

**ISSUE:** Receipt of the City's Monthly Financial Report for the period ending August 31, 2012.

**DISCUSSION:** That City Council receive the following Monthly Financial Report for the period ending August 31, 2012.

Final revenues and expenditures for FY 2012 will be reported later this fall in the City's audited Comprehensive Annual Financial Report (CAFR). We expect to realize the surplus we reported to City Council during budget deliberations. This surplus and uses of the fund balance are outlined in Budget Memo #58 and included in the table below.

<b>Use of Fund Balance</b>	
<b>Use</b>	<b>Amount</b>
Support FY 2013 Expenditures at One Percent of Revenues	\$2.58 million
FY 2014 Capital Improvement Program	\$1.76 million
Encumbrances (estimated)	\$1.70 million
Compliance with Financial Policies	\$1.10 million
Additional Equipment Replacement	\$0.26 million
One-Time Land Use and Planning Studies	\$0.84 million
Funding for Innovation and Professional Development Fund	\$0.45 million
Total	\$8.68 million*

\*Doesn't add up due to rounding.

### **ECONOMIC HIGHLIGHTS:**

Over the next four months, the monthly financial report will focus on key segments of the City's tax base as background for the FY 2014 proposed budget to be presented on February 26, 2013.

The four segments include:

1. **October:** Real estate and development;
2. **November:** State and federal revenue;
3. **December:** Local non-property taxes; and
4. **January:** Personal property.

This will be followed by the real estate property assessment report to be delivered at the January 22 City Council meeting.

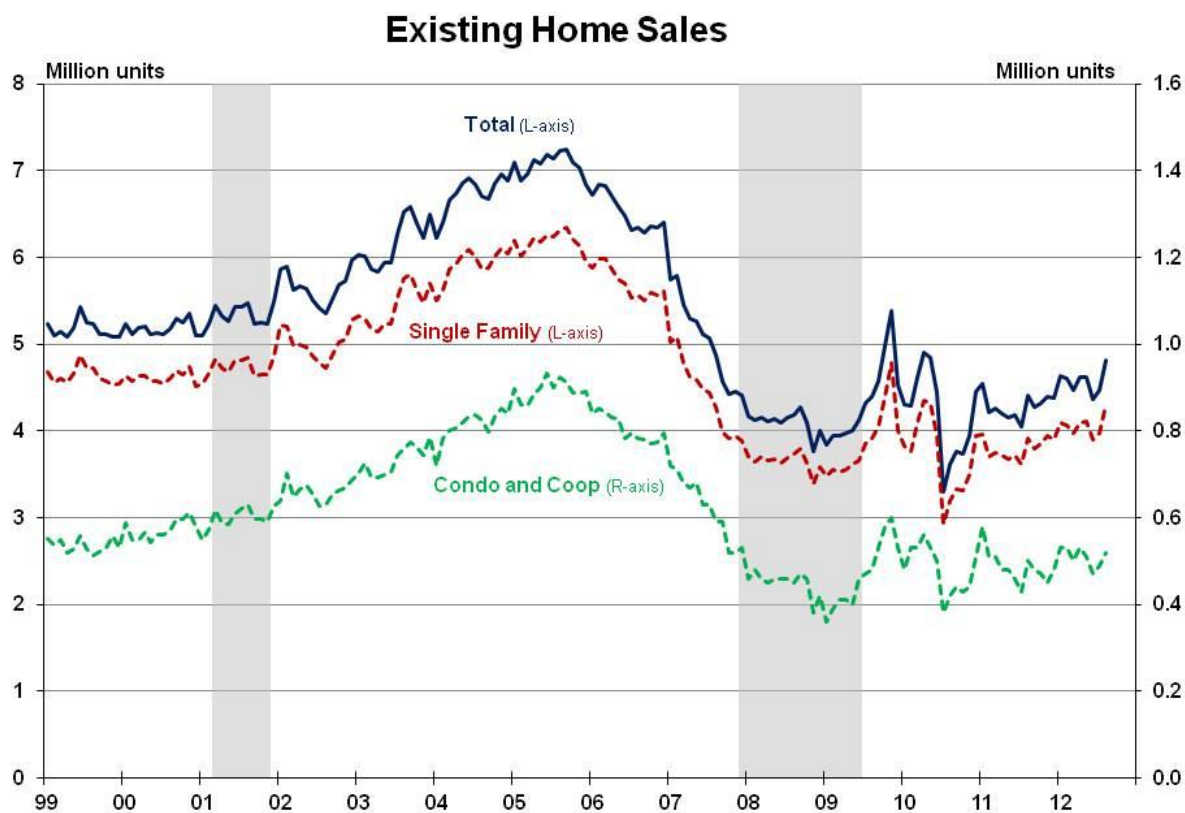
This month's financial report examines the state of the national and local real estate market and City fees associated with residential and commercial construction.

