

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

November 21, 2018

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** First Quarter FY 2019 Financial Report

The first quarter forecast of the current fiscal year operating budget is prepared by the Department of Budget and Evaluation, and provides budgetary projections based on actual performance of revenues and expenditures for the first three months (July through September), and a forecast of financial activities for the remaining nine months.

The first quarter revenues are always difficult to predict as this quarter occurs prior to the semi-annual collection of the major revenues sources (Real Estate, Personal Property, and Machinery and Tools Taxes). At the end of the first quarter, only 1.5% of the \$273 million of the entire General Property Tax revenue category had been collected. To illustrate further, \$243,000 in Current Real Estate Taxes was received by the end of September of the \$186.2 million estimate. Overall revenue performance during this first quarter is consistent with or slightly higher than collections during the same period last fiscal year.

### *Revenues*

At this early point in the fiscal year, revenues are expected to be collected as estimated for the fiscal year, as the revenue projections for the first quarter of FY 2019 are in very close alignment with actual collections for the prior fiscal year.

In the Other Local Taxes revenue category, Sales Tax revenue is performing monthly slightly better compared to the prior fiscal year. At the present time, collections are averaging \$2.145 million per month; that is approximately \$31,000 higher per month than FY 2018. It is anticipated that the Sales Tax \$24.8 million estimate could be exceeded by \$400,000 this

fiscal year, matching prior year's collections of \$25.4 million. Meal Tax receipts were strong during the first quarter, and are anticipated to exceed the \$25.9 million estimate by \$330,000. Lodging Tax collections appear to be doing well, equal to collections at the same point last year, and should meet the \$3.8 million estimate. One lagging economic indicator showing that existing housing market continues on the path of slow recovery is the Grantees Tax on Deeds. Collections are slightly higher than this point last fiscal year, projecting to be under the \$1.7 million revenue estimate by approximately \$100,000. As home mortgage rates continue to increase to the 5% level, this could cool down the demand for home sales, resulting in a higher projected shortfall for this revenue source.

The receipts from Business Professional and Occupational Licenses (BPOL) taxes remain unknown at this point, as the majority of the BPOL taxes will not be received until March 2019. For the past two fiscal years, there was a mixed performance experience in these taxes, with an aggregate minor under-collection from this revenue group for FY 2018. Based on these recent occurrences, BPOL revenues are forecasted to equal the estimate of \$17.1 million for this fiscal year. This is cautious optimism that the slight prior year shortfall is recovered in the stronger economy of the present day.

In all the other revenue categories there are some moderate fluctuations that are mostly seasonal in nature, with some minor deficient projected. When taken as a whole, the variances at this point do not suggest any cause for concern.

### ***Expenditures***

The projected expenditure savings at the end of the first quarter is slightly more than \$1.7 million.

The combined employee compensation categories of Personnel Services (salaries) and Fringe Benefits are projected at this time to be spent as budgeted at by \$224 million. This projection takes into consideration the unbudgeted but critical special pay adjustment for Public Safety and Corrections (Police, Fire, and Sheriff Departments) provided on October 1, 2018 to address the needs of this element of the City's workforce. While overtime costs project to be higher than budgeted in a few departments, several steps have been taken and are in the process of implementation to control this expense during the fiscal year.

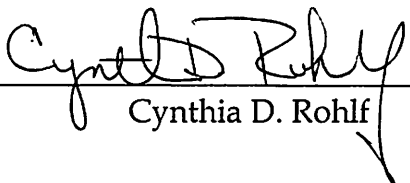
Of the remaining expenditure categories, there are projected savings in Contractual Services, Operating Materials, and equipment. These projected savings are offset by likely higher utility costs, primarily for streetlight operating costs and the anticipated trend for public buildings.

### **Combined Results**

When creating the final revenue projections for FY 2019, the FY 2017 revenue receipts and FY 2018 year-end projections to date were used and modified for potential economic changes. As a result, the FY 2018 revenue projections are equal to or slightly higher than where the City ended the prior fiscal year. At this point, revenue collections are expected to be on pace and to be close to the first quarter estimates.

It is hoped to see some growth in the consumer sensitive revenue receipts as the economy continues to advance. With the major revenue sources to be collected over the next month, and the potential of additional receipts from consumer generated taxes and fees, the second quarter projections will bring more clarity to a potential year-end result.

