



Legislation Details (With Text)

File #: 20-1052 **Name:** July Monthly Financial Report
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Title: Consideration of the Monthly Financial Report for the Period Ending July 31, 2020 and June 30, 2020.
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Attachments: 1. 20-1052_Att 1 - Key Financial Milestones in FY 2021, 2. 20-1052_Att 2 - Revenue June 2020, 3. 20-1052_Att 3 - Expenditure June 2020

Date	Ver.	Action By	Action	Result
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City of Alexandria, Virginia

MEMORANDUM

DATE: SEPTEMBER 16, 2020
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: MARK B. JINKS, CITY MANAGER /s/

DOCKET TITLE:
Consideration of the Monthly Financial Report for the Period Ending July 31, 2020 and June 30, 2020.

ISSUE: Receipt of the Monthly Financial Report for the Period Ending July 31, 2020 and June 30, 2020.

RECOMMENDATION: That City Council receives the Monthly Financial Report.

BACKGROUND: This memorandum provides FY 2021 financial information on revenues and expenditures of the General Fund for the period ending July 31, 2020. The Approved General Fund expenditure budget for FY 2021 totals \$753.3 million, of which \$76.7 million has been expended as of July 31, 2020, or 10.2 percent of budgeted expenditures. Revenues of \$4.1 million have been received through July 31, 2020, which represents 0.5 percent of budgeted revenues. Revenues trail expenditures due to the periodic nature of property tax collections. In addition, most property and local tax revenues that are received in July are earned in June and are accrued back to FY 2020. The typical schedules showing detailed revenue and expenditure activity will be developed in the August 2020 Monthly Financial Report, which will be docketed in October. A calendar of significant financial events that will impact FY 2021 is included below to provide additional information about major revenue and expenditure events during the fiscal year. A more comprehensive list of tax due dates is

attached (Attachment 1) and is available on the City's web site at <http://apps.alexandriava.gov/Calendar/?show=finance>.

At this time, as the City uses the required modified accrual accounting standards, FY 2020 accounting adjustments are still being entered to ensure that all transactions are posted to the correct fund and period. In addition, the totals in this memo are pre-audited results. COVID-19 has impacted business operations across the globe. Invoices may still be submitted from vendors who are resuming operations after a period of shutdown. The auditors will review City records to determine that all accounts reflect Generally Accepted Accounting Principles. At this time revenues are expected to exceed expenditures encumbrances and carryover funding in the General Fund by less than ½ of one percent. This means the City was successful in reducing spending in the fourth quarter and did not have to draw on fund balance to pay for FY 2020 expenses as the losses of revenue in the fourth quarter were not as negative as projected in early April. However, this means that the City experienced a \$32 million revenue drop in the fourth quarter which was lower than the earlier projected \$46 million revenue decline. It is too early to postulate that how this “less bad” situation will play out during FY 2021 and FY 2022. While the FY 2021 Budget is balanced on paper there are many revenue uncertainties remaining. For example, the budgeted revenues for restaurant meals and hotel stay taxes assumed a back to normal by next July. That assumption may have been too optimistic. Also, the largest revenue source is the real estate tax and how much the commercial real estate tax base will fall for 2021 is not known at this time. *Staff has undertaken some very early efforts at projecting FY 20222 expenses and the budget gaps range from \$74 million to \$21 million with a mid-range estimate of \$46 million funding gap.* The untapped General Fund fund balance from FY 2020 will be an available backstop resource if FY 2021 revenues falls short of budgeted levels, and to help reduce the size of the FY 2022 budget gap by some level.

FY 2020 Revenues

Attachment 2 provides a comparison of pre-audited General Fund revenues compared to both the FY 2020 Amended General Fund Operating budget, the FY 2020 Budget version 2.0 revenue projection prepared in April, and the final audited FY 2019 General Fund revenues. As noted in July, Sales Tax revenue is comparing relatively favorably to FY 2019 as online purchases and grocery store sales, increased substantially and cancelled-out Sales Tax losses from restaurants and hotels, Meals Tax revenue is trending at -17.6 % below the normal levels and Transient Lodging is significantly lower at -32.7 % compared to FY 2019 actuals. Business License taxes, which were based on pre-COVID-19 2019 business receipts, showed no decline. Businesses in general did not utilize the City's offer of tax deferral.

FY 2020 Expenditures

In April 2020, Budget version 2.0 was released, which made significant changes to the planned expenditures of FY 2020 to ensure that the City operate in a deficit. Significant reductions were made to the cash capital funding of the CIP, which resulted in a \$24 million loss avoidance in FY 2020. In addition, a selective hiring freeze was put in place, and departments were asked to limit spending, knowing that the last quarter of the fiscal year would be very unpredictable and difficult. Staff agencies (general government, courts, legislative and executive agencies) expended 91% of their budgeted amounts and operating agencies (public works, public safety, community development, excluding transit) expended 95%. Attachment 3 compares current pre-audited year-end General Fund expenditures to both the budgeted amount, as well as the final audited year end expenditures from FY 2019.

Economic Recovery

In April 2020, when staff developed a projection for FY 2020 and FY 2021, it was difficult to predict the length

of the economic decline and the speed of recovery. At that time, economists were contemplating a swift return to normalcy or V-shaped or U-shaped recovery. It is apparent now that the decline will last significantly longer, and full recovery could be several years into the future. Recovery models now resemble an L-shape or what is being referred to as a “chain-saw” recovery in which there are many small increases and decreases over a long period of time, as the virus surges and abates. The most prevalent opinion is an economic state of uncertainty and a period of economic decline lasting two to three years. While it may be easier for portions of the City’s economy to recover, the restaurant and hotel sectors and its tourism tax impact may take a very long time to fully recover.

ATTACHMENTS:

Attachment 1: Financial Milestones in FY 2021 for FY 2020

Attachment 2: Comparative Revenue Schedule for June 30, 2020

Attachment 3: Comparative Expenditure Schedule for June 30, 2020

STAFF:

Laura B. Triggs, Deputy City Manager

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Morgan Routt, Director, Office of Management and Budget