City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 3, 2013

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: RASHAD M. YOUNG, CITY MANAGER /s/

SUBJECT: Monthly Financial Report for the Period Ending February 28, 2013

ISSUE: Receipt of the City's Monthly Financial Report for the period ending February 28, 2013.

RECOMMENDATION: That City Council receive the following Monthly Financial Report for the period ending February 28, 2013.

DISCUSSION: This report includes highlights of the City's financial condition and provides fiscal year (FY) 2013 financial information on revenues and expenditures of the General Fund for the period ending February 28, 2013. This report includes the projected revenues included in the City Manager's FY 2014 Proposed Budget. This information is available on the City's website at alexandriava.gov/Budget. Detailed economic, revenue, and expenditure charts (Online References) are also available from the City's website at alexandriava.gov/Financial Reports.

ECONOMIC HIGHLIGHTS:

- **According to Alexandria Convention and Visitors Association data, the City received a boost from inauguration-related activities in January.** According to the data from the Alexandria Convention and Visitors Association (ACVA), hotel occupancy for January was up 12.0 percent from the same period last year, reflecting significant occupancy increases for all hotel types. The average daily rate increased by 12.8 percent from January 2012, while revenue per available room was up by 26.3 percent

- **While not reflected in this report, the effects of sequestration, which took effect on March 1, will be cause for concern going forward.** A variety of federal agencies have sent letters to their employees informing them that they may face furloughs ranging from seven to 22 days in the coming months. While attempts are being made to avoid furloughs, these furloughs, if they take effect, will begin at different times for different agencies. The earliest will start in early April, and most will begin in either April or May. All furloughs will extend through September. Other agencies have announced that they will freeze hiring, cut overtime, eliminate bonuses, cut spending, or take other actions to implement the mandatory across-the-board budget cuts required by sequestration. Some have already begun implementing cuts to existing contracts or taking steps to delay planned expenditures. The City has been notified already that the portion of our Build

America Bonds that would be paid in July could be reduced by about 8 percent or about $80,000. These across the board actions are expected to have a more serious effect on the DC Metropolitan Area and Northern Virginia regional economies and will likely have some effect on the City's economy and budget, with the most visible tax impacts being related to consumption-related taxes and business taxes. Consumption-related taxes like meals and transient lodging will be affected almost immediately, but the effects will be small during the early stages. Fortunately, FY 2013 business license taxes for established businesses and FY 2014 business personal property taxes are based on business activity in calendar year 2012, so the effect on business license taxes for established businesses will not be felt until second half FY 2014 and the effect on business personal property taxes will not be of serious concern until first half FY 2015. However, the City will have to take these potential effects into consideration when monitoring the FY 2014 and planning FY 2015 budgets. Staff will continue to monitor the City's economy and budget and prepare actions to offset any negative effects from sequestration.

- **Economic growth may slow in calendar year 2013.** The Congressional Budget Office has projected that, due to tax increases and cuts to federal spending, the real gross domestic product (real GDP) will grow by only 1.4 percent in 2013 and the national unemployment rate will remain above 7.5 percent through the end of 2014. This compares to real GDP growth of 2.2 percent in 2012 and 1.8 percent in 2011 according to data from the Bureau of Economic Analysis (BEA). BEA data show that real GDP growth decelerated to 0.1 percent in the fourth quarter of 2012, compared to 3.1 percent in the third quarter, 1.3 percent in the second quarter, and 2.0 percent in the first quarter, so this slowdown may have already begun. Since the DC Metropolitan Area in general and Northern Virginia specifically are expected to experience negative effects from cuts to federal spending, this will warrant careful monitoring of the City's economic and financial data. On a positive note, however, historical data show that the City's economy and budget have proven more resilient than others to cuts in federal spending due to the City's appeal to diverse businesses and industries, strong real property tax base, and highly educated labor force.

<u>REVENUE HIGHLIGHTS</u>:

Year-to-Date Revenues: As of February 28, 2013, eight months into the fiscal year, actual General Fund revenues totaled $348.5 million which is 9.3 percent higher than FY2012 for the same period. Most of this increase reflects refunding bond proceeds, the bulk of which was used to fund the refunded bonds listed in the expenditure report. The rest of the increase is mainly related to general property taxes (real estate and personal property).

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- **Other Local Taxes:** The increase is mainly due to the timing of the receipt of telecommunications taxes.
- **Fines and Forfeitures:** Collections in this category primarily reflect budgeted increases for red light cameras installed in FY 2012.
- **Other Revenues:** The increase is primarily due to $0.2 million in the sale of surplus property and insurance recoveries.

EXPENDITURE HIGHLIGHTS:

Year-to-Date Expenditures: As of February 28, 2013 actual General Fund expenditures totaled $375.5 million, an increase of $45.7 million, or 13.9 percent, above expenditures for the same period last year. Personnel expenditures remain consistent with the budget at 4.8 percent higher than last year. Non Personnel spending increased 19.6 percent from the same period in FY 2012, primarily for budgeted debt service and the payment to the refunding bond escrow agent for refunded bonds. We are closely monitoring and controlling these expenditures to be at or below budget.

- **Information Technology:** Increased costs are due to the timing of payments to contractors for service agreements.
- **Registrar:** Increased costs are primarily due to budgeted costs for the presidential election. Costs for the additional primary and voting machines may exceed the budget. Staff will propose a transfer as appropriate in the transfer resolution.
- **Planning and Zoning:** Increased costs are for temporary personnel staffing to handle increased workloads for planning activities. To the extent additional fees are available to support the additional activities, staff will recommend an appropriation of those fees as part of the supplemental appropriation. Department staff will monitor non personnel spending in order to remain at or below budget.
- **Fire:** Fire overtime costs are currently projected to be over the current budget again this year as the number of minimum staffing overtime hours are already higher than at this time last year. However, unlike prior years, the Fire Departments' full-time salaries budget is projected to absorb this overage. As newer employees are hired for the new station to replace retiring firefighters, their salaries and overtime costs are lower than those of the senior firefighters who were the only ones eligible to work these hours in previous years.
- **Police:** During the last several fiscal years, APD has experienced a high attrition rate among sworn staff largely due to a large number of retirements. To offset the impact of this high attrition rate, 18 recruits were put into the July Police Academy. This resulted in higher payrolls in the beginning of the fiscal year. Attrition is expected to continue and future payrolls will be lower due to anticipated retirements and other separations.
- **Debt Service:** The increase in debt service reflects planned expenditures for the FY 2012 General Obligation and refunding bonds.

ONLINE REFERENCES:

Online Reference 1-The Economy
Online Reference 2-Revenues
Online Reference 3-Expenditures

STAFF:

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