



## MEMORANDUM

TO: The Mayor, Members of City Council and City Manager

FROM: Karl Daughtrey, Director of Finance

RE: Financial Results, FYE June 30, 2021

Date: December 8, 2021

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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, 2021.

The ACFR is organized in six (6) major sections: 1) Introduction (pages 1 to 14); 2) Financial section including the Independent Auditor's Report (pages 17 to 127); 3) Required Supplemental Information (pages 129 to 148); 4) Combining and Individual Financial Statements (pages 149 to 175); 5) Supplementary Information (pages 176 to 195); 6) Statistical Tables with historical financial data and demographic information about the City (pages 198 to 217); and 7) Independent Auditor's Compliance and Internal Control Reports and Schedule of Findings and Questioned Costs (pages 219 to 225).

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

Page 11 contains 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 17 to 19 of the report. The Auditors have issued an unmodified opinion, or "clean" opinion on the City's CAFR.

Pages 20 to 27 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 43 to 44.

### Finance Department

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Pages 149 to 158 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 170 to 175.

The Schedule of Treasurer's Accountability, Schedule 1, on page 176, **reflects that cash and investments are in balance with the Treasurer's Office as of June 30, 2021.**

Pages 223 to 225 contain the Schedule of Findings and Questioned Costs. **There is one non-material noncompliance finding for the City.**

**Finding 2021-001: The Code of Virginia requires that the City's Department of Human Services (DHS) Local Security Officer (LSO) immediately remove an employee's access from all systems when an employee leaves DHS. One employee's access was deactivated 17 days late. At the time of the incident, the primary LSO was on leave. The backup LSO inadvertently didn't deactivate the employee's access. The backup LSO has been trained. Therefore, we don't expect this issue to reoccur in the future.**

### **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 \$15.5 million.

Actual revenues were slightly under estimated revenues (excluding Appropriations from Fund Balance and Schools) by \$0.645 thousand or approximately (.20%). 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 \$2.3 million. Actual expenditures were under appropriations (including Transfers and excluding Budget Savings) by \$22 million, or 6.04%.

During fiscal year 2021, the City's unassigned fund balance (formerly referred to as undesignated fund balance) increased by \$0.400 thousand to \$80.8 million. The unassigned fund balance represents 15.9% of actual revenues for the General and School Operating Funds which exceeds the 10% policy threshold by 5.9%. For the committed fund balance – budget savings program, we added approximately \$2.1 million from net savings generated by departments during fiscal year 2021.

Revenues (in millions):

	FY21 Budget	FY21 Actual	FY21 Actual As a % of Budget	FY20 Actual As a % of Budget
General Property Taxes	\$ 175.1	\$ 179.1	102.3%	101.7%
State/Federal Revenues	68.2	67.1	98.4%	101.7%
Other Revenues	42.6	38.7	90.8%	98.3%
Meal Taxes	23.5	23.1	98.3%	99.5%
Sales & Use Taxes	17.1	19.6	114.6%	106.3%
Business License Tax	13.9	16.8	120.9%	111.6%
Communication Sales Tax	7.5	6.8	90.7%	96.2%
Special Assessments	5.8	2.8	48.3%	49.1%
Lodging	4.7	3.7	78.7%	87.2%
Total:	<u>\$ 358.4</u>	<u>\$ 357.7</u>	99.8%	100.5%

(1) Excludes appropriations from fund balance

General Property Taxes, Sales & Use Tax, and Business License Tax tracked favorably, above budget. The unfavorable variances in revenues are primarily attributable to Other Revenues, Special Assessments, State/Federal Revenues and Lodging Tax.

Some of the more significant favorable (actual exceeds budget) and unfavorable (actual is less than budget) variances in revenues for fiscal year 2021 are as follows:

	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>GENERAL PROPERTY TAXES: Actual exceeding the budget as a result of new real estate development and increases in values of existing properties.</b>	<b>\$4.0M</b>
<b>SALES &amp; USE TAX: Continued growth even with COVID due to online purchases, big box home improvement stores and grocery store sales steaming from the pandemic</b>	<b>\$2.5M</b>

<b>BUSINESS LICENSE TAX: Back taxes collected due to audits conducted in prior fiscal years along with new businesses associated with construction of the new Hampton Roads Bridge Tunnel.</b>	<b>\$2.9M</b>
<b>OTHER REVENUES: Decrease of \$1.9M in interest on investments due to Federal Reserve reduction in the interest rates to 0% to .25%, virtual learning and closure of School Age Program sites caused a decrease of \$1.5M and Amusement Taxes \$0.994M</b>	<b>(\$4.2M)</b>
<b>SPECIAL ASSESSMENTS: Collections were less than revenue estimates.</b>	<b>(\$3.0M)</b>
<b>LODGING AND TRANSIT: Decline due to COVID-19 causing business travel restrictions and decline in leisure travel.</b>	<b>(\$1.0M)</b>

Expenditures (in millions):

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	<u>FY21 Appropriations</u>	<u>FY21 Actual Expenditures</u>	<u>Favorable Variance</u>
City Departments*	\$ 211.2	\$ 194.7	\$ (16.5)
Transfer to Schools	77.0	77.0	-
Transfer to Other Funds**	<u>76.0</u>	<u>70.5</u>	<u>(5.5)</u>
Total:	<u>\$ 364.2</u>	<u>\$ 342.2</u>	<u>\$ (22.0)</u>

\*Excludes budget savings

\*\*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.

