

Attachment A

Introduction

Prior to the completion of the County's annual audit, staff provides the Board of Supervisors with a preliminary unaudited year-end report. It is ordinary for there to be some adjustments between the two reports due to continued year-end reconciliations, quality control, or audit adjustments taking place between now and the completion of the audit. The County must submit its audit to the Auditor of Public Accounts by November 30th each year.

The FY 22 report is being provided earlier than usual to the Board of Supervisors in order to inform the Board of the impact of recommended changes to the County's Financial Management Policies for fund balance reserves.

Due to strong economic performance and expenditure savings in areas such as personnel costs due to turnover and not needing to utilize budgeted reserves, the County is able to strengthen its Budget Stabilization Reserve, meet other policy requirements, current appropriations and obligations, and have one-time funds available for the Board of Supervisor's consideration during the FY 24 budget development process.

Following a discussion of the General Fund's fund balance, a summary of notable changes in revenues and expenditures is included in this attachment.

Projected Change in Fund Balance

The General Fund maintains an unassigned fund balance, which is the accumulation of prior actual revenues minus actual expenditures. The General Fund's fund balance is a "rainy day" reserve for unforeseen emergencies and a critical component of bond rating process. It is not an ongoing fund source and is not to be used to fund ongoing expenditures. Policies around the General Fund's fund balance are included in the County's Financial Management Policies.

At the end of FY 21, the General Fund's unassigned fund balance was \$71.7 million. Based on the result of the preliminary actual revenues less anticipated preliminary expenditures during FY 22, as shown in the table on page 3, the General Fund's fund balance is projected to decrease \$1.7 million to \$70.0 million. This decrease reflects the planned use of a portion of this balance above the County's fund balance policy requirements; along with other appropriated and obligated uses.

Of the projected \$70.0 million in unassigned fund balance at the end of FY 22:

- \$43.4 million is required to meet the County's policy requirements for unassigned fund balance

Policy	Amount
Unassigned Fund Balance <i>(10% of Operating Revenues, which is the General Fund + School Fund - General Fund transfer to School Fund)</i>	43,425,790

- \$8.7 million is required to meet the County's recommended 2% Budget Stabilization Reserve policy change as proposed in updated Financial Management Policies at the Board's September 7, 2022 meeting. The current policy and the impact of the changes are as follows:

Attachment A: General Fund Revenue and Expenditure Preliminary Actuals

Policy	Amount
Budget Stabilization Reserve	
<u>Current</u> : 1% of General Fund Revenues	3,650,647
<u>Recommended</u> : Change basis from General Fund Revenues to Operating Revenues	691,932
<u>Recommended</u> : Increase from 1% to 2%	4,342,579
Recommended Budget Stabilization Reserve	8,685,158

- \$14.2 million is appropriated or obligated, primarily due to funding a) already appropriated in FY 23, b) under review to re-appropriate uncompleted projects or purchase orders from FY 22 to FY 23, and c) reserved at this time to meet anticipated fund balance policy requirements in FY 24 should General Fund revenues increase.
- \$3.5 million is recommended to be held for consideration as part of the FY 24 budget development process and after the audit is complete. In the prior three budgets, it has been typical for approximately \$3.0 million of one-time funding to be planned for one-time expenses in the upcoming budget.

General Fund Revenue and Expenditure Preliminary Actuals

Please note that this analysis is looking backwards at financial performance, not a projection for what could be ahead in FY 23 and FY 24. Many of the County's major revenues collections lag from current activity. For example, real estate reassessments, which are one factor in real estate tax revenues, were as of January 1, 2021 and January 1, 2022 during FY 22 and do not yet reflect more recent market impacts. Additionally, Business, Professional, and Occupational License (BPOL) revenues are largely based on Calendar Year 2021 gross receipts and do not yet reflect more recent economic impacts. Staff will share revenue and economic information with the Board of Supervisors that is forward looking in October and continuing with the Five-Year Financial Plan work sessions in November and December.

