



Legislation Details (With Text)

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Title: Consideration of the Monthly Financial Report for the Period Ending May 31, 2020.
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Attachments: 1. 20-1000_Att 1 - Revenue-May 2020, 2. 20-1000_Att 2 - Expenditure May 2020, 3. 20-1000_Att 3 - Consumer Spending Comparisons

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

MEMORANDUM

DATE: JULY 1, 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 May 31, 2020.

ISSUE: Receipt of the Monthly Financial Report for the Period Ending May 31, 2020.

RECOMMENDATION: That City Council receives the Monthly Financial Report (Attachment 1).

BACKGROUND: The following discussion is a summary of the Monthly Financial Report for this period. Schedules comparing revenues and expenditures to date to the same period in FY 2019 are attached.

DISCLAIMER: This monthly financial report provides an update for City Council on the financial condition of the City as of May 31, 2020. In March 2020, the City's economic outlook changed dramatically as safeguards related to the COVID-19 pandemic were put into place. On March 24, 2020, City Council passed several emergency ordinances and resolutions to provide some tax relief the business community. Social distancing, restrictions placed on the number of people that can gather, quarantine recommendations and the

virtual elimination of travel and tourism has had a significant negative impact on revenue projections in FY 2020. On April 1, 2020, staff presented City Council with an updated projection for FY 2020 (Attachment 1). It is important to note that the current FY 2020 revenue forecast is not sufficient to cover the appropriated expenditure amount. A combination of expenditure reductions and use of fund balance is expected to be utilized to fund this gap as outlined in the FY 2021 Budget version 2.0.

REVENUES. As of May 31, 2020, General Fund revenues totaled \$523.1 million, an increase of \$7.4 million or 1.4% above revenues collected at the same time in FY 2019. After eleven months in FY 2020, approximately 67.1 percent of budgeted revenues have been collected. Revenues may not track consistently with the calendar since many revenue sources have due dates that do not occur evenly through the year. Large revenue sources, such as real estate and personal property tax revenues are remitted twice per year and once per year, respectively. Personal property taxes were due on October 5th. Personal Property tax revenue is \$54.0 million through May 2020, which is 10.8 percent higher than collections for the same period last year. With the elimination of the decal, the motor vehicle license fee was eliminated. The personal property tax rate was increased to offset this fee elimination. The first half of the calendar year real estate tax is due on June 15th. At this time, the City has collected 58.8 percent of budgeted revenues and revenues collected in FY 2020 exceed revenues for this period in FY 2019 by \$14.6 million. This is entirely related to timing and should not be considered economically significant.

Attachment 3 provides a comparison of local consumer taxes for the month of May. It is important to note that prior to the pandemic many taxes were reflecting a very strong economic environment. Local sales tax is trending 9.4 percent over collections in FY 2019. Sales tax revenue is remitted by the State, two months after it is collected. Through 11 months of the fiscal year, the City has received 9 months of local sales tax revenue, which amounts to 79.9 percent of the amount budgeted. Through May 2020, Recordation tax revenue reflects 102.8 percent of the budgeted amount and exceed collections for the same period in FY 2019 by 32.2 percent.

Business License taxes were due on March 1 and were based on pre-COVID-19 gross receipts earned in 2019. Revenues of \$33.6 million reflect 97.6 percent of the budgeted amount and are 4.7 percent lower than revenues in FY 2020 through month eleven. Most notable in this category is that collections to date exceed our COVID-impacted revenue forecast by \$2.8 million, meaning the rate of delinquencies from businesses was not as high as staff initially forecast.

