

City of Alexandria, Virginia

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MEMORANDUM

DATE: APRIL 16, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER ^{PS}

SUBJECT: MONTHLY FINANCIAL REPORT FOR THE PERIOD ENDING
MARCH 31, 2003

ISSUE: Receipt of the City's Monthly Financial Report for the period ending March 31, 2003.

RECOMMENDATION: That City Council receive the following Monthly Financial Report for the period ending March 31, 2003.

DISCUSSION: This report provides financial information on revenues and expenditures of the General Fund for the period July 1, 2002 through March 31, 2003. This report presents revenues and expenditures for the same period for FY 2002 for comparative purposes (Attachments 1 and 2), and also provides a summary of selected economic indicators (Attachment 3). FY 2003 revenues through March 31, 2003, in the amount of \$232.7 million, represent a nine-tenths of one percent increase as compared to collections last year. General Fund expenditures through the end of March total \$244.1 million, or 7.0 percent higher than expenditures at the same time last year. As of March 31, 2003, General Fund expenditures exceeded General Fund revenues by \$11.3 million. This is a normal situation that occurs this time of year because the City's revenues follow seasonal patterns (the City's real estate tax revenues are due in November and June), while expenditures are more evenly distributed.

This report reflects updated FY 2003 revenue projections from the FY 2004 Proposed Budget presented to City Council on March 11. Budget Memo #26 (Attachment 4) (previously provided to City Council), which details the changes in projections for FY 2003 and FY 2004 indicates an increase of \$5.2 million in revenues in FY 2003 and a \$1.3 million increase in revenues for FY 2004. Economic reports from various organizations which collect and issue economic data, such as the U.S. Department of Labor, George Mason University, the Fairfax County Government, and the Office of the Secretary of Finance of the Commonwealth of Virginia, all indicate that the statewide and regional economies continue not to perform as desired largely due to higher unemployment and reduced consumer and business spending. City office occupancy, dwelling unit sales and building permits are all lower than a year ago at this time. In general, these rates have improved since June 30, 2002, but not enough to equal or better the situation the City experienced in FY 2001. This includes the City's unemployment rate, at 2.8 percent (as of December 2002), which has shown improvement from the 3.5 percent peak in 2002, but has not returned to the January 2001 very low rate of 1.4 percent. As a result, and as was the case in FY 2002, City staff will need to continue to monitor revenues very carefully in order to keep the City's budget in balance.

As a result, projecting current year revenues is a much more complicated task with more unknowns than usual. Finance and OMB staff have made projections of the revenues by category. In addition, expenditure budget savings arising from budget management actions instituted starting in October will help avoid a budget shortfall in FY 2003. In October, due to concerns about the economy and the State revenue reductions, the non-public safety departments were directed to develop a plan to reserve 3.0 percent of their FY 2003 operating budgets. The public safety departments have been requested to plan to reserve 3.0 percent of their FY 2003 non-personnel budgets. Some of these planned savings will be tempered by snow costs which are not recoverable from State and federal sources and which far exceed budgeted amounts.

These revenues projections for FY 2003 produce a \$9.7 million revenue surplus, of which \$4.5 million was used to finance the FY 2004 budget. This leaves \$5.2 million in new funds not yet designated. to be used to fund the FY 2003 Proposed Operating and Capital Budgets. The following chart and text summarize the revenue variances:

FY 2003 PROJECTIONS
(Amounts in millions)

	<u>FY 2003 BUDGET</u>	<u>FY 2003 BUDGET PROJECTIONS</u>	<u>BUDGET VERSUS PROJECTIONS</u>
Real Property	\$ 176.6	\$ 187.0	\$ 10.4
Personal Property-local share	31.2	30.9	-0.3
Penalties and Interest	1.1	1.5	0.4
Sales Tax	21.3	21.3	-
Consumer Utility Tax	17.1	17.1	-
Business License Tax	21.9	22.9	1.0
Transient Lodging Tax	5.2	5.6	0.4
Restaurant Meals Tax	8.7	8.7	-
Tobacco	1.6	2.0	0.4
Recordation Taxes	1.5	2.7	1.2
Other Local Taxes	4.5	3.9	(0.6)
Intergovernmental	45.9	45.7	(0.2)
Fines and Forfeitures	3.9	4.0	0.1
Licenses and Permits	4.0	3.0	(1.0)
Charges for City Services	9.9	9.5	(0.4)
Use of Money and Property	<u>6.6</u>	<u>4.9</u>	<u>(1.7)</u>
Total			\$9.7
Less Prior Projections Reflected in FY 2004 Budget Document			<u>(4.5)</u>
Net Increase in Projections			5.2

REVENUES (Attachment 1): As of March 31, 2003, actual General Fund revenues totaled \$232.7 million, an increase of \$2.3 million, or about nine-tenths of one percent, as compared to revenues for the same period last year. Except as noted in this report, revenues reflect normal trends.

