City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 25, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 28 : IMPACT OF FUNDING THE JOINT STAFF PROPOSED ACPS CAPITAL IMPROVEMENT PROGRAM

City Council and the School Board held a joint budget worksession on March 14, 2011. The primary focus of this worksession was the ACPS CIP request for FY 2012 – FY 2021, which would require $214.5 million in funding above that included in the City's Manager's Proposed CIP. Coming out of the worksession, City and ACPS staff were instructed to work together to develop a plan for at least the first three CIP years (FY 2012 – FY 2015) that satisfied immediate school capacity issues with minimal impact on the City's Operating Budget and debt policy guidelines.

City and School staff were able to come to agreement on a project and financing plan for the first four years of the CIP (FY 2012 – FY 2015), but continue to have different recommended project plans for the last six plan years. For more information on the specifics of the joint staff proposal, please see Budget Memo #23. This memorandum describes the impact on the City's Operating Budget and debt policy guidelines of both the City and ACPS staff 10-year plans in a similar manner as Budget Memo #13, which was issued on March 10, 2011.

CIP Expenditure Totals

The City Manager's Proposed FY 2012 – FY 2021 CIP for ACPS, which was released on February 8, totals $158.1 million over the ten years. The School Board's Approved FY 2012 – FY 2021 CIP includes a total of $372.6 million in capital projects over ten years, which represents an increase of $214.5 million (135.7%) over the City Manager's CIP. The new City staff proposed CIP (including the agreed upon funding for FY 2012 – FY 2015) totals $211.1 million over the ten years, which represents a $53 million increase from the City Manager's Proposed CIP. The new ACPS staff proposed CIP (including the agreed upon funding for FY 2012 – FY 2015) totals $345 million over the ten years, which represents a $27.6 million decrease from the ACPS Board Approved CIP.

In addition to these changes in proposed ACPS capital projects over the next ten-years, the Patrick Henry Recreation Center (City project) construction has been moved back by one year in order to better coincide with the planned construction of the Patrick Henry K-8 School. This impacts this analysis because it changes the funding required for the base CIP and therefore the incremental costs of additional ACPS projects on top of that base cost. This is the only City project that has been adjusted for these models. Separately, City staff has been instructed to look for potential reductions in City CIP projects and Operating Budget in FY 2012 to mitigate the impact of this and other potential "adds" to the Proposed Budget and CIP.

Financing Strategy Utilized

For this memo, it was assumed that a funding mix of 25% cash capital and 75% general obligation bonds would be used to model both the City staff and ACPS staff 10-year proposals. The strategy was to keep maintain this ratio (25%/75%) over the entire ten-year plan, but not necessarily in each individual plan year. The 25% cash capital share is more evenly distributed across the years in order to create a smoother impact on the City's Operating Budget and real estate tax rate. Conversely, the use of bonds is more uneven across the ten years.

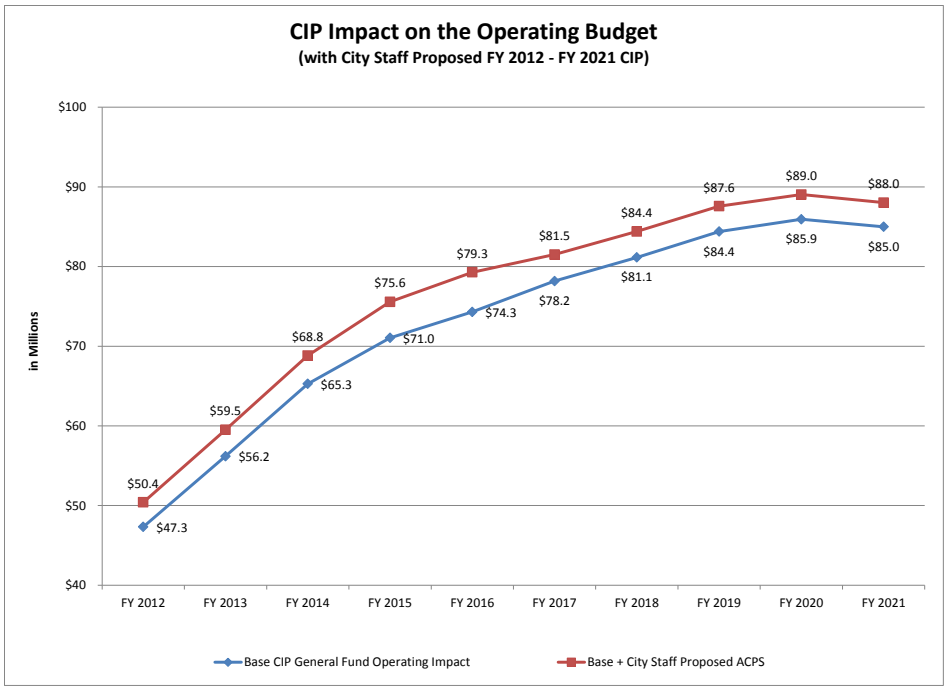
Summary of 10-year Results for Different Options

	Total 10-year Additional Debt	10-year Additional Debt Service & Cash Capital	FY 2012 Increase in Operating Budget	FY 2021 Increase in Operating Budget	Peak of % of Assessed Value Debt Ratio (Year)	10-year Average Additional Real Estate Tax Rate
Option 1: City Staff Proposed	$39.5 million	$35.4 million	$3.1 million	$3.0 million	1.46% (2015)	1.0 cent
Option 2: ACPS Staff Proposed	$140.2 million	$95.7 million	$3.1 million	$13.4 million	1.46% (2015)	2.6 cents

OPTION 1: CITY STAFF RECOMMENDED FY 2012 – FY 2021 CIP (75% BOND FINANCING; 25% CASH CAPITAL):

