CITY OF NEWPORT NEWS

OFFICE OF THE CITY MANAGER

May 8, 2018

TO: The Honorable City Council

FROM: City Manager

SUBJECT: Third Quarter FY 2018 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).

As a reminder, all FY 2018 quarterly reports will show the General Fund revenue status taking into consideration this fiscal year's intentional, planned aversion of using $5.3 million in budgeted fund balance reserves as a General Fund revenue source. The avoidance of using $5.3 million of reserves makes up 84% of the projected revenue shortfall for the third quarter. For this quarter, there is a projected a revenue shortfall of $6.3 million, inclusive of the reserves noted above, and an expenditure surplus principally generated by disbursement controls of $11.0 million. When taken together, this results in a forecasted fiscal year-end net surplus of $4,711,936.

Revenues

Revenues are expected to be less than budgeted by ($6.319) million or (1.3%). This is an improvement of the year-end revenue position as compared to the second quarter projection. This progress is due in part to better performing revenues combined with limited and unexpected revenue windfalls in three areas (that will be identified later in this report). The third quarter report includes the actual receipts from total Business, Professional, and Occupation License (BPOL) fees. The majority of the revenue collections are within a narrow range; they are generally as estimated for the fiscal year.

With the first half of current real estate taxes received by the end of the second quarter, the activity on which to project a difference in tax collections is the amount of current Real Estate tax received after the payment due date of December 5. At the end of the second quarter, if a straight line projection held, a $1.6 million dollar shortfall in current Real Estate Taxes was estimated. By the end of the third quarter, and with the collection patterns through April (just prior to the first of the second half of the tax collections in May), this shortfall is now estimated to be slightly lower. If the Current Real Estate Tax revenue collection rate for the second half of the tax year continues to improve, the total Current Real Estate Tax revenue shortfall could be about $1.2 million, once adjusted for tax relief deductions. Delinquent Real Estate Taxes are continuing to be less than estimated, and are projected to be $400,000 lower than the $4.6 million budgeted for this fiscal year.

Two positive revenue streams continue to be Personal Property and Machinery and Tools taxes. It is anticipated that Personal Property Tax receipts will be higher than expected. By the end of the third quarter, 53% of the $50 million Personal Property Tax estimate had been received, generating an anticipated $200,000 projected surplus for this revenue source. Machinery and Tools Taxes was another revenue stream anticipated for additional growth this fiscal year, based on prior performance and anticipated expansion. It is projected that this revenue will be $300,000 over the $22.6 million estimate.

At the end of the third quarter, the majority of the estimated $17.3 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 $510,000 (or 12.4% more) as did the Contractors segment collecting over $61,800 (or 5.7% above the estimate). The total BPOL category (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 2018 estimate. The net revenue for all BPOL taxes is projected to be less than the estimate by $376,900 or 2.2% lower. The combined revenue continues to send a somewhat mixed message: strong anticipated professional and contractor service industry at this time, while retail, wholesalers, and repairs are still lagging.

Local taxes and fees continue to perform at the same predicted level as last quarter. These revenue items are tracking to meet or marginally exceed their individual estimates. The Sales Tax revenue projections are consistent with the previous quarter's assessment with a monthly average of $2.102 million in tax revenues. With this type of consistent performance, it is projected that the $24.7 million estimate might be exceeded by $300,000. Meal Tax receipts are anticipated to be $200,000 more than the $25.9 million estimate. While Lodging Taxes naturally lag during the winter months, at this point they are projected to be under the revenue estimate of $3.8 million by ($100,000). Cigarette Taxes continue their slightly declining performance each fiscal year consistent with prior years, with probable receipts $200,000 lower than the $5 million estimate.

Total Building Permit revenue collections for the third quarter are slightly under the $995,000 estimate by $90,000 for this fiscal year for the major permit categories of Building, Mechanical, Electrical, and Plumbing. One lagging economic indicator showing that the existing housing market continues on a path of slow recovery is the Grantees Tax on Deeds. Collections are on average about $157,000 less than this point last fiscal year projecting to lower by $400,000 than the $1.6 million revenue estimate.

The three one-time, unforeseen revenue receipts that are in this quarter's estimate are from interest earnings on the City bankable funds, from the under expenditure of the City's support of the Health Department for the prior fiscal year, and from Street Light rents for a new subdivision. Interest Earnings on available cash are exceeding the $432,000 estimate by $700,000 due to current bond cash balance from the May 2017 bond sale, and improved interest earnings. The State refunded over $211,000 from the FY 2017 year-end settlement from the $2 million the City provides in support to the Health Department annually. This refund was due to higher than excepted State revenue and lower operating expenses. With the new Huntington Pointe subdivision under active construction, the City will receive approximately $160,000 in new Street Light rent for this fiscal year. Combined, these three revenue sources have helped to reduce the projected shortfall by $1,071,000.

Expenditures

Departmental operating expenses are holding steady, and are equal to the amount in the second quarter report. The General Fund expenditure savings are expected to be $11.0 million or 2.3% under budget, attributable to expenditure restrictions established in November 2017.

The strategic hiring initiative continues to generate savings in the combined employee compensation categories of Personnel Services (salaries) and Fringe Benefits; these categories are projected to be underspent at this time by $2 million. This amount represents 19% of the overall savings. The freeze on the Cash Capital expenditures for this fiscal year is producing savings of $4.5 million, with an additional savings of $1.1 million from withholding funds for vehicle and fleet replacements.

