

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 15, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER 

SUBJECT: BUDGET MEMO #56: POTENTIAL REDUCTION OPTIONS IN THE CAPITAL IMPROVEMENT PROGRAM

At the request of City Council, staff has reviewed the City Manager's FY 2012 Proposed Capital Improvement Program in an effort to identify possible budget reductions that could be taken in FY 2012.

Staff identified a total of \$3.52 million in potential one-time funding sources for the CIP. These funds could either serve as funding sources for other capital expenditures or reductions in planned capital expenditures. These are described below.

In addition, Budget Memos #52 and #54 have identified \$2.65 million in one-time revenue or carryover balance sources from FY 2011 that we recommend be used for one-time capital expenditures. This creates a total of \$6.17 million in available one-time funding. This memo also recommends how these one-time expenditure savings and one-time revenue sources may impact the FY 2012 operating budget.

Source of Funds

The review of the City Manager's Proposed CIP and prior CIP balances identified \$3.52 million in CIP reduction options that could potentially be taken by City Council. These reductions, shown in the table below, include both reallocated prior year balances and reductions in proposed FY 2012 CIP expenditures. More information on the impetus behind these potential reductions is included in Attachment A to this memo.

Potential CIP Reduction Options

Capital Project	Reallocated Prior Year Balance	FY'12 Proposed Funding	Total
Windmill Hill Park Bulkhead	\$ 1,350,000	\$ -	\$ 1,350,000
WMATA Capital Contribution	\$ 1,800,000	\$ -	\$ 1,800,000
Environmental Restoration	\$ -	\$ 122,000	\$ 122,000
Non-Motorized Transportation (Safety)	\$ -	\$ 100,000	\$ 100,000
Non-Motorized Transportation (Mobility)	\$ -	\$ 150,000	\$ 150,000
TOTAL	\$ 3,150,000	\$ 372,000	\$ 3,522,000

In addition to these expenditure reduction options, \$2.65 million in other one-time sources have been identified for possible use in the CIP. The table below shows an analysis of all reestimates and optional changes provided to City Council by the City Manager and whether those sources are one-time or recurring in nature.

Analysis of Reestimates and Optional Changes			
	Technical	Optional	
	Reestimates	Changes	Total
One-Time	\$ 1,691,100	\$ 4,482,214	\$ 6,173,314
Recurring	\$ 2,436,677	\$ 1,905,679	\$ 4,342,356
Total	\$ 4,127,777	\$ 6,387,893	\$ 10,515,670
Technical Reestimates			
	<u>Amount</u>	<u>Category</u>	
Technical Reestimates 2012 Expenditures BM #53	\$ 607,120	Recurring Reest.	
<u>Technical Revenue Reest Memo #52</u>			
2011 Technical Revenue Reestimates	\$ 1,691,100	One-time Reest.	
<u>2012 Technical Revenue Reestimates</u>	\$ 1,829,557	Recurring Reest.	
Total	\$ 4,127,777		
Optional Expenditure Reductions BM #53			
		<u>Category</u>	
Fund Balance Reallocation \$500,000 Snow Emergenc	\$ 960,214	One-time Opt. Change	
Fund Balance Reallocation \$460, FY 2011			
Contingent Reserve Balances	\$ 460,214	Recurring Opt. Change	
Supplemental Requests in CM Base Budget	\$ 1,365,679		
Line of Duty Benefits	\$ 240,000	Recurring Opt. Change	
<u>FY 2012 Contingent Reserves</u>	\$ 300,000	Recurring Opt. Change	
Total	\$ 3,326,107		
Optional CIP Reductions			
		<u>Category</u>	
Windmill Hill Bulkhead	\$ 1,350,000	One-time Opt. Change	
WMATA Capital	\$ 1,800,000	One-time Opt. Change	
Environmental Restoration	\$ 122,000	One-time Opt. Change	
Non Motor Safety	\$ 100,000	One-time Opt. Change	
<u>Non-Motor Transp.</u>	\$ 150,000	One-time Opt. Change	
Total	\$ 3,522,000		

Our debt policy guidelines say that when additional General Fund balances become available at the end of the fiscal year, the priority would be given to designating this fund balance for pay-as-you-go cash capital. City staff believes it would be good practice to use all one-time funding sources (in addition to year-end surpluses) for CIP needs. We also recommend, as discussed below, that the \$6.17 million in potential one-time sources (or whatever number City Council agrees to include in the final budget) be spread over the next three fiscal years as cash capital and not be used all in FY 2012. This choice would help avoid having to “replace” a large one-time infusion of cash capital in the FY 2013 or FY 2014 budget in order to continue with the 2nd and 3rd years of the joint city/school staff recommendation for additional School CIP projects, or whatever other capital projects City Council might decide to include in a revised CIP.