An analysis of the significant favorable variances in appropriations reveals the following:

	<b>VARIANCE FAVORABLE (UNFAVORABLE)</b>
<b>PUBLIC SAFETY SALARIES AND COVID LEAVE: Pandemic relief funds (CARES) used for staffing costs for city police and fire departments and COVID leave.</b>	<b>\$8.7M</b>
<b>CITY DEPARTMENT'S PERSONNEL, OPERATING AND CAPITAL OUTLAY: Savings facilitated by departmental spending freezes; suspension of certain special events, community center activities, after-school programs and other similar type offerings due to COVID restrictions. Vacancy savings.</b>	<b>\$4.8M</b>
<b>TRANSFERS TO OTHER FUNDS: Debt Service savings (\$5.1), Enterprise Fund (\$370K) and Special Revenue (\$115K)</b>	<b>\$5.5M</b>
<b>SPECIAL ASSESSMENTS: Collections were less than the revenue estimate</b>	<b>\$3.0M</b>

**Hampton Roads Coliseum/Hampton Arts Commission**

The Hampton Coliseum/Hampton Arts Commission's financial statements are presented on pages 161-163. The Hampton Coliseum/Hampton Arts Commission Fund is accounted for as an Enterprise Fund which functions similar to a private for-profit business. During much of FY21, the Hampton Coliseum/Hampton Arts Commission Fund was closed due to the impacts of the Coronavirus pandemic on live events. Resultantly, there was a drastic decrease in ticket sale revenues and related show expenses. Despite the closures, the Hampton Coliseum/Hampton Arts Commission Fund generated a net profit of \$1,049,230. The net profit can be attributed to the Shuttered Venue Operators Grant (SVOG), awarded by the U.S. Small Business Administration. The grant allowed for reimbursement of fiscal year 2020 and 2021 operating expenses incurred by live venue operators that were adversely affected by the pandemic. Of the total grant award, \$938 thousand were used to reimburse FY20 expenses and \$1.7 million was used to reimburse FY21 expenses.

### **Hampton Roads Convention Center (HRCC)**

The Convention Center's financial statements are presented on pages 36-40. The Convention Center Fund is accounted for as an Enterprise Fund which functions similar to private for-profit businesses. The Convention Center Fund generated a positive change in net position of \$1.1 million (previously referred to as "net income"). The HRCC operations came to a halt after March 14, 2020 due to the COVID 19 pandemic restrictions and remained closed with respect to revenue-generating events until January 2021. During the closure, HRCC remained diligent in optimizing savings while maintaining appropriate care of the facility. In January, HRCC became the City's site for coronavirus vaccinations and received reimbursement for many related expenses. Also, during the last quarter of FY21, HRCC was able to host sporting events which generated revenue. Due to steady performance from the meal tax, the 2+2 transfer came in at \$6.9 million or 95% of budget.

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

The Hamptons and Woodlands Golf Courses financial statements are presented on pages 161-163. Both golf courses are accounted for as an Enterprise Fund which functions similar to a for-profit business. The Hamptons did not generate sufficient cash from operations to cover all of their operating expenses and had to borrow cash from the General Fund. The Hamptons had an operating cash deficit of \$171,616 and the Woodlands had an operating gain of \$25,138. We transferred funds from the General Fund to cover the Hamptons' cash deficit. Total rounds of golf increased 33% for the Hamptons and 36% for the Woodlands during fiscal year 2021. During FY20 the courses were closed for three months due to the pandemic however, even with the increase in rounds in FY21 there has still been a decline in attendance over the past several years.

### **Steam Plant**

The Steam Plant's financial statements are presented on pages 162-164. 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 generated net income of \$142,000 in fiscal year 2021, which represents an 81% decrease from the prior year. The decrease can be attributed to the restructuring of Steam Plant's agreement with NASA. To make up for the revenue loss from NASA steam sales, City tipping fees, paid by the Solid Waste fund, were increased. However, that increase did not fully offset the loss of NASA steam sale revenues. NASA steam sales revenues decreased by \$2.2 million, from \$5.1 million in FY20 to \$2.9 million in FY21. Conversely, Solid Waste tipping fees, increased by \$1.7 million, from \$1.2 million in FY20 to \$2.9. The net effect resulted in a \$500,000 overall decrease in revenues.

### **Solid Waste**

The Solid Waste's financial statements are presented on pages 161-163. The Solid Waste Fund is accounted for as an Enterprise Fund which functions similar to a private for-profit business. The Solid Waste Fund generated a net loss of \$365,703 in fiscal year 2021. Operating revenues

decreased by \$510,847. Operating expenses increased by \$2,665,172 from fiscal year 2020. This increase is primarily attributed to \$513,000 increase in fringe benefits for VRS net pension liability adjustment, and \$1.7 million increase in tipping fees due to entering into new contract with NASA.

### **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.