Vehicle Fuel costs have been experiencing a slow upward track for a majority of this fiscal year. Even with higher than anticipated rate per gallon, the pricing experience during the last nine months has the potential to deliver vehicle fuel savings of $238,000 by year-end. There tends to be increases in price per gallon after this quarter due to the transition to "summer blend" fuel. With this transition cost, this level of savings may not be sustained. For Utilities costs, this projected shortfall is due to fluctuations in City Jail usage, and by unintentional under budgeting for some city facilities and the result of a notably colder than usual winter as those costs now reflected in the actual expenses.

Combined Results

The self-imposed revenue shortfall has been a strong step in good fiscal management, ensuring that we operate within the revenues that are generated solely during this year. To do this, we have been assertive in controlling costs, by limiting operating expenses to those that are essential to service delivery. We will not end this fiscal year in a deficit due to spending. With the third quarter projected surplus, combined with careful practices for the remaining months, it is prudent that the expenditure limitations that were initiated in November remain in place for the remainder of this year. Revenue collections are reviewed daily. If collection of second half major revenue sources (Real Estate, Personal Property, and Machinery and Tool taxes) improves over those of the first half, and consistent collections in consumer generated taxes and fees

(Sales, Meals, and Lodging taxes) are experienced, it is possible to close this revenue gap further.

Cynthia D. Rohlf

CDR:LJC

Attachment

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

FY 2018 OPERATING BUDGET
PROJECTED RESULTS OF OPERATIONS
Third Quarter - July 2017 through March 2018

GENERAL FUND

REVENUES

	Revised Budget	YTD Receipts	Projected Total Receipts	Projected Difference from Revised Budget Surplus/(Deficit) Amount	Percent
Real Estate Taxes[1]	$188,264,148	$92,986,095	$187,014,148	($1,250,000)	(0.7%)
Personal Property Taxes[2]	54,528,000	30,340,164	54,338,000	(190,000)	(0.3%)
Machinery & Tools Taxes[3]	22,605,000	11,464,550	22,935,000	330,000	1.5%
Other General Property Taxes	2,662,000	4,766,552	2,787,000	125,000	4.7%
Other Local Taxes	105,896,900	72,755,749	104,669,900	(1,227,000)	(1.2%)
Permits and Fees	3,554,122	2,797,849	3,826,122	272,000	7.7%
Fines and Forfeitures	1,665,820	1,195,873	1,686,820	21,000	1.3%
Revenue from Use-Money & Prop	2,551,258	2,424,168	3,212,258	661,000	25.9%
Charges for Services	6,502,810	4,585,024	6,079,810	(423,000)	(6.5%)
Miscellaneous Revenue	24,782,503	13,244,219	24,405,503	(377,000)	(1.5%)
Recovered Costs	13,050,144	10,004,018	13,382,144	332,000	2.5%
Non-Categorical Aid	1,128,000	723,347	959,000	(169,000)	(15.0%)
Shared Expenses	10,069,010	6,268,267	9,499,010	(570,000)	(5.7%)
Categorical Aid	33,303,080	24,156,141	34,148,280	845,200	2.5%
Non-Revenue Receipts	15,233,740	7,480,827	10,533,740	(4,700,000)	(30.9%)
Payments from Other Funds	283,356	0	283,356	0	0.0%
TOTAL REVENUES	**$486,079,891**	**$285,192,843**	**$479,760,091**	**($6,319,800)**	**(1.3%)**

EXPENDITURES

	Revised Budget	YTD Exp/Enc	Projected Total Expense	Projected Difference from Revised Budget Surplus/(Deficit) Amount	Percent
Personnel Services	$145,211,797	$105,862,657	$145,413,450	($201,653)	(0.1%)
Taxes, Benefits, Insurance	$76,884,455	$54,178,972	$74,592,084	$2,292,371	3.0%
Contractual Services	$20,286,682	$15,808,070	$18,098,686	$2,187,996	10.8%
Vehicle Costs	$6,303,045	$3,686,203	$5,147,286	$1,155,759	18.3%
Fuel	$1,661,944	$999,904	$1,423,316	$238,628	14.4%
Utilities	$6,458,915	$4,845,740	$6,946,211	($487,296)	(7.5%)
Operating Materials, Supplies, Ins	$21,679,136	$16,800,249	$20,936,917	$742,219	3.4%
Equipment (Except Vehicles)	$1,963,065	$1,260,982	$1,944,993	$18,072	0.9%
Leases, Rentals	$6,417,725	$5,266,946	$6,371,999	$45,726	0.7%
Community Support	$11,182,521	$10,334,736	$11,399,540	($217,019)	(1.9%)
Transfers to Schools	$119,000,000	$89,250,000	$119,000,000	$0	0.0%
Debt Service/Cash Capital	$43,349,491	$39,340,114	$38,836,491	$4,513,000	10.4%
All Other Payments	$16,779,093	$11,417,880	$16,056,552	$722,541	4.3%
Direct Program Costs - DHS	$8,902,022	$6,996,280	$8,880,630	$21,392	0.2%
TOTAL EXPENDITURES	**$486,079,891**	**$366,048,733**	**$475,048,155**	**$11,031,736**	**2.3%**
TOTAL PROJECTED DIFFERENCE				**$4,711,936**	

[1]Includes Current, Delinquent, Tax Relief, Public Service Corp (PSC) Real Estate Taxes

[2]Includes Current and Delinquent Personal Property Taxes

[3]Includes Current and Public Service Corp (PSC) Machinery & Tools Taxes