

# HAMPTON VA

## MEMORANDUM

TO: The Mayor, Members of City Council and City Manager  
FROM: Karl Daughtrey, Director of Finance  
RE: Financial Results, FYE June 30, 2023  
Date: December 13, 2023

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It is my pleasure, on the behalf of the City's Finance Department staff, to present the Annual Comprehensive Financial Report (ACFR) for the City of Hampton for the fiscal year ended June 30, 2023.

The ACFR is organized in six (6) major sections: 1) Introduction (pages 1 to 12); 2) Financial section including the Independent Auditor's Report (pages 16 to 128); 3) Required Supplemental Information (pages 130 to 149); 4) Combining and Individual Financial Statements (pages 150 to 177); 4) Supporting Schedules Supplementary Information (pages 178 to 197); 5) Statistical Tables with historical financial data and demographic information about the City (pages 200 to 219); and 6) Independent Auditor's Compliance and Internal Control Reports and Schedule of Findings and Questioned Costs (pages 222 to 227).

### **Key Sections to Review:**

Pages 8 to 9 contain the actual results for compliance with the City's five (5) financial policies. **We are in compliance with all financial policies.**

The Independent Auditors' Opinion is on pages 16 to 18 of the report. The Auditors have issued an unmodified opinion, or "clean" opinion on the City's ACFR.

Pages 19 to 28 contain the **Management's Discussion and Analysis (MD&A)**, a narrative introduction and analytical overview of the City's financial activities, similar to the analysis provided by publicly traded companies in their annual reports.

Component units are entities that are legally separate from the City, but for which the City is financially accountable, and whose relationship with the City is such that exclusion would cause the City's financial statements to be misleading or incomplete. We reported the following component units in the ACFR: Hampton School Board, Coliseum Central Business Improvement District, Inc., the Downtown Hampton Development Partnership, Inc. and the Economic Development Authority. Their financial statements are on pages 44 to 45.

### Finance Department

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Pages 150 to 159 contain the Balance Sheet, Statement of Revenues, Expenditures and Changes in Fund Balance-Budget and Actual, Schedule of Revenues and Other Credits-Budget and Actual, and Schedule of Appropriations and Expenditures for the General Fund.

The School Board financial statements are on pages 172 to 177.

The Schedule of Treasurer's Accountability, Schedule 1, on page 178, **reflects that cash and investments are in balance with the Treasurer's Office as of June 30, 2023.**

Pages 226 to 227 contain the Schedule of Findings and Questioned Costs. **There are no findings or questioned costs.**

**Key Financial Results:**

**General Fund**

The City's General Fund finished the fiscal year with revenues exceeding expenditures (an increase in overall fund balance) by approximately \$7.5 million.

Actual revenues were over estimated revenues (excluding Appropriations from Fund Balance and Schools) by \$14.1 million or approximately 3.5%. When you exclude pass-through Special Assessment revenues for the Community Development Authorities (CDAs and other organizations), the City's actual revenues exceeded estimated revenues by \$17.7 million. Actual expenditures were under appropriations (including Transfers and excluding Budget Savings) by \$3.3 million, or 0.83%.

During fiscal year 2023, the City's unassigned fund balance increased by \$9.3 million to \$101 million. The unassigned fund balance represents 17.1% of actual revenues for the General and School Operating Funds which exceeds the 10% policy threshold by 7%.

Revenues (in millions):

	FY23 Budget	FY23 Actual	FY23 Actual As a % of Budget	FY22 Actual As a % of Budget
General Property Taxes	\$ 205.5	\$ 208.1	101.3%	102.5%
State/Federal Revenues	70.6	71.5	101.3%	98.8%
Other Revenues	43.9	50.2	114.4%	105.4%
Meal Taxes	25.6	29.4	114.8%	119.0%
Sales & Use Taxes	20.0	21.6	108.0%	113.6%
Business License Tax	14.7	15.9	108.2%	103.4%
Communication Sales Tax	6.4	6.4	100.0%	91.5%
Special Assessments	5.7	2.0	35.1%	33.9%
Lodging	4.8	6.2	129.2%	157.1%
Total:	<u>\$ 397.2</u>	<u>\$ 411.3</u>	103.5%	103.0%

(1) Excludes appropriations from fund balance

Some of the more significant favorable (actual exceeds budget) and unfavorable (actual is less than budget) variances in revenues for fiscal year 2023 are as follows:

	VARIANCE FAVORABLE (UNFAVORABLE)
<b>GENERAL PROPERTY TAXES: Increase is primarily in Personal Property Tax Collections.</b>	\$2.6M
<b>SALES &amp; USE TAX: Continued growth due to inflation and remote sales. As the costs of good and services rise, the tax associated with them rises accordingly.</b>	\$1.6M
<b>MEAL TAX: Consumers are now spending more on experiences than goods.</b>	\$3.8M
<b>REVENUE FROM USE OF MONEY AND PROPERTY: Driven by the Federal Reserve increasing the Federal Funds rate seven times in FY23.</b>	\$4.9M
<b>LODGING TAX: Continued recovery from the impact of the pandemic. Increase in hotel occupancy and average daily rate for hotel rooms.</b>	\$1.4

General Property Taxes, Meal Taxes, and Sales & Use Taxes, Business License Tax and Lodging Taxes tracked favorably, above budget. The unfavorable variances in revenues are primarily attributable to Special Assessments and Tobacco taxes.