Using the One-Time Funds (options summarized in Attachment B)

Option 1. The first option for using these one-time funding sources would be to apply the total savings equally over a three year period (FY 2012 – FY 2014) as additional cash capital. This option is what City Staff recommends. If all the expenditure reductions and one-time revenues described above are taken, this would equal about \$2.05 million annually for three years (total of \$6.17 million).

- Applied against the potential “add” of the joint staff proposal for Schools CIP projects, Option 1 would reduce the necessary real estate tax rate increase – or expenditure reduction -- from \$3.1 million (equal to about 1 cent on the tax rate) in each year to about \$0.975 million (or 0.3 cents) in FY 2012, and \$1.3 million (or 0.4 cents) in FY 2013 and FY 2014.
- By FY 2015 the full impact of \$4.2 million (or 1.3 cents) described in Budget Memo #24 would be needed.
- Option 1 could also be applied against the operating budget cost of the Base CIP, assuming a smaller amount of CIP “adds,” or it theoretically could be applied to Transportation Add-on Tax projects as well.

Option 2. This option assumes that all one-time sources are applied 25% as a reduction in necessary cash capital and 75% as a reduction in borrowing. Depending on individual decisions of City Council, the overall net impact of the add-delete process on the CIP could either be positive or negative.

An example - Option 2a - assumes a negative impact (i.e., “adds” are greater than “deletes”).

- Option 2a assumes City Council chooses to take all the CIP expenditure reductions outlined in this memo (\$3.52 million) as well as all of the one-time revenue options (\$2.65 million), and then also opts to “add” the \$8.29 million in ACPS projects outlined in the joint City-ACPS staff proposal.
- Using Option 2, 25% of the one-time funding sources (\$1.54 million) would be applied as cash capital and 75% as a reduction in borrowing (\$4.63 million). This would reduce the new funding needed for the APCS capital plan to \$1.45 million in cash capital (approximately 0.5 cents on the real estate tax rate) and \$0.7 million in new borrowing (down from \$5.3 million).

Another example - Option 2b - assumes the impact on the CIP through the add-delete process could be positive (i.e., “deletes” are greater than “adds”).

- Option 2b assumes City Council chooses to take all the CIP expenditure reduction options and all the one-time revenue options, and chooses not to add any new projects to the Base CIP. The net result of these actions would be a hypothetical \$6.17 million funding surplus for the FY 2012 CIP. Using a similar strategy as Option 2, 25% of this surplus would be realized through a reduction in cash capital from current appropriations (\$1.54 million) and 75% by a reduction in assumed borrowing from the Base CIP (\$4.63 million). This would free up \$1.54 million in revenues for other FY 2012 uses.

Staff believes that Option 1 is the best option in terms of trying to balance capital asset needs (such as ACPS capacity) with conservative capital financing strategies. This option stretches the use of these one-time funding sources over multiple years, which helps avoid a more difficult funding situation in FY 2013 (tax rate increase or additional expenditure reductions).

The mix of 25% cash capital and 75% bonds is simply being used as a beginning assumption for the add-delete process. A more cash capital heavy ratio (above 25%) could be chosen to lead to a more conservative financial approach for the City. This choice of ratio becomes very important as the City moves from FY 2012 to FY 2013 and beyond. This ratio will be discussed further as the City adopts a cash capital guideline as part of the revision to the debt policy guidelines under discussion with the Budget and Fiscal Affairs Advisory Committee (BFAAC).

An important consideration for City Council during the add-delete process concerns the multi-year, joint staff proposal for ACPS projects. This is important because the expenditure reductions and one-time revenues are all non-recurring after FY 2012. The joint staff proposal for ACPS CIP projects is a multi-year plan requiring multi-year funding sources. A permanent solution to the ACPS part of the CIP would be a multi-year revenue source (a tax rate increase) equal to approximately \$3.0 million annually, or a recurring, multi-year expenditure reduction plan equal to the value of capital project expenditures included in the joint City-ACPS staff proposal (\$48.1 million total in FY 2012 – FY 2015). If the City does not fully fund this \$3.1 million with a multi-year solution (a tax rate or multi-year reduction plan), this amount will need to be “made up” each year in FY 2013 and beyond with either one-time solutions or a future permanent tax rate increase.

