



Legislation Text

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City of Alexandria, Virginia

MEMORANDUM

DATE: JANUARY 7, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, ACTING CITY MANAGER /s/

DOCKET TITLE:

Consideration of a Resolution to Amend FY 2016 City Council Budget Guidance Related to Cash Capital. [ROLL-CALL VOTE]

ISSUE: Requesting City Council consideration of amending resolution #2653 establishing the FY 2016 Budget Guidance for the operating and capital budgets, and the 10-year Capital Improvement Program (CIP).

RECOMMENDATION: That City Council adopt a superseding cash capital commitment policy (based on Resolution #2653) which establishes a General Fund cash capital transfer policy to the CIP in FY 2016 - FY 2025 based on the following: a General Fund cash capital transfer minimum of two percent (2%); and a General Fund cash capital transfer target of two and a half percent (2.5%).

DISCUSSION: On December 9, 2014 City staff presented to City Council an alternative to the cash capital commitment policy adopted as part of FY 2016 City Council Budget Guidance (Resolution #2653). During that presentation, City staff outlined an option that capped General Fund support to the CIP through the General Fund Cash Capital transfer and debt service payments at no more than 12% of total General Fund expenditures in each year of the ten-year CIP. City Council did not approve the 12% cap; however, they provided the opportunity for City staff to present an alternative policy to specifically address the desire to have a “floor” or minimum annual contribution for the cash capital transfer portion of the General Fund support to the CIP.

As part of last year’s Approved CIP, a General Fund cash capital transfer of \$22.8 million was planned in FY 2016 to support the CIP. This represents a \$4.8 million increase over the FY 2015 General Fund cash capital transfer of \$18.1 million. In terms of recurring funding in the General Fund, this represents a 26.4% increase in the cash capital commitment over FY 2015, and was built into expenditure projections in FY 2016 as part of the five-year financial forecast presented to City Council in October 2014.

In developing the five-year financial forecast, a three percent (3%) increase in General Fund revenue was initially projected for FY 2016. As City staff has updated the revenue estimates for FY 2016, projections

indicate that the City may see less than a one percent (1%) growth in available General Fund resources (revenues and fund balance budgeted to be expended.) At less than 1% growth, the City may only realize approximately \$4.0 million - \$5.0 million in new General Fund revenue. With \$4.8 million needed to meet planned cash capital funding requirements in FY 2016, almost the entire projected increase of General Fund revenues would be consumed by the previously planned increase in cash capital. This would leave no additional funding for City and Alexandria City Public Schools (ACPS) operations, debt service, Washington Metropolitan Area Transit Authority (WMATA), and other budget categories. Additional information detailing prior year cash capital transfer in relationship to the General Fund can be found in Attachment 2.

The General Fund cash capital is in addition to the debt service payments paid from the General Fund to support previously issued and planned issuance of General Obligation Bonds. In FY 2016, the debt service amount paid from the General Fund was previously estimated between \$66.0 million and \$69.0 million, based on updated project prioritization and project timing in the FY 2016 - FY 2025 CIP. Debt service supported by the General Fund is estimated to be 10.1% to 10.8% of projected FY 2016 expenditures. The actual increase in debt service will not be known until the City Manager's Proposed CIP is fully developed; however, it is anticipated that the increase might now be able to be approximately \$1.5 - \$2.0 million over last year's budget to support debt service payments on previously issued and planned to be issued General Obligation Bonds.

Other Cash Capital Considerations

In municipal finance, there are no generally recognized specific mathematical benchmarks for cash capital funding. The bond rating agencies view of cash capital is positive, but the bond rating agencies do not always set minimum threshold expectations. In general having an overall CIP which is 25% cash capital from all cash sources is considered very healthy. Currently the City's cash capital planned CIP funding from all sources is about 40% for the Approved FY 2015 - FY 2024 CIP, nearly 15 percentage points greater than a 25% cash capital funding level that the bond rating agencies consider healthy. It is also generally recognized within municipal finance that cash capital funding can be counter-cyclical in relation to the economy and may likely increase when tax revenue growth is the greatest, and may shrink when tax revenue growth is not occurring, or occurring at a slower pace (as is likely for FY 2016). This also allows a smoothing of changes to operating budgets that reduces volatility and enhances stability of budgets.

Comparison to Arlington County

In comparing the City's General Fund cash capital transfer to Arlington County, the City contributes a higher percentage of recurring, unrestricted General Fund cash capital to support pay-as-you-go projects in the CIP. The table below shows a comparison between the City and Arlington County as relates to General Fund cash capital support. The table excludes cash capital transfers from dedicated special revenue funds such as transportation and sewers. Additional information regarding Arlington County's cash capital transfer can be found in Attachment 3.

<u>Jurisdiction</u>	<u>Total General Fund</u>	<u>Recurring Cash Capital</u>	<u>One-Time Cash Capital</u>	<u>G/F% of Recurring Cash Capital</u>
City of Alexandria	\$636.8M	\$18.1M	\$3.0M	2.84%
Arlington County	\$1,147.7M	\$15.0M	\$14.8M	2.60%

Staff Recommendation

Based on the analysis, City staff is proposing a General Fund cash capital transfer policy for each year of the ten-year CIP as follows:

	Percentage	Estimated FY 16 Amount
Minimum	2.0%	\$12.8 million
Target	2.5%	\$16.0 million

Providing a minimum and a target ensures that cash capital will be maintained at an acceptable level, but at same the time flexibility in setting budget priorities between the annual General Fund Operating Budget and annual cash capital transfer from the General Fund to the CIP will remain. Setting a maximum cap (such as three percent) could also be an option, but such a restriction is not needed to ensure a good level of cash capital funding and might also artificially limit the City CIP structuring in the case of unique circumstances where it may be desirable to exceed a three percent cap.

This cash capital policy will provide City staff the flexibility to develop sustainable and affordable General Fund support to the CIP through debt service paid on General Obligation Bonds and a recurring cash capital transfer supporting City Council capital infrastructure priorities in the ten-year CIP. Furthermore, this policy will tie the cash capital closely to the General Fund, and allow cash capital to grow or decrease proportionally with the General Fund, while still providing the necessary resources to maintain the City's capital infrastructure. While this proposed change may shift the cash capital percentage downward from its current 40%, the shift would still provide a healthy cash funded portion of the CIP in the 35% to 37% range.

FISCAL IMPACT: There is no fiscal impact to the FY 2015 budget; impacts to the FY 2016 General Fund Operating Budget will be determined once the City Manager's FY 2016 Proposed Operating Budget and Proposed FY 2016 - FY 2025 CIP is fully developed. If the recommended and target percentages are adopted then there will be more flexibility in closing the projected FY 2016 budget gap.

ATTACHMENTS:

- Attachment 1: Consideration of a Resolution to Amend FY 2016 City Council Budget Guidance
- Attachment 2: Cash Capital Transfer and General Fund Expenditure Information
- Attachment 3: Arlington County Cash Capital Information

STAFF:

- Laura Triggs, Deputy City Manager
- Nelsie L. Birch, Director, Office of Management and Budget (OMB)
- Christopher R. Bever, Assistant Director, OMB