



Legislation Details (With Text)

File #:	21-0874	Name:	
Type:	Written Report	Status:	Agenda Ready
File created:	3/2/2021	In control:	City Council Legislative Meeting
On agenda:	5/11/2021	Final action:	
Title:	Consideration of the Monthly Financial Report for the Period Ending March 31, 2021.		
Sponsors:			
Indexes:			
Code sections:			
Attachments:	1. 21-0874_Attachment 1_Revenue March FY2021, 2. 21-0874_Attachment 2_Expenditure March FY2021, 3. 21-0874_Attachment 3_Consumer Spending Attachment 3		
Date	Ver.	Action By	Action
			Result

City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 5, 2021

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 March 31, 2021.

ISSUE: Receipt of the Monthly Financial Report for the Period Ending March 31, 2021.

RECOMMENDATION: That City Council receive the Monthly Financial Report.

BACKGROUND: The following discussion is a summary of the Monthly Financial Report for this period. Detailed comparative schedules are attached.

REVENUES

As of March 31, 2021, General Fund revenues collected equaled \$496.3 million, an increase of \$43.2 million or 9.5 percent more than the revenues collected at the same time in FY 2020. In November 2020, the City refunded existing debt to generate a savings of debt service of approximately \$1.0 million. For comparison purposes, without the \$49.9 million in refinanced bond proceeds, total revenue in FY 2021 is \$446.4 million,

which largely due to the COVID-19 pandemic is \$6.7 million less than FY 2020, or a 1.5 percent decrease.

At this time in FY 2021, the City's total revenue collection is not noticeably different in total than the COVID-19 impacted revenues that were projected for the first eight months of the current fiscal year. Revenues with considerable declines are being partially offset with additional revenues in other categories. The FY 2022 Proposed Operating Budget included a comprehensive forecast of the FY 2021 General Fund Revenues, which was recently reviewed and revised as a part of the revenue reforecast for the FY 2022 Budget deliberations. The most recent FY 2021 General Fund revenue forecast is reflected in Attachment 1, column C.1.

Personal Property tax revenues are showing a significant decline compared to FY 2020. Staff has not utilized the City's third-party collection firm to pursue delinquent taxes considering the stark economic situation for many households. As approved by Council, the personal property due date was delayed from October 5 to December 15 this year, so this later due date is also impacting collections. Notices have been mailed alerting individuals about their delinquent status and encouraging them to reach out to the Finance Department to arrange a payment plan if needed. It is also important to note that the total personal property levy, or taxes billed in

FY 2021 (tax year 2020) is 4.6 percent lower than last year's levy. As noted at the Revenue budget work session in mid-February, a combination of fewer cars on the tax rolls and fewer new cars being purchased and added to the tax rolls has had a negative impact on the tax level in FY 2021. Real Estate revenue projections reflect 2021 assessments, as well as a 2-cent reduction in the 2021 real estate tax rate just approved by Council on May 5.

The development and subsequent revisions to the FY 2021 General Fund revenue budget included a careful review of each revenue category to estimate the impact COVID-19 might have on receipts and many categories were reduced in advance of continued impacts on the City's economy from the pandemic. Based on current pandemic and economic forecasts and fiscal trends, the post COVID-19 economic recovery will likely be longer than projected last Spring, and revenues will be less than currently budgeted. Currently staff does not anticipate any other significant changes in the rate of collection or payment in any of the City's revenue categories.

Sales tax revenue is consistent with receipts from January 2020. This is due in large part to a surge in internet-based sales, which are captured in Sales tax revenue at a much greater rate than in previous years. Compared to FY 2020, January 2021 Sales tax revenue is 3.0 percent higher than January 2020 revenue. Total revenues are up in this category by 0.9 percent compared to the same period in FY 2020. As expected, based on decreased travel and restaurant trends, Meals Sales tax revenue is 17.0 percent lower and Transient Lodging tax is 63.5 percent lower than this period last year. That said, FY 2021 revenues are projected to total 99.5% of revenue estimates budgeted a year ago as the pandemic started.