There are several consumer tax categories that as expected have been significantly negatively impacted by the COVID-19 environment, in large part due to measures taken by the City to provide relief to the business community. Revenue from Meals Sales and Transient Lodging taxes declined significantly in April. Through month 11, Meals tax revenue was down 12.7 percent compared to FY 2019 and Transient Lodging tax revenue was down 18.0 percent. Transient Lodging tax revenue is performing ahead of the FY 2020 projections by \$1 million, while May receipts for April activity were 93 percent lower than the previous year. Meals tax revenue is more than \$2 million ahead of the FY 2020 revenue projection shown in column B.1 in Attachment 1, but the collections in May are also almost 75 percent lower. Although not material, Admissions tax revenue is also trending slightly ahead of the projected amount for the year, but collections in April were, for all intents and purposes, non-existent. For these three categories of revenue (Meals, Transient and Admissions), it was assumed that the City would receive no additional revenue in FY 2020 due to relief efforts, stay at home orders and social distancing. These three categories, plus Business License tax revenue, that are exceeding their projections may help close the City's projected \$32 million budget gap by approximately \$6.6 million. The outlook is still very challenging in the months to come, so these are funds that are not yet certain.

The Monthly Financial Report includes a projection of total General Fund revenues for the year (Attachment I,

Column B1). Prior to changes in the economy from COVID-19, most categories of revenues were expected to meet or exceed the FY 2020 budgeted amount. Communication Sales and Use tax continue to decline each year due to consumer behavioral changes related to telecommunications and television. Market interest rates are significantly lower than assumed during the development of the FY 2020 budget and are resulting in lower Revenue from Use of Money and Property compared to FY 2019 and compared to the FY 2020 budgeted amount. It should be noted that Fine and Forfeitures, Charges for City Services and Revenue from Use of Money and Property, although all significantly below revenues in FY 2019, are trending at or above the FY 2020 revenue forecast.

As noted previously, this monthly financial report includes projections (Attachment 1, Column B1) that reflects a long, slow recovery period. Most notable will be the significant declines in taxes generated from consumer spending (consumer goods, personal services, etc.), travel and tourism. In fact, according to more current credit and debit card spending depicted on [Tracktherecovery.org](https://tracktherecovery.org), Alexandria consumer spending has dropped 25% since January which is slightly higher than Arlington and higher than Fairfax County with a 20% drop. On March 24, City Council adopted an emergency ordinance that placed a moratorium on certain tax related penalties and fees until the end of June. To help mitigate the financial stress on the community, Finance Department staff has curtailed collection efforts on overdue taxes. The taxes are still owed and will be pursued when the timing is more appropriate. Real Estate Tax bills were issued in mid-May. These taxes are due on June 15. Real Estate tax revenue represents approximately 50 percent of the City's General Fund revenue.

EXPENDITURES: As of May 31, 2020, General Fund expenditures totaled \$591.3 million, an increase of \$1.5 million, or 0.3 percent, compared to the same time period for FY 2019. In addition, at 91.7 percent of the way through the fiscal year and with 91.6 percent of payrolls processed, no department has a percent of budget expended amount significantly differing from this rate of spending except where the timing of expenditures does not track to the fiscal year. It should be noted that the City is recording a number of unplanned expenditures related to COVID-19. Staff is tracking these expenditures and will be prepared to submit spending information to FEMA in the event that reimbursement is available and also charge eligible expenses to federal CARES funding. Of the \$13.9 million the City has received, \$4.6 million has been set aside to offset City general government costs. In addition, the City has instituted efforts to mitigate spending (e.g., travel bans, a selective hiring freeze) to ensure that the City reduces the need for the use of fund balance budget at the end of FY 2020.

The most significant differences in expenditures for this report result from the timing and source of payments. The variance in the Department of Transportation and Environmental Services is largely attributable to the shift of the residential curbside refuse collection program from the General Fund (in FY 2019) to a self-supported fund in FY 2020. This is offset by the transfer of the Fleet Services Division from General Services, which is showing a 4.5 percent decline in spending compared to FY 2019, to TES in FY 2020.

ATTACHMENTS:

Attachment 1: Comparative Expenditure Schedule for May 31, 2020

Attachment 2: Comparative Revenue Schedule for May 31, 2020

Attachment 3: Consumer Tax Revenue Comparisons for May

STAFF:

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Morgan Routt, Director, OMB

