

CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

May 24, 2016

TO: The Honorable City Council
FROM: City Manager
SUBJECT: Third Quarter FY 2016 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 (\$2.7 million) and an expenditure surplus of \$3.0 million, resulting in a forecasted net surplus of approximately \$231,000 in the General Fund. By the second quarter, we projected a revenue shortfall of (\$2.105 million) and an expenditure surplus of \$2.796 million, for a projected surplus of \$691,000. For the third quarter, a year-end General Fund surplus of approximately \$75,000 is anticipated based on revenue shortfall of (\$2.182) and expenditure savings of \$2.257 million.

Revenues

Revenues are expected to be less than the budgeted amounts by (\$2.182) million, or (0.5%). This is a decline of the year-end revenue position as compared to the second quarter projection. While some revenue streams are showing increases, the difference between the second and third quarter is from lower than estimated receipts from total Business, Professional, Occupation License (BPOL) fees. Otherwise, the revenue collections are within a narrow range, and are generally as initially estimated for the fiscal year.

With the first half of the current real estate taxes received by the end of the second quarter, the change in activity on which to project a difference in collections is primarily from late or delinquent tax 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 \$1.5 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 equal to last year's pace, and are projected to be \$200,000 higher than the \$4.2 million level that was budgeted for this fiscal year. It is anticipated that Personal Property Tax receipts are slightly ahead of the estimate. By the end of the third quarter, 53% of the \$48.1 million Personal Property Tax estimate had been received, generating an anticipated \$100,000 surplus for this revenue source, with the potential of higher collections by year-end. Machinery and Tools Taxes continue to do well, at 51% collected by the end of the third quarter and projecting to exceed the \$21.8 million estimate by \$220,000.

Local taxes and fees continue to be 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 higher than estimated, suggesting not only continued consistent performance in these areas for this quarter, but growth as well. The Sales Tax revenue projections are consistent with the previous quarter's assessment with an average of \$1.933 million in tax revenues per month. As an indication of a stabilizing economy, our March 2016 Sales Tax revenue was \$91,000 more than March 2015. With this type of consistent performance, it's projected that we will meet our \$23.9 million estimate, if not exceed it. Meal Tax receipts are anticipated to be \$400,000 more than the \$24 million estimate. Lodging Taxes are continuing to demonstrate expansion, and are projected to exceed the revenue estimate of \$3.3 million by at least \$200,000. Cigarette Taxes continue their slightly declining performance each fiscal year; consistent with in prior years, and it is probable that receipts will be \$200,000 lower than the \$5.2 million budget.

By the end of the third quarter, the majority of the estimated \$17.0 million Business, Professional and Occupational Licenses (BPOL) receipts had been collected, with varied results. Professional Services had stronger than anticipated showing, exceeding the revenue estimates by over \$249,000. The remaining BPOL segments (Retail, 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 2016 estimate. The net revenue for all BPOL taxes is projected to be less than the combined estimate by \$1.1 million. The resulting combined revenue could signal a slightly mixed message: strong anticipated retail and service industry at this time, while construction is still lagging.

Building Permit revenue collections through the end of the third quarter remain marginally above the estimate for this fiscal year and are projected to experience a surplus of \$100,000 in the major permit categories of the Building, Mechanical, Electrical, and Plumbing estimate of \$923,000. Even with rainy weather experienced in the early spring building season, associated Engineering permits (site plans, review, and inspections) appear to be meeting the overall projection.

As the FY 2016 General Fund budget was being formed, we were anticipating some year-end surplus generated in FY 2015. With this in mind, we planned to use \$4 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 estimated overall revenue receipts, and felt it likely to use these surplus funds (fund balance) to meet our revenue so as to cover expenditures. At this point of the fiscal year, while we still will require \$4 million in revenue (that is the amount represented by the use of the fund balance) to achieve a positive fiscal year-end, the necessity of using the fund balance is now close to being mitigated. In other words, as we move to the next round of real estate, personal property, and machinery and tools tax collections, our largest revenue producers in the General Fund, we anticipate that we will generate enough current cash to revenue instead of using our 'savings' to balance this year's budget.