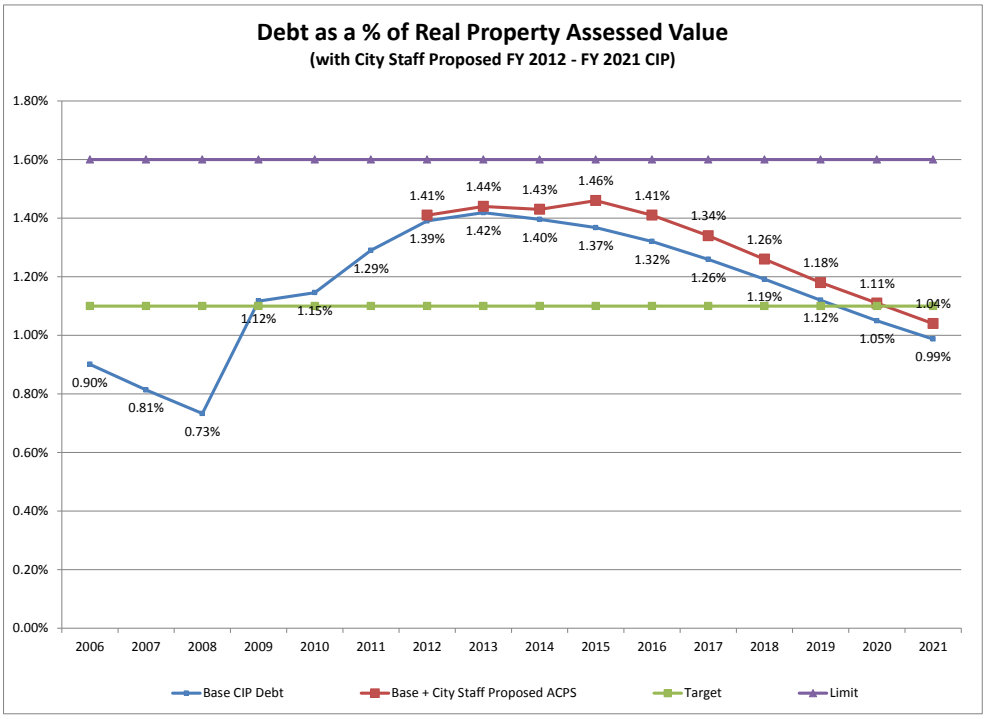
The City staff proposal for additional ACPS projects in FY 2012 – FY 2021 would require an additional $53.0 million in the first five years. The last five years of the CIP would remain at the same levels included in the City Manager's Proposed CIP. These additional projects would be funded by $39.5 million in bonds and $13.5 million in cash capital. Over the ten years, this plan would cost the City's Operating Budget a total of $35.4 million above the City Manager's Proposed CIP.

This option would result in an incremental increase equal to approximately the value of 1 cent (average annual impact is $3.5 million) on the real estate tax rate in each of the next ten years. The peak of the impact is in FY 2016, when an additional $5.0 million (about 1.3 cents) would be needed for cash capital and debt service payments over those required for the base capital program.



In FY 2012, the additional operating budget capital transfer into the CIP would be about $3.0 million, or 0.94 cents on the real estate tax. That number remains right around a cent through FY 2014, where it grows to about 1.3 cents in FY 2015 and FY 2016. The resulting tax rate then drops back below 1 cent through FY 2021 (averages about 0.84 cents). In effect, by adding this school-triggered debt, some other City capital needs now planned in the CIP would not be able to be funded, or would be delayed.

Beyond simply impacting the City's Operating Budget, this funding decision would impact the City's debt guidelines in the coming years. The graph below shows how the most important ratio, Debt as a % of Real Property Assessed Values, is impacted by this increase in proposed investment.



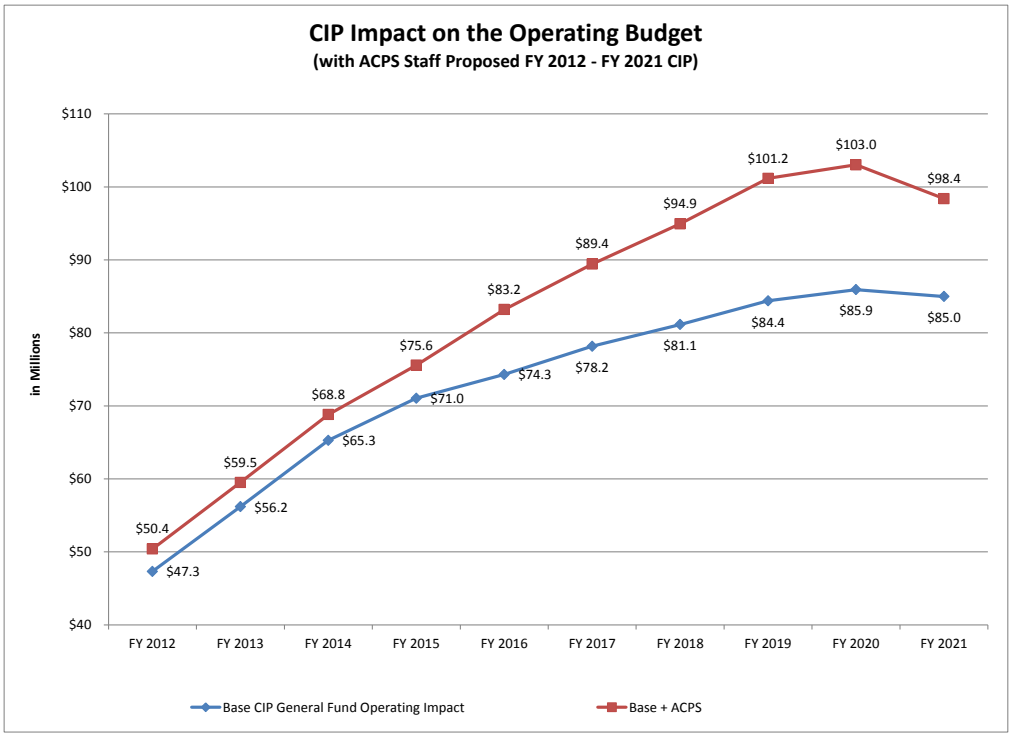
The upper line in this graph represents that impact of funding the base CIP and the additional ACPS capital projects. This plan would result in the City reaching a peak level of 1.46% in FY 2015. After FY 2015, the ratio recovers relatively quickly and drops back below the City's targeted level by FY 2021.