With the anticipation of generally meeting the revenue estimates and an early potential for not fully expending planned operating costs, we will continue to manage the General Fund budget to end the fiscal year with a the goal of achieving a surplus. We will continue to monitor our revenue activity closely.

  
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Cynthia D. Rohlf

CDR:LJC:wmp

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

**FY 2019 OPERATING BUDGET  
PROJECTED RESULTS OF OPERATIONS**

*First Quarter - July 2018 through September 2018*

**GENERAL FUND**

**REVENUES**

	Revised Budget	YTD Receipts	Projected Total Receipts	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Real Estate Taxes <sup>1</sup>	\$193,022,205	\$1,443,656	\$193,022,205	\$0	0.0%
Personal Property Taxes <sup>2</sup>	54,845,000	2,494,584	55,245,000	400,000	0.7%
Machinery & Tools Taxes <sup>3</sup>	23,075,001	0	23,610,001	535,000	2.3%
Other General Property Taxes	2,717,000	385,207	2,607,000	(110,000)	(4.0%)
Other Local Taxes	105,421,385	13,514,795	105,321,385	(100,000)	(0.1%)
Permits and Fees	3,808,637	1,098,912	3,873,637	65,000	1.7%
Fines and Forfeitures	1,765,500	402,771	1,750,500	(15,000)	(0.8%)
Revenue from Use-Money & Prop	2,975,966	444,676	2,989,966	14,000	0.5%
Charges for Services	6,431,774	1,644,711	6,367,774	(64,000)	(1.0%)
Miscellaneous Revenue	23,582,567	2,417,337	23,530,567	(52,000)	(0.2%)
Recovered Costs	13,958,920	3,530,319	13,731,920	(227,000)	(1.6%)
Non-Categorical Aid	1,062,000	319,293	1,062,000	0	0.0%
Shared Expenses	9,710,034	1,467,829	9,455,034	(255,000)	(2.6%)
Categorical Aid	33,964,709	7,502,839	35,064,709	1,100,000	3.2%
Non-Revenue Receipts	10,533,740	1,716,768	10,533,740	0	0.0%
Payments from Other Funds	40,562	0	40,562	0	0.0%
<b>TOTAL REVENUES</b>	<b>\$486,915,000</b>	<b>\$38,383,697</b>	<b>\$488,206,000</b>	<b>\$1,291,000</b>	<b>0.3%</b>

**EXPENDITURES**

	Revised Budget	YTD Exp/Enc	Projected Total Expense	<u>Projected Difference from Revised Budget</u>	
				Surplus/ (Deficit) Amount	Percent
Personnel Services	\$146,764,306	\$33,391,980	\$147,838,506	(\$1,074,200)	(0.7%)
Taxes, Benefits, Insurance	77,241,314	16,854,860	76,142,982	1,098,332	1.4%
Contractual Services	20,208,863	15,792,609	19,295,374	913,489	4.5%
Vehicle Costs	6,456,928	1,614,232	6,456,928	0	0.0%
Fuel	1,653,966	435,479	1,653,966	0	0.0%
Utilities	6,472,821	1,378,383	6,974,195	(501,374)	(7.7%)
Operating Materials, Supplies, Ins	21,970,608	8,019,486	21,139,348	831,260	3.8%
Equipment (Except Vehicles)	1,568,848	185,154	1,374,761	194,087	12.4%
Leases, Rentals	6,601,846	2,508,575	6,601,846	0	0.0%
Community Support	11,358,356	4,528,247	11,358,356	0	0.0%
Transfers to Schools	110,889,307	18,481,551	110,889,307	0	0.0%
Debt Service/Cash Capital	50,941,749	27,394,253	50,941,749	0	0.0%
All Other Payments	15,862,536	2,912,985	15,772,536	90,000	0.6%
Direct Program Costs - DHS	8,923,552	2,618,850	8,767,902	155,650	1.7%
<b>TOTAL EXPENDITURES</b>	<b>\$486,915,000</b>	<b>\$136,116,644</b>	<b>\$485,207,756</b>	<b>\$1,707,244</b>	<b>0.4%</b>

**TOTAL PROJECTED DIFFERENCE**

**\$2,998,244**

<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