           | 11,040,883           | 20,188,297                 | 183,922   | 0.9%        |
| Juvenile Services              | 7,749,670            | 4,256,060            | 7,884,393                  | (134,723)   | (1.7%)      |
| Codes Compliance               | 2,906,737            | 1,477,299            | 2,894,088                  | 12,649  | 0.4%        |
| Engineering                    | 5,522,077            | 3,103,041            | 5,445,036                  | 77,041  | 1.4%        |
| Public Works                   | 22,581,230           | 13,835,994           | 22,321,301                 | 259,929   | 1.2%        |
| Health                         | 1,853,862            | 33,491               | 1,851,216                  | 2,646   | 0.1%        |
| Mental Health                  | 1,523,521            | 761,761              | 1,523,521                  | 0   | 0.0%        |
| Human Services                 | 32,443,175           | 17,349,522           | 32,757,721                 | (314,546)   | (1.0%)      |
| Parks, Recreation, and Tourism | 13,122,359           | 7,398,014            | 12,819,584                 | 302,775   | 2.3%        |
| Libraries                      | 4,526,354            | 2,323,234            | 4,489,497                  | 36,857  | 0.8%        |
| Development                    | 1,661,134            | 831,360              | 1,640,325                  | 20,809  | 1.3%        |
| Planning                       | 1,103,885            | 503,579              | 1,016,602                  | 87,283  | 7.9%        |
| Communications                 | 1,588,131            | 666,959              | 1,418,640                  | 169,491   | 10.7%       |
| Appointed Boards               | 101,662              | 51,324               | 98,266                     | 3,396   | 3.3%        |
| Nondepartmental-Contingencies  | 49,704,118           | 21,923,942           | 49,207,380                 | 496,738   | 1.0%        |
| Community Support              | 10,426,824           | 5,456,618            | 10,426,824                 | 0   | 0.0%        |
| Transfers to Schools           | 118,300,000          | 59,150,000           | 118,300,000                | 0   | 0.0%        |
| Debt Service/Cash Capital      | 44,957,874           | 28,477,000           | 44,957,874                 | 0   | 0.0%        |
| All Other Payments             | 17,176,500           | 4,509,042            | 17,176,500                 | 0   | 0.0%        |
| <b>TOTAL EXPENDITURES</b>      | <b>\$464,247,000</b> | <b>\$240,452,418</b> | <b>\$461,450,788</b>       | <b>\$2,796,212</b>                                  | <b>0.6%</b> |