Real Estate Taxes: Second half real estate taxes were due November 15. Revenues to date are \$9.0 million, or 11.3 percent higher than collections at this time last year. As projected in the Proposed FY 2004 Budget, real estate gross levy for locally assessed real property for second half CY 2002 totaled \$168.5 million. Staff currently expects to collect 49.2 percent of this levy instead of the earlier projected 48 percent. Delinquent real estate tax collections have also increased to a projected \$1.6 million. First half CY 2003 real estate taxes will be due on June 15 and will be based on the CY 2003 assessments which increased 19.93 percent. This assessment increase, at the proposed lower real estate tax rate of \$1.05, along with the increased collection of second half CY 2002 taxes and delinquent taxes, would increase expected FY 2003 real estate tax revenues to \$187.0 million, or \$10.4 million above the FY 2003 budget. This is \$3.5 million more than previously projected when the FY 2004 budget was prepared.

Personal Property Taxes: Personal property tax bills were due in October 2002. The FY 2003 Approved Budget includes a \$31.2 million revenue projection for tax revenue collected directly by the City (including \$15.8 million for vehicles and \$15.4 million for businesses). It also includes an additional \$22.0 million of intergovernmental revenue that the City collects from the Commonwealth under the provisions of the Personal Property Tax Relief Act of 1998 (PPTRA). This year, the State's share of the local personal property tax payment is 70.0 percent of most taxpayers' payments, which is the same as last year. The total for all budgeted revenues related to the personal property tax for FY 2003 is \$53.2 million.

Through March 31, 2003, the City has collected \$30.1 million in personal property tax revenue and has received reimbursement from the Commonwealth of \$21.6 million for total personal property tax receipts of \$51.7 million. This represents a \$6.6 million decrease when compared to receipts collected at the same time last year. In FY 2002, the City received \$7.6 million for personal property taxes from the Mirant Corporation for business personal property (the PEPCO plant off of Slater's Lane) purchased from a public service corporation. Public service corporations' personal property is taxed at a lower rate than other private companies; therefore, the sale of the public service corporation assets to independent power producer Mirant resulted in a one year, one-time tax revenue payment to the City of \$7.6 million. For FY 2003, State law gave independent power producers such as Mirant the same lower tax treatment as public service corporations. It now appears that the total budgeted revenues related to the personal property tax (\$53.2 million) will fall short of prior projections by \$300,000. It is clear that the rate of assessment growth in the vehicle portion of the tax base has slowed significantly from prior years.

Personal Property Tax (in millions)	Budget FY 2003	Actual to Date FY 2003	Actual to Date FY 2002
City share	\$ 31.2	\$ 30.1	\$ 37.6
Commonwealth reimbursement	<u>22.0</u>	<u>21.6</u>	<u>20.7</u>
Total	\$ 53.2	\$ 51.7	\$ 58.3

Penalties and Interest: Collections of penalties and interest year-to-date total \$1.2 million, which slightly exceeds last year's penalties and interest revenues for the same time period. Based upon historical patterns, it is projected that FY 2003 revenues by the end of the fiscal year will total \$1.5 million, or \$0.4 million more than prior projections.

Local Sales and Use Taxes: Businesses remit sales tax to the Commonwealth within 30 days of the end of the month in which sales occurred. The Commonwealth wires the City's portion of the sales tax approximately one month later. Sales taxes received by the City in March represent revenues collected by merchants in January. Year-to-date revenues continue to improve over last year with monthly increases of 6.0 percent for the last few months. As a result, the prior projection of \$21.3 million in sales tax revenue in FY 2003 will likely be achieved. It should be noted that sales tax reporting by companies and administration by the Virginia Department of Taxation make single-month comparisons difficult.

Consumer Utility Taxes: Consumer utility taxes are collected by the utility companies one month after billing and are remitted to the City the following month. The consumer utility tax revenue in this report represents utility services provided to consumers through January and are in line with prior projections.