City staff will discuss these funding choices at the Preliminary Add-Delete work session with City Council on April 25th and seek agreement on how to use one-time sources of funds consistently in all members proposed add-deletes going into the Final Add-Delete work session and budget adoption on May 2nd.

ATTACHMENTS:

- A. Description of Expenditure Reductions Included as Funding Sources
- B. Summary of Options for Applying One-Time Funding Sources

Budget Memo 55 - Attachment A
Expenditure Reductions Included as Funding Sources

Project	Prior Year Balance	FY 2012 Proposed	Notes
Windmill Hill Park Bulkhead	\$1,350,000	\$0	<p>The \$785k unallocated balance and \$565k allocated project balance (\$1.35 million total) were designated for a match for potential grants. Staff worked closely with USACE in an attempt secure 510 Program Funding for this project. In January 2011, the City was notified that the grant application was not accepted into the program. It is anticipated that alternate grant funds for this project will be explored, although no specific grant is known at this time. The total project costs is estimated to be \$5.3 million. In order to fully fund this project, this \$1.35 million would need to be replaced in the future and combined with the FY 2016 & FY 2017 funding totaling \$4.0 million.</p> <p>Council has three options: (1) Do nothing with these funds and leave the balance for the future bulkhead project at Windmill Hill Park; (2) leave the funds and make them available for future costs of implementing a portion of the Waterfront Plan; or (3) use the funds for other FY 2012 CIP projects and replace the Windmill Hill project funding in future years.</p>
WMATA Capital	\$1,800,000	\$0	Over the life of the previous Metro Matters Agreement with WMATA, a total of \$1.8 million in expenditure savings was accumulated, primarily due to slower than anticipated implementation of capital projects by WMATA. This balance was kept available for the WMATA capital contribution project through FY 2011 until the City better understood the level of funding required for the new WMATA capital funding agreement. At this time the new agreement is fully funded and this \$1.8 million in funds could be utilized for other City CIP uses.
Environmental Restoration	\$0	\$122,000	While this project is considered highly important, the City can stretch available prior year balances and Stormwater Management Fund revenues to cover FY 2012 needs.
Non-Motorized Transportation (Safety)	\$0	\$100,000	The City can stretch prior year balances out to cover essential FY 2012 needs. It is likely that some capital investments will be delayed, primarily consisting of minor pedestrian and bicycle safety improvements.
Non-Motorized Transportation (Mobility)	\$0	\$150,000	The City can stretch prior year balances out to cover essential FY 2012 needs. It is likely that some capital investments will be delayed, primarily consisting of on-street bike trail markings and some curb and gutter capital maintenance.
TOTAL	\$3,150,000	\$372,000	

Budget Memo 55 - Attachment B
Options for Applying One-Time Funding Sources

OPTIONS*	Reduction in Cash Capital	Reduction in Borrowing	Notes
1 - Apply savings to capital needs over three years ('12-'14) as cash capital	\$2.05 M (each year in '12-'14))	\$ -	<ul style="list-style-type: none"> - Could reduce required cash capital transfer for ACPS needs by \$2.05 million in the next three years. - Could reduce real estate tax rate increase needed for ACPS plan to 0.3 cents in FY'12, 0.4 cents in FY'13, 0.4 cents in FY'14, and 1.3 cents in FY'15 and FY'16.
2 - Apply savings against City Council "adds" using 25% cash / 75% bonds ratio	\$1.54 M	\$4.63 M	<ul style="list-style-type: none"> - Could reduce new funding needed for ACPS capital plan to \$1.45 million cash capital and \$0.7 million bonds in FY 2012. - Could reduce real estate tax rate increase needed for ACPS to 0.5 cents in FY'12, 1.0 cent in FY'13 and FY'14, and then 1.3 cents in FY'15 and FY'16.
3 - Apply savings against the Base CIP using 25% cash / 75% bonds ratio	\$1.54 M	\$4.63 M	<ul style="list-style-type: none"> - Savings would not address School capital needs, which would need to be handled separately by a 1.0 cent real estate tax increase. - Reduces Operating Budget impact of the CIP over time by reducing future debt service - Makes available \$1.54 million in one-time monies in FY 2012

* Options assume all one-time funding sources are utilized by City Council for illustration