

## GENERAL FUND REVENUE

### *Revenue Projections*

General Fund revenue projections for FY2016 are formulated using a combination of forecasting techniques, regional economic data and local government operational experience. In early December, six months prior to the new fiscal year, the City's annual financial audit is usually complete. The success of the previous year's revenue forecasts are compared and cross checked against the actual audited financial statements to determine if any refinement needs to be made to the model. Should any changes be required, they are made and refined forecasts are run for the upcoming fiscal year. These revised estimates are cross checked a second time against a variety of forecasted economic data with special emphasis on: consumer and wholesale prices, local population, retail sales, building and construction activity data, employment, wages, interest rates and federal/state funding to ensure the forecast is still consistent with future economic expectations. Continuing refinements are made as required, up until March, or about four months prior to the beginning of the new fiscal year.

### *Economy*

Portsmouth's economic base, consistent with the State and National trends, continues to be impacted by the severe recession. Recovery is evolving slowly. The local economy has been heavily impacted by federal spending levels as several of the major employers, such as the Norfolk Naval Shipyard, the Naval Medical Center, and other naval repair facilities (public or private) receive significant federal dollars. As a result of the economic downturn and federal sequestration, some local businesses have closed or are closing, including the former Pet Dairy facility and Gwaltney of Smithfield's meat processing facility. The City's population declined during the recession, further dampening local business revenue. There are positive signs, however, that the City's economy may be turning around. Housing appears to have bottomed and is showing signs of growth. Values have stabilized, numbers of days on market have decreased, and new construction his showing signs of life. In October, 2014, the first phase of Midtown Marketplace, a 21-acre development, opened with its anchor tenant, Kroger Marketplace, on the site of the former I.C. Norcom High School. Kroger invested over \$21.5 million in the 124,000 square foot store and hired over 350 people. In May 2015 the second phase of the center is expected to open when CRES-EG Development LLC, one of the region's premier development groups, completes its \$10 million construction of in-line shops and outparcels for T.J.Maxx, CATO Fashions, Hibbett Sports, Dunkin Donuts, and Wendy's. The City is hopeful that continued economic development will grow the City's revenue base. Several other commercial and mixed-use projects are currently in the "Due Diligence" phase and should be revenue producing within one to two years.

## *Revenue Assumptions*

Total estimated General Fund revenue for FY2016, including transfer from other funds, is \$235,770,132 a decrease of \$3.5 million, or 1.47% less than the FY2015 adopted budget including the use of \$4.6 million of prior year Fund Balance for one-time non-recurring items. For analytical reasons, General Fund Total Revenues are categorized into four broad categories: Local Tax Revenue, Other Local Revenue, State Revenue and Non-Revenue/Transfers. The table below summarizes General Fund revenue by category. Following is a brief discussion of the revenue components in each of the categories, including graphs depicting the historical trends of these revenue sources as compared with future projections.

### **LOCAL TAX REVENUE**

#### **General Property Taxes**

The majority, 70.3%, of the \$163.7 million in Local Tax revenues is derived from General Property Tax revenues (including public service corporations).

The City levies real estate taxes on all real estate within its boundaries, except that exempted by statute, each year as of July 1, based on the estimated market value of the property, with quarterly payments due September 30, December 31, March 31 and June 30. All real estate is assessed annually. Real Property Taxes are estimated to generate \$90.6 million or 38.45% of the City's total General Fund revenue in FY2016. Included within this total is revenue derived from delinquent real estate taxes and real estate taxes paid by public service corporations. The FY2016 revenue is calculated with a tax rate of \$1.30 per \$100 of assessed value reflecting a 3 cent per \$100 proposed increase in the tax rate from FY2015.

The City levies personal property taxes on motor vehicles and tangible personal business property. These levies are made each year as of June 30, with annual payments due June 5. Personal Property Taxes are levied on the tangible property of individuals and businesses. For individuals, this tax is primarily on automobiles and recreational vehicles. Business personal property includes motor vehicles, machines, furniture, computers, fixtures and tools. The projection maintains the following Personal Property Tax rates: \$5.00 per \$100 of assessed value for tangible personal property; \$3.00 per \$100 of assessed value for machinery and tools; \$0.50 per \$100 of assessed value on boats.

The Personal Property Tax Relief Act (PPTRA) was initially enacted by the General Assembly in 1998, and actual reimbursements to localities were capped by the State in the 2004 legislative session.

Although the City now receives the same fixed dollar amount of relief each year, due to the State's payment cap the amount of tax relief will vary by year as a percentage of the total tax. Portsmouth's payment from the State will remain constant, so as personal property values increase over time, the actual percentage of State reimbursement will continue to decrease. Personal Property Tax revenue is estimated at \$24.3 million for FY2016 and is expected to increase slightly from the FY2015 levels. This revenue source represents 10.04% of total General Fund revenue. This revenue includes taxes from current and delinquent personal property and taxes on personal property owned by public service corporations.

