Budget Outlook

The budget adopted by City Council last May for FY 1999 was the first in five years that required an increase in the real property tax rate to maintain current City services. In an era of continued expenditure pressures and limited revenue alternatives, City Council faces very difficult choices: what programs and services should be reduced, what capital projects should be deferred or delayed, or what tax and fee increases should be considered in the effort to balance future budgets.

By all accounts, the City's economy is healthy and growing; however, even with new development and new growth in our real property tax base, the total value of all real property in the City remains over $536 million below the value of the City's tax base in 1991. Largely because of the continued stagnation in existing residential property values in the City, even with more than $3.6 million in cuts in City agency budgets in FY 1999, a four cent real property tax rate increase was necessary to provide sufficient revenue for current services. The total General Fund budget increased by 2.6% overall as City Council approved a 2.3% increase in funding for City programs and a 3.3% increase in funding for the Alexandria City Public Schools. Many operating budget expenditure requests could not be funded this year, including $3.5 million for enhanced City programs and $3.3 million requested by the Alexandria School Board. Furthermore, many desirable capital improvement projects for both the City and the Schools could not be accommodated in the current six-year capital improvement program.

City Council's budget deliberations last spring focused on the City's longer term fiscal condition. The five-year revenue and expenditure projections indicate that unless there are program cuts or reprogramming of existing resources, City expenditures required for current service levels and the ambitious capital improvement program will outpace revenue growth for most of the near future.

Local Government Revenue Structure

Nearly two-thirds of the City's General Fund revenue comes from property taxes: the real property tax on commercial and residential properties generates 48% of local revenue. The personal property tax, levied on business personal property and individual personal property — primarily automobiles — accounts for 15% of local revenue. Growth in these two revenue sources in the near future remains uncertain.

Real property values have not been increasing significantly in recent years. In fact, even in the healthy economy throughout Northern Virginia, real property taxes are not growing as rapidly as income. In Alexandria, the average residential property has depreciated by 3% from 1991 to 1998, while estimated average per capita income has grown by nearly 30% over the same seven year period. The growth that the City has experienced in the real property tax base has primarily been due to new construction rather than appreciation of existing properties. Over two-thirds of the increase in the total real property tax base in 1998 was the result of new construction. New residential construction added $92.6 million in value to the tax base, and new commercial construction added $206.4 million to the tax base.

There is some concern that new residential construction throughout the entire Washington, D.C. metropolitan region has outpaced population growth. In the Washington area, the housing stock grew about 35% faster than the population during the past decade according to U.S. Census Bureau. The availability of new housing stock throughout the region may have the effect of slowing or halting increases in the values of existing homes. The trend of virtually no increase in the value of existing homes held true in Alexandria this year, where the average value of an existing residential property increased by less than one-tenth of 1% in 1998. City staff project overall real property values will increase by 4.6%, including both new growth and appreciation of existing properties. While much of the new growth estimate is based on projects that are already in process, it is too early to tell whether the initial projections of appreciation for next year will be met.

Uncertainty also figures into the City's personal property tax base in the years ahead. The Personal Property Tax Relief Act of 1998, approved by the General Assembly and signed by the Governor, intended to hold localities harmless by reimbursing taxpayers in calendar year 1998, and local governments beginning in 1999, for the full amount of the phased reductions (12.5% of the tax on the first $20,000 of value in 1998; 27.5% in 1999; 47.5% in 2000; 70% in 2001; and 100% in 2002 and thereafter). Citizen compliance with the personal property tax may be adversely affected, however, if citizens interpret the "No Car Tax" slogan to mean that the personal property tax on automobiles has been eliminated in its entirety.

The uncertainty and vulnerability of local government revenues is an issue for cities throughout the country — not just Alexandria. The most recent survey of the National League of Cities reports that municipal revenue systems have steadily lagged behind overall U.S. economic activity and growth in federal and state revenues. Nationally, city revenues have grown 46% since 1988, while the Gross Domestic Product rose by 65%, state revenues by 67% and federal revenues by 80%.