City of Alexandria Consumer Utility Tax Receipts

Utility	FY 2003 Year to Date Receipts	FY 2002 Year to Date Receipts	Increase/ (Decrease)
Telephone - Tax on Local Services	4,595,097	\$4,514,691	\$80,406
Electricity	3,677,379	3,514,216	163,163
Water	1,296,164	1,313,320	(17,156)
Natural Gas	1,490,383	1,396,156	94,227

Business License Taxes: The City's business license tax was due March 3 for CY 2003, and receipts are currently being tabulated. Collections as of March 31, 2003, in the amount of \$19.4 million, are \$1.0 million, or 5.4 percent, higher than collections at the same time last year. All cash received has been recorded but not all tax returns have been processed. Staff will report the

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change in business activity by category once all returns are tabulated. Based on collection patterns to date, staff's current estimate for business tax receipt for FY 2003 is \$22.9 million, which is \$1.0 million over the approved budget, as well as the previously projected total for the fiscal year.

Transient Lodging Taxes: Transient lodging taxes are remitted to the City within one month after collections. Therefore, the revenue reflected in this report represents collections by hotels through February. Collections total \$3.3 million, an increase of \$0.2 million or 7.0 percent over last year. However, since Reagan National Airport was closed or restricted at less than full capacity for a period of time in FY 2002 beginning on September 11, 2001, this large percentage increase was expected and was budgeted. Full service and mid-range hotels experienced a slight increase in revenue compared to last year, but budget and extended stay hotels, on average, are still somewhat lower than last year. Based on collections to date, staff projects that transient lodging taxes will be \$5.6 million, an increase of \$0.4 million above the Approved FY 2003 Budget. This \$5.6 million projection is in line with prior projections for transient lodging taxes.

Restaurant Meals Tax: Meals and alcoholic beverage taxes are due to the City within 30 days of the month the sales occurred. Collections for sales in February 2003 were 28.0 percent lower than collections in February 2002. However, at the time this report was prepared, 76 restaurants had not filed their tax returns. Based on collections to date, staff projects that restaurant meals taxes will be \$8.7 million, which approximates the Approved FY 2003 Budget, but is \$0.2 million less than prior projections.

Tobacco Taxes: Tobacco taxes are levied at a rate of \$0.50 per pack of 20 cigarettes sold in the City. This rate was increased as of January 2003. Based on the increased rate, staff projects that tobacco taxes will be approximately \$2.0 million, an increase of \$0.4 million over the Approved FY 2003 Budget, which is consistent with prior projections.

Real Estate Recordation Taxes: Real estate recordation tax revenues are collected by the Clerk of the Circuit Court and remitted to the City the following month. Collections in the amount of \$2.2 million increased \$0.4 million, or 23.7 percent over collections at this time last year. The increase is primarily attributable to residential refinancings due to continued historically low mortgage interest rates. The FY 2004 Proposed Budget projected that these taxes in FY 2003 would be at least \$2.0 million. Based on current collections, staff projects recordation taxes will be approximately \$2.7 million, an increase of \$0.7 million over the prior projection and \$1.2 million over the original budget.

Other Local Taxes: This category includes taxes such as bank franchise, telecommunications right-of-way, cable TV franchise, daily rental and other miscellaneous taxes. The decrease in revenue to date results from a decrease in the telecommunications taxes and E-911 taxes reported by Verizon. The telephone company attributes the decrease in revenue to corrections in accounting procedures, wireless replacement and economic factors. Based on collections to date, staff projects that other local taxes will be \$3.9 million, a decrease of \$0.6 million below the Approved FY 2003 Budget. This is consistent with prior projections.

Revenue from the Federal Government: The City's General Fund revenues from the federal government are primarily for federal prisoner per diem. The City has billed \$3.7 million for housing federal prisoners through the period ending March 31, 2003. As of March 31, 2003, \$3.0 million has been received. The federal government generally pays the City for housing

federal prisoners 45 to 60 days after the end of the billing period. Based on collections to date, staff projects that revenue from the federal government will exceed \$4.5 million, with the balance of these revenues allocated to Public Safety Center security staffing. These revenue projections are consistent with prior projections.

