

# *City of Alexandria, Virginia*

## MEMORANDUM

DATE: APRIL 10, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 91 : FY 2009 AND FY 2010 FINAL REVENUE PROJECTIONS AND ADJUSTMENTS

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Annually, at the beginning of April, City staff reestimates current fiscal year and subsequent fiscal year revenues. This year, numerous changes are proposed due to the rapidly changing economic outlook that affects many City revenue sources. The results of those projections show a projected overall decrease of \$0.5 million in FY 2010 revenue estimates and a \$2.35 million decrease in projected FY 2009 revenues for a total negative impact on FY 2010 of \$2.85 million. These revenue reductions will be offset by projected budget savings of \$0.32 million in FY 2010. (See Budget Memo #90) and \$2.54 million in FY 2009 (\$0.54 more than previously promised in Budget Memo #3). The main drivers of these revenue reestimates are:

- A declining economy that has affected:
  - Business license (BPOL) revenues
  - Sales tax and meals tax revenues
  - Investment revenue from interest on City short-term investments
  - Building permit revenue
- The BRAC-133 construction project activity will add an estimated \$1.45 million in new FY 2010 tax revenues.
- The Metro Matters refinancing savings will result in the CIP transferring back to the General Fund \$0.8 million for FY 2010.

In our overall FY 2010 estimates, we have tried not to be either overly optimistic or overly pessimistic. There is major uncertainty in forecasting revenues in the current economy, however, and the depth and length of the recession are as yet unclear. For Fiscal Year 2009, unless noted below we generally have nine months of actual revenue collections on which to base our estimate, so we are more confident of those estimates. For most of the economically sensitive revenue sources, we have assumed declines of approximately 3% from FY 2009 to FY 2010.

The table below includes FY 2009 and FY 2010 revenue estimation changes from January to April.

<b>Change from January revenue estimates</b>	<b>FY 2009</b>	<b>FY 2010</b>
Business personal property	\$ 300,000	\$ 200,000
Sales Tax	(400,000)	650,000
Business license (BPOL) taxes	(1,700,000)	(2,200,000)
Bank Franchise	500,000	500,000
Recordation	200,000	200,000
Cigarette Taxes	-	(100,000)
Transient lodging	300,000	300,000
Restaurant food	(350,000)	(100,000)
Admissions Tax	50,000	50,000
Communications Sales and Use Tax	(350,000)	(200,000)
Building Permits	(550,000)	(300,000)
Fire Protection Systems	(110,000)	(110,000)
Red Light Camera Revenue	(90,000)	-
HB 599 Revenue	-	205,436
Compensation Board Revenues	-	517,067
Planning and Zoning Fees	-	150,000
Ambulance Charges	50,000	-
Property Rental	(100,000)	(100,000)
Interest on General Fund investments	(100,000)	(1,000,000)
Transfer in Metro Matters savings		800,000
<b>Total</b>	<b>(2,350,000)</b>	<b>(537,497)</b>

The revenue reestimates described in detail below reflect current tax rate and revenue policies continued or already reflected in the FY 2010 Proposed Budget. They do not reflect options presented to Council in Budget Memo #23 for changes to the City Manager's proposed 88.7 cent real estate tax rate or other tax rate or revenue policy changes.

The FY 2009 and FY 2010 revenue estimates in the Proposed FY 2010 budget document were based on revenues and trends through December 2008. The latest estimates are based on revenue collections through March 2009, with exceptions as noted below. Staff will continue to monitor actual revenues and adjust the monthly revenue projections for the current fiscal year in the context of the Monthly Financial Report. Based on actual receipts and trends through March, the FY 2010 revenue estimates have been changed as detailed in the next pages. These technical revenue adjustments will be reflected on the Final Add/Delete list.