The other two debt guidelines, Debt as a % of Personal Income and Debt Service as a % of General Governmental Expenditures, are also impacted by this additional debt. Neither guideline exceeds the City's limit in any year, but they are pushed closer to the limits than the City would be otherwise. These two graphs can be found in Attachment 1 to this memo.

OPTION 2: ACPS STAFF RECOMMEND FY 2012 – FY 2021 CIP (75% BOND FINANCING; 25% CASH CAPITAL):

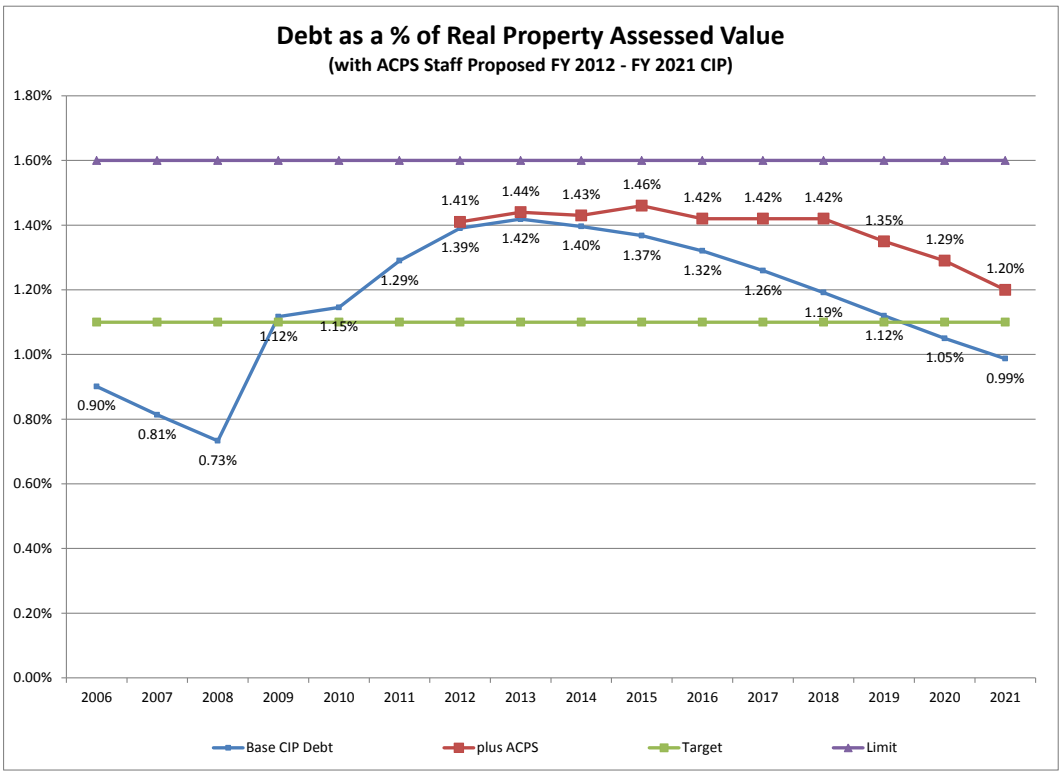
The ACPS staff option for additional ACPS projects in FY 2012 – FY 2021 would require an additional $186.9 million over the ten year period. These additional projects would be funded by $140.1 million in bonds and $46.8 million in cash capital. Over the ten years, this plan would cost the City's Operating Budget a total of $95.7 million above the City Manager's Proposed CIP.

This option would result in a steadily increasing incremental operating cost to the City over the ten years. The peak of this impact is in FY 2020, when an additional $17.1 million would be needed for cash capital and debt service payments over those required for the base capital program.



In FY 2012, the additional operating budget capital transfer into the CIP would be about $3.0 million, or 0.94 cents on the real estate tax. In FY 2013 - FY 2015 the necessary tax rate is equal to that of the City staff proposal, with effective tax rate impacts of 1-cent, 1-cent, and 1.3 cents respectively. In FY 2016, the impact grows quickly to 2.35 cents and gradually increases to a peak of 4.51 cents in FY 2020.

This ten-year proposed project plan would impact the City's debt guidelines more significantly that the City staff proposal because of the additional debt financing required in the out-years. The chart below shows the impact on Debt as a % of Real Property Values.



This plan would result in a peak of 1.46% in FY 2015, which is no higher than the City staff proposal. The real impact is after FY 2015, when the ratio plateaus for three years rather than steadily decreasing. At the end of the ten years, this plan would leave the ratio at 1.2% as opposed to the .99% from the base CIP program.