Revenue from the Commonwealth: The \$13.0 million in revenues received to date is \$0.6 million lower than that received for the same period in FY 2002. This is due to State revenue reductions. FY 2003 State revenue reductions, estimated prior to General Assembly amendments for the City, total \$1.1 million. Expected revenue losses include substantial reductions in per diem jail reimbursement, as well as in ABC/wine tax distributions. Based on these changes, staff projects that General Fund revenue from the Commonwealth will be \$19.1 million, a decrease of \$0.4 million below the Approved FY 2003 Budget, which is consistent with prior projections. The City's Special Revenue Fund where grants are accounted for will also experience losses.

Fines and Forfeitures: Increased revenues primarily represent collections for parking tickets and red light fees. These collections were lower in FY 2002 as a result of the events following September 11. Based on these collections, staff projects revenues of \$4 million, \$0.1 million higher than the Approved FY 2003 Budget, which is consistent with prior projections.

Licenses and Permits: Revenues decreased \$0.8 million, or 26.9 percent below collections at this time last year. This decrease is attributable to fewer new residential and commercial building and related permits issued in FY 2003 than in FY 2002. Based on collections to date, staff projects that revenues from licenses and permits will be \$3.0 million, \$1.0 million less than the Approved FY 2003 Budget. This \$3.0 million projection is consistent with prior projections.

Charges for Services: Revenue for charges for services increased 3.2 percent as a result of Council action to increase the fees paid by the development community in order to better recover costs. Based on collections to date, staff projects that charges for services will be \$9.5 million, \$0.5 million less than the Approved FY 2003 Budget. This is consistent with prior projections.

Revenue from Use of Money and Property: Year-to-date interest revenues decreased \$1.3 million compared to last fiscal year, largely due to declining market interest rates on City short-term investments. This large decrease in market interest rates is reflected in the federal fund rate reduction from 1.69 percent in March 2002 to 1.17 percent in March 2003. As a result, it is expected that interest revenues will fall significantly short of budget expectations in FY 2003. Based on collections to date, staff projects that revenues from use of money and property will be \$4.9 million, \$1.7 million less than the Approved FY 2003 Budget but consistent with prior FY 2003 budget projections.

Other Revenue: Other revenues include gifts and donations, damage recoveries and recovered costs.

EXPENDITURES (Attachment 2): As of March 31, 2003, actual General Fund expenditures totaled \$244.1 million, an increase of \$ 16.0 million, or 7.0 percent over expenditures for the same period last year. The Approved General Fund Budget is 6.6 percent higher than FY 2002. Unless noted below, the increase in expenditures over that budgeted is attributable to budgeted expenditures for annual equipment replacement charges made at the beginning of the fiscal year and a budgeted increase in cash capital. Except as noted below, this expenditure pattern reflects the Approved FY 2003 Budget.

Judicial Administration: Expenditures represent the third quarter payments to regional organizations that provide legal, correctional and animal welfare and control services. In addition, the Sheriff's Department continues to incur substantial overtime costs related to perimeter security at the Public Safety Center. The City is working to obtain federal funding for some or all of these costs.

Other Planning Activities: General Fund expenditures in this category reflect the City's contribution payments to community agencies.

City Attorney: Expenditures to date reflect outside legal fees which are budgeted in a non-department account and charged to the City Attorney's office. Staff will recommend an appropriations transfer in the context of the June Transfer Resolution to match these expenditures with budget authority.

General Services: Expenditures reflect additional expenditures for snow removal costs. Staff will recommend an appropriations transfer in the context of the June Transfer Resolution to match these expenditures with budget authority.

Fire: Expenditures reflect approved overhire positions for emergency support services.

Human Services: Expenditures reflect increased costs associated with providing child and youth services, particularly for the Comprehensive Services Act (CSA) program. This additional cost is planned to be covered by the Department of Human Services' reserves.

Schools: The School Administration has reported \$93.9 million in expenses through March 31, 2003. The City's General Fund share of total School Administration budgeted expenditures is approximately 77.8 percent of the total expenditures. This percentage was applied to total school disbursements to estimate school expenditures to date in the amount of \$73.1 million (i.e., 77.8 percent of \$93.9 million). The School Superintendent has also instituted a savings plan aimed at conserving current year budget dollars to the degree feasible.

Other Educational Activities: General Fund expenditures in this category reflect the City's contribution to the Northern Virginia Community College.

Non-Departmental: General Fund expenditures in this category reflect the City's contributions to the closed public safety pension plan, senior citizens' rent relief, payment for liability insurance premiums, and the City's share of debt service on the Northern Virginia Transportation District bonds.

