



MEMORANDUM

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

FROM: Karl Daughtrey, Director of Finance

RE: Financial Results, FYE June 30, 2022

Date: December 14, 2022

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, 2022.

The ACFR is organized in six (6) major sections: 1) Introduction (pages 1 to 13); 2) Financial section including the Independent Auditor's Report (pages 16 to 125); 3) Required Supplemental Information (pages 127 to 146); 4) Combining and Individual Financial Statements (pages 147 to 174); 4) Supplementary Information (pages 175 to 195); 5) Statistical Tables with historical financial data and demographic information about the City (pages 198 to 219); and 6) Independent Auditor's Compliance and Internal Control Reports and Schedule of Findings and Questioned Costs (pages 221 to 227).

Key Sections to Review:

Page 9 contains the actual results for compliance with the City's five (5) financial policies. **We are in compliance with all financial policies except the General Obligation Debt Retirement Policy.** This policy states that we will pay at least sixty percent (60%) of general obligation debt within in ten years of the date the debt is issued. As of June 30, 2022, we will retire 58.7% of the general obligation debt. During fiscal year 2022 the City implemented a strategic plan of finance to pay down existing debt so that it would provide budgetary flexibility and enable the City to accelerate funding of certain Capital Improvement Projects (CIP). By undertaking the plan of finance, we were able to take advantage of near historic low interest rates. Our Financial Advisor, Davenport & Company LLC, determined that we would be out of compliance with this policy for a short-period of time. We're expected to be back in compliance with this policy for fiscal year 2024.

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.

Finance Department

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Pages 19 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.

Pages 147 to 156 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 169 to 174.

The Schedule of Treasurer's Accountability, Schedule 1, on page 175, **reflects that cash and investments are in balance with the Treasurer's Office as of June 30, 2022.**

Pages 225 to 227 contain the Schedule of Findings and Questioned Costs. **There is one non-material weakness in internal control over financial reporting for the Hampton School Board (HSB) and one non-material weakness finding for the City.**

Finding 2022-001: After the issuance of the fiscal year 2021 financial statements, the staff at HSB identified that its compensated absences (sick and vacation leave) liability was overstated due to the improper application of the policy. This error resulted in an overstatement of \$12.2 million of the compensated absences liability. Therefore, a prior period adjustment was made to the financial statements in fiscal year 2022. HCB staff has implemented changes to the process for calculating the liability.

Finding 2022-002: 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 40 days late. The Director of DHS has stated that they will ensure that access is removed timely.

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 \$12.0 million.

Actual revenues were over estimated revenues (excluding Appropriations from Fund Balance and Schools) by \$11 million or approximately 3%. 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 \$14.7million.

Actual expenditures were under appropriations (including Transfers and excluding Budget Savings) by \$13.1 million, or 3.46%.

During fiscal year 2022, the City's unassigned fund balance increased by \$10.8 million to \$91.6 million. The unassigned fund balance represents 17.2% of actual revenues for the General and School Operating Funds which exceeds the 10% policy threshold by 7.20%. For the committed fund balance – budget savings program, we added approximately \$1.07 million from net savings generated by departments during fiscal year 2022.

Revenues (in millions):

	FY22 Budget	FY22 Actual	FY22 Actual As a % of Budget	FY21 Actual As a % of Budget
General Property Taxes	\$ 185.4	\$ 190.0	102.5%	102.3%
State/Federal Revenues	67.6	66.8	98.8%	98.4%
Other Revenues	41.1	43.3	105.4%	90.8%
Meal Taxes	22.6	26.9	119.0%	98.3%
Sales & Use Taxes	18.4	20.9	113.6%	114.6%
Business License Tax	14.8	15.3	103.4%	120.9%
Communication Sales Tax	7.1	6.5	91.5%	90.7%
Special Assessments	5.6	1.9	33.9%	48.3%
Lodging	3.5	5.5	157.1%	78.7%
Total:	<u>\$ 366.1</u>	<u>\$ 377.1</u>	103.0%	99.8%

(1) Excludes appropriations from fund balance

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 Communication Sales Tax.

