



MEMORANDUM

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

FROM: Karl Daughtrey, Director of Finance

RE: Financial Results, FYE June 30, 2018

Date: December 12, 2018

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, 2018.

The CAFR is organized in six (6) major sections: 1) Introduction (pages 1 to 15); 2) Financial section including the Independent Auditor's Report (pages 16 to 135); 3) Required Supplemental Information (pages 136 to 155); 4) Combining and Individual Financial Statements (pages 156 to 178); 4) Supplementary Information (pages 179 to 198); 5) Statistical Tables with historical financial data and demographic information about the City (pages 199 to 218); and 6) Independent Auditor's Compliance and Internal Control Reports and Schedule of Findings and Questioned Costs (pages 219-224).

Key Sections to Review:

Page 12 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 report 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 156 to 165 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 176 to 178.

The Schedule of Treasurer's Accountability, Schedule 1, on page 179, **reflects that cash and investments are in balance with the Treasurer's Office as of June 30, 2018.**

Pages 223 to 224 contain a Schedule of Findings and Questioned Costs. **There is one finding for fiscal year 2018.**

Finding 2018-001: There were two local officials with Hampton City Schools that did not file their Statement of Economic Interest forms by the filing deadline. In the future, Hampton City Schools will provide notification of the deadline for the conflict of interest forms and will contact them prior to the due date. In addition, any new local officials will be notified of the filing.

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 \$5.2M.

Actual revenues were slightly more than estimated revenues (excluding Appropriations from Fund Balance and Schools) by \$3,239,106, or approximately 1.0%. Actual expenditures were under appropriations (including Transfers and excluding Budget Savings) by \$13.0 million, or 4.0%.

During fiscal year 2018, the City's unassigned fund balance (formerly referred to as undesignated fund balance) increased by \$7,201,355 to \$61,531,835. The unassigned fund balance represents 13.2% of actual revenues for the General and School Operating Funds which exceeds the 10% policy threshold by 3.2%. For the committed fund balance – budget savings program, we added approximately \$1.8 million from savings generated by departments during fiscal year 2018.

Revenues (in millions):

	FY18 Budget	FY18 Actual	FY18 Actual As a % of Budget	FY17 Actual As a % of Budget
General Property Taxes	\$ 161.3	\$ 163.0	101.1%	100.8%
State/Federal Revenues	65.4	65.7	100.5%	100.0%
Other Revenues	38.2	39.7	103.9%	101.1%
Meal Taxes	20.7	20.9	101.0%	101.5%
Sales & Use Taxes	15.6	15.1	96.8%	96.2%
Business License Tax	12.4	12.8	103.2%	99.2%
Communication Sales Tax	8.7	8.4	96.6%	96.6%
Special Assessments	5.7	5.4	94.7%	84.2%
Lodging	3.8	4.0	105.3%	102.8%
Total:	<u>\$ 331.8</u>	<u>\$ 335.0</u>	101.0%	100.1%

(1) Excludes appropriations from fund balance

General Property Taxes, Meal Tax, Business License Tax, Lodging and Other Revenues tracked favorably, above budget. The unfavorable variances in revenues are primarily attributable to Sales and & Use Tax, Communication Sales 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 2018 are as follows:

	VARIANCE FAVORABLE (UNFAVORABLE)
GENERAL PROPERTY TAXES: Actual exceeding the budget because of supplemental real estate assessments for additions/new construction.	\$1.6M
BUSINESS LICENSE TAX: Three large audits conducted in FY18, produced back taxes that made up approximately 75% of the increase in this tax.	\$0.4M
MEAL TAXES: Sales in sit-down along with quick service restaurants continue to grow each year.	\$0.2M

INTEREST FROM INVESTMENTS: The Federal Reserve increased their interest rates three times during fiscal year 2018. This has positively impacted some of the investment interest rates.	\$0.5M
CHARGES FOR SERVICES: Increase in Landfill Host fees is attributed to error in calculation from Waste Management while increased efforts in collections on delinquent EMS Fees along new billing policy for residents' co-pays make up the majority of the growth in this category. Greater participation in both AM and PM School Age Program increased revenues in Youth, Education and Family Services.	\$1.0M
SALES AND USE TAX: Impact of several retail closures.	(\$0.5M)

Expenditures (in millions):

	<u>FY18</u> <u>Appropriations</u>	<u>FY18</u> <u>Actual Expenditures</u>	<u>Favorable</u> <u>Variance</u>
City Departments*	\$ 207.0	\$ 199.6	\$ (7.4)
Transfer to Schools	73.0	73.0	-
Transfer to Other Funds**	<u>62.8</u>	<u>57.2</u>	<u>(5.6)</u>
Total:	<u>\$ 342.8</u>	<u>\$ 329.8</u>	<u>\$ (13.0)</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:

	VARIANCE FAVORABLE (UNFAVORABLE)
TRANSFERS TO OTHER FUNDS: Projects in the Capital Projects Fund were at various stages of completion; most of this funding was re-appropriated in FY19 to complete these projects (\$3.3M). Debt Service savings (\$1.6M), Special Revenue (\$321K), EDA Fund (\$86K), and Bass Pro (\$231K)	\$5.6M
POSITION AND BENEFIT SAVINGS PRIMARILY FROM VACANT POSITIONS	\$3.7M

Hampton Roads Coliseum/Hampton Arts Commission

The Hampton Coliseum/Hampton Arts Commission’s financial statements are presented on pages 168-170. The Hampton Coliseum/Hampton Arts Commission Fund is accounted for as an Enterprise Fund which functions similar to private for profit business. The Hampton Coliseum/Hampton Arts Commission Fund generated a net loss of \$178,056 in fiscal year 2018, mainly attributed to \$132,000 spent for repairs to the Coliseum ice floor and two water main breaks and \$90,000 in separation pay for four retirees and three PFT staff. Total operating revenues increased by \$1,163,934 from fiscal year 2017 primarily due to an increase in ticket sales. The following major shows were held during fiscal year 2018, but not in 2017; Bass Center XI, which generated \$2M in gross ticket sales, and Kevin Hart Irresponsible Tour, which generated \$834K in gross ticket sales. While on the other hand, expenses increased by \$672,207 from fiscal year 2017, primarily due to promoter fees and the unique repairs noted above. Most of the \$509,305 decrease in fringe benefits is related to pension and other post employee benefit expenses.

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 similar to private for profit business units. The Convention Center Fund generated a change in net position of \$522,378 (previously referred to as “net income”). The 2+2 meal and lodging taxes, food and beverage commissions and concession sales all increased over fiscal year 2017 by \$191,000, \$49,000 and \$4,400, respectively. Some of the fiscal year 2018 events generating event-related income over \$75,000 included: Discover the Dinosaurs, Fall Bodacious Bazaar & Art Festival, SGK

Gun Shows, 2017 NekoCon, Hampton Roads Tattoo and Art Festival and the 2018 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 168-170, respectively. Both golf courses are accounted for as an Enterprise fund which functions similar to a for profit business. The Hamptons and Woodlands incurred a net loss (before depreciation expense) of \$184,953 and \$148,054, respectively, during fiscal year 2018. Both Golf Courses did not generate sufficient cash from operations to cover all of their operating expenses and therefore had to borrow cash from the General Fund; the Hamptons and Woodlands had cash deficits of \$238,676 and \$187,562, respectively. Total rounds of golf decreased 16% for The Hamptons and 9% for the Woodlands during fiscal year 2018. Factors impacting the decline in rounds are decline in number of tournaments and millennials are not picking up the game while boomers are aging out.

Steam Plant

The Steam Plant's financial statements are presented on pages 168-170. The Steam Plant is an Enterprise Fund with revenues derived from solid waste disposal fees (tipping fees) charged to the Solid Waste fund, the sale of steam to NASA LaRC, and tipping fees charged to commercial customers for refuse. The Steam Plant generated a net income of \$2.1 million in fiscal year 2018. Total operating revenues were only 95% of expected due to extensive work required during the maintenance shutdowns which forced out commercial haulers. This work was specific to the complete overhaul of the emissions control equipment that keeps the Plant in compliance with DEQ permits. The net increase in position is due to cost savings and operating at reduced manning.

Solid Waste

The Solid Waste's financial statements are presented on pages 168-170. The Solid Waste Fund is accounted for as an Enterprise Fund which functions similar to private for profit business. The Solid Waste Fund generated net income of \$2.3 million in fiscal year 2018. Revenues increased by \$516,468 from fiscal year 2017, primarily due to the repeal of relief from the payment of solid waste user fees for certain qualified applicants.

Expenses decreased by \$449,766 from fiscal year 2017, primarily due to \$438,384 decrease in fringe benefits related to pension and other post employee benefit expenses.

New Accounting Standards for Pensions

For fiscal year 2018 the Governmental Accounting Standards Board (GASB), the standard-setting body for governmental accounting principles, requires state and local governments to implement GASB Statement No. 75, "Accounting and Financial Reporting for Postemployment Benefits other than Pensions" which replaces GASB 45 for fiscal years beginning after June, 2017. This new accounting standard require the City and School Board to record Other Post-Employment Benefits (OPEB) liability (i.e. retiree health insurance) on the financial statements

rather than in the accompany notes. This new accounting standard will have no impact on the General or School Operating Funds.

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.