Expenditures

The operating departments continue to closely control spending in their budgets. Expenditures are expected to be \$2.257 million, or 0.5%, below budget.

In prior years, the employee expenses category generated the majority of the projected savings. However, in FY 2016, this will not be the case. As reported in the second quarter report, we have been aggressively filling some of the most difficult to recruit and retain positions, those in the Human Services Department. By moving towards full employment in that department, there will not be the scale of vacancy savings generated

in prior years. For the first time in many years, the combined Salary and Fringe Benefits categories could be overspent by a projected \$114,000 of the \$203 million budgeted in those categories. While we experienced salary savings delivering a sizable surplus at year-end in the past, it is more important that these critical citizen-service positions be filled.

As a reminder, this fiscal year we incorporated a total of \$4.1 million in federal, state, and local/private grant funds that are awarded to the City during the course of the fiscal year as both revenue and expense line items in the General Fund Budget. As a majority of the grants are awarded as reimbursable funding, we are working to project the level of reimbursement we will receive by year-end. The end result of this reimbursement process could result in higher savings, offset by lower revenue projections.

Lower 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 \$544,835 for the fiscal year. However with the increases in price per gallon fuel after this quarter, due to the transition to "summer blend" fuel, this level of savings will not be sustained. Budgeted at 85 cents less per gallon than last fiscal year, and assuming future price fluctuations continue to be at same minor levels for the remainder of the fiscal year, the projected savings could still be close to this third quarter level.

Overall Utilities expenses are higher due to usage in the City Jail. These expenses have been difficult to budget for over the past few years, due to building renovations and construction, the additional of the Jail Annex and changing inmate populations.

Other Operating Funds

While the Quarterly Reports generally focus on the General Fund status, information is always included on the attached report for our user fee funds (Stormwater, Solid Waste, Wastewater, and Waterworks), and other operating funds that have a direct relationship to the General Fund (the self insurance funds for Auto, General Liability, Worker's Compensation, and the Parks, Recreation, and Tourism related revolving funds for Recreation, Golf, Historical Services, Leeward Marina, and Tourism).

Some of these funds are experiencing fiscal year trends that require some additional discussion.

The General Liability Insurance Fund (the City's self-insurance fund that extends coverage to the City for all forms of legal liability, excluding coverage provided by the Auto Self Insurance Fund for automobile liability) is projecting a deficit of \$1.4 million for FY 2016. This is due to legal expenses (\$585,000) and the City's share of claim payments (\$1,025,000) for on-going cases that were settled in this fiscal year. This deficit is offset by some expenditure savings, namely in the salary and fringe benefits categories. There are sufficient reserves for the self insurance funds to balance these expenses at year-end.

The City's Golf Course Fund (which operates and maintains a full-service, two 18-hole public course facility with amenities including cart rental, driving range, pro shop, food concession, and banquet tent) continues to function at an operating loss. While the staffing level is managed to be fluid to adapt to the playing season demands (there are 16 full-time allotments, supported by part-time employees), the revenues are not sufficient to cover the operational costs. By the end of the third quarter, the projected deficit is approximately \$592,000. Due to the rainy spring experienced to date limiting the amount of play on the courses, there is the high probability that this shortfall will be greater by fiscal year-end.

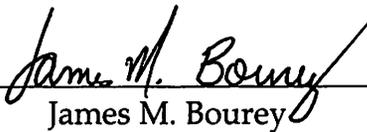
Combined Surplus

The forecasted surplus of approximately \$75,000 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, as well as growth in some areas. At this point, we are projecting a surplus to be generated at the end of this fiscal year.