Some of the more significant favorable (actual exceeds budget) and unfavorable (actual is less than budget) variances in revenues for fiscal year 2022 are as follows:

	VARIANCE FAVORABLE (UNFAVORABLE)
GENERAL PROPERTY TAXES: Actual exceeded the budget as a result of supply chain issues causing used car assessments to increase.	\$4.6M
SALES & USE TAX: Steady growth due to the recovery from the impact of COVID-19 pandemic along with inflation. As the costs of good and services rise, the tax associated with them rises accordingly.	\$2.5M
MEAL TAX: Continued recovery from the impact of the COVID-19 pandemic and also a shift of spending from goods spent during the pandemic to services.	\$4.3M
LODGING AND TRANSIT: Increase reflects the recovery from the impact of the COVID-19 pandemic. Increase in hotel occupancy and the average daily rate for hotel rooms.	\$2.0M
SPECIAL ASSESSMENTS: Collections were less than revenue estimates.	(\$3.7M)

Expenditures (in millions):

	<u>FY22 Appropriations</u>	<u>FY22 Actual Expenditures</u>	<u>Favorable Variance</u>
City Departments*	\$ 227.6	\$ 215.1	\$ (12.5)
Transfer to Schools	80.2	80.2	-
Transfer to Other Funds**	<u>70.4</u>	<u>69.8</u>	<u>(0.6)</u>
Total:	\$ 378.2	\$ 365.1	\$ (13.1)

*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:

	VARIANCE FAVORABLE (UNFAVORABLE)
POSITION AND BENEFIT SAVINGS PRIMARILY FROM VACANT POSITIONS (including retention bonus savings)	\$4.9M
SPECIAL ASSESSMENTS: Collections were less than revenue estimate	\$3.7M
TRANSFERS TO OTHER FUNDS: Debt Service Savings (\$332K), Enterprise Fund (\$10K) and Special Revenue (\$200K)	\$0.5M
HUMAN SERVICES: Position and benefit savings along with policy changes over last two fiscal years that affected eligibility, therefore, produced a reduction in services provided.	\$1.4M

Hampton Roads Coliseum/Hampton Arts Commission

The Hampton Coliseum/Hampton Arts Fund financial statements are presented on pages 160-162. The Hampton Coliseum/Hampton Arts Fund is accounted for as an enterprise fund, which functions similar to private for-profit business. The Fund is still experiencing the impacts of the Coronavirus pandemic. Despite the third cancellation of Hampton Jazz Festival, one of the largest revenue streams, the Hampton Coliseum/ Hampton Arts Fund generated a net profit of \$5,739,254. The Coliseum received the Shuttered Venue Operators Grant (SVOG), awarded by the U.S. Small Business Administration, which was used to support operations this fiscal year. The greatest effect on operating revenue has been the rise of live performances this year compared to the last two years.

Hampton Roads Convention Center (HRCC)

The Convention Center's financial statements are presented on pages 35-40. The Convention Center Fund is accounted for as an enterprise fund. The Convention Center Fund generated a positive change in net position of \$2.2 million (previously referred to as "net income".) On July

1, 2021 the HRCC opened the doors for unrestricted business and showed positive gains after fiscal years 2020 and 2021, just below fiscal year 2019 levels. The plan of finance for HRCC includes a General Fund transfer to the Convention Center for 2% of the meal tax and 2% of lodging tax rates collected for the fiscal year. As a result of increased economic activity in Hampton, the lodging and meal taxes were \$1.6 million higher than expected. Some of the higher revenue generating events included: Alpha Kappa Alpha Mid-Atlantic Regional Conference, 2021 NekoCon, Fall and Summer Bodacious Bazaar, Jurassic Quest, and United Methodist Church Conference.

The Hamptons and Woodlands Golf Course

The Woodlands and The Hamptons Golf Courses' financial statements are presented on pages 160-162. 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 \$92,360 to The Hamptons and \$316,066 to The Woodlands in fiscal year 2022.

Steam Plant

The Steam Plant's financial statements are presented on pages 160-162. 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 \$514,234 in year 2022. While revenues declined from fiscal year 2021 to fiscal year 2022, the Steam Plant was able to manage expenses to produce a net income.

Solid Waste

The Solid Waste's financial statements are presented on pages 160-162. The Solid Waste Fund is accounted for as an enterprise fund. The Solid Waste Fund generated a net loss of \$869,272 for fiscal year 2022. While revenues remained flat for fiscal year 2022 as compared to fiscal year 2021, the expenses increased by approximately \$516,000 primarily from an increase in landfill and recycling costs.

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.