

# CITY OF NEWPORT NEWS

## OFFICE OF THE CITY MANAGER

February 25, 2019

**TO:** The Honorable City Council  
**FROM:** City Manager  
**SUBJECT:** Second Quarter FY 2019 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 six months of the current fiscal year (July through December) and a projection of financial activities over the remaining six months.

By the end of the second quarter, there is a strong financial activity base to report both the revenue collections and expenses trends projected for the remaining six months of the fiscal year. However, due to the unprecedented length of the federal government shutdown, and the large federal employee population in the City and Hampton Roads area, a conservative revenue projection for the remainder of this fiscal year has been developed. Through the end of the third quarter of FY 2019, the full effect that the 35-day federal shutdown has had on the more consumer sensitive revenues sources of the General Fund will become more evident. For this reason, the revenue trends projections of the first half of the fiscal year are modified to reflect lower collections in the short term.

In the second quarter, there is a projected revenue shortfall of \$3.6 million, due to refined projections to address the federal shutdown. In addition, there is an expenditure surplus of \$2.3 million. When taken together, this results in an adjusted forecasted fiscal year-end net deficit of \$1,334,291.

### *Revenues*

Revenue collections are expected to be less than budgeted by \$3.6 million, or (0.8%). This is driven predominantly by adjusting the consumer sensitive taxes of personal property, sales, meals, amusement, and lodging, and others that may be directly related to the federal shutdown.

Other revenue streams are showing performances as expected, with collection patterns generally as initially budgeted for the fiscal year.

With the first half of the current real estate and personal property taxes now mostly collected, there is better activity on which to project. Current Real Estate Tax collections are just slightly below the 50% mark, which could result in being slightly under the fiscal year revenue estimate of approximately \$184 million. This projected shortfall is approximately \$1.6 million for the fiscal year, 0.8% off the estimate. A portion of this shortfall is driven by increased participation in the Disabled Veteran Tax Exemption program. For FY 2019, there are again an increasing number of participants, generating exemptions higher than estimated. This is a recurring trend since the inception of the state program. In FY 2012, there were 168 participants and for the current fiscal year, there are 570.

Personal Property Tax receipts continue to do well, and were on course to exceed this year's revenue estimate of \$50.5 million. Being conservative for the short term, this estimate has been lowered by \$500,000 until the results of the third quarter are available. Machinery and Tools Taxes are another category showing good year-to-date collections, and is projected to be over the \$23 million estimate by \$1.1 million.

One of the more sensitive local economy indicators, Sales Tax revenue, continues to perform well on a monthly basis as compared to the prior fiscal year. Through the end of December 2018, to include the holiday sales period, the average monthly collection is approximately \$2.2 million per month; this is approximately \$100,000 more per month than the same time period of FY 2018. It is anticipated the Sales Tax estimate of \$24.8 million will be met. Meals taxes continue to be a steady revenue stream, but once temporarily adjusted until the end of the third quarter, projecting at this time to be slightly under the \$25.9 million estimate by \$500,000. Lodging taxes are within the same ranges as the previous fiscal year, and have been temporarily adjusted to \$200,000 less than the estimate for this fiscal year of \$3.9 million.

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. By the end of the second quarter, collections were only 3.9% of the \$17 million estimate. This forecast predicts 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 at the \$985,000 estimate. As a reminder, the second quarter receipts tend to fall in the low construction season. While this is a normal construction lag, it is anticipated that the early spring building season could generate \$37,000 more projected in this revenue group. One lagging economic indicator is that existing housing market sales might be impacted by higher interest rates on home mortgages. The Grantees Tax on Deeds Collections are \$50,000 less than this point last fiscal year and are projecting slightly under the \$1.7 million revenue estimate by approximately \$200,000. Any continued stabilization in sales in the housing market could negate the projected shortfall for this revenue source.

All other revenue projections in the other categories reflect a mixture of some increases or decreases, but the fluctuations are within normal ranges, and generally not a reason for concern.

### ***Expenditures***

Overall, Departmental operating expenses are expected to be \$2.3 million or 0.5% under budget.

The combined employee compensation categories of Salaries and Fringe Benefits are projected to be underspent at this time by \$2.3 million. There continues to be vacancies throughout the organization, primarily in the public safety sector, which in turn is offset by higher than budgeted overtime costs. In a highly competitive job market, recruitment continues to be a challenge.

The projected savings from Vehicle Fuel at the end of December 2018 was \$116,571 for the General Fund. This savings projection will vary to year-end, assuming future price changes continue to be at the same level as the past six months. For utilities costs, this projected shortfall is primarily due to fluctuations in City Jail usage, as well as some other city facilities.

***Combined Results***

While there is a projected revenue shortfall for the current fiscal year, it is both primarily and temporarily driven by conservative projections until the full effect of the federal shutdown is realized by the end of the third quarter. With six months remaining in the fiscal year, it is possible that the second half Real Estate Tax revenue collections will be stronger and will help close any potential gap. It is anticipated that consumer taxes will remain consistent through the second half of the fiscal year. March will also be an important month, as BPOL tax revenue begins to be collected. This is another important gauge on which to measure local business performance.

Any overall revenue shortfall is not taken lightly and revenue collections are reviewed on a daily basis. While at the same time anticipating that revenues will improve over the remaining months of this fiscal year, expenses continue to be diligently monitored. With the current projected expenditure surplus, combined with careful practices for the remaining six months, this year's budget should be structurally sound without any other extraordinary expenditure restraint measures.

