

*City of Alexandria, Virginia*

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MEMORANDUM

DATE: MARCH 24, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #29: TRENDS IN REVENUE ESTIMATION

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This memorandum is in response to Councilwoman Woodson's request for information regarding trends in budget revenue estimation. The tables below contain budgeted revenues, actual revenues, the difference, and the percentage of the difference compared to budgeted revenues. The first table makes this comparison with the estimate made in April, two months before the end of the fiscal year in question when City Council has an opportunity to use any surplus current year revenues during the budget add/delete session for the upcoming fiscal year. The second table makes this comparison with the original approved budget, which is passed by Council about 12 months earlier.

The City updates its current year's revenue forecasts at about the time the next fiscal year's budget is approved. For example, for the FY 2006 budget process, the City staff did a final update to its FY 2005 revenue estimates in April 2005. The table below contains updated revenues, actual revenues, the difference, and the percentage of the difference compared to budgeted revenues.

### Revised April revenue estimation and actual revenues (FY 1996 - FY 2005)

Fiscal Year	Updated Revenues in April of Fiscal Year \$	Actual Revenues \$	Difference \$	Difference %
1996	240,165,500	244,753,468	4,587,968	1.91%
1997	249,334,000	249,967,425	633,425	0.25%
1998	261,464,000	264,784,568	3,320,568	1.27%
1999	275,378,415	282,803,320	7,424,905	2.70%
2000	301,402,000	309,030,022	7,628,022	2.53%
2001	335,472,600	336,958,629	1,486,029	0.44%
2002	358,407,800	361,402,403	2,994,603	0.84%
2003	371,943,400	376,556,596	4,613,196	1.24%
2004	401,513,103	408,341,063	6,827,960	1.70%
2005	434,302,021	438,949,718	4,647,697	1.07%

Source: City of Alexandria Approved Operating Budget FY 1997-FY 2006  
City of Alexandria Proposed Operating Budget FY 2007

In the last five years, the budget revised revenue projections have been exceeded by actual revenues on average by 1.18%, which in a \$500 million budget equals around \$6,000,000.

Barring an incident such as 9-11 (FY 2002), most revenue projections are fairly reliable, but conservative revenue projections prevent mid-year budget dislocations and budget shortfalls, which is why the bond rating agencies consider conservative revenue projections a sign of strong fiscal management and often mention it in their rating reports.

A conservative projection (albeit with just a 1% margin) is highly recommended because overprojections can trigger:

- 1) Mid-year budget dislocations (hiring freezes, etc.),
- 2) Artificially small growth rate in the subsequent budget year,
- 3) Risk of year-end shortfalls,
- 4) Rating agency concerns.

Also, if a much greater FY 2006 revenue total was assumed and used to finance the FY 2007 operating budget it would cause the carryover (revenue surpluses are one-time in nature) for FY 2007 to increase from the current (\$7.8 million) to a higher amount. Raising that \$7.8 million much higher is problematic in its implications for FY 2008 if such a large surplus cannot be repeated again and would make FY 2008 a more difficult budget.

The second chart below compares revenues from the initial approved budget to actual revenues. For example, the estimate for revenues in FY 2005 was made in April 2004 and is comprised largely of additional projected real estate tax revenues.

**Budget estimation and actual revenues (FY 1996 - FY 2005)**

<b>Fiscal Year</b>	<b>Budgeted Revenues (\$)</b>	<b>Actual Revenues \$</b>	<b>Difference \$</b>	<b>Difference %</b>
1996	232,339,000	244,753,468	12,414,468	5.34%
1997	240,388,000	249,967,425	9,579,425	3.98%
1998	256,100,100	264,784,568	8,684,568	3.39%
1999	272,295,000	282,803,316	10,508,316	3.86%
2000	287,819,000	309,030,022	21,181,022	7.36%
2001	317,880,350	336,958,629	19,078,279	6.00%
2002	346,665,550	361,402,403	14,736,853	4.25%
2003	363,354,600	375,556,596	13,201,996	3.63%
2004	390,211,586	408,341,063	18,129,477	4.65%
2005	428,516,876	438,949,718	10,432,842	2.43%

Source: City of Alexandria Approved Operating Budget FY 1997 - FY 2006  
City of Alexandria Proposed Operating Budget FY 2007

Since FY 1996, the budget’s actual revenues have exceeded initially budgeted revenues on average by 4.48%, which in a \$500 million budget equals around \$22,400,000. The percentage of underestimation has ranged from a high of 7.36% FY 2000 to a low of 2.43% in FY 2005.

The major reason why the City has consistently seen actual revenues outperform budgeted revenues is that since FY 2000 the real estate boom has increased housing assessments far beyond any historical precedent. The City estimates the future increase in assessments for the second half of the fiscal year conservatively, preferring to project on the side of caution. When real estate assessments rise more rapidly than projected, real property tax revenues, which make up the majority of the General Fund revenue, also rise more rapidly than expected.