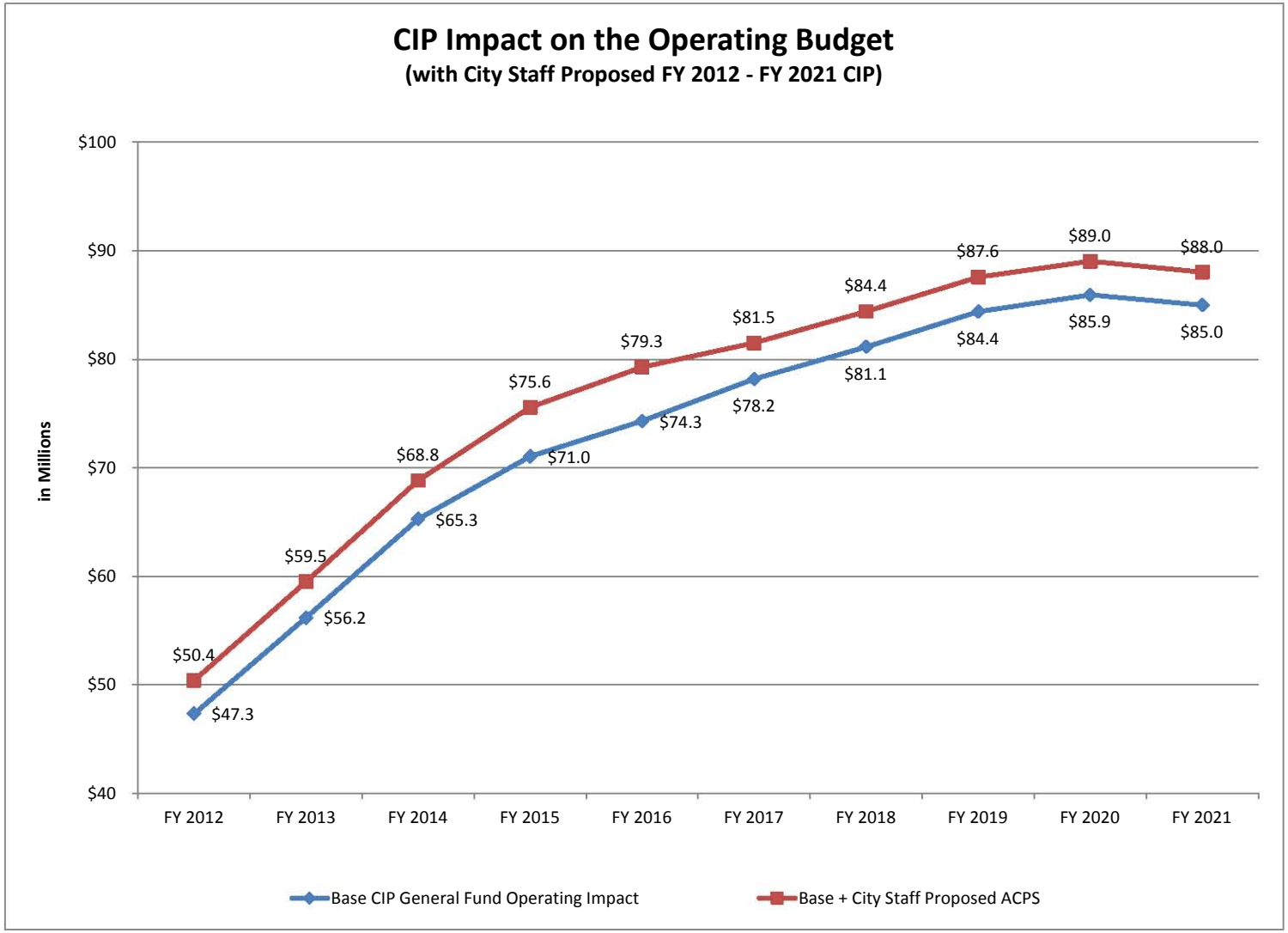
The graphs showing the other two debt ratios, Debt as a % of Personal Income and Debt Service as a % of General Governmental Expenditures, using this financing model can be found in Attachment 2 to this memo.

ATTACHMENTS:

Attachment 1: Option 1 - Operating Impacts and Debt Ratios of funding the City Staff Recommended FY 2012 – FY 2021 CIP for ACPS

Attachment 2: Option 2 - Operating Impacts and Debt Ratios of funding the ACPS Staff Recommended FY 2012 – FY 2021 CIP for ACPS

ATTACHMENT 1: OPTION 1 - FUNDING THE CITY STAFF RECOMMENDED FY 2012 – FY 2021 CIP



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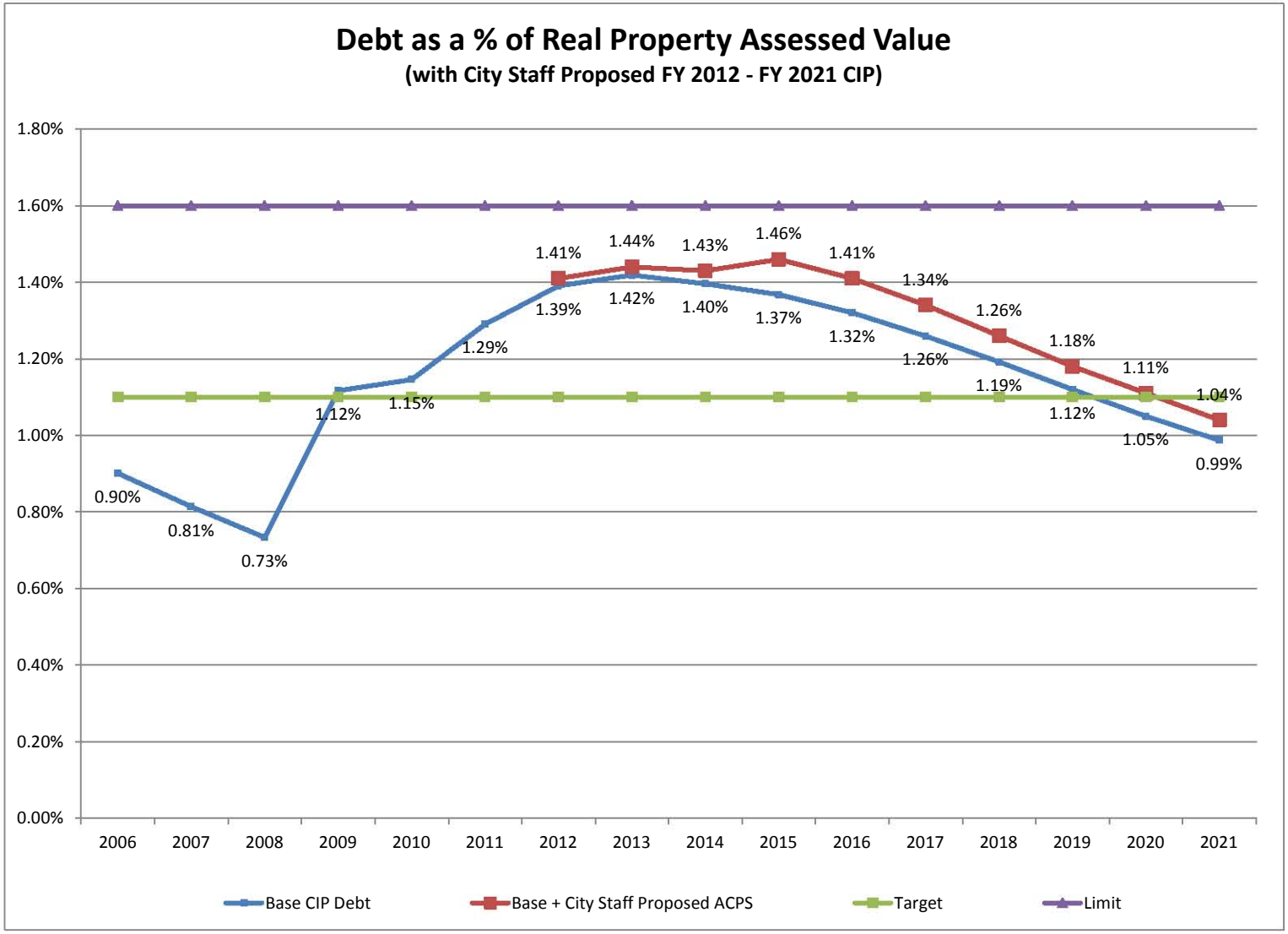

