

# City of Alexandria, Virginia

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## MEMORANDUM

DATE: APRIL 23, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: BUDGET MEMO 103 PROPOSED PROCESS TO DEAL WITH STATE BUDGET UNCERTAINTY

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With the State budget still unresolved, and possibly remaining unresolved through the May 3<sup>rd</sup> scheduled adoption date of the City FY 2005 budget and CIP, the following recommendations are provided.

**1. Use the June Appropriation Ordinance to make spending adjustments:** It is the City's regular practice to have City Council consider the Appropriation Ordinance in June. This year the first reading is scheduled for June 9, and the public hearing and adoption for June 12. The Appropriation Ordinance usually matches the budget adoption actions and provides the authority for City agencies and the Schools to spend. For FY 2005, if the General Assembly, before the Appropriations Ordinance is enacted, makes changes in the State budget which decrease or increase aid to the City, then those adjustments can be implemented through the Appropriation Ordinance process.

While it appears at this time that the probabilities are leaning towards a general increase in State aid to localities (particularly in the K-12 education area), it is far from a certainty. While it is unlikely that major reductions will occur, that also remains a possibility. The June Appropriation Ordinance will give Council the ability to make financial adjustments and to take actions to ensure that its FY 2005 spending and revenue plan remains in balance. In addition to using the Appropriation Ordinance, official amendments to the soon-to-be-Approved FY 2005 Budget may also be necessary. If that is the case, then the budget would be amended in June at the same time as the Appropriation Ordinance is considered.

It should be noted that as soon as Council approves the budget and tax rates on May 3<sup>rd</sup>, the process to calculate and to mail out the first-half real estate tax bills starts because first-half real estate taxes are due on June 15<sup>th</sup>. Taxpayers are given at least 30 days notice to pay. As a result, when Council adopts a real estate tax rate on May 3<sup>rd</sup>, that will be the rate in place for the June 15<sup>th</sup> payment. However, State law does permit a local governing body to change the real estate tax rate for the second payment which is due on November 15<sup>th</sup>.

**2. Assume that the VRS teacher's retirement rate will be no higher than what the State Senate included in its version of the State budget.** The Senate approved a 6.56% VRS teacher's rate in their version of the State budget. The House approved a 6.03% rate in FY 2005, but with greater out-year implications. The City Schools budget assumed a 7.82% rate. It appears almost certain that the VRS teacher's rate will be no higher than the Senate 6.56% rate, which means the Schools' FY 2005 VRS Contribution would be \$1.1 million less than the contribution in their proposed budget. As a result, if a State budget is adopted, there should be a budget savings of at least \$1.1 million, which is slightly more than the \$960,184 reduction of the Schools budget transfer reflected in the FY 2005 Proposed City operating budget.

**3. Creating a School State Aid Contingent in the City's FY2005 General Fund budget:** It appears probable that the General Assembly will not only approve a favorable VRS rate as described in the above paragraph, but will also increase the amount of State K-12 aid. This will result in the Schools receiving State aid above and beyond the level assumed in the School Board's proposed budget. Normally the State aid would be known by the time of City budget adoption, and any increased general school aid (beyond what was assumed in the Schools' proposed budget) would be used to reduce the Schools' requested transfer from the City's General Fund. If this school aid level is not known on May 3, Council should create a General Fund "State K-12 education aid" contingent reserve on the City side of the budget. The source to fund this reserve would be some portion of the FY 2005 proposed Schools transfer of \$132.6 million. A contingent of at least \$1 million would not be unreasonable.

It is assumed that, by the time of the City June Appropriation Ordinance, the State aid to the Schools will be known. If no additional State K-12 education aid is forthcoming then the funds in this contingent reserve would be transferred to the Schools. If additional education aid is provided, but it is less than the contingent amount, then only a portion of the contingent would be transferred to the Schools. The guiding principle is that the Schools would be kept whole, either from additional State aid or from monies from the proposed City K-12 contingent reserve.