

County of Spotsylvania

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MEMORANDUM

TO: Board of Supervisors

CC: Ed Petrovitch, County Administrator
Mark Cole, Deputy County Administrator
Departmental Directors and Constitutional Officers

FROM: Bonnie Jewell, Assistant County Administrator/Chief Financial Officer

DATE: October 27, 2020

SUBJECT: **Preliminary** FY 2020 End of Year Financial Report & FY 2020 Carryover Recommendations

Budget staff has completed its preliminary review of final FY 2020 General Fund revenue and expenditures. As a result of revenue receipts and expenditure savings that were greater than anticipated and factoring funding of reserves at the policy-required levels and planned use of the fund balance in FY 2021, **we now expect the available fund balance to exceed required reserve levels by \$6.6 million.** This \$6.6 million is net of the County’s carryover funding recommended for your approval (shown in Attachment 5) and net of \$5.5 million in Schools’ carryover for your future consideration, and is largely attributable to the hiring and spending freezes implemented beginning in March 2020 in response to the COVID-19 pandemic.

Revenue

General Fund year-end revenue collections and transfers into the General Fund exceed FY 2020 budget estimates by approximately \$3.3 million (1.2%) which includes a \$0.7 million accounting adjustment for unrealized gains on investments. (Though an appropriate adjustment, this is not “real cash” available to us, but is instead a snapshot in time of investment gains.) Attachment 2 details the budgeted and actual revenues for all funds. While Attachment 2 shows the projected change in each revenue, the bulk of the estimated excess is related to the increase/decrease of the following actual revenues relative to third quarter projections:

General Fund Revenue	Expected Increase/(Decrease) (in millions)
Interest Earnings & Unrealized Gain	\$2.0
Sales Tax	\$1.7
Business License	\$0.8
DSS/CSA	\$0.7
Bank Stock	\$0.7
Recordation	\$0.6
Transient Occupancy	(\$0.2)
Meals Tax	(\$0.3)
Parks & Rec Registrations/Fees	(\$0.3)
Public Service Corporation Taxes	(\$0.3)
Communications Sales Tax	(\$0.4)
Grants	(\$0.6)
Real Estate Tax	(\$2.2)
Miscellaneous (net of +/-)	\$1.1
Total Revenue Change	+\$3.3 million

Expenditures

Attachment 3 shows both budgeted and actual FY 2020 expenditures for all funds. Overall, as a result of departments' adherence to hiring and spending freezes in place beginning in March 2020, General Fund expenditures are expected to be \$10.1 million (6.3%) compared to budget and includes \$1.9M in OPEB contributions that are never expenditures, but are instead budget savings that are added to reserves at year-end. Expenditures savings are summarized in the table below:

General Fund Expenditures Savings – net of carryover	Expected Increase/(Decrease) (in millions)
OPEB (to be reserved at year's end)	\$1.9
Health Insurance	\$1.8
Other Personnel	\$1.7
Fire/Rescue*	\$1.0
Information Services*	\$0.8
Contingency	\$0.5
Building & Grounds/Maintenance*	\$0.4
Parks & Recreation*	\$0.4
DSS/CSA*	\$0.3
Sheriff's Office*	\$0.3
Human Resources*	\$0.2
Miscellaneous (net of +/-)*	\$0.8
Total Net Expenditure Savings	+\$10.1 million

*Excludes personnel already factored above in the "Other Personnel" line item.

As shown in the preceding table, the total General Fund health insurance budget savings is \$1.8 million. Staff is analyzing what portion of this health insurance savings is related to turnover as opposed to related to plan savings itself.

Net Transfers

Net transfers exceeded budget by \$8.4 million largely due to the release of and transfer to the General Fund of the last portion of the Schools’ health insurance reserve that had previously been held by Anthem. You will recall that at the close of the FY 2019, Anthem transferred back to the Schools about \$10 million in health insurance reserves. The School Board then requested and the Board approved reserving the \$10 million across two new reserves for the Schools within the General Fund – the Schools OPEB reserve and the Schools Health Insurance reserve. At the time, staff informed the Board that an additional \$8 million continued to be held by Anthem, but would be returned to the Schools for deposit in the Schools Health Insurance reserve within the General Fund at the close of FY 2020. That \$8 million release did, in fact, occur during FY 2020 and came to the General Fund from the School Operating Fund through a transfer.

General Fund Transfer Performance –	Expected Increase/(Decrease) (in millions)
Transfer from School Operating Fund – Health Insurance Reserve	\$8.0
Transfers from Other Funds	\$0.5
Savings in Transfers to Other Funds	\$0.3
Total Change in Transfers	+\$8.8 million

General Fund Balance Summary

The unassigned General Fund balance was estimated at \$4.3 million at the close of FY 2019. During the course of FY 2020, the Board approved budget adjustments making use of \$3.0 million of the unassigned fund balance. These adjustments included use of \$3.5 million of the fund balance to fund the public safety compensation adjustments at mid-year.

During her work on the FY 2020 financial close, the Chief Accounting Officer discovered a long-standing problem with the accounting methodology applied to prepaid tax revenue. June taxes are to apply to the then current fiscal year (FY 2020, for example) and taxes paid for the following December tax due are to apply to the subsequent fiscal year (FY 2021, for example). Through her research, Mrs. Forry determined that all the way back to 1984 or prior, taxes prepaid in June for the following December’s tax due date had been applied to the current fiscal year instead of the subsequent fiscal year. To resolve the matter, the appropriate fix was to adjust the ending FY 2019/beginning FY 2020 fund balance down by \$1.6 million. This adjustment is a change between fund balance and a deferred revenue liability account on the balance sheet. Current year revenues did not require adjustment. Staff communication the entry to our auditors and they are in agreement. Due to the nature of the adjustment, it will not have a negative consequence on our annual audit.

The situations described above net together to yield a revised starting point of *negative* \$0.4 million for the fund balance – a shortfall. When we then:

- add the \$3.3 million in additional revenue and transfers in for FY 2020;
- add the \$10.1 million in expenditures savings for FY 2020;
- add the \$8.8 million net change in transfers;
- reduce the planned use of fund balance in FY 2021 by \$5.0 million consistent with the FY 2021 Adopted Budget;
- reserve the \$1.9 million OPEB budget savings for the OPEB reserve;
- reserve the \$8.0 million transferred from the School Operating Fund for the Schools' Health Insurance reserve; and
- make final adjustments totaling an add of \$0.3 million to policy-level reserves based on the FY 2021 Adopted Budget,

we expect to end FY 2020 with fully funded reserves (including the replacement of the \$3.9 million initially used in FY 2021 from the Budget Stabilization Reserve) and **an undesignated General Fund balance of \$6.6 million** as shown on Attachment 1.

Budget Adjustments Greater than \$50,000 Between Departments –

The budget amendment policy requires that we report to the Board each quarter the budget transfers completed during the quarter that were greater than \$50,000 occurring between departments. Attachment 4 shows the transfers of \$50,000 or more between departments occurring during FY 2020. All transfers between capital projects, regardless of the amount, are reported to the Board as part of the quarterly reports on capital projects which are sent to the Board in a separate communication and which are posted to the County's website.

Recommendations

Staff recommends that the Board approve the attached carryover requests (Attachment 5) and related appropriation (Attachment 6). Carryover requests recommended for approval total \$4.2 million for all funds, excluding Schools funds. Once the audit is complete in November, Schools' staff will submit their request to the Board of Supervisors to carryover unspent FY 2020 local funding, which totals \$5.5 million.