I believe that we will 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 2016 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS**

Third Quarter - July 2015 through March 2016

GENERAL FUND

REVENUES

	Revised		Projected		<u>Projected Difference from Revised Budget</u>	
	Budget	YTD Receipts	Total Receipts	Surplus/ (Deficit) Amount	Percent	
Real Estate Taxes ¹	\$176,845,937	\$91,193,381	\$178,345,937	\$1,500,000	0.8%	
Personal Property Taxes ²	52,155,000	30,625,989	53,294,000	1,139,000	2.2%	
Machinery & Tools Taxes ³	21,880,000	11,066,873	22,100,000	220,000	1.0%	
Other General Property Taxes	1,729,000	1,291,007	1,609,000	(120,000)	(6.9%)	
Other Local Taxes	103,487,010	70,276,096	101,622,010	(1,865,000)	(1.8%)	
Permits and Fees	3,418,048	2,319,359	3,510,048	92,000	2.7%	
Fines and Forfeitures	2,353,968	1,036,608	1,301,968	(1,052,000)	(44.7%)	
Revenue from Use-Money & Prop	2,297,302	1,514,211	2,231,302	(66,000)	(2.9%)	
Charges for Services	6,190,604	4,147,311	5,933,604	(257,000)	(4.2%)	
Miscellaneous Revenue	24,674,555	6,294,233	24,378,555	(296,000)	(1.2%)	
Recovered Costs	12,773,560	9,009,738	12,643,560	(130,000)	(1.0%)	
Non-Categorical Aid	1,128,137	758,838	1,013,137	(115,000)	(10.2%)	
Shared Expenses	10,207,149	6,104,652	9,725,149	(482,000)	(4.7%)	
Categorical Aid	31,523,066	21,041,401	30,773,066	(750,000)	(2.4%)	
Non-Revenue Receipts	14,025,000	7,150,000	14,025,000	0	0.0%	
Payments from Other Funds	278,307	0	278,307	0	0.0%	
TOTAL REVENUES	\$464,966,643	\$263,829,697	\$462,784,643	(\$2,182,000)	(0.5%)	

EXPENDITURES

	Revised		Projected		<u>Projected Difference from Revised Budget</u>	
	Budget	YTD Exp/Enc	Total Expense	Surplus/ (Deficit) Amount	Percent	
Personnel Services	\$133,867,975	\$99,864,784	\$134,567,075	(\$699,100)	(0.5%)	
Taxes, Benefits, Insurance	69,550,687	48,191,029	68,965,510	585,177	0.8%	
Contractual Services	18,668,485	16,493,817	17,568,270	1,100,215	5.9%	
Vehicle Costs	6,329,072	4,746,804	6,230,505	98,567	1.6%	
Fuel	1,910,845	957,742	1,366,010	544,835	28.5%	
Utilities	6,666,749	4,555,418	7,044,671	(377,922)	(5.7%)	
Operating Materials, Supplies, Ins	21,164,594	18,609,792	20,820,183	344,411	1.6%	
Equipment (Except Vehicles)	1,700,487	1,443,748	1,620,992	79,495	4.7%	
Leases, Rentals	5,556,775	4,456,869	5,282,960	273,815	4.9%	
Community Support	10,426,824	9,464,159	10,426,824	0	0.0%	
Transfer to Schools	118,300,000	88,725,000	118,300,000	0	0.0%	
Debt Service/Cash Capital	44,982,874	38,211,917	44,982,874	0	0.0%	
Payments to Other Funds	17,176,500	8,359,403	17,176,500	0	0.0%	
Direct Program Costs - DHS	8,664,776	6,600,918	8,356,954	307,822	3.6%	
TOTAL EXPENDITURES	\$464,966,643	\$350,681,400	\$462,709,328	\$2,257,315	0.5%	

TOTAL PROJECTED DIFFERENCE

\$75,315

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	\$1,419,300	\$1,410,102	\$1,261,207	\$148,895	10.6%
General Liability Fund	1,763,000	1,785,468	3,244,367	(\$1,458,899)	(81.7%)
Worker's Compensation Fund	3,253,500	3,363,272	2,748,624	\$614,648	18.3%
Recreation Revolving Fund	4,608,000	4,813,968	4,766,375	\$47,593	1.0%
Historical Services Fund	1,069,000	1,015,071	1,111,347	(\$96,276)	(9.5%)
Golf Course Fund	1,663,000	1,206,746	1,799,385	(\$592,639)	(49.1%)
Leeward Marina Fund	271,000	231,362	222,322	\$9,040	3.9%
Tourism Fund	1,384,000	1,150,540	1,444,088	(\$293,548)	(25.5%)
TOTAL	\$15,430,800	\$14,976,529	\$16,597,715	(\$1,621,186)	(10.8%)

