City of Alexandria, Virginia

MEMORANDUM

DATE: AUGUST 11, 2011

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BRUCE JOHNSON, ACTING CITY MANAGER

SUBJECT: MONTHLY FINANCIAL REPORT FOR THE PERIOD ENDING JUNE 30, 2011

ISSUE: Receipt, on an informational basis, of the City's Monthly Financial Report for the period ending June 30, 2011. Since City Council's next meeting is in September, this report is informational in nature and will not be docketed for City Council Action.

RECOMMENDATION: That City Council receive the following Monthly Financial Report for the period ending June 30, 2011.

DISCUSSION: This report includes highlights of the City's financial condition and provides Fiscal Year (FY) 2011 financial information on revenues and expenditures of the General Fund for the period ending June 30, 2011. Final revenues and expenditures for FY 2011 will be reported later this year in the City's audited Comprehensive Annual Financial Report (CAFR). The CAFR will reflect additional revenues received and FY 2011 disbursements made through the end of summer that are attributable to FY 2011. Detailed economic, revenue, and expenditure charts are also available from the City of Alexandria website at alexandriava.gov/financialreports.

This report does not reflect any economic impacts from either the federal debt ceiling debate/controversy or the recent stock market decline of late July and early August. City staff will continue to monitor economic and City revenue trends closely and notify City Council immediately of any noticeable, sudden changes.

ECONOMIC HIGHLIGHTS:

- **Revised GDP numbers reflect a stagnant national economy.** GDP estimates released by the U.S. Bureau of Economic Analysis (BEA) show 1.3 percent growth for the second quarter of 2011, which is much lower than previously expected. BEA also released revised GDP numbers for first quarter 2011, lowering GDP growth to 0.4 percent from 1.9 percent. Revised GDP data for the last four years show that current GDP has not yet reached the 2007 peak. Since GDP data has been revised downward for every quarter since 2007, it is likely that second quarter 2011 estimates are higher than actual growth and the U.S. economy is now stagnant.
- **The U.S. Department of Labor's July jobs report was better than expected.** The national economy created 117,000 jobs in July, up from 18,000 in June, and national unemployment dipped to 9.1 percent from 9.2 percent in June. Analysts had expected an increase of only 85,000 jobs in July.

- **The City's unemployment rate increased in May and June.** The City unemployment rate increased to 4.8 percent in June, up from 4.5 percent in May and 4.1 percent in April. Meanwhile, the Virginia unemployment rate remained flat at 6.0 percent and the national rate increased only slightly to 9.2 percent in June. It is important to note that the state and national unemployment rates are seasonally adjusted, while the Alexandria rate is not. The May/June spike is an artifact of the City's labor force growing faster than the number of employed residents since recent graduates and college students seeking summer employment enter the market in the late spring and summer. Note that although the unemployment rate has gone up, the number of employed increased slightly, just not as fast as the number seeking jobs.
- **City staff is reviewing the indirect effects of the debt ceiling/deficit-reduction agreements in Congress.** Federal budget cuts are expected to directly and indirectly affect the City economy, budget and financial condition. Staff is reviewing currently available data to determine what effects can be expected and what steps can be taken to address any problems that may arise. City Council has already received an August 1 memo on the potential direct impacts on the City budget. Given that the structure of the federal budget cuts will not be known until November or December and specific cuts will not be known until the spring, a situation of uncertainty will exist through the fall and into the spring and dampen federal contracting, federal hiring and federal government-related business travel. Hence, City tax revenues will be impacted.
- **The City real estate market continues to improve.** In some good news, the calendar year-to-date average residential sales price of $540,558 was 24.4 percent higher than last year at this time. This figure does not imply a potential growth in assessments at that rate. The average sales price reflects a different mix of properties sold (i.e. more higher-value homes sold this year than last year). In comparing sales to 2011 assessments, it appears that overall home sales (excluding foreclosure sales and short sales) are running about 22.5 percent over assessments. Reflecting a healthier market, the months' worth of inventory for houses declined to 1.5 months in June, down from 1.7 months in May 2011 and 3.0 months in June 2010. The months' worth of inventory for condominiums also declined to 2.8 months in June, down from 3.4 months in May 2011 and 4.8 months in June 2010. In the multi-family residential sector, a substantial number of projects are now underway or should get underway before the close of 2011.