**General Property Taxes**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Real property tax	\$ 88,270,194	\$ 90,664,882	\$ 2,394,688	3%
Personal property tax	24,221,203	24,342,977	121,774	1%
Other general property taxes	<u>3,100,000</u>	<u>2,680,151</u>	<u>(419,849)</u>	-14%
Total	<u>\$ 115,591,397</u>	<u>\$ 117,688,010</u>	<u>\$ 2,096,613</u>	2%

**FY2016 Budget Comments**

This category of revenues includes an adopted 3 cent increase on the real estate tax rate, in order to balance ongoing expenditures with an ongoing revenue source. This increase of 3 cents is to offset the consequences of the recent "Great Recession" and restore tax revenues loss lost due the recession, to continue investments in critical infrastructure and capital projects, and to offset "flat" revenue projections.

**Other Local Taxes**

Other Local Taxes includes funds received for local sales tax, admission and amusement tax, bank franchise tax, business and professional licenses, licensing fees tax, lodging tax, cigarette tax, recordation taxes, restaurant food tax, short term rental tax, franchise tax.

Local Sales Tax revenue is considered an elastic revenue source because it is responsive to changes in the economy. Virginia's Sales Tax rate was increased to 5.0 % during FY2005. The Virginia General Assembly approved the increase in May 2004 and dedicated the proceeds to local education. With the increase the State retains 4.0 % and returns 1.0 % as unrestricted revenue to the locality where the funds were collected.

Business & Professional License (BPOL) Taxes are levied on businesses operating in the City.

Lodging Taxes under the Code of Virginia are defined as “transient occupancy taxes.” These taxes are similar to the Sales Tax in that they are based on the value of a purchase, which in this case is a motel or hotel room. The Lodging Tax rate in Portsmouth is 8.0 %.

Restaurant Food Tax is assessed on the sale of prepared food and beverages sold at food establishments in the City. The tax rate is 6.5% plus the 5 % sales tax for a total of rate of 11.5%

**Other Local Taxes**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Admission and amusement taxes	\$ 170,000	\$ 298,296	\$ 128,296	75%
Bank franchise taxes	370,000	375,000	5,000	1%
Business and occupational license taxes	6,260,386	6,260,386	-	0%
Cigarette tax	3,912,350	3,617,166	(295,184)	-8%
Licensing fees - current	2,150,000	2,300,000	150,000	7%
Licensing fees - delinquent	435,000	350,158	(84,842)	-20%
Lodging taxes	750,000	765,000	15,000	2%
Recordation taxes	850,000	850,000	-	0%
Restaurant food taxes	7,500,000	7,604,513	104,513	1%
Sales and use taxes - local	7,309,079	7,500,000	190,921	3%
Miscellaneous	-	18,255	18,255	N/A
Short term rental taxes	35,464	38,884	3,420	10%
<b>Total</b>	<b><u>\$ 29,742,279</u></b>	<b><u>\$ 29,977,658</u></b>	<b><u>\$ 235,379</u></b>	

**FY2016 Budget Comments**

Revenues from Other Local Taxes are expected to remain level with the FY2015 adopted budget.

**Utility Taxes**

Utility taxes are applied to water, gas and electric service recipients residing within the City. In addition the City collects a Telecommunications tax on cellular telephones within the City.

**Utility Taxes**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Electricity taxes	\$ 4,039,193	\$ 4,000,000	\$ (39,193)	-1%
E-911 Tax	442,742	442,742	-	0%
Telecommunications tax	7,976,378	8,000,000	23,622	0%
Gas taxes	1,400,000	1,400,000	-	0%
Water taxes	2,154,502	2,154,502	-	0%
<b>Total local tax revenue</b>	<b><u>\$ 16,012,815</u></b>	<b><u>\$ 15,997,244</u></b>	<b><u>(15,571)</u></b>	<b>0%</b>

## FY2016 Budget Comments

Revenues from Utility Taxes are expected to remain level with the FY2015 adopted budget.

### OTHER LOCAL REVENUE

This category includes all other local revenue not included above; specifically, Charges for Services, Other Financing Sources, Licenses and Permits, Use of Property and Miscellaneous. This category represents 6.4% of total local General Fund revenue or \$14.9 million. This is a decrease of 2.1% from FY2015. Listed below are descriptions of the large revenues in this category.

#### Charges for Services

Charges for Services are revenues paid by users of various City services including participation fees for Recreation Activity, Ambulance fees, Museum admission.