Cash Matches (MH/MR/SA, Human Services, Library and Miscellaneous Grants): To comply with grant awards, the City's share of funding is transferred from the General Fund to the Special Revenue Fund at the end of the fiscal year.

ATTACHMENTS:

Attachment 1 - Comparative Statement of Revenues

Attachment 2 - Comparative Statement of Expenditures & Transfers by Function

Attachment 3 - Selected Economic Indicators

Attachment 4 - Budget Memo #26

STAFF:

Mark Jinks, Assistant City Manager for Fiscal and Financial Affairs

D. A. Neckel, Director of Finance

Laura Triggs, Deputy Director of Finance/Comptroller

CITY OF ALEXANDRIA, VIRGINIA
COMPARATIVE STATEMENT OF REVENUES
GENERAL FUND
FOR THE PERIODS ENDING MARCH 31, 2003 AND MARCH 31, 2002

	FY2003 APPROVED BUDGET	FY2003 REVENUES THRU 03/31/03	% OF BUDGET	FY2002 REVENUES THRU 03/31/02
General Property Taxes				
Real Property Taxes.....	\$ 176,572,000	\$ 88,862,812	50.3%	\$ 79,863,876
Personal Property Taxes.....	31,184,000	30,084,744	96.5%	37,550,405
Penalties and Interest.....	1,100,000	1,209,678	110.0%	1,179,832
Total General Property Taxes	\$ 208,856,000	\$ 120,157,234		\$ 118,594,113
Other Local Taxes				
Local Sales and Use Taxes.....	\$ 21,300,000	\$ 12,630,613	59.3%	\$ 11,817,872
Consumer Utility Taxes.....	17,100,000	11,059,023	64.7%	10,738,383
Business License Taxes.....	21,900,000	19,382,663	88.5%	18,396,217
Transient Lodging Taxes.....	5,250,000	3,261,577	62.1%	3,047,770
Restaurant Meals Tax.....	8,700,000	5,320,660	61.2%	5,242,991
Tobacco Taxes.....	1,600,000	1,203,856	75.2%	1,075,638
Motor Vehicle License Tax.....	2,300,000	2,225,336	96.8%	2,199,137
Real Estate Recordation.....	1,500,000	2,166,817	144.5%	1,740,281
Other Local Taxes.....	4,468,000	1,738,298	38.9%	2,239,881
Total Other Local Taxes	\$ 84,118,000	\$ 58,988,843	70.1%	\$ 56,498,170
Intergovernmental Revenues				
Revenue from the Federal Government.....	\$ 4,380,000	\$ 3,040,786	69.4%	\$ 3,400,348
Personal Property Tax Relief from the Commonwealth.....	22,040,000	21,621,683	98.1%	20,783,104
Revenue from the Commonwealth.....	19,485,800	13,049,758	67.0%	13,614,447
Total Intergovernmental Revenues	\$ 45,905,800	\$ 37,712,227	82.2%	\$ 37,797,899
Other Governmental Revenues				
Fines and Forfeitures.....	\$ 3,882,000	\$ 2,924,123	75.3%	\$ 2,743,369
Licenses and Permits.....	4,000,000	2,247,020	56.2%	2,733,009
Charges for City Services.....	9,863,800	5,804,118	58.8%	5,660,596
Revenue from Use of Money & Property.....	6,550,500	4,461,053	68.1%	5,894,105
Other Revenue.....	929,480	436,844	47.0%	493,911
Total Other Governmental Revenues	\$ 25,225,780	\$ 15,873,158	62.9%	\$ 17,524,990
TOTAL REVENUE	\$ 364,105,580	\$ 232,731,462	63.9%	\$ 230,415,172
Appropriated Fund Balance				
General Fund.....	9,816,624	-	0.0%	-
Reappropriation of FY 2002 Encumbrances And Other Supplemental Appropriations.....	4,532,090	-	0.0%	-
TOTAL	\$ 378,454,294	\$ 232,731,462	61.5%	\$ 230,415,172

CITY OF ALEXANDRIA, VIRGINIA
COMPARATIVE STATEMENT OF EXPENDITURES & TRANSFERS BY FUNCTION
GENERAL FUND
FOR THE PERIODS ENDING MARCH 31, 2003 AND MARCH 31, 2002

