

**City of Alexandria, Virginia
 FY 2023 Proposed Operating Budget & CIP
 Budget Questions & Answers**

March 30, 2022

Question: What are the impacts of ACPS increasing its use of fund balance?

Response:

ACPS’ available fund balance was a discussion topic during the March 2nd City Council/School Board Budget Work Session. In response to a request from City Council, ACPS provided a board brief that was posted on March 4, 2022 (Attachment 1). City Staff reviewed ACPS fund balance policy and available balances based on ACPS’ most recent annual financial report as well as the City’s fund balance policy and fund balance amounts budgeted in the City Manager’s FY 2023 proposed budget. A summary of this review is outline below.

ACPS Operating Fund Balance Policy

ACPS’ Operating Fund Balance Policy is attached (Attachment 2). The policy’s language around the minimum and maximum unrestricted Operating Fund balance that ACPS shall maintain are as follows:

“The Alexandria City School Board shall maintain a minimum unrestricted Operating Fund balance of 3 percent of the current fiscal year’s original Operating Fund expenditure budget, with a maximum of 5 percent, exclusive of the amount reserved for encumbrances, calculated as of June 30 each fiscal year upon completion of the annual financial audit.”

The table below lists ACPS available fund balance using the most recent annual financial report and ACPS’ FY 2022 and FY 2023 operating expenditure budget as follows:

	FY 2022 Operating Budget	FY 2023 Operating Budget
Final Operating Expenditure Budget	\$296,745,621	\$316,189,337
ACPS Unrestricted Operating Fund Balance (Committed, Assigned, Unassigned) ¹	\$19,583,590	\$19,583,590
3% Minimum	\$8,902,369	\$9,485,680
5% Maximum	\$14,837,281	\$15,809,467
Amount Above/Below 5%	\$4,746,309	\$3,774,123
Amount Above/Below 3%	10,681,221	\$10,097,910

Under the perimeters of ACPS’ Operating Fund Balance Policy, ACPS exceeds both the 3% minimum, and the 5% maximum. When using the FY 2023 final operating budget expenditures total, the amount above 5% totals \$3.77M and the amount above 3% is \$10.1 million. ACPS’ operating fund balance policy further specifies applicable usages for excess operating fund balance:

¹ ACPS Comprehensive Annual Financial Report for the Fiscal Year Ended June 30, 2021. Page 46.

“Should the unrestricted fund balance of the Operating Fund exceed 5 percent of the current year’s Final Operating Budget as determined by December 30 of each year, ACPS will consider such fund balance as excess and available to support one-time, school-related capital projects or major equipment/vehicle replacement. Funds may also be used to address any other urgent unforeseen matters at the discretion of the School Board.”

ACPS staff recommended against increasing the use of fund balance to support the operating budget because current ACPS fund balance policy limits the amount of fund balance used to support the operating budget at 2%, which is the amount included in the FY 2022 and FY 2023 ACPS operating budgets. City and ACPS staff concur that the use of fund balance above the 5% threshold for capital projects or other one-time costs would be an appropriate use, and ACPS staff plan to discuss that option with the School Board.

City of Alexandria Operating Fund Balance

In November 2019, City Council updated the City’s Debt-Related Financial Policies to establish a 15 percent target for Spendable Fund Balance as a percentage of General Fund Revenue. The bond rating agencies have encouraged the City, as well as other localities, to maintain even higher fund balances because rating agencies note that localities have more volatile revenues during economic downturns, changes in the real estate tax base and natural disasters. These policies have both enabled the City to receive favorable ratings and accelerate funding levels for the growing City and Schools capital expenses.

In City Manager’s FY 2023 Proposed Budget, the City’s spendable General Fund balance is estimated to be \$171.5 million or 22.0 percent of estimated General Fund revenue. Within the proposed budget, the City projects to use \$10M of fund balance as a revenue source for the FY 2022 operating budget, \$8.12M for the FY 2023 operating budget, and at least \$20.0M to fund capital projects contained in the FY 2023—FY 2032 Capital Improvement Program budget. In aggregate, the FY 2023 proposed operating budget allocates the use of \$38.12M or 4.6% in fund balance as a revenue source for the City’s operating budget and CIP. The City generally uses fund balance for capital whenever possible to reduce the need to borrow.

Recommendation

ACPS maximum fund balance levels have exceeded 5% over the last two fiscal years likely due the need for conservative revenue estimates during the pandemic. State sales tax receipts exceeded initial projections for City and ACPS, and ACPS was able to limit expenses due to schools remote learning status during much of FY 2021. Similarly, the relief dollars provided by the Federal Government became an available funding source for pandemic related expenses and needs that might have otherwise been absorbed by ACPS’ operating fund. Given these factors, it is advisable to consider these excess operating funds as one-time in nature.

The City will experience significant challenges with projected debt service levels exceeding the City’s projected assessment growth, particularly in FY 2023 and FY 2024. Funding the current City and School capital program will likely require a combination of raising taxes, reducing the ACPS operating transfer, or reducing City projects and services. To assist the City with managing the capital program’s financial pressures while also minimizing the financial burden placed on residents, excess fund balances from ACPS could be used to support the School Board’s FY 2024 CIP request to the City. This is a similar approach as the City has taken in most years and most recently by appropriating fund balance as a

revenue source for fund capital projects contained in the FY 2023—FY 2032 Capital Improvement Program budget.

Attachments

Attachment 1: ACPS General Fund Balance (March 4, 2022)

Attachment 2: ACPS Fund Balance Policy DAB