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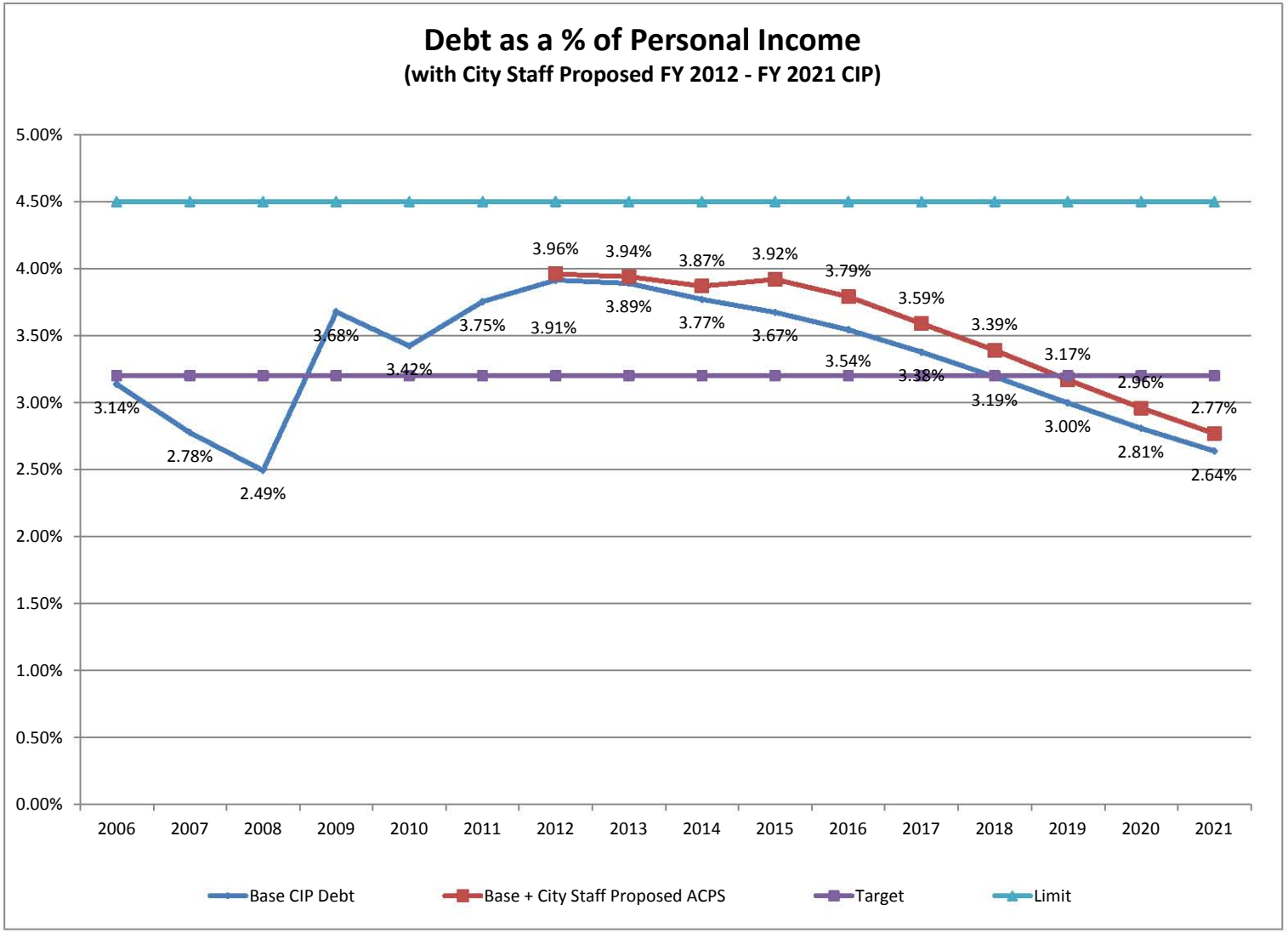