PROJECTED DIFFERENCE (OTHER FUNDS)

(\$1,621,186) (10.8%)

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

(\$1,545,871)

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	<i>Projected Surplus/ (Deficit)</i>	
				Amount	Percent
Stormwater Management Fund	\$19,993,000	\$19,729,427	\$17,698,321	\$2,031,106	10.3%
Solid Waste Fund	\$14,706,000	\$14,353,251	\$13,600,167	\$753,084	5.2%
Wastewater Fund	\$21,484,000	\$20,667,470	\$19,014,174	\$1,653,296	8.0%
Waterworks Fund	\$86,950,000	\$87,900,000	\$86,500,000	\$1,400,000	1.6%

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	\$278,569	\$196,566	\$268,624	\$9,945	3.6%
City Clerk	336,515	261,690	336,515	0	0.0%
City Manager	1,307,006	996,982	1,307,006	0	0.0%
Human Resources	1,252,266	885,049	1,217,224	35,042	2.8%
City Attorney	1,669,128	1,257,418	1,654,479	14,649	0.9%
Internal Auditor	545,969	405,064	544,327	1,642	0.3%
Commissioner of the Revenue	2,512,281	1,734,844	2,340,505	171,776	6.8%
Real Estate Assessor	1,645,064	1,202,752	1,623,634	21,430	1.3%
City Treasurer	2,174,555	1,625,017	2,090,307	84,248	3.9%
Finance	1,214,709	974,971	1,131,818	82,891	6.8%
Budget and Evaluation	692,577	446,054	592,512	100,065	14.4%
Purchasing	1,135,762	997,761	1,264,029	(128,267)	(11.3%)
Information Technology	8,377,001	7,191,507	7,792,635	584,366	7.0%
Registrar	429,163	397,278	505,375	(76,212)	(17.8%)
Judiciary	1,428,506	975,917	1,270,706	157,800	11.0%
Circuit Court Clerk	1,500,026	1,138,042	1,483,115	16,911	1.1%
Commonwealth's Attorney	3,735,332	2,729,605	3,673,800	61,532	1.6%
Police	45,379,685	34,833,896	45,290,498	89,187	0.2%
Fire	32,599,920	26,186,412	32,972,574	(372,654)	(1.1%)
Sheriff	20,741,282	15,988,263	20,554,465	186,817	0.9%
Juvenile Services	7,900,352	6,133,606	7,708,775	191,577	2.4%
Codes Compliance	2,968,647	2,226,479	2,968,647	0	0.0%
Engineering	5,522,077	4,442,453	5,522,077	0	0.0%
Public Works	23,275,873	18,161,076	22,757,871	518,002	2.2%
Health	2,022,801	1,518,240	2,017,870	4,931	0.2%
Mental Health	1,523,521	1,523,521	1,523,521	0	0.0%
Human Services	32,905,465	25,542,097	33,334,112	(428,647)	(1.3%)
Parks, Recreation, and Tourism	13,130,324	10,198,653	12,819,354	310,970	2.4%
Libraries	4,526,354	3,281,955	4,474,275	52,079	1.2%
Development	1,674,733	1,268,118	1,657,691	17,042	1.0%
Planning	1,103,885	776,191	1,016,638	87,247	7.9%
Communications	1,588,131	1,054,208	1,462,471	125,660	7.9%
Appointed Boards	101,662	67,249	100,573	1,089	1.1%
Nondepartmental-Contingencies	46,881,304	29,301,987	46,545,107	336,197	0.7%
Community Support	10,426,824	9,464,159	10,426,824	0	0.0%
Transfers to Schools	118,300,000	88,725,000	118,300,000	0	0.0%
Debt Service/Cash Capital	44,982,874	38,211,917	44,982,874	0	0.0%
All Other Payments	17,176,500	8,359,403	17,176,500	0	0.0%
TOTAL EXPENDITURES	\$464,966,643	\$350,681,400	\$462,709,328	\$2,257,315	0.5%