

Major Issue: Revenue Outlook

The revenue outlook for the City's next budget year, Fiscal Year 1997 that begins July 1, 1996, reflects a large measure of caution as early economic indicators suggest continued settling in the commercial and residential real estate market. In addition, recent moves to scale down the size and role of government at the federal and State levels are expected to produce volatility in one reliable source of local funding - revenues from federal and State governments.

Sixty percent of all City government revenue comes from two sources -- the real property tax, which accounts for 39.6% of total revenues; and state and federal funding, accounting for 20.6% of the total.

Projections as of September show these primary revenue sources growing little throughout the remainder of FY 1996, and possibly declining over the next several years.

Real Property Tax

Since 1991, the assessed value of all real property in the City has declined by \$1.3 billion, or 10.7%. This includes the unprecedented three-year decline in the City's real property tax base. Real estate values began to stabilize in 1995. Even when adding the value of new residential construction, which offset the continuing erosion of commercial property values, the tax base grew by only one-quarter of 1% last year.

The prospects for recovery in this, the City's single largest revenue source, are uncertain. New and existing home sales for the first six months of 1995 are down 21% compared to the same period in 1994, and the dollar value of residential sales is down 23%. Within the commercial properties market, a comparison of City assessed values and actual sale prices during the first six months of 1995 suggests further erosion of commercial values in 1996.

Intergovernmental Revenue

The City's FY 1996 budget includes a total of \$59.5 million in federal and state revenue. About \$22.2 million, or 37% is federal aid that comes either directly to the City or is passed on to the City by the State. The remaining \$37.3 million, or 63%, comes directly to the City from the State.

Together, these intergovernmental revenues fund hundreds of programs and services. Two of every three dollars in State and federal aid are earmarked for four specific program areas: the Alexandria City Public Schools (approximately \$19.2 million); Human Services (approximately \$13 million); Mental Health, Mental Retardation and Substance Abuse (approximately \$5.3 million in direct aid, excluding Medicaid

reimbursements); and Housing (approximately \$1.8 million).

On June 29, Congress adopted a budget resolution to eliminate the deficit by 2002. This agreement to balance the federal budget will have a costly effect on City revenues due to future reductions in intergovernmental aid, and a shift of responsibility from the federal government to states and localities. Not only will Alexandria lose direct federal funding, but also reductions in federal dollars to the State will be passed on to local governments through cuts in State funding.

Compounding the impact of federal program reductions, the State is also proposing to reduce the size and scope of many of its programs. These State actions will likely have a far more immediate impact on local revenues and services, beginning in July 1996, the start of the first year of the State's next biennial budget.

Federal Funding Issues

Congressional budget decisions for federal Fiscal Year 1996, which begins October 1, are currently in progress. According to recent reports prepared by the National Governors Association (NGA) and other monitoring organizations, it appears that decisions on the 1996 federal budget may not occur until late fall. As summarized in the NGA report, *Congressional Budget Action: Possible Impact on the States*, the most significant anticipated changes include:

- Funding for about 40 major categorical grants to the states will be cut by about 9% in 1996.
- Transportation programs will likely be reduced by 8.7%, including a reduction of \$400 million for transit operating assistance nationwide.
- a 20% reduction in employment and training programs compared to 1995 funding levels.
- Congress likely will make major changes in Medicaid's structure and funding. A shift from entitlements to block grants is anticipated in such programs as welfare, employment and training, etc.

In addition, the June Congressional budget resolution proposes a 28% reduction in the Community Development Block Grant program, one of the few federal grant programs that sends monies directly to localities.

Although the final outcome of actions on the federal budget are not likely to impact Alexandria immediately, these cuts will be felt within two to three years. The City must also be prepared to cope with the impact of federal cuts to programs operated by the Alexandria Redevelopment and Housing Authority and other local agencies.

State Funding Issues

State budgetary actions and policy decisions, however, will have an immediate impact on City revenues and services in FY 1997, which begins July 1, 1996.

When the City Manager presented her Proposed FY 1996 Budget to City Council in February 1995, the City was facing a proposed reduction in direct State aid of more than \$2 million. These reductions were not approved by the General Assembly last year, but will again be an issue in the coming year.

The City will not know what the State funding or policy changes may be until Governor Allen's biennial budget is released in late December. Among the program areas that may be most affected are education and programs administered by the City's Human Services Department, the Community Services Board, and the local Office of the Virginia Department of Health. In addition, State proposals to eliminate the Business, Professional and Occupational License (BPOL) tax, a critical local government revenue source, will again be an issue in FY 1997.

BPOL Reform

In 1995, City Council approved reform of the BPOL tax, a locally administered levy on business gross receipts. City Council is committed to working with Alexandria's legislative delegation and other local governments in Virginia to enact further reforms to ensure an equitable and uniform tax.

If the State eliminates the BPOL tax entirely and does not provide a replacement revenue source, the City will face the loss of \$12.2 million in General Fund revenues. To replace lost BPOL tax revenues, the City would be required to increase the real property tax rate by 12 cents, or if funding reductions totaling \$12.2 million were required, the City would need to cut over 5% from every City department, including the Schools and all public safety agencies.

Outlook

Based on this revenue outlook, City Council will be faced with the difficult task of deciding what services the City can and should continue to provide, particularly when monies that support federal-and state-funded programs expire, are reduced, or are eliminated.

Federal Program Grants in Excess of \$100,000*

CITY AGENCY

FEDERAL PROGRAM

AMOUNT

(in thousands)

Housing

- Community Development Block Grant \$1,302
- HOME Program (Home ownership, new construction, and preservation) \$534

Human Services

- Job Training Partnership Act \$879
- Economic Dislocation & Worker Adjustment Assistance Act \$316
- Family Support Act of 1988 \$180
- Social Security Act (AFDC; welfare eligibility; and child care/ foster care) \$4,860
- U.S.D.A. Child & Adult Care Food Program \$337
- HEADSTART \$864
- Older Americans Act \$238
- Community Services Block Grant \$133

Community Services Board

- Mental Health Services (ACCESS) \$2,789
 - Federal Block Grant - Drug & Alcohol \$574
 - Federal Block Grant - Prevention \$163
 - Federal Block Grant - Seriously Emotionally Disturbed Child \$187
 - Federal Block Grant - Seriously Mentally Ill \$402
 - Medicaid Fee Revenue \$1,597
- \$15,355

NON-CITY AGENCIES

FEDERAL PROGRAM

AMOUNT
(in thousands)

Transit Subsidies

- Transit Aid (pass-through No. Va. Transportation Commission) \$422

**Alexandria
Redevelopment &
Housing Authority**

- Comprehensive Capital Outlay \$1,500
- Section 8 Rental Assistance \$7,500
- Public Housing Operating Subsidy \$1,200

Urban League

● Americorps Program Grant	\$329

	\$10,951

** FY 1996 Budget; excludes Schools & prisoner per diem.*

Source: Office of Management and Budget.