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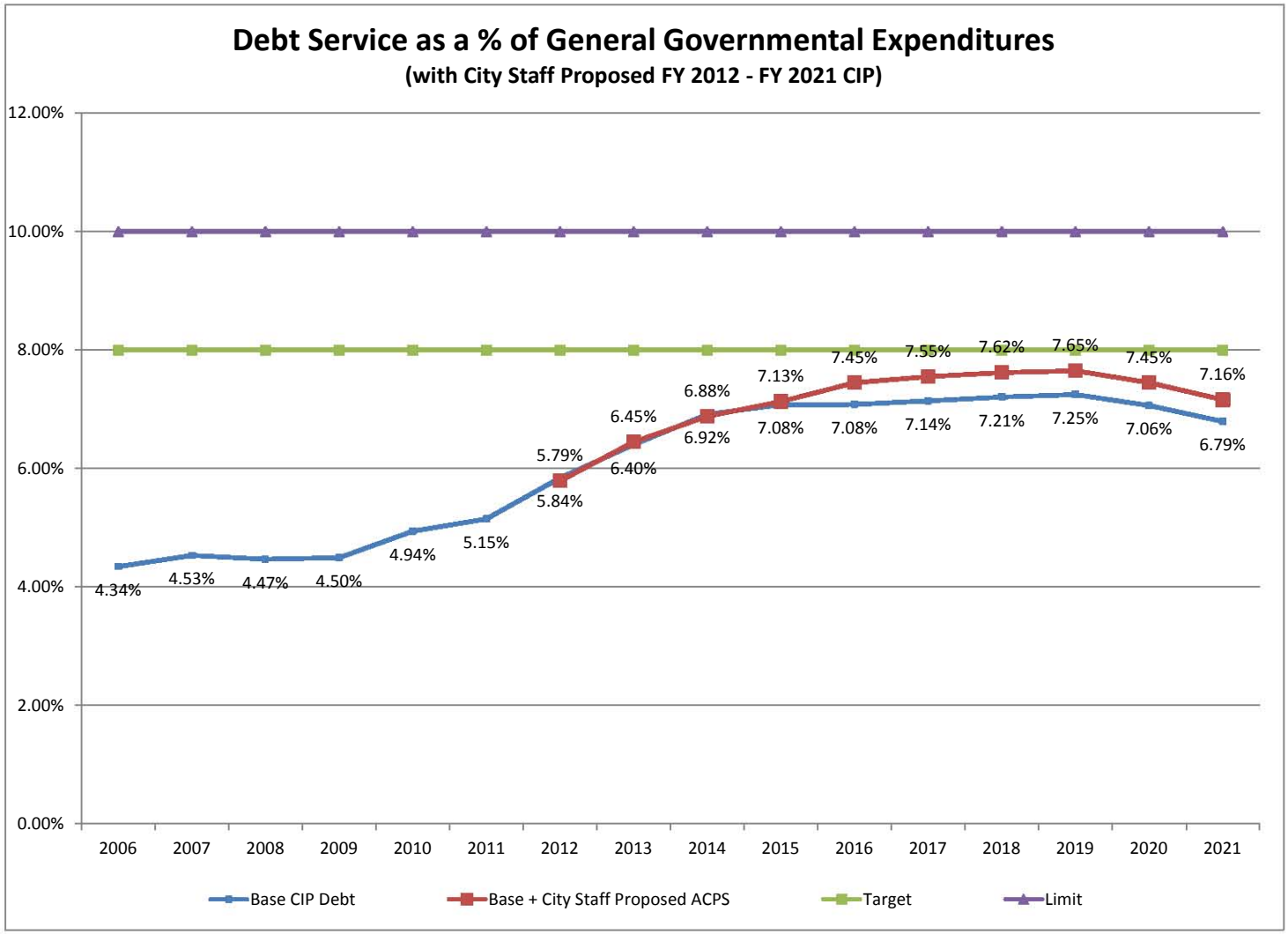
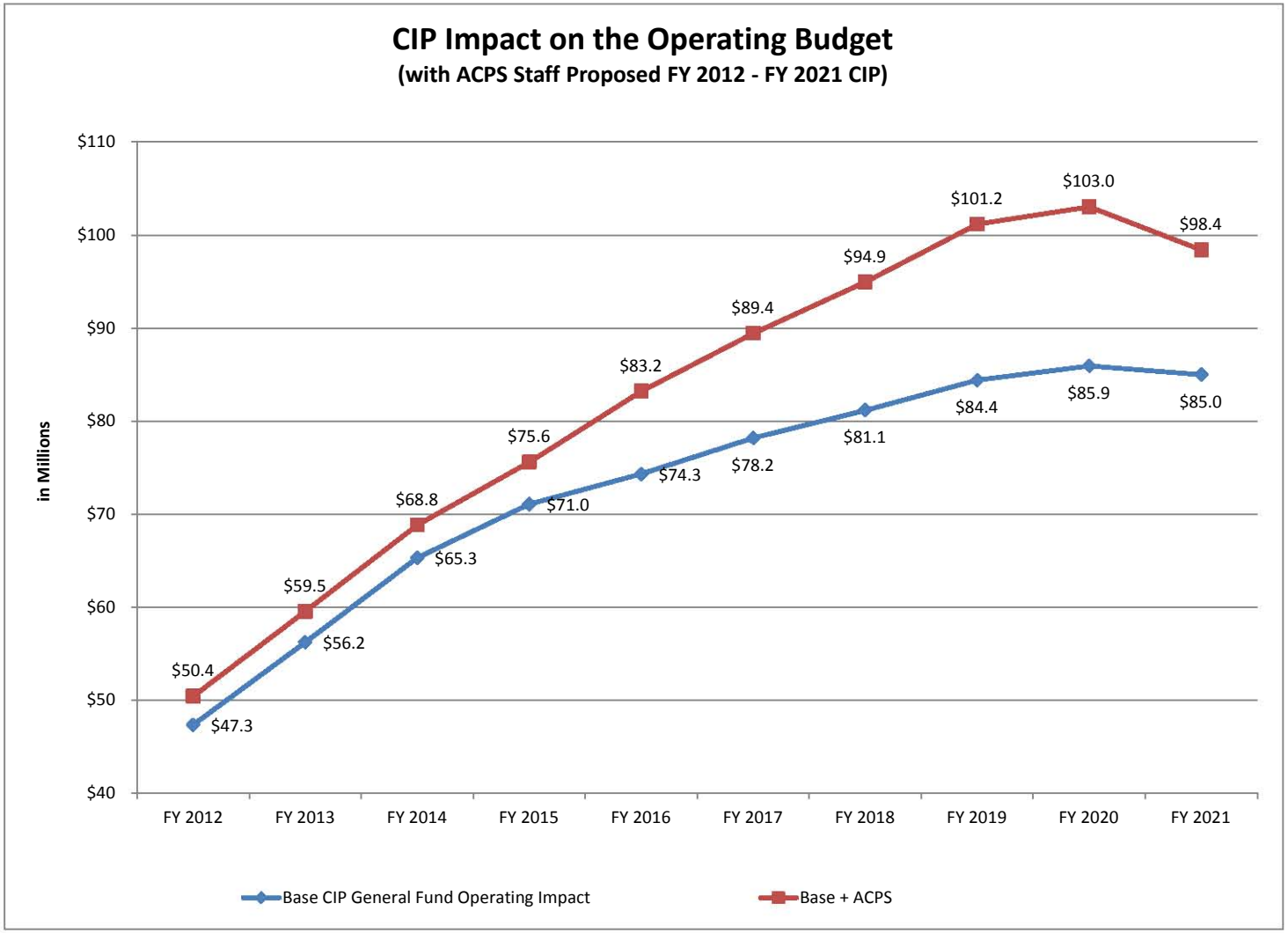