  
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Cynthia D. Rohlf

CDR: LJC

Attachment

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

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

*Second Quarter - July 2018 through December 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	\$94,132,376	\$191,022,205	(\$2,000,000)	(1.0%)
Personal Property Taxes <sup>2</sup>	54,845,000	27,879,567	54,345,000	(500,000)	(0.9%)
Machinery & Tools Taxes <sup>3</sup>	23,075,001	12,425,884	24,175,001	1,100,000	4.8%
Other General Property Taxes	2,717,000	1,316,144	2,649,000	(68,000)	(2.5%)
Other Local Taxes	105,421,385	35,597,281	103,621,385	(1,800,000)	(1.7%)
Permits and Fees	3,808,637	2,066,561	3,836,637	28,000	0.7%
Fines and Forfeitures	1,765,500	790,153	1,765,500	0	0.0%
Revenue from Use-Money & Prop	2,975,966	1,697,957	3,106,966	131,000	4.4%
Charges for Services	6,431,774	3,170,528	6,311,774	(120,000)	(1.9%)
Miscellaneous Revenue	24,102,736	8,036,684	23,877,736	(225,000)	(0.9%)
Recovered Costs	13,958,920	7,417,036	13,727,920	(231,000)	(1.7%)
Non-Categorical Aid	1,062,000	568,946	1,039,000	(23,000)	(2.2%)
Shared Expenses	9,710,034	3,860,044	8,860,034	(850,000)	(8.8%)
Categorical Aid	33,964,709	17,365,774	34,833,709	869,000	2.6%
Non-Revenue Receipts	10,533,740	5,016,870	10,533,740	0	0.0%
Payments from Other Funds	40,562	0	40,562	0	0.0%
<b>TOTAL REVENUES</b>	<b>\$487,435,169</b>	<b>\$221,341,805</b>	<b>\$483,746,169</b>	<b>(\$3,689,000)</b>	<b>(0.8%)</b>
<b>TOTAL REVENUES</b>	<b>\$487,435,169</b>	<b>\$221,341,805</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	\$66,604,234	\$146,764,306	\$0	0.0%
Taxes, Benefits, Insurance	77,241,314	35,421,670	74,923,943	2,317,371	3.0%
Contractual Services	20,735,217	17,932,913	20,735,217	0	0.0%
Vehicle Costs	6,456,928	3,228,464	6,456,928	0	0.0%
Fuel	1,653,966	810,443	1,537,395	116,571	7.0%
Utilities	6,472,821	3,247,035	7,411,238	(938,417)	(14.5%)
Operating Materials, Supplies, Ins	22,064,087	13,123,752	21,804,682	259,405	1.2%
Equipment (Except Vehicles)	1,569,184	222,140	1,239,606	329,578	21.0%
Leases, Rentals	6,601,846	4,028,997	6,493,439	108,407	1.6%
Community Support	11,358,356	5,546,895	11,358,356	0	0.0%
Transfers to Schools	110,889,307	55,444,653	110,889,307	0	0.0%
Debt Service/Cash Capital	50,941,749	30,228,742	50,941,749	0	0.0%
All Other Payments	15,762,536	8,459,573	15,727,536	35,000	0.2%
Direct Program Costs - DHS	8,923,552	4,868,456	8,796,758	126,794	1.4%
<b>TOTAL EXPENDITURES</b>	<b>\$487,435,169</b>	<b>\$249,167,967</b>	<b>\$485,080,460</b>	<b>\$2,354,709</b>	<b>0.5%</b>
<b>TOTAL EXPENDITURES</b>	<b>\$487,435,169</b>	<b>249,167,967</b>			

**TOTAL PROJECTED DIFFERENCE**

**(\$1,334,291)**

<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	\$1,341,000	\$1,240,249	\$1,460,407	(\$220,158)	(17.8%)
General Liability Fund	1,550,000	1,587,855	1,563,233	24,622	1.6%
Worker's Compensation Fund	3,128,000	2,917,059	3,107,434	(190,375)	(6.5%)
Recreation Revolving Fund	4,996,000	4,890,887	4,845,158	45,729	0.9%
Historical Services Fund	1,124,000	1,023,860	1,244,116	(220,256)	(21.5%)
Golf Course Fund	1,728,000	1,112,968	1,909,519	(796,551)	(71.6%)
Leeward Marina Fund	265,000	266,215	249,545	16,670	6.3%
Tourism Fund	1,452,000	1,452,000	1,481,454	(29,454)	(2.0%)
<b>TOTAL</b>	<b>\$15,584,000</b>	<b>\$14,491,093</b>	<b>\$15,860,866</b>	<b>(\$1,369,773)</b>	<b>(9.5%)</b>

PROJECTED DIFFERENCE (OTHER FUNDS)

(\$1,369,773) (9.5%)

TOTAL PROJECTED DIFFERENCE - Combined General Fund and Other Funds

(\$2,704,064)

USER FEE SUPPORTED FUNDS

	Budget	Projected Revenues	Projected Expenditures	Projected Surplus/ (Deficit)	
				Amount	Percent
Stormwater Management Fund	\$22,088,000	\$21,444,843	\$21,158,982	\$285,861	1.3%
Solid Waste Fund	\$14,686,000	\$14,852,055	\$14,208,605	\$643,450	4.3%
Wastewater Fund	\$21,778,000	\$21,373,959	\$19,914,290	\$1,459,669	6.8%
Waterworks Fund	\$91,790,000	\$95,312,333	\$92,675,182	\$2,637,151	2.8%