

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 5, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #42: GENERAL FUND BALANCE AND DESIGNATIONS

This budget memorandum is response to a series of questions Councilman Lovain asked concerning the General Fund Balance and designations of that balance.

“Has the General Fund balance reduction been accomplished by reducing the designations to fund the operating budget and the CIP budget from prior year levels? Does this increase certain risks? Were prior year designations for these purposes excessive?”

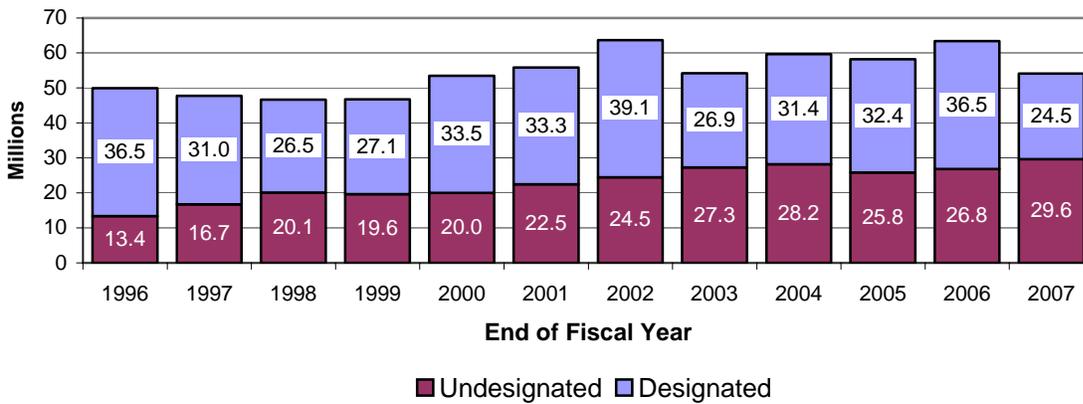
The proposed General Fund FY 2008 Operating Budget contains a designation of \$1.98 million of fund balance to fund the FY 2008 operating budget. This amount is less than the \$3.3 million previously shown in the Consolidated Annual Financial Report for FY 2006 as designated for the FY 2008 budget.

This reduction in the use of fund balance was possible because revenues estimated to be received under current tax rates in FY 2008 were slightly higher than anticipated last November when the budget targets were established. Since the revenues necessary to balance the budget were equal to the target of \$508.9 million, the additional FY 2008 revenue of approximately \$1.32 million allowed the funding required from the Fund Balance to be reduced by that amount.

Page 4-64 of the proposed budget contains the details and history of fund balances and designations from FY 2002 through FY 2007 (proposed).

The following graph from page 4-59 of the proposed budget summarizes this history:

Unreserved General Fund Balance
City of Alexandria



There is a proposed reduction in total designations in the General Fund Balance from \$36.5 million to \$24.5 million. Changes in designations from FY 2006 to FY 2007 are as follows:

	FY 2006 Designations	FY 2007 Designations	Difference
FY 2007 Operating Budget	\$3,354,819	0	-\$3,354,819
FY 2008 Operating Budget	3,300,000	1,980,307	-1,319,693
Retiree Health and Life Benefits (OPEB)	8,700,000	10,700,000	+2,000,000
Subsequent CIP	7,353,288	2,378,177	-4,975,111
Self-Insurance	5,000,000	5,000,000	0
Incomplete Projects	2,649,421	2,650,000	+579
Open Space Fund	275,703	0	-275,703
Affordable Housing Programs	275,703	0	-275,703
Affordable Homeownership Protection Grants	300,000	0	-300,000
Increased Fuel Costs	0	250,000	+250,000
Federal or State Intergovernmental Revenue or Grant Reductions	1,000,000		-1,000,000
Social Service Grant Contingency (i.e., Revenue Maximization)		280,000	+280,000
Employee Compensation (General and Sworn)	4,000,000	1,000,000	-3,000,000
Monroe Avenue Bridge Pedestrian Structure Design	300,000	0	-300,000
King Street Shuttle (Natl. Harbor-related Initiative)	0	200,000	+200,000
Other National Harbor Initiatives	0	100,000	+100,000
Total Designations	\$36,508,934	\$24,538,484	-\$11,970,450

The reduction in designations can be explained as follows:

- Several of the designations were eliminated because they were executed through the appropriation of funds in the supplemental appropriation ordinance of June 2006 for FY 2006 or the reappropriation ordinance of last November for FY 2007. The change in those designations is shown in *italics*, and they total \$8.5 million.
- The remainder of the decline in General Fund Balance designations is due to the decline in the amount designated for the Capital Improvement Program (CIP) of \$5.0 million. If we had maintained the previous year's designation of \$7.4 million of fund balance for the CIP, undesignated fund balances would have dipped below the Council-adopted target ratio of 5.5% of General Fund revenues.
- The amount designated for the FY 2008 CIP or \$2.4 million (a reduction of \$5.0 million from the previous year) was necessary in order to maintain the "undesignated" fund balance above this target. The \$29.65 million in undesignated General Fund Balance represents 5.8 percent of projected FY 2008 revenues. This increases slightly the ratio slightly from FY 2006 (5.6 percent) after several years of decline in this ratio.

These changes in proposed designations, far from increasing financial risks, actually decrease those risks by increasing slightly the relative size of the undesignated fund balance. They also reduce the structural dependency on prior year balances for funding future year budgets by using historically small amounts to fund next year's CIP and General Fund Operating Budget. Given the likelihood of a slowing economy and the growth of the tax base, this reduction in dependency on prior year balances is a good budget strategy.

Lastly, staff does not believe designations made in prior years were excessive. Since FY 1996 as shown in the graph above, total designations have ranged from a high of \$39.1 million (FY 2002) to a low \$26.5 million (FY 1998) for an average of \$32.2 million.

Each designation represented a conscious policy decision to designate prior year surplus funds for a particular purpose.

- It is particularly appropriate to use fund balance designations to handle one-time expenses such as capital projects, or incomplete projects.
- Sometimes fund balance designations are used because of the high degree of uncertainty in the item listed such as contingencies for grant reductions, fuel costs, or relatively new programs that are just getting underway that lack precise definition or cost estimates such as the National Harbor-related designations or Affordable Homeownership Program.
- In the past, fund balance designations have been used for pay adjustments when the actual scope and cost of those adjustments were uncertain. Council has directed staff in Budget Resolution 2205 to discontinue this practice and include such estimates in future budgets. The \$1,000,000 designation that remains in FY 2007 for this purpose will be liquidated with a supplemental appropriation later this fiscal year to pay for the public safety officer adjustments that were implemented in January 2007.

If as a result of the add-delete process there are additional surplus funds available, City Council may consider designating some of those funds for the following purposes:

- Additional funds for Retiree Health and Life Benefits beyond the \$10.7 million recommended in the City Manager's proposed budget. This will help the City meet the requirements of GASB 45 rules requiring funds to be set aside to meet future post-employment benefit costs other than retirement.
- Additional funds for the CIP for use in FY 2009 to help meet the shortfall in funding identified capital project needs in that year.
- Leaving some of the surplus undesignated to increase the size of the City's undesignated General Fund balance that provides a cushion to handle future financial uncertainties.