Non-tax revenues are also showing the effects of the pandemic for a variety of reasons. Physical distancing and "safer at home" directives are significantly impacting revenues that are dependent on entrance and rental fees like recreation classes and facility rentals. Attachment 3 provides the comparison of the cumulative impact of the COVID-19 pandemic on the City's consumer spending.

Revenue from the Use of Money and Property is lower than last fiscal year due to interest earnings on invested City cash being significantly lower than prior years due to market conditions causing lower revenue from City cash balances. Lower interest rates were anticipated, and the budget for Interest on General Fund Investments was reduced significantly for FY 2021. Permits and Licenses are over \$2.6 million more than receipts in March 2020 due to the collection of past due invoices for Temporary Parking permits by a utility company. Recordation tax revenues have increased 24.3 percent due to residential sales and refinancing as well as the sale of the Southern Towers multi-family portfolio.

COVID IMPACT AND AMERICAN RESCUE PLAN

The chart in Attachment 3 show the cumulative impact that the pandemic has had on consumer taxes. In aggregate, the impact on the City's revenue since February is a loss of revenue of \$19.1 million. The most significant decline is in Transient Lodging tax revenue, which is down 67.6 percent since March or a loss of \$9.5 million in the past eleven months. Losses in Meals Sales Tax revenue are proportionally less than Transient Lodging, with a 34.5 percent decline; this equates to \$9.5 million in lost revenue.

The recently federally approved American Rescue Plan Act (ARPA) provides some provisions for revenue replacement. As of May 5, states and localities had not been given guidelines for how revenue loss can be calculated, including comparisons can be used to calculate the loss. U.S. Treasury guidelines are expected to be issued in the upcoming weeks with 50% of ARPA monies distributed to localities by May 11.

EXPENDITURES

As of March 31, 2021, General Fund expenditures totaled \$483.6 million, an increase of \$32.4 million or 7.2 percent compared to the same period for FY 2020. Bond proceeds are transferred to an escrow agent and shown as an expenditure in FY 2021. Without this variance, General Fund expenditures total \$433.9 million, which is a decrease of \$17.2 million or 3.8 percent. Expenditures for most City departments are consistent with spending over the same period last fiscal year. Transit subsidies are less than budgeted due to WMATA's use of CARES funding resulting in a temporary reduced need for full budgeted funding from localities. Some of this WMATA savings will be used to help offset lost farebox revenue for DASH. With the recent presidential election, the Registrar of Voters is also trending significantly higher than FY 2020. These costs have been budgeted, and the additional costs for mailing that were incurred have been reimbursed to the City by State and other grants.

For comparison purposes, a preliminary comprehensive expenditure projection has been included with this report. The fiscal year is over 75 percent complete and forecasts are based on current information about departmental operations through the end of the year. Including the funds associated with the bond proceeds and previously planned use of fund balance, projected general fund revenues (excluding budget fund balance) of \$790.8 million, compares favorably to projected expenditures of \$786.3 million. The City's selective hiring freeze significantly contributed to this fiscal outcome. Several departments are projected to exceed their budgets by very small amounts primarily related to COVID related costs. The Supplemental Appropriation Ordinance in June will include a section of interdepartmental transfers, in which surplus resources from some mostly smaller departments will be transferred to other departments that experienced unbudgeted expenses or whose vacancies were not sufficient to cover the assumed turnover savings that was included in the FY 2021 Approved Budget.

In summary while General Fund revenues are projected to fall about \$3.7 million short of the budgeted revenue amount, General Fund expenditures which are running below budget are currently projected to cover the projected revenue shortfall without the need to draw upon the General Fund balance as initially budgeted.

ATTACHMENTS:

Attachment 1: Comparative Statement of General Fund Revenues

Attachment 2: Comparative Statement of General Fund Expenditures

Attachment 3: Comparison of Consumer Spending Categories

STAFF:

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