ATTACHMENT 2: OPTION 2 - FUNDING THE SCHOOLS STAFF RECOMMENDED FY 2012 – FY 2021 CIP



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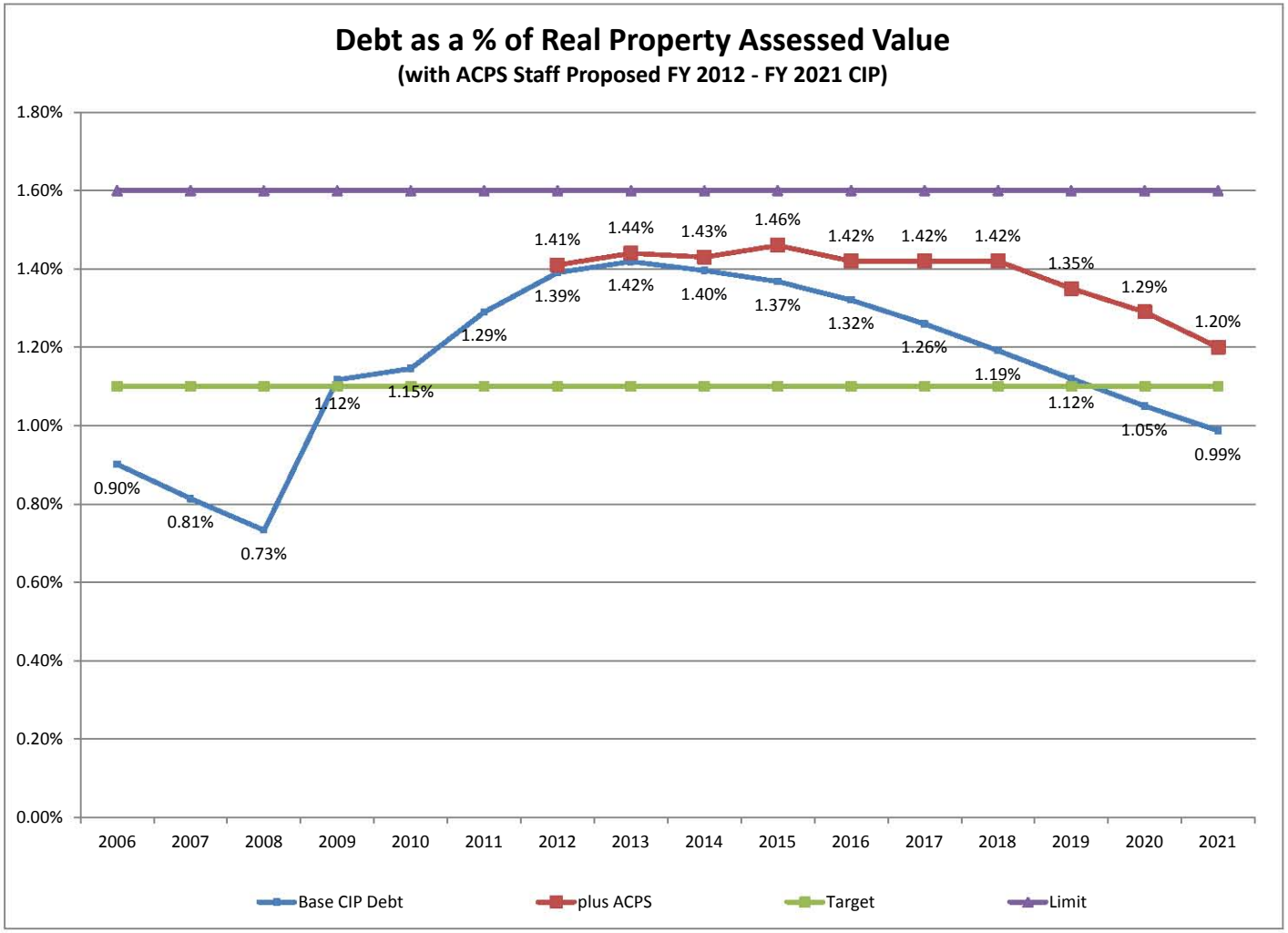