REVENUE HIGHLIGHTS:

Year-to-Date Revenues: As of June 30, 2011, Online Reference 2 shows actual General Fund revenues totaled $533.2 million, which is 3.5 percent higher than FY 2010 revenues for the same period last year. Most of this increase is related to real estate, personal property tax and the other local tax categories, which are up over last year. We believe that we will at least achieve, if not exceed, the April revenue forecast once final CAFR figures are available.

Notable changes shown on Online Reference 2 include:

- **Real Estate Taxes Up 3 Percent:** The revenue estimate shown in Online Reference 2 includes the final real estate tax rate of 99.8 cents per $100 of assessed value approved by Council on May 2. This rate includes an allocation of 2.2 cents of the property tax increase to pay for transportation improvements, providing $3.5 million for that purpose from FY 2011 revenues. These funds will be counted as General Fund Revenue and be recorded as a committed General Fund Balance in the City's FY 2011 Comprehensive Annual Financial Report.

- **Business License Up 1 Percent:** Increased collections represent additional enforcement actions undertaken in May.
- **Revenue from the Federal Government Up 24 Percent**: The City received $1.2 million budgeted in FY 2011 for the Build America Bonds subsidy as compared to $0.4 million in FY 2010. The associated interest expense is included in debt service. Also, federal prisoner per diem revenue is higher.
- **Licenses and Permits Down 47 Percent**: The category decrease is due to the transfer of approximately $3.8 million budgeted for new construction fees from the General Fund to a special revenue account beginning July 1, 2010, where they will be used to cover the cost of Code Enforcement's New Construction Division, which is now self-financed from these permit fees.

EXPENDITURE HIGHLIGHTS:

Year-to-Date Expenditures: As of June 30, 2011, Attachment 3 shows actual General Fund expenditures totaled $494.4 million, an increase of $17.9 million, or 3.7 percent, above expenditures for the same period last year. (It should be noted that last year expenditures were approximately $10 million less than revenues at year-end.) The revised budget (column B) reflects amounts that were appropriated in the supplemental appropriation ordinances approved in December, April and June. Personnel expenditures remain on par with last year. These personnel expenditures are just slightly higher (1.1 percent) than last year. Non-personnel spending increased 5.4 percent over last year at this time.

- **Transit Subsidies:** In FY 2010, the City recognized $3.1 million in savings in Transit subsidy payments to WMATA by utilizing State revenues available above those budgeted for this purpose with the Northern Virginia Transportation Commission (from regional gas tax collections and State aid dedicated for transit purposes). It is these savings in the prior year that produced the substantial increase (62 percent) in FY 2011 in this category.
- **Non Departmental:** The decrease primarily reflects a budgeted decrease in the City's contribution to the Other Post-Employment Benefits (OPEB) Trust Fund.
- **Debt Service**: The increase reflects budgeted debt service for new bonds issued in June 2009 and June 2010. A portion of the interest cost ($1.2 million) is reimbursed from the federal government as part of the Build America Bonds program as noted above.
- **Schools**: The City currently provides approximately 76 percent of the estimated funds budgeted to operate the City public school system in FY 2011. The increase reflects the budgeted 2 percent increase in the transfer to the Schools.

ATTACHMENTS:

Attachment 1: Selected Economic Indicators
Attachment 2: Revenues
Attachment 3: Expenditures

STAFF:

Laura Triggs, Acting Chief Financial Officer
Ray Welch, Comptroller
Melinda Barton, Public Information Specialist
Morgan Routt, Assistant Director, OMB