



MEMORANDUM

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

FROM: Karl Daughtrey, Director of Finance

RE: Financial Results, FYE June 30, 2020

Date: December 31, 2020

It is my pleasure, on the behalf of the City's Finance Department staff, to present the Comprehensive Annual Financial Report (CAFR) for the City of Hampton for the fiscal year ended June 30, 2020.

The CAFR is organized in six (6) major sections: 1) Introduction (pages 1 to 14); 2) Financial section including the Independent Auditor's Report (pages 16 to 120); 3) Required Supplemental Information (pages 123 to 142); 4) Combining and Individual Financial Statements (pages 143 to 165); 4) Supplementary Information (pages 166 to 185); 5) Statistical Tables with historical financial data and demographic information about the City (pages 188 to 208); and 6) Independent Auditor's Compliance and Internal Control Reports and Schedule of Findings and Questioned Costs (pages 210-216).

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 16 to 18 of the report. The Auditors have issued an unmodified opinion, or "clean" opinion on the City's CAFR.

Pages 19 to 26 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 CAFR: 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 42 to 43.

Finance Department

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Pages 143 to 152 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 163 to 165.

The Schedule of Treasurer's Accountability, Schedule 1, on page 166, **reflects that cash and investments are in balance with the Treasurer's Office as of June 30, 2020.**

Pages 215 to 216 contain the Schedule of Findings and Questioned Costs. **There is one finding for the City and one finding for the School Board.**

Finding 2020-001: The Department of Housing and Urban Development ("HUD") requires that recipients receiving more than \$200,000 in housing and community development assistance to complete a HUD-60002 report. The HUD-60002 report measures the recipient's efforts to comply with certain statutory and regulatory requirements. The City could not provide any documentation to support that this report had been submitted to HUD.

Finding 2020-002: Section 2.2-3115 of the Code of Virginia requires members of the School Board to annually file a Statement of Economic Interests by February 1, 2020 for the 2019 calendar year filing period. Additionally, new members of the School Board are required to file disclosure forms prior to assuming office or taking employment. One member of the School Board started their term in February 2020 but did not file a Statement of Economic Interests.

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 \$8.1 million.

Actual revenues were slightly more than estimated revenues (excluding Appropriations from Fund Balance and Schools) by \$1.9 million or approximately .54%. Actual expenditures were under appropriations (including Transfers and excluding Budget Savings) by \$13.8 million, or 3.9%.

During fiscal year 2020, the City's unassigned fund balance (formerly referred to as undesignated fund balance) increased by \$5.6 million to \$80.4 million. The unassigned fund balance represents 16.5% of actual revenues for the General and School Operating Funds which exceeds the 10% policy threshold by 6.5%. For the committed fund balance – budget savings program, we added approximately \$2.1 million from net savings generated by departments during fiscal year 2020.

Revenues (in millions):

	FY20 Budget	FY20 Actual	FY20 Actual As a % of Budget	FY19 Actual As a % of Budget
General Property Taxes	\$ 168.7	\$ 171.6	101.7%	101.0%
State/Federal Revenues	66.6	67.7	101.7%	101.2%
Other Revenues	42.4	41.7	98.3%	106.3%
Meal Taxes	21.6	21.5	99.5%	104.7%
Sales & Use Taxes	15.8	16.8	106.3%	100.6%
Business License Tax	12.9	14.4	111.6%	114.5%
Communication Sales Tax	7.9	7.6	96.2%	92.9%
Special Assessments	5.7	2.8	49.1%	43.9%
Lodging	4.7	4.1	87.2%	102.5%
Total:	<u>\$ 346.3</u>	<u>\$ 348.2</u>	100.5%	101.2%

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

Some of the more significant favorable (actual exceeds budget) and unfavorable (actual is less than budget) variances in revenues for fiscal year 2020 are as follows:

	VARIANCE FAVORABLE (UNFAVORABLE)
GENERAL PROPERTY TAXES: Actual exceeding the budget due to robust collections in real estate and public service taxes along with a strong performance in delinquent collections.	\$2.9M
BUSINESS LICENSE TAX: Calendar year 2019 tax in which we had a strong economy before the pandemic hit.	\$1.5M
SALES & USE TAX: Continued growth even with COVID due to online purchases, big box home improvement stores and grocery store sales.	\$1.0M

STATE AND FEDERAL REVENUES (Primarily in Public Assistance): Revenues are a function of the level of expenditures and federal reimbursement rate for various programs. Revenue and the reimbursement rate were more than budgeted.	\$1.1M
SPECIAL ASSESSMENTS: Collections were less than revenue estimates.	(\$2.9M)
LODGING AND TRANSIT: Decline in revenues is due to COVID 19 causing business travel restrictions and decline in leisure travel as consumers are mostly staying home.	(\$0.6M)
FINES & FOREITURES: With courts being closed several months due to COVID there was a corresponding decrease in fine collection.	(\$.3M)

Expenditures (in millions):

	<u>FY20 Appropriations</u>	<u>FY20 Actual Expenditures</u>	<u>Favorable Variance</u>
City Departments*	\$ 212.7	\$ 200.8	\$ (11.9)
Transfer to Schools	75.6	75.6	-
Transfer to Other Funds**	<u>65.6</u>	<u>63.7</u>	<u>(1.9)</u>
Total:	<u>\$ 353.9</u>	<u>\$ 340.1</u>	<u>\$ (13.8)</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:

	VARIANCE FAVORABLE (UNFAVORABLE)
POSITION AND BENEFIT SAVINGS PRIMARILY FROM VACANT POSITIONS	\$4.1M
CITY DEPARTMENT'S OPERATING AND CAPITAL OUTLAY: Due to the unknown impact of COVID-19 on revenues, City Departments were asked to limit spending to essential items.	\$4.9M
TRANSFERS TO OTHER FUNDS: Debt Service savings (\$1.7) and Special Revenue (\$115K)	\$1.9M
SPECIAL ASSESSMENTS: Collections were less than the revenue estimate	\$2.9M

Hampton Roads Coliseum/Hampton Arts Commission

The Hampton Coliseum/Hampton Arts Commission's financial statements are presented on pages 155-157. The Hampton Coliseum/Hampton Arts Commission Fund is accounted for as an Enterprise Fund which functions like a private for-profit business. The Hampton Coliseum/Hampton Arts Commission Fund generated a net loss of \$862 thousand in fiscal year 2020. Total revenues decreased by \$4.2 million from fiscal year 2019. The decrease in revenues can be attributed to the state mandated closure of entertainment venues in response to the COVID-19 pandemic, which resulted in the cancellation of nine one-time events and three annual events to include the Hampton Jazz Festival. The combination of all three annual events generated revenues in excel of \$3.0 million in revenues in fiscal year 2019. On the other hand, expenses decreased by \$2.8 million from the prior year. Expenses are primarily event driven; therefore, the decline from fiscal year 2020 to 2019 can be attributed to cancelled events in fiscal year 2020.

Hampton Roads Convention Center (HRCC)

The Convention Center's financial statements are presented on pages 34-39. The Convention Center Fund is accounted for as an Enterprise Fund which functions like private for-profit businesses. The Convention Center Fund generated a positive change in net position of \$1.3 million (previously referred to as "net income"). Revenue generated by the HRCC operations came to a halt after March 14, 2020 due to the COVID 19 pandemic restrictions. Prior to the closure, the July to March revenues from operations were running at 71% of budget. Due to strong economic performance prior to COVID, the 2+2 transfer of meals and lodging taxes that are dedicated to the convention center came in at \$6.6 million or 98% of budget. Refunding of bonds reduced interest expense by \$1.1 million. Some of the fiscal year 2020 single events generating event-related income over \$80,000 included: Jurassic Quest, LLC, NekkoCon 21, Bodacious Bazaar and Art Festival, Southeastern Guns and Knives, and the 2020 Mid-Atlantic Quilt Festival.

The Hamptons and Woodlands Golf Course

The Hamptons and Woodlands Golf Courses financial statements are presented on pages 34-39 and 155-157, respectively. Both golf courses are accounted for as an Enterprise Fund which functions like a for-profit business. The Hamptons and Woodlands incurred a net loss (before depreciation expense) of \$479,324 and \$202,353, respectively, during fiscal year 2020. Both Golf Courses did not generate sufficient cash from operations to cover their operating expenses and they had to borrow cash from the General Fund; the Hamptons and Woodlands had cash deficits of \$423,255 and \$245,258, respectively. Total rounds of golf decreased 1% for the Hamptons and 26% for the Woodlands during fiscal year 2020. This was a unique fiscal year due to the COVID-19 Pandemic causing the Golf Courses to close for almost three months, from March through May. The closings played a major role in the decrease of revenues and rounds of golf for fiscal year 2020.

Steam Plant

The Steam Plant's financial statements are presented on pages 155-157. The Steam Plant is an Enterprise Fund with revenues that are derived from solid waste disposal fees (tipping fee) charged to the Solid Waste Fund, the sale of steam to the U.S. Government, and user fees charged to other external customers. The Steam Plant generated net income of approximately \$751,000 in fiscal year 2020. Revenues decreased by \$563,258 from FY19 because of the annual fall shutdown and due to the extended shutdown to replace the stack during November and December. When the Plant opened back up on December 20th, they had to burn down the City trash first before they could accept trash from commercial haulers. Total operating expenses increased by 5.34% over FY19.

Solid Waste

The Solid Waste's financial statements are presented on pages 155-157. The Solid Waste Fund is accounted for as an Enterprise Fund which functions like a private for-profit business. The Solid Waste Fund generated net income of \$2.7 million in fiscal year 2020. Operating revenues increased by \$2,868,556 from fiscal year 2019, primarily due to Solid Waste fees increasing

from \$6.10 to \$7.25 per week to cover increasing recycling costs and anticipated technology improvements. Operating expenses increased by \$1,186,715 from fiscal year 2019. This increase is primarily attributed to the \$554,000 increase in salaries and wages and fringe benefits for the 3% general wage increase and pay scale adjustments for equipment operators, \$295,000 increase in recycling costs due to higher collection and disposal costs, and \$363,000 increase in professional services mainly for vehicle fleet maintenance performed by Mid-Atlantic Waste Systems.

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 CAFR. I feel honored to have each of them on my team.

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