City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 5, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #32 : BUDGET SURPLUSES FOR FY 2010 AND FY 2011 AND COMPARISONS OF EXPENDITURES TO BUDGET FOR THE LAST FIVE FISCAL YEARS

SUMMARY: This memorandum responds to a request by Councilman Frank H. Fannon IV that the Office of Management and Budget provide information about and explanations of the budget surpluses for FY 2010 and FY 2011 as well as a comparison of City expenditures to the approved and amended budgets for the last five fiscal years.

BUDGET SURPLUSES: As explained in a memorandum to City Council in October 2010, which recommended that General Fund balances be committed to particular uses, the City did indeed experience a budget surplus in FY 2010 and is anticipated to experience another surplus in FY 2011. These surpluses could not be anticipated during the preparation of the fiscal year budgets as they depended on mid-fiscal year real estate assessments, mid-fiscal year tax rate changes, better than expected improvements in the economy, and expenditure savings over the course of the fiscal year.

The budget surplus for FY 2010 equaled $14.75 million. The 7.5¢ real estate tax rate increase passed by Council in May 2010 produced $11.75 million of this surplus. Careful fiscal management and oversight for expenditures during the fiscal year also provided $3.0 million in uncommitted savings. Of the $11.75 million real estate tax surplus, City Council has already committed $10.97 million to the FY 2011 – FY 2020 Capital Improvement Program (CIP) and $0.78 million to storm water management activities (the taxes attributable to the 0.5¢ stormwater management tax on real estate). The $3 million in FY 2010 budget savings was committed to the FY 2012 Operating Budget ($2 million) and the FY 2011 Storm Emergency Fund ($1 million).

Signs of improvement in the commercial real estate market and other positive economic indicators led to a preliminary estimated FY 2011 budget surplus of $9.19 million in October 2010. Subsequently, after three consecutive years of declines, January 2011 real estate assessments showed an overall increase in assessments of 2.55 percent (a 1.25 percent increase in the value of residential properties and a 4.91 percent increase in the value of commercial properties), which will increase real estate tax revenues over the budgeted amount regardless of the tax rate set in May. The ultimate size of the FY 2011 surplus; however, will depend heavily on whether City Council maintains the current real estate tax rate of $0.978 per $100 in assessed value for calendar year 2011 or includes an increase in the tax rate to $1.00 per $100 in assessed value and/or the transportation add-on tax for commercial properties to fund any additional FY

2012 Council priorities. At this time, the anticipated FY 2011 surplus of $9.19 million has been committed in the City Manager's proposed budget to the following:

Commitments and Uses

August 2010 Storm	$0.80 million
FY 2012 Operating Budget	2.75 million
FY 2012 CIP	2.53 million
FY 2011 Incomplete Projects	2.25 million
Total Commitments	**$8.33 million**
Increase to Spendable Fund Balance	$0.86 million
Total	**$9.19 million**

The City's General Fund Balance declined in both FY 2008 and FY 2009 as a result of the City's response to the national economic crisis, the use of fund balance funding of the City's OPEB Trust, and some other planned use of fund balances. (City financial policy prohibits the use of fund balances for recurring operating expenses for more than two years in a row.) The Spendable (Unreserved) General Fund Balance fell to 9.3 percent of FY 2008 actual General Fund revenues as of June 30, 2009, below the minimum of 10.0 percent set by City Council in 1986. In part due to the additional FY 2010 surplus, the City was able to increase the General Fund Balance by $9.8 million by the end of FY 2010 and bring the Spendable (Unreserved) General Fund balance to 11.1 percent of General Fund revenues, in line with the City's financial policy minimum of 10.0 percent.

EXPENDITURE COMPARISONS: The table below compares actual City General Fund expenditures for the last five fiscal years to the approved and amended budgets. These amounts are part of the budget surpluses previously committed. (The transfer for Schools operating expenses in excluded.)

Expenditures				
	Approved	**Amended**	**Actual**	**Actual/Amended**
FY 2010	$313.1 million	$311.2 million	$299.5 million	($11.8 million)
FY 2009	$320.3 million	$317.7 million	$306.9 million	($10.8 million)
FY 2008	$297.2 million	$303.1 million	$297.8 million	($5.3 million)
FY 2007	$286.2 million	$296.7 million	$290.2 million	($6.5 million)
FY 2006	$264.9 million	$270.4 million	$263.8 million	($6.6 million)

In the pre-crisis years (FY 2006 to FY 2008), City expenditures came in below the amended budget by an average of 2.11 percent. Primarily as a result of fiscal restraint by all City departments to stop spending in order to manage potential declines in the City's revenue base, expenditures for FY 2009 and FY 2010 averaged 3.59 percent below the amended budget.

STAFF:
Bruce Johnson, Chief Financial Officer
Laura B. Triggs, Director of Finance