Expenditures (in millions):

	FY23 <u>Appropriations</u>	FY23 <u>Actual Expenditures</u>	Favorable <u>Variance</u>
City Departments*	\$ 232.7	\$ 228.4	\$ (4.3)
Transfer to Schools	85.5	85.5	-
Transfer to Other Funds**	89.9	89.9	-
Total:	<u>\$ 408.1</u>	<u>\$ 403.8</u>	<u>\$ (4.3)</u>

\*\*Transfer to Other Funds includes the following transfers: transfer to the Debt Service Fund, transfer to fund Capital Projects, contributions to match City Grants, and the transfer of 2+2 lodging and meal taxes to pay Convention Center debt.

**Hampton Roads Coliseum/Hampton Arts Commission**

The Hampton Coliseum/Hampton Arts/Aquaplex Fund financial statements are presented on pages 163-165. The Hampton Coliseum/Hampton Arts/Aquaplex Fund is accounted for as an enterprise fund, which functions similar to private for-profit business. The Coliseum experienced a slight decrease in net position of \$551 thousand. The Funds biggest revenue stream, the Hampton Jazz Festival was back after three years of cancellations. The Jazz Festival coupled with four new larger admission events increased total operating expenses by 57.8%.

**Hampton Roads Convention Center (HRCC)**

The Convention Center's financial statements are presented on pages 36-41. The Convention Center Fund is accounted for as an enterprise fund. The Convention Center Fund generated a positive change in net position of \$3.6 million (previously referred to as "net income.") The General Fund transfer to the Convention for 2% of meal tax and 2% of lodging tax came in at \$1.4 million higher than expected due to increase in economic activity and inflation. HRCC continues to show positive gains and operations are almost back to normal prior to the pandemic. In April of 2023, SAVOR became HRCC's exclusive food and beverage partner, replacing Embassy Suites. Feedback on the food service has been positive regarding the improvement of food quality and taste. For Fiscal Year 2023, HRCC had 55% more gross tickets sales and 58% more event income over Fiscal Year 2022. Some of the events contributing to the increase include, Fall and Summer Bodacious Bazaar, 2022 NeKoCon, SGK Gun Shows, Tidewater Integrated Combat Symposium Conference, Alpha Phi Alpha Conference, Smithfield Holiday Festival and Master Shipbuilders Award celebration banquets. Sporting events included, Nike Girls Basketball, MADE Hoops and Presidents Day Volleyball Classic.

### **The Hamptons and Woodlands Golf Course**

The Woodlands and The Hamptons Golf Courses' financial statements are presented on pages 163-165. Both golf courses are accounted for as enterprise funds. The golf courses did not generate sufficient cash from operations to cover all of their operating expenses. The General Fund provided subsidies of \$181,121 to The Hamptons and \$356,429 to The Woodlands in fiscal year 2023.

### **Steam Plant**

The Steam Plant's financial statements are presented on pages 163-165. The Steam Plant is an enterprise fund with revenues that are derived from solid waste disposal fees (tipping fees); steam sales to the National Aeronautics and Space Administration (NASA); and user fees charged to other external customers. The Steam Plant's net position decreased \$605,892 in year 2023. Revenues declined from fiscal year 2022 to fiscal year 2023, due to the Fall and Spring shutdowns and lighter traffic for the commercial hauler trips.

### **Solid Waste**

The Solid Waste's financial statements are presented on pages 163-165. The Solid Waste Fund is accounted for as an enterprise fund. The Solid Waste Fund generated a net loss of \$72,383 for fiscal year 2023. While revenues remained flat for fiscal year 2023 as compared to fiscal year 2022, the expenses decreased by approximately \$805,000 as a result of actuarial valuation changes related to pension and other post-employment liabilities.

### **Closing Comments**

I would like to thank the Finance Department staff for their dedication and untiring efforts in maintaining accurate financial records, the long hours they worked to close the City's funds, assisting the external auditors, and preparing the ACFR. I feel honored to have each of them on my team.

If you have any questions concerning the report, please contact me.