In the FY 2013 approved budget, real estate tax revenues represented 57.6 percent of the City's General Fund revenues. While the threat of sequestration or other federal budget reductions is of concern for the local economy, they are unlikely to impact the January 1, 2013, real estate assessments to be used to estimate FY 2014 revenues. Federal reductions would more immediately affect intergovernmental revenues and other local taxes, such as retail sales tax, meal sales tax, and transient lodging tax, which will be examined in upcoming reports.

Ultimately, a regional economy softened by federal reductions could impact future real estate and personal property taxes over the long term.

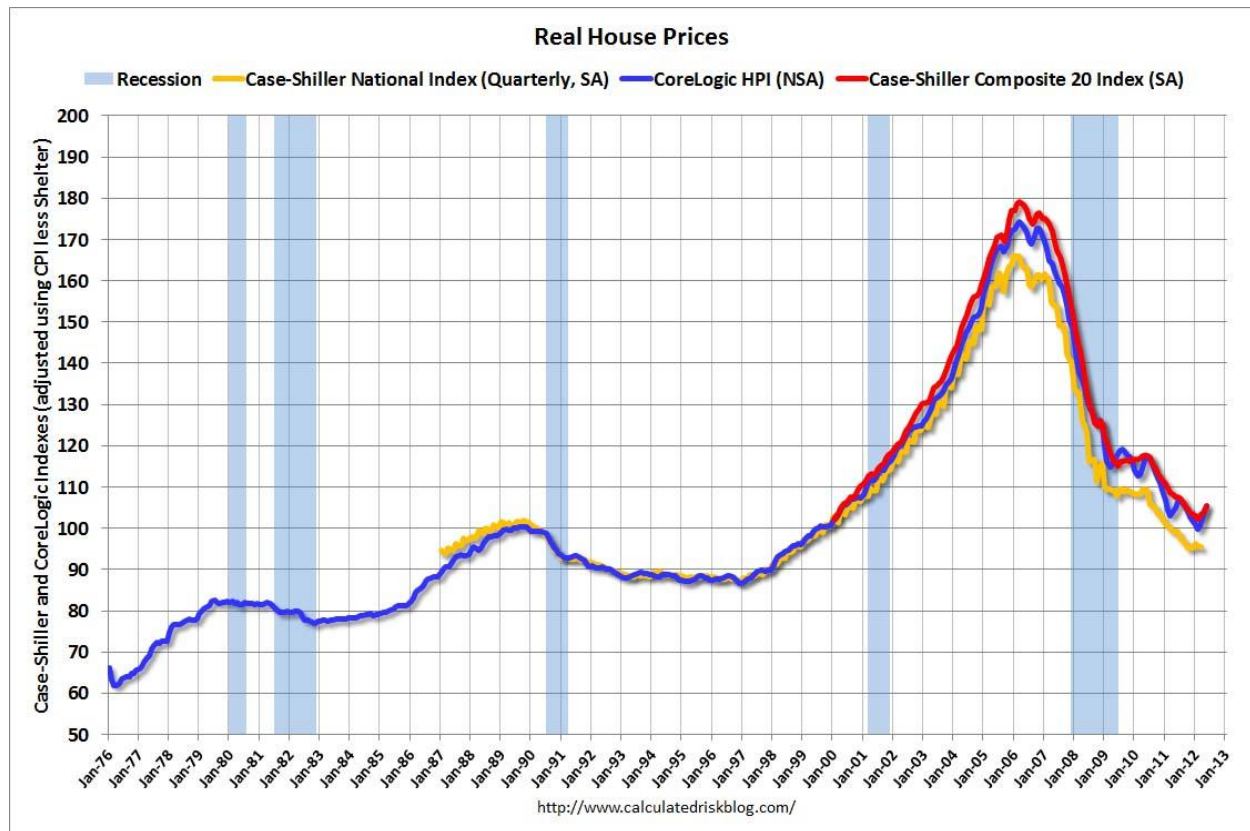
**Real Estate Activity:** Nationally, sales of previously occupied homes increased by 7.8 percent from July to August to the highest seasonally adjusted level since May 2010, when sales were influenced by the federal home-buyers' credit. Median home prices decreased from July to August but were 9.5 percent higher than August 2011 due in part to a decline in the sale of foreclosed homes and short sales. New home starts were up 2.3 percent in August over July. Seasonally adjusted new home construction is on pace for 750,000 starts in 2012, which is the highest rate since October 2008 but well below 2004 and 2005 levels that peaked at over two million. The inventory of existing homes on the market in August decreased 18.2 percent from August 2011 and is 13 percent below August 2005 when inventory began to grow leading up to the recession. The current reduction in inventory may be attributable to reduced new home starts in recent years and existing owners still underwater on their mortgages or pessimistic about market.