FUNCTION	FY2003	FY2003	% OF	FY2002
	APPROVED BUDGET	EXPENDITURES THRU 03/31/03		BUDGET
Legislative & Executive.....	\$ 4,737,409	\$ 3,211,465	67.8%	\$ 3,060,458
Judicial Administration.....	\$ 26,587,007	\$ 20,796,730	78.2%	\$ 18,892,938
Staff Agencies				
Information Technology Services.....	\$ 6,463,714	\$ 3,935,882	60.9%	\$ 4,152,800
Management & Budget.....	913,849	507,737	55.6%	470,251
Finance.....	7,513,026	5,053,441	67.3%	4,753,348
Real Estate Assessment.....	980,950	621,471	63.4%	617,663
Personnel.....	2,285,897	1,570,756	68.7%	1,464,577
Planning & Zoning.....	3,466,384	2,271,883	65.5%	1,846,502
Other Planning Activities.....	2,194,945	2,121,969	96.7%	2,028,469
City Attorney.....	1,402,831	1,358,346	96.8%	1,263,612
Registrar.....	904,969	579,568	64.0%	588,291
General Services.....	9,060,617	6,920,897	76.4%	6,735,241
Total Staff Agencies	\$ 35,187,182	\$ 24,941,950	70.9%	\$ 23,920,754
Operating Agencies				
Transportation & Environmental Services.....	\$ 22,268,685	\$ 15,077,404	67.7%	\$ 14,351,219
Fire.....	26,772,124	20,529,827	76.7%	19,296,465
Police.....	37,962,793	28,280,842	74.5%	26,411,598
Transit Subsidies.....	3,688,778	1,828,703	49.6%	1,263,055
Housing.....	1,187,283	646,518	54.5%	573,553
Mental Health/Mental Retardation/ Substance Abuse.....	601,688	480,604	79.9%	450,936
Health.....	7,169,160	3,957,945	55.2%	3,735,008
Human Services.....	7,088,476	5,639,966	79.6%	5,244,692
Historic Resources.....	2,247,776	1,586,902	70.6%	1,490,621
Recreation.....	15,054,261	11,065,858	73.5%	10,544,986
Total Operating Agencies	\$ 124,041,024	\$ 89,094,569	71.8%	\$ 83,362,133
Education				
Schools.....	\$ 115,329,680	\$ 73,066,901	63.4%	\$ 68,319,755
Other Educational Activities.....	13,246	13,246	100.0%	12,923
Total Education	\$ 115,342,926	\$ 73,080,147	63.4%	\$ 68,332,678
Capital, Debt Service and Miscellaneous				
Debt Service.....	\$ 17,739,094	\$ 11,162,348	62.9%	\$ 11,525,300
Non-Departmental.....	7,593,250	3,951,660	52.0%	3,454,102
Cash Capital.....	14,200,000	14,200,000	100.0%	12,420,000
Contingent Reserves.....	900,000	-	-	-
Total Capital, Debt Service and Miscellaneous	\$ 40,432,344	\$ 29,314,008	72.5%	\$ 27,399,402
TOTAL EXPENDITURES	\$ 346,327,892	\$ 240,438,869	69.4%	\$ 224,968,363
Cash Match (Mental Health/Mental Retardation/ Substance Abuse, Human Services and Library)				
Transfers to the Special Revenue Fund.....	27,292,202	-	0.0%	-
Transfer to DASH.....	4,834,200	3,625,650	75.0%	3,062,123
TOTAL EXPENDITURES & TRANSFERS	\$ 378,454,294	\$ 244,064,519	64.5%	\$ 228,030,486

**CITY OF ALEXANDRIA
SELECTED ECONOMIC INDICATORS**

	<u>Current Year</u>	<u>Prior Year</u>	<u>Percent Change</u>
<u>Consumer Price Index (CPI-U)</u> for the Washington-Baltimore, DC-MD-VA-WV Area (As of January 31, 2003) (Source: Published bi-monthly by United States Department of Labor, Bureau of Labor Statistics)	114.6	110.9	+3.3%
<u>Unemployment Rates</u>			
Alexandria	2.8%	3.7%	-24%
Virginia (As of January 31, 2003) (Source: United States Department of Labor, Bureau of Labor Statistics)	4.2%	4.4%	-5%
United States (As of February 28, 2003) (Source: United States Department of Labor, Bureau of Labor Statistics)	5.8%	5.7%	+2%
<u>Interest Rates</u> (As of March 31, 2003)			
Prime Rate	4.25%	4.75%	-11%
Federal Fund Rate (Source: SunTrust Economic Monitor)	1.26%	1.69%	-25%
<u>New Business Licenses</u> (During March) (Source: Finance Department, Business Tax Branch)	116	139	-17%
<u>Office Vacancy Rates</u> (As of December 31, 2002)			
Alexandria	11.5%	9.1%	+26%
Northern Virginia	17.9%	13.9%	+29%
Washington DC Metro Area (Source: Grubb & Ellis)	13.2%	10.6%	+25%
<u>New Commercial Construction</u> (As of February 28, 2003)			
Number of New Building Permits	9	13	-31%
Value of New Building Permits (Source: Fire Department Code Enforcement Bureau)	\$79.8 million	\$39.8 million	+101%
<u>Residential Real Estate Indicators</u> (for the twelve months ended September 30, 2002)			
Residential Dwelling Units Sold	2,890	3,092	-7%
Average Residential Sales Price (Source: Department of Real Estate Assessments)	\$278,532	\$246,914	+13%