#### Charges for Services

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Ambulance fees	\$ 2,300,000	\$ 2,300,000	\$ -	0%
Excess Clerk of Court Fees	9,729	10,000	271	3%
City Sheriff Fees	17,697	17,697	-	0%
Concession fees	13,363	14,754	1,391	10%
Courthouse maintenance fees	60,285	45,118	(15,167)	-25%
Museum admission fees	865,000	800,000	(65,000)	-8%
Recreation activity fees	160,000	175,000	15,000	9%
Registration - Before & After	640,437	580,000	(60,437)	-9%
Erosion and sediment control fees	130,000	18,000	(112,000)	-86%
Other miscellaneous fees	<u>434,318</u>	<u>853,122</u>	<u>418,804</u>	96%
Total	<u>\$ 4,630,829</u>	<u>\$ 4,813,691</u>	<u>\$ 182,862</u>	

## FY2016 Budget Comments

Revenues from Charges for Services are expected to remain level with the FY2015 adopted budget.

#### Recovered Costs

Recovered Costs include costs recovered by the General Fund from the Utility Fund, Risk Management Fund, Social Services Fund, Stormwater Management Fund and Waste Management and various other smaller items and includes \$3.1 million estimated revenue in FY2016.

**Recovered Costs**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Recovered Costs	<u>\$ 3,636,554</u>	<u>\$ 3,126,942</u>	<u>\$ (509,612)</u>	-14%

**FY2016 Budget Comments**

This category of revenue primarily reflects other funds' reimbursement for General Fund support services, as calculated in the annual Cost Allocation Plan.

**Fines and Forfeitures**

The City imposes fines on individuals charged with violations of City ordinances. These include court and parking fines and court assessments.

**Fines and Forfeitures**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Fines and forfeitures	<u>\$ 618,327</u>	<u>\$ 951,500</u>	<u>\$ 333,173</u>	54%

**FY2016 Budget Comments**

This category of revenue reflects additional fines expected from "failure to pay tunnel tolls" cases that will be heard by the Portsmouth General District Court beginning in May 2015.

**Licenses, Permits and Inspection Fees**

Licenses and Permits category includes Dog licenses, Plan review, Re-inspection fees, Right Away permits, all building, electrical, plumbing and heating permit fee revenue. Building Inspection Fees are based on the determined or calculated "value" of construction.

**Licenses, Permits and Inspection Fees**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Licenses, Permits & Inspection fees	<u>\$ 843,179</u>	<u>\$ 780,300</u>	<u>(62,879)</u>	-7%

**FY2016 Budget Comments**

This category of revenue is expected to decrease slightly, based on expected revenue receipts.

### **Use of Money and Property**

Use of Money (Investment income) is the interest earned on the investment of temporarily idle funds in repurchase agreements and other instruments secured or collateralized by government securities.

Use of Property includes rental of City property and rental of Antenna Sites and Recreational Facilities.

#### **Use of Money and Property**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Investment income	\$ 30,714	\$ 75,000	\$ 44,286	144%
Use of property	<u>1,960,000</u>	<u>1,641,317</u>	<u>(318,683)</u>	-16%
Total	<u>\$ 1,990,714</u>	<u>\$ 1,716,317</u>	<u>\$ (274,397)</u>	

#### **FY2016 Budget Comments**

The FY 2015-16 revenue projections reflect existing leases and projected use fees, as well as expected investment income.

#### **Miscellaneous Revenue**

Miscellaneous Revenue includes donations and contributions made to the City along with other non-recurring revenue. In addition Payments in Lieu of Taxes (PILOTs) are budgeted in the Miscellaneous Category. PILOTs are revenue received in lieu of taxes, often from another government entity under a contractual agreement. The City receives PILOT revenue from the Portsmouth Redevelopment Authority, Public Utilities, Regional Jail, and the Virginia Ports Authority.

#### **Miscellaneous Revenue**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Miscellaneous revenue	\$ 1,512,437	\$ 1,509,913	\$ (2,524)	0%
PILOT revenue	<u>1,994,836</u>	<u>2,006,492</u>	<u>11,656</u>	1%
Total	<u>\$ 3,507,273</u>	<u>\$ 3,516,405</u>	<u>\$ 9,132</u>	

#### **FY2016 Budget Comments**

Miscellaneous revenue is projected to remain relatively flat for FY 2015-16.

## STATE/FEDERAL REVENUE

Payments from the Commonwealth of Virginia are divided into three functional categories: (1) State Non-Categorical Aid. (2) State Shared Expenses and (3) State Categorical Aid. State Revenue is estimated at \$38.7 million in FY2016 and the City is budgeting approximately \$500,329 from the Federal government. Together this represents 16.2% of General Fund revenue. These types of revenue are described below.