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			FY22		
	FY22 Adopted	FY22 Revised	Preliminary	\$ Variance	% Variance
	Budget	Budget	Actual	(Proj-Rev)	(Proj/Rev)
GENERAL FUND REVENUE					
Current Real Estate & Personal Property Tax	204,643,683	217,958,608	222,202,520	4,243,912	101.9%
Business-Driven Taxes	14,236,506	16,720,564	17,947,613	1,227,049	107.3%
Consumer-Driven Taxes	37,932,756	42,575,508	45,296,215	2,720,707	106.4%
Other Local Taxes	11,591,893	13,597,521	14,296,377	698,856	105.1%
Other Local Revenue	8,816,114	9,555,163	10,724,841	1,169,678	112.2%
Subtotal, Local	277,220,952	300,407,364	310,467,564	10,060,201	103.3%
State	24,802,726	25,346,067	24,066,843	(1,279,224)	95.0%
Federal	7,135,311	7,275,641	7,552,355	276,714	103.8%
Non-Revenue Receipts	-	218,265	501,202	282,937	229.6%
Transfers	2,780,227	4,487,918	4,511,928	24,010	100.5%
TOTAL, GENERAL FUND REVENUE	311,939,216	337,735,255	347,099,892	9,364,637	102.8%
			FY22		
	FY22 Adopted	FY22 Revised	Preliminary	\$ Variance	% Variance
	Budget	Budget	Actual	(Proj-Rev)	(Proj/Rev)
GENERAL FUND EXPENDITURE					
Administration	18,188,382	22,499,348	20,235,802	(2,263,546)	89.9%
Judicial	5,958,384	6,870,825	6,250,644	(620,181)	91.0%
Public Safety	48,073,990	50,804,533	48,516,470	(2,288,064)	95.5%
Public Works	6,901,972	8,020,529	7,604,470	(416,059)	94.8%
Health & Welfare	22,620,823	22,823,823	21,396,471	(1,427,352)	93.7%
Parks, Recreation & Culture	8,521,456	8,948,546	8,751,001	(197,545)	97.8%
Community Development	11,073,404	12,665,499	11,643,112	(1,022,387)	91.9%
City/County Revenue Sharing	15,411,834	15,411,834	15,411,834	-	100.0%
Transfer to School Operations	141,108,965	152,894,248	152,894,248	-	100.0%
Transfers to Capital & Debt	30,547,608	43,637,389	43,637,389	-	100.0%
Other Transfers	1,761,448	9,957,926	9,888,463	(69,463)	99.3%
Other Non-Departmental	4,706,808	8,734,284	2,548,810	(6,185,474)	29.2%
Subtotal, Non-Departmental	193,536,663	230,635,681	224,380,744	(6,254,937)	97.3%
TOTAL, GENERAL FUND EXPENDITURES	314,875,074	363,268,784	348,778,714	(14,490,070)	96.0%
Projected Change in Fund Balance (Actual Revenue - Actual Expenditures)			(1,678,821)		

Discussion

General Fund Revenues

Preliminary General Fund actual revenues, excluding use of fund balance, total \$347,099,892 in FY 22. This amount is \$9.4 million or 2.8% above the revised budget. The difference between the revised budget and preliminary actual revenues is primarily due to the following:

- **Current Real Estate and Personal Property Taxes** are projected at \$222.2 million, \$4.2 million or 1.9% above the revised budget. This is primarily due to the net impact of a Calendar Year 2022 (CY 22) real estate reassessment greater than the projected CY 22 reassessment in the FY 22 Revised Budget, actual collection rates, and any other adjustments in values and billings.
- **Business-Driven Taxes** are projected at \$17.9 million, \$1.2 million or 7.3% above the revised budget. This is primarily due to Business, Professional, and Occupational Licenses (BPOL), which is based primarily on businesses' gross receipts in Calendar Year 2021 and for which no significant data was available at the time of the FY 22 mid-year budget update. For recent historical perspective of this variance, this year-to-year

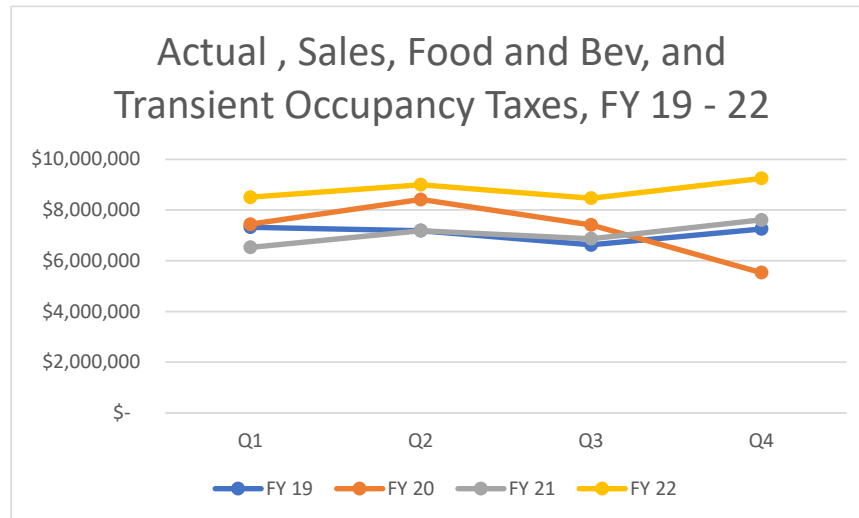
Attachment A: General Fund Revenue and Expenditure Preliminary Actuals

change in revenues is significantly more than recent history, including the years prior to the pandemic, as shown in the following table:

	FY 18	FY 19	FY 20	FY 21	FY 22
BPOL Year-to-Year Change in Revenues	+3.0%	+1.9%	+2.6%	-(0.2%)	+9.2%

This trend is because BPOL is based primarily on businesses' gross receipts in the prior Calendar Year (CY), meaning that the decline FY 21 revenues was due to the pandemic recession during CY 20. The recovery during CY 21 translated to much stronger revenues in FY 22, as economic activity such as consumer spending and development activity increased during that time.

- **Consumer-Driven Taxes** are projected to end the year at \$45.3 million, \$2.7 million or 6.4% above the revised budget. This is primarily due to the year-to-date trends in sales, food and beverage, and transient occupancy taxes:
 - These revenues exceeded projected increases in the revised budget due to strong growth and at a higher rate compared to recent history, as FY 22 preliminary General Fund sales, food and beverage, and transient occupancy taxes were greater than the FY 21 actual by \$6.0 million or 21.5%.
 - As shown in the below chart, in FY 22 (the yellow line), the actual revenue notably passed all prior quarters before and after the onset of the pandemic from FY 19 – FY 21.



- **Other Local Taxes** are projected to end the year at \$14.3 million, \$0.7 million or 5.1% above the revised budget. This is primarily due to a subset of revenues within this category: delinquencies, penalties and interest. By nature, these revenues have year-to-year volatility. For example, from FY 17 – 21, these revenues averaged a total of \$3.8 million with annual changes ranging from +25% to -9%. From FY 21 to FY 22, these revenues grew \$0.7 million or 17%.
- **Other Local Revenues** are projected to end the year at \$10.7 million, \$1.2 million or 12.2% above the revised budget. This is primarily due to Community Development

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Department fees based on development activity and increased interest earnings on investments.

- **State Revenues** are projected to end the year at \$24.1 million, \$1.3 million or 5.0% below the revised budget. This is primarily due to:
 - Revenues to reimburse the Department of Social Services for expenditures that are accounted for in the Federal Revenues category instead of the State Revenue category. The budget is based on anticipated allocation between state and federal revenues, the actual is based on activity during the year.
 - Revenues not received due to corresponding preliminary actual expenditures in the Department of Social Services.
- **Federal Revenues** are projected to be \$7.6 million, \$0.3 million or 3.8% above the revised budget. This is primarily due to revenues to reimburse the Department of Social Services for expenditures that are accounted for in the Federal Revenues category instead of the State Revenue category. The budget is based on anticipated allocation between state and federal revenues, the actual is based on activity during the year.
- **Non-revenue Receipts** are projected to end the year at \$0.5 million, \$0.3 million or 129.6% above the revised budget. This is primarily due to insurance recoveries.

General Fund Expenditures

Preliminary General Fund expenditures total \$348,778,714 for FY 22. This amount is \$14.5 million or 4.0% below the revised budget. The difference between the revised budget and preliminary actual expenditures is primarily due to the following:

- \$6.5 million in operating costs for items that are anticipated to be re-appropriated from FY 22 to FY 23, pending review and approval.
- \$3.2 million in unexpended reserves, such as the Pandemic Reserve and Reserve for Contingencies. The Pandemic Reserve is not recommended for re-appropriation to FY 23 because a) pandemic impacts that have been identified as ongoing are included in departments' FY 23 budgets, b) a reserve for unanticipated pandemic costs, if needed, exists as part of the County's planned American Rescue Plan Act (ARPA) funding, c) this one-time savings can be redirected as part of a strategy to strengthen the County's Budget Stabilization Reserve (see Financial Management Policies Update, also on the September 7, 2022 Board of Supervisors agenda).
- \$2.3 million in departmental salary and benefit savings, primarily due to employee turnover and vacant positions.
- \$1.2 million in Department of Social Services State and Federal Programs that are largely reimbursed by related revenue.
- \$0.4 million in combined one-time savings due to a) the County's actual share of the Albemarle Charlottesville Regional Jail, which was finalized after the County's FY 22 budget adoption and b) fewer primary elections than budgeted. Due to uncertainty in the number of primary elections at the time of the FY 22 adopted budget, one-time funding was budgeted if needed for those expenses, which were not realized.