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 11, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER ^S

SUBJECT: BUDGET MEMO # 26 : FY 2004 FINAL REVENUE ADJUSTMENTS

ISSUE: FY 2004 Revenue Adjustments.

RECOMMENDATION: That City Council approve the following FY 2004 General Fund revenue and expenditure adjustments, which result in an increase of \$1.3 million as compared to the revenue estimates outlined in the Proposed FY 2004 budget document.

In summary, the recommended revenue adjustments for FY 2004 are:

- An increase of \$1.0 million in the estimate of Real Property Tax Revenue, from \$203.2 million to \$204.2 million;
- An increase of \$0.8 million in the estimate of Business License Tax Revenue, from \$22.8 million to \$23.6 million;
- An increase of \$0.4 million in the estimate of Recordation Taxes, from \$1.5 million to \$1.9 million;
- A decrease of \$0.3 million in the estimate of Meals Sales Tax, from \$9.1 million to \$8.8 million;
- An increase of \$0.6 million in sanitary sewer use fee revenues from \$1.1 million to \$1.7 million in order to cover sanitary sewer debt service budgeted for FY 2004 in the General Fund; and
- A decrease of \$1.2 million in the estimate of Revenue from the Use of Money and Property (i.e., interest rate earnings on investments).

These revenue adjustments will be reflected on the final Add/Delete list.

DISCUSSION: The FY 2004 revenue estimates in the Proposed FY 2004 budget document were based on actual revenues and trends through December 2002. Staff continues to monitor actual revenues and adjusts the revenue projections for the current fiscal year in the context of the Monthly Financial Report. Based on actual receipts and trends through the end of the third quarter of FY 2003 (January, February and March), the FY 2004 revenue estimates are recommended to be adjusted as follows:

- An increase of \$1.0 million in the estimate of Real Property Tax Revenue, from \$203.2 million to \$204.2 million. FY 2004 revenues have been increased from the previous projections to reflect an increase in the collection rate from 49% to 49.25%, based on actual collections in FY 2003 resulting in \$1 million in additional revenues for FY 2004.
- An increase of \$0.8 million in the estimate of Business License Tax Revenue, from \$22.8 million to \$23.6 million, to reflect revised projections based on revenues received through March 31, 2003. The revenues in the FY 2004 proposed budget were projected prior to the primary business license tax due date of March 1.
- An increase of \$0.4 million in the estimate of Recordation Tax Revenues, from \$1.5 million to \$1.9 million, to reflect revised projections based on revenues received through March 31, 2003.
- An increase of \$0.6 million in sanitary sewer use fee revenues. In planning for the funding of the increase in sanitary sewer capital expenditures in FY 2004, \$1.1 million in revenues from the proposed 20-cent sanitary sewer rate increase were unintentionally omitted. To remedy that situation, some \$600,000 of fee revenues should be counted as new FY 2004 revenue in order to cover new sanitary sewer debt service included in the proposed FY 2004 operating budget. The balance of the fee increase of \$500,000 will be counted as revenues to the capital projects fund and thereby can reduce the General Fund cash capital transfer from \$15.1 million to \$14.6 million (Budget Memo #27).
- A decrease of \$1.2 million in the estimate of Revenue from the Use of Money and Property from \$6.2 million to \$5.0 million, to reflect an anticipated increase in interest rates occurring later in FY 2004 than originally projected.