### FY2016 Budget Comments

#### State Non-Categorical Aid

The State provides general support to municipalities through a variety of revenue generating mechanisms. The City receives a 3% tax on mobile home title filing and 50% of the revenue collected by the Clerk of the Circuit Court for the filing of deeds on property. In lieu of personal property tax revenue, the City receives a 4% daily rental tax on vehicles rented within the City.

This category also includes reimbursements from the State for implementation of the personal property tax reduction on private vehicles. The 2004 General Assembly changed this program, by adopting a \$950 million statewide cap on reimbursements starting in 2006. FY07 is the first full fiscal year with this cap in place. The amount of revenue disbursed to Portsmouth is the same each year: \$9.9 million (PPTRA).

#### State Non-Categorical Aid

	FY2015 Adopted	FY2016 Adopted	Change	Change
Mobile Home Sales Tax	-	2,000	2,000	N/A
Recordation tax	256,877	259,936	3,059	1%
Rolling stock tax	45,813	45,000	(813)	-2%
Vehicle rental tax	260,527	240,000	(20,527)	-8%
PPTRA	<u>9,862,962</u>	<u>9,862,962</u>	<u>-</u>	0%
Total State Non-Categorical Aid	<u>\$ 10,426,179</u>	<u>\$ 10,409,898</u>	<u>\$ (16,281)</u>	0%

#### State Shared Expenses

The Commonwealth provides partial operating support through the State Compensation Board for offices established in the State Constitution. This category includes anticipated receipts from the State to assist in defraying costs associated with the operation of these agencies, these revenues sources are frequently affected by the State Compensation Board and Virginia General Assembly decisions

regarding appropriate levels of aid to localities. The Compensation Board adopts its official allocation budget following the adoption of the City budget.

**State Shared Expenses**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
Circuit Court Clerk	\$ 867,062	\$ 881,846	\$ 14,784	2%
City Registrar	45,000	45,000	-	0%
City Sheriff	6,022,160	5,924,678	(97,482)	-2%
City Treasurer	291,534	284,581	(6,953)	-2%
Commissioner of Revenue	244,474	252,766	8,292	3%
Commonwealth's Attorney	1,741,016	1,602,883	(138,133)	-8%
DMV Select	69,124	70,000	876	1%
<b>Total State Shared Expenses</b>	<b>\$ 9,280,370</b>	<b>\$ 9,061,754</b>	<b>\$ (218,616)</b>	<b>-2%</b>

**State Categorical Aid**

The City receives a variety of other revenues that have been designated for a specific purpose.

**State Categorical Aid**

<b>Funding Source</b>	<b>FY2015 Adopted</b>	<b>FY2016 Adopted</b>	<b>Dollar Change</b>	<b>Percent Change</b>
VDOT	\$ 11,615,290	\$ 11,931,762	\$ 316,472	3%
Library Funds - Books	156,492	154,935	(1,557)	-1%
Virginia Sports Hall of Fame	500,000	250,000	(250,000)	-50%
Correctional Facilities Block Grant	1,111,544	1,067,512	(44,032)	-4%
Law Enforcement	5,786,667	5,786,668	1	0%
<b>Total State Categorical Aid</b>	<b>\$ 19,169,993</b>	<b>\$ 19,190,877</b>	<b>\$ 20,884</b>	<b>0%</b>

**Federal Revenue**

The City expects to recognize \$550,329 in subsidy revenue from the Federal "Build America Bonds" program during FY2016.

**TRANSFERS FROM OTHER FUNDS**

Transfers to the General Fund include Economic Development Authority (EDA), School Operating, BHS, Law Library Fund, Donations Fund, Willet Hall Fund, Public Utility Operating Fund, Port Fund, Parking Authority Fund, Risk Management Fund and Waste Management Fund to cover the related administration and overhead cost of these functions.

**Transfers from Other Funds**

<b>Funding Source</b>	<b>Adopted</b>	<b>Adopted</b>	<b>Change</b>	<b>Change</b>
From EDA	\$ 125,000	\$ 125,000	\$ -	0%
From School Operating	-	-	-	N/A
From BHS	338,000	378,471	40,471	12%
From Public Utility Operations	8,875,000	8,875,000	-	0%
From CIP	560,000	560,000	-	0%
From Waste Management	-	1,000,000	1,000,000	N/A
From Risk Management	-	2,000,000	2,000,000	N/A
From Stormwater Management	<u>410,689</u>	<u>410,689</u>	<u>-</u>	0%
Total transfers into General Fund	<u>10,308,689</u>	<u>13,349,160</u>	<u>\$ 3,040,471</u>	29%

**FY2016 Budget Comments**

Transfers from other funds are projected to remain relatively flat. The increase in the BHS transfer reflects their lease costs for the new BHS building. The transfers from the Waste Management and Risk Management funds were necessary in reducing the revenue shortfall in the General Fund.