Over the past two years, sales volume has generally increased from a low in the second half of 2010 following a temporary upsurge in late 2009-early 2010 due to federal tax incentives.



Source: The National Association of Home Builders' Eye on Housing  
<http://eyeonhousing.wordpress.com/2012/09/19/existing-home-sales-increase-2/>

Meanwhile, inflation-adjusted prices increased in 2012 after decreasing in 2010 and 2011. These prices have yet to return to recession-level prices.



Industry observers speculate that low mortgage rates and the recent Federal Reserve decision to purchase mortgage-backed securities could help continue the recovery, but they express concern that the limited supply could inhibit sales and that a shadow inventory of bank-owned properties could enter the market and drive down prices in the future.

Real estate activity in Alexandria reflects the national trends. August sales volume increased 19.2 percent over 2011 overall and 22.9 percent when foreclosure and short sales are excluded. The average sale price of \$503,501 represented a 14.8 percent increase from last year and the median sale price of \$470,000 was 16.1 percent higher than last year. Excluding foreclosure and short sales, the average sale price was \$519,296 (22.3 percent over August 2011), and the median sale price was \$488,950 (8.9 percent over August 2011). The inventory of homes on the market is at its lowest point since 2005.

As a result of the downturn in the real estate market over the past several years, each penny of the real estate tax rate is estimated to generate \$3.4 million in City tax revenue in FY 2013 as compared to \$3.5 million in FY 2009. While the cost of providing City services has increased over the past four fiscal years, the City's largest source of revenue has not kept pace.

**Development Activity:** Permits for new single family residential homes for the first half of calendar year 2012 were 52.1 percent higher than the first half of calendar year 2011 and 145.5 percent higher than the second half of calendar year 2011. Permits for new multi-family construction for the first half of calendar year 2012, however, were down 90.6 percent from the first half of calendar year 2011 and 95 percent from the second half of calendar year 2011. Building permit and other development fee revenues collected by Code Administration in FY 2012 for residential and commercial construction were \$1.1 million, or 24.0 percent, over the estimated budget. Planning & Zoning fees exceeded the \$450,000 budget by \$614,571. These increases are due largely to construction activity in Potomac Yard, the James Bland redevelopment, and the Braddock Road Metro area, and they will expand the real estate tax base by increasing property values as new properties are completed.

### **REVENUE HIGHLIGHTS:**

**Year-to-Date Revenues:** As of August 31, 2012, actual General Fund revenues totaled \$30.2 million, an increase of \$8.7 million, or 41 percent, above revenues for the same period last year. Government accounting principles require that most taxes and intergovernmental revenues received in July are counted as revenue for the fiscal year ended June 30, 2012. See the online reference for more information. Two months does not provide enough data to recognize any trends either positive or negative.

- **Personal Property Taxes/ Motor Vehicle License:** The increases result from earlier payments by taxpayers. Bills were mailed earlier in FY 2013 than in FY 2012. The FY 2013 total assessments are consistent with budget projections.
- **Other Revenues:** The increase is due to \$0.2 million in revenues from the sale of surplus property.

### **EXPENDITURE HIGHLIGHTS:**

**Year-to-Date Expenditures:** As of August 31, 2012, actual General Fund expenditures totaled \$75.5 million, an increase of \$3.8 million, or 5.3 percent, above expenditures for the same period last year.

- **Non Departmental:** A budgeted payment to the Firefighter and Police pension fund was paid earlier in FY 2013 than in FY 2012.
- **Health Department:** The Health Department made the first \$0.97 million quarterly payment to the Commonwealth of Virginia to cover the City's local commitment earlier in the year than in FY 2012.
- **Debt Service:** The increase in debt service reflects planned expenditures for the FY 2012 General Obligation bonds.
- **Schools:** The City will provide approximately 75.8 percent of the estimated funds required to operate the City public school system in FY 2013.

### **ONLINE REFERENCES:**

Online Reference 1-The Economy

Online Reference 2-Revenues

## Online Reference 3-Expenditures

### **STAFF:**

Laura Triggs, Chief Financial Officer

Morgan Routt, Acting Director, Office of Management & Budget

Berenice Harris, Finance Department

Matthew Behrens, Office of Management & Budget

Melinda Barton, Finance Department