NOTE: These revenue final adjustments only cover the City government's revenues and do not cover the City School system revenues. At the work session with the Schools, the Schools indicated that they were uncertain about the final outcome of revenues, as the General Assembly Veto Session had not yet occurred. To City staff's understanding, it appears that the General Assembly Veto Session just completed did not decrease School funding for FY 2004. As a result, it appears that the Schools have an additional \$670,000 in State revenues that has not been reflected in the FY 2004 proposed School Operating Fund budget.

FISCAL IMPACT: The net fiscal impact of these final FY 2004 revenue adjustments is an increase in the FY 2004 General Fund revenue projections of \$1.3 million (Attachment 1). The increase in total General Fund revenues results in a decrease in the appropriation from fund balance required to balance the FY 2004 General Fund budget, from \$6.0 million to approximately \$4.7 million.

It should be noted that for FY 2003, the new revenue projections undertaken to do the new FY 2004 revenue projections total \$5.2 million higher than prior projections. Based on preliminary data for the first nine months of FY 2003, projected positive variances (i.e., revenues in excess of budget) for the year are currently projected to be \$5.7 million, including an additional \$3.0 million in current Real Property tax collections, and \$0.6 million in real property tax delinquent tax collections, \$0.4 in revenue from Penalties and Interest, \$1.0 million in Business License tax revenues and \$0.7 million in Recordation Tax revenues. The positive variances are offset somewhat by an expected decrease in Personal Property (\$0.3 million) and Meals Sales Tax (\$0.2 million) revenues based on collections through the end of March 2003. When consolidating the net changes in revenue projections covered by this memorandum for both FY 2003 (\$5.2 million) and FY 2004 (\$1.3 million), the total net change equals \$6.5 million. This has the effect of reducing the prior year funds used to balance the FY 2004 budget by \$1.3 million, as well as increasing the FY 2003-ending Undesignated Fund Balance by \$6.5 million.

ATTACHMENTS:

Attachment 1 - Revised Summary of Budgeted General Fund Revenues and Other Financing Sources

Summary of Budgeted General Fund Revenues and Other Financing Sources

	FY 2002 <u>Actual</u>	FY 2003 <u>Budget</u>	FY 2003 <u>Revised</u>	FY 2004 <u>Revised</u>
General Fund				
General property tax revenue				
Real property tax	164,959,409	176,572,000	187,038,000	204,172,000
Personal property tax	38,331,453	31,184,000	30,884,000	31,684,000
Penalties and interest	<u>1,854,835</u>	<u>1,100,000</u>	<u>1,500,000</u>	<u>1,100,000</u>
Total general property tax revenue	205,145,697	208,856,000	219,422,000	236,956,000
Other local tax revenue				
Local sales tax	20,316,345	21,300,000	21,300,000	22,150,000
Utility tax	16,711,857	17,100,000	17,100,000	17,750,000
Business licenses	22,233,330	21,900,000	22,900,000	23,600,000
Motor vehicle licenses	2,285,722	2,300,000	2,300,000	2,300,000
Recordation	2,494,425	1,500,000	2,700,000	1,900,000
Tobacco	1,597,140	1,600,000	2,000,000	2,600,000
Transient lodging	5,206,418	5,250,000	5,600,000	5,900,000
Restaurant food	8,562,840	8,700,000	8,700,000	8,800,000
Other miscellaneous	<u>4,551,697</u>	<u>4,468,000</u>	<u>3,863,000</u>	<u>4,013,000</u>
Total other local tax revenues	83,959,774	84,118,000	86,463,000	89,013,000
Non-tax revenue				
Licenses, permits, and fees	3,501,475	4,000,000	3,000,000	3,000,000
Fines and forfeitures	3,931,596	3,882,000	4,000,000	4,000,000
Use of money and property	8,769,357	6,550,500	4,886,000	4,968,186
Charges for services	8,954,310	9,863,800	9,476,200	9,891,200
Intergovernmental revenues	46,601,916	45,905,800	45,668,200	45,058,200
Miscellaneous	<u>538,278</u>	<u>458,000</u>	<u>458,000</u>	<u>458,000</u>
Total non-tax revenue	<u>72,296,932</u>	<u>70,660,100</u>	<u>67,488,400</u>	<u>67,775,586</u>
Total General Fund revenues	361,402,403	363,634,100	373,373,400	393,344,586
Other financing sources (uses)				
Appropriation from City fund balance	0	9,816,624	9,816,624	4,695,000
Appropriation for recycling fund balance	0	471,480	310,000	583,601
Total General Fund revenues and other sources	361,402,403	373,922,204	383,500,024	398,623,187
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