The issues of the fiscal strengths, revenue structure and the needs of cities in Virginia are under study by the Commission on the Condition and Future of Virginia's Cities. The General Assembly established this Commission during its 1998 legislative session and State Senator Patricia Ticer and City Manager Vola Lawson serve as appointees to this Commission. In addition, City Council also tasked the Council-appointed Budget and Fiscal Affairs Advisory Committee with reviewing the City's revenue structure.

The work of the State Commission and the Budget and Fiscal Affairs Advisory Committee may produce some long-term revenue strategies. However, in Virginia, localities must be granted authority for new revenue strategies by the General Assembly. As a result, legislative changes would be required before any new strategies could be implemented locally. The immediate challenge before the City Council and the community will be to carefully assess and prioritize local expenditures so that the City is able to maintain competitive tax rates for our existing revenue resources while still providing the set of services the community desires.

Expenditure Issues for FY 2000 and FY 2001

The table below summarizes several major expenditure increases that in all likelihood will need to be addressed over the next two years. These increases are contrasted with the net new General Fund revenue that the City would have available to fund these increases, assuming the total General Fund revenue base increases by 4% each year. As shown in the table, shortfalls of approximately $2 million are projected for each of the next two years, assuming all current services are maintained and assuming no increase in the baseline budgets for both the City and the Alexandria City Public Schools.

The City Manager and City Council have made many efforts to implement cost-effective service delivery and to achieve cost savings in every City agency. While these efforts will continue, funding shortfalls of at least $2 million — more than the total General Fund budget of the Office of Historic Alexandria, or more than the entire Planning and Zoning Department, for example — cannot be made through efficiencies alone. The challenge facing the City Council and the community for the near future will be to determine the City's program and service priorities.

Possible Increased Expenditures Compared to Projected Net New Revenues

(Assuming no other City or Schools' program increases.)

Expenditure Item	FY 2000 Increase Compared to FY 1999 Approved Budget	FY 2001 Estimated Increase Compared to FY 2000
Capital Program:		
Increase in debt service due to $55 million in new borrowing in FY 1999	Increase of up to $5 million	No increase if no new borrowing
Increase in pay-as-you-go funding for capital projects, based on the current FY 1999 to FY 2004 Capital Improvement Program of $137.4 million	Increase of $6.2 million, but it is anticipated that this amount will be drawn from Fund Balance for FY 2000	$6.3 million would need to be funded from current revenues. Fund Balance would be insufficient to designate for capital projects and still remain within debt-related targets.
Employee Compensation: Merit (In-step) Increases		
City	$ 2.0 million (l/2 year cost)	$ 4.0 million (full year cost)
Schools	$1.6 million (full year cost)	1.6 million (full year cost)
Total	**$ 3.6 million**	**$ 5.6 million**
Cost of Living Adjustment (1.5% - lowest COLA granted in FY 1999 by comparator jurisdictions)		Uncertain if required to remain competitive in region.Would need to be evaluated at that time based on the criteria included in the City's
City	$ 1.9 million	

Schools	$1.3 million	Compensation Philosophy.
Total	**$ 3.2 million**	
New Operating Costs:		
New library operating costs, assuming closure of both Burke and Lloyd branches.	$207,000 (1/2 year)	$210,000 (full year increase)
New elementary school operating costs, assuming reallocation of existing school resources to new school	Scheduled to be open in fall of 2000 — no FY 2000 impact	$952,000
Recycling program cost, due to need to lower tipping fee at the Waste-to-Energy Plant.	$ 1 million	No expected increase
Total Increased Expenditures	Approximately $ 13 million in increased expenditures	Approximately $ 13.1 million, assuming no COLA is required to remain competitive
Projected New Revenue, assuming 4% overall growth	$l0.9 million increase	$11.3 million
Net Shortfall	Shortfall of $2.1 million, assuming only current services are maintained and no other City or Schools' expenditure items increase	Shortfall of $1.8 million, assuming current services are maintained and no other City or Schools' expenditure items increase