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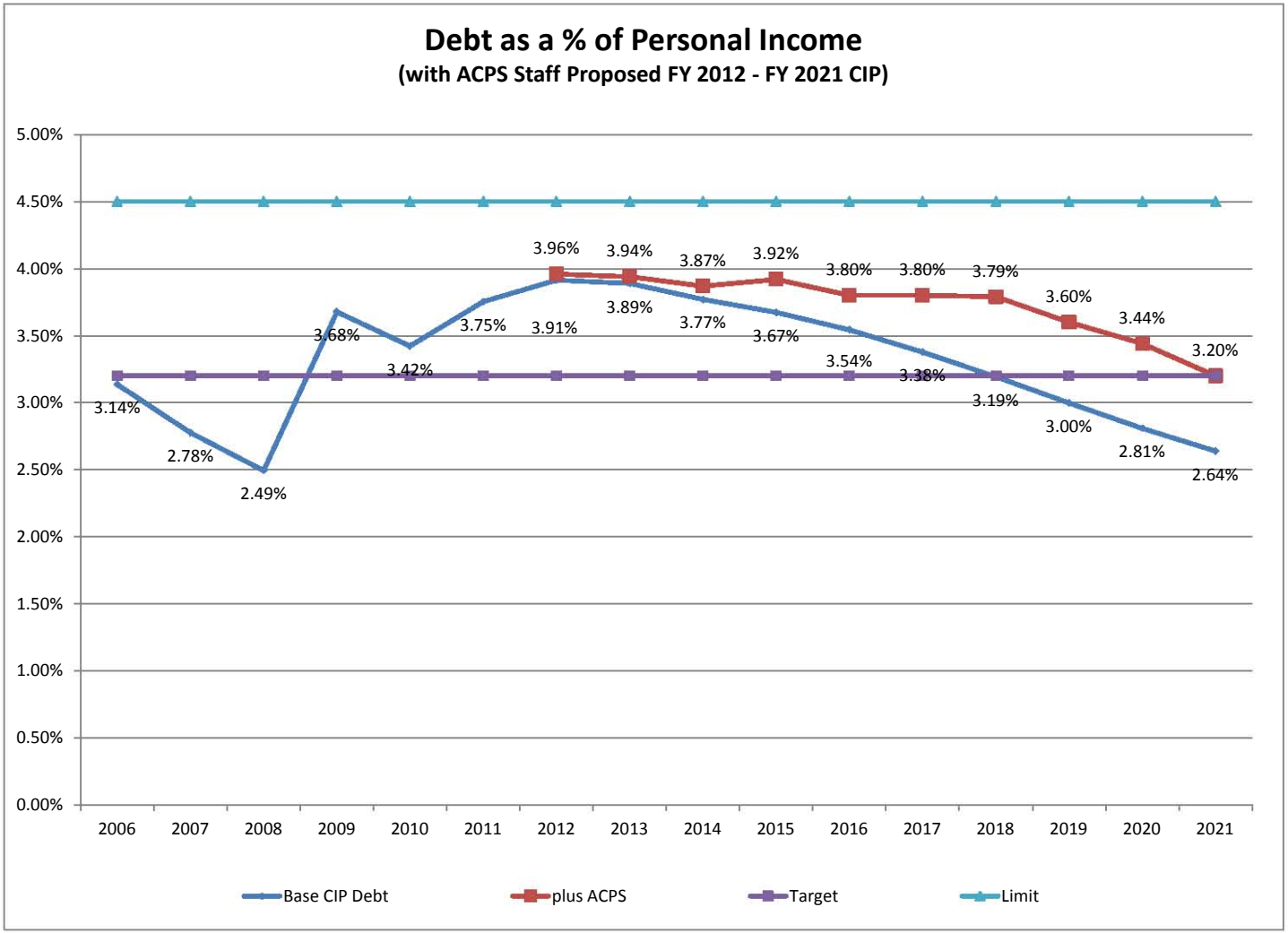
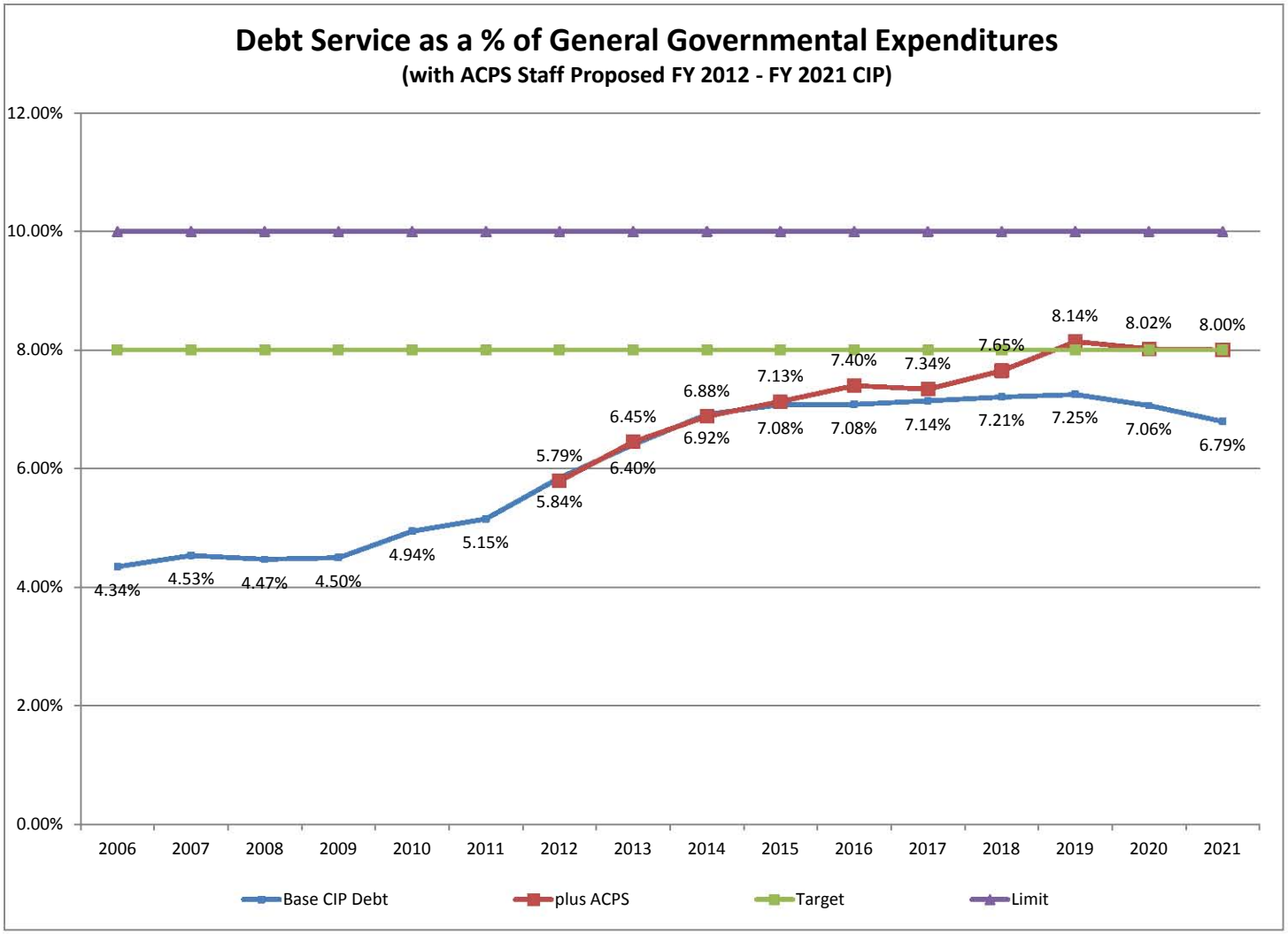
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