City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 16, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #__68: UPDATED ESTIMATES OF FY 2010 FUND BALANCES AND FUND BALANCE OUTLOOK FOR FY 2011

This budget memorandum outlines the status of General Fund balances as contained in the proposed FY 2011 budget and updated to reflect more recent information concerning expected FY 2010 revenues and expenditures. The purpose of this memorandum is to provide Council information on the likely impact of different FY 2011 budget scenarios on expected General Fund balances at the end of FY 2010 and FY 2011.

At our last briefings for the bond rating agencies in June of 2009, they were concerned about the decline in the unreserved General Fund balance ratio, which had declined from 13.2% at the end of FY 2007 to 9.3% at the end of FY 2009. The bond rating agencies clearly flagged this as a concern orally and in the written rating, and their advice was that the City should develop and implement a plan for increasing this ratio in the future.

Summary of Analysis:

	Guidelines		FY 2009 act.		FY 2010 est.		FY 2011 est.	
	Target	Limit	$ in M	%	$ in M	%	$ in M	%
Unreserved Fund Balance	NA	10.0%	$49.0	9.3%	$53.7	10.1%	$47.3	8.9%
Undesignated Fund Balance	5.5%	4.0%	$24.7	4.7%	$25.2	4.8%	$27.2	5.1%

*Guidelines are expressed as percent of General Fund Revenues

- The fund balances at the end of FY 2010 are expected to be in compliance with the debt policy guidelines. In fact the unreserved fund balance ratio should be
- back up above the 10% minimum. This result was accomplished in spite of the unbudgeted winter storm events in December and February.

- The unreserved fund balance ratio at the end of FY 2011, however would be 8.9% -- below the debt policy minimum guideline of 10%. This result is driven by the drawdown of $1.6 million in General Fund balances to be transferred to the OPEB trust fund in FY 2011 and the drawdown of $4.7 million for the FY 2011 General Fund operating budget as planned in the City Manager's proposed budget.

- In order for the actual unreserved fund balance at the end of FY 2011 to be above 10.0%, the City would need to experience a surplus of $5.6 million through either revenues over our the budget estimates and/or spending lower than budgeted amounts. This amount is equal to a little more than 1.0% of the budget. While achieving this objective is not impossible, it may be difficult.

- The undesignated fund balance at the end of FY 2011 would be $27.2 million, which at 5.1% is above the debt policy minimum guideline of 4.0% and below the debt policy target guideline of 5.5%.

<u>Details of Analysis:</u>

These estimates are based on the following:

On a net basis, staff currently expects expenditures to be significantly below the FY 2010 budget by $8.1 million.

-- Significant FY 2010 expenditure savings totaling approximately $10.0 million will be realized from a number of sources:

  - $2,574,081 savings in debt service due to the significantly lower debt service costs for the June 2009 debt issuance than budgeted;
  - $2,300,000 savings in the cost of the Community Services Act for foster care-related services due to program management reforms;
  - $600,000 savings in the solid waste disposal program due to lower than expected volume of waste disposed of at the Waste to Energy facility;
  - $3,051,822 savings in Transit subsidy payments to WMATA by utilizing surplus revenues available for this purpose with the Northern Virginia Regional Commission (from regional gas tax collections and state aid dedicated for transit purposes); and
  - $1,500,000 savings in personnel compensation costs due to restraint in filling vacant positions throughout FY 2010.

-- About $7.7 million additional expenditures in FY 2010 were incurred due to the December and February snow storms. For purposes of this analysis, we are assuming 75% Federal reimbursement for these expenditures. Therefore, the additional General Fund expenditures that need to be accommodated in the budget would be $1,925,000. (Adjustments in reimbursements will actually be received in FY 2011 and any surplus or deficit in those reimbursements compared to what is estimated during the close out of FY 2010 will be "booked" in FY 2011.)

An increase in revenue for FY 2010 is estimated totaling $1,685,695 above the approved budget estimates due to the following changes (See Budget Memo #____ for details due to April re-estimates):

	Increases	**Decreases**	**Net Change**
Real Estate Net Change (including tax rate increase)	$7,264,162		
Personal Property Taxes	$1,000,000		
Recordation Taxes	$400,000		
Charges for Services	$313,826		
Miscellaneous Taxes	$300,000		
Federal Reimbursement for Inauguration	$200,000		
Admission Taxes	$100,000		
Intergovernmental Revenues		-$1,675,132	
Local Sales Taxes		-$1,450,000	
Business License Taxes		-$900,000	
Fines and Forfeitures		-$797,775	
Use of Money and Property		-$749,476	
Licenses, Permits and Fees		-$675,760	
Meals Taxes		-$400,000	
Communications Taxes		-$400,000	
Transient Lodging Taxes		-$300,000	
Utility Taxes		-$300,000	
Cigarette Taxes		-$200,000	
Miscellaneous Non-Tax Revenues		-$44,151	
Total Increases/Decreases/Net	$9,577,988	-$7,892,294	$1,685,695

Designations in the Proposed Fiscal Year 2011 Budget To Be Drawn Down in FY 2011

The fiscal year 2011 Proposed Operating Budget contains two designations of fund balances estimated to be available as of June 30, 2010 that would be drawn down in FY 2011:

- **$4,744,291** from prior year surpluses to fund the FY 2011 Operating Budget;
- **$3,700,000** for partially off-setting the City's liability for post-employment retiree health and life insurance benefits (OPEB) in response to new national accounting standards. The complete OPEB funding plan is more completely described in Budget Memo #52.

Note that a $10,971,240 designation to fund capital projects for future years of the FY 2011 to 2020 Capital Improvement Program budget remains in the General Fund balance through FY 2011 and would not be drawn down until FY 2012 and FY 2013 under the proposed CIP funding plan. (This amount is generated in FY 2010 by the proposed 7 cent increase in the real estate tax rate.).