#### **FY 2009 Revenue Adjustments**

<b>FY 2009 Adjustment</b>	<b>Description-Taxes</b>
+\$0.3 million	Increase in Business Personal Property taxes from \$15.7 million to \$16.0 million based on collections through March, 2009.
-\$0.4 million	Decrease in Sales Tax from \$22.0 million to \$21.6 million based on the likelihood of additional sales tax transfers to Fairfax County.
-\$1.7 million	Decrease in Business License (BPOL) tax from \$32.3 million to \$30.6 million based on collections through March, 2009. This projection (based on

	CY 2008 gross receipts) reflects a 4.4% decline in BPOL tax collections compared to FY 2008 (based on CY 2007 gross receipts). The decrease is the result of declining business revenues and lower levels of tax collection due to the recession.
+\$0.5 million	Increase in Bank Franchise tax from \$1.3 to \$1.8 million due to higher than expected collections through March, 2009.
+\$0.2 million	Increase in Recordation tax from \$2.9 million to \$3.1 million based on higher than expected collections through March, 2009. Recordation is slightly stronger than expected due to lower interest rates and refinancing activity.
+\$0.3 million	Increase in Transient Lodging tax from \$10.7 million to \$11.0 million based on higher than expected collections through February, 2009, the most recent month available of reliable data. The projection includes additional revenues expected from two hotels which opened during FY 2009.
-\$0.4 million	Decrease in Restaurant Meals tax from \$15.25 million to \$14.9 million based on lower than expected collections through January, 2009. the most recent month available of reliable data.
+\$0.05 million	Increase in Admissions Tax from \$1.0 million to \$1.05 million based on higher than expected collections through March 2009.
-\$0.4 million	Decrease in Communication Sales and Use Tax from \$11.7 million to \$11.35 million based on a statewide reduction in the amount paid by a communications vendor to the State. The City's share of the \$13.6 million statewide reduction is \$0.4 million.
	<b>Description-Fees and Other</b>
-\$0.5 million	Decrease in Building Permits from \$2.3 million to \$1.75 million based on lower than expected collections through March 2009. Due to the depressed real estate and construction market, year-to-date building permit revenues have decreased by 35% in FY 2009 compared to FY 2008.
-\$0.1 million	Decrease in Fire Protection System permits from \$0.5 million to \$0.4 million. This is due to the continued slowdown in the real estate market.
-\$0.1 million	Decrease in revenue from Red Light Camera Program from \$90,000 to \$0. Revenues from the Red Light Camera program are now expected to begin on July 1, 2009.
+\$0.05 million	Increase in revenue from ambulance fees from \$1.85 million to \$1.9 million due to higher than expected collections through March 2009.
-\$0.1 million	Decrease in City-owned property rental revenues from \$0.7 million to \$0.6 million due to lower than expected collections through March 2009.
-\$0.1 million	Decrease in interest on General Fund investments from \$2.0 million to \$1.9 million due to lower interest rates during the second half of FY 2009.
<b>-\$2.35 million</b>	<b>Total Change</b>

### **FY 2010 Revenue Adjustments**

<b>FY 2010 Adjustment</b>	<b>Description-Taxes</b>
+\$0.2 million	Increase in Business Personal Property taxes from \$15.8 million to \$16.0 million due to higher than expected YTD revenues than originally estimated.
+\$0.65 million	Increase in Sales tax revenues from \$23.4 million to \$24.05 million. This is

	based on an expected decline of sales tax revenues of 3% in FY 10 (adjusted for one time transfers), consistent with economic weakness expected through early 2010 plus \$1.25 million in projected sales tax revenues for building materials from the BRAC-133 construction project.
-\$2.2 million	Decrease in Business license (BPOL) tax revenues from \$32.3 million to \$30.1 million based on lower than expected levels of tax collection. The City expects a decrease of 2.5% in FY 2010 BPOL revenues compared to the current FY 2009 projection based on a recessionary economy which is not expected to bottom until calendar year 2010. The estimate includes \$0.2 million in projected BPOL revenues from the BRAC-133 construction project.
+\$0.5 million	Increase in Bank Franchise tax from \$1.3 to \$1.8 million due to higher than expected collections through March, 2009.
+\$0.2 million	Increase in Recordation tax revenues from \$2.9 million to \$3.1 million is based on higher than expected collections through March, 2009. Recordation revenues are expected to remain flat in FY 2010.
-\$0.1 million	Decrease in Cigarette tax revenues from \$2.8 million to \$2.7 million is based on a possible small decrease in demand due to the large increase in the federal tax on a pack of cigarettes.
+0.3 million	Increase in Transient Lodging tax revenues from \$10.7 million to \$11.0 million. This projection is based on higher than expected YTD revenues through February, 2009, plus extra revenue from new Alexandria hotels which opened during FY 2009 and will be open for a full year in FY 2010. The estimate is adjusted down by 2.5% to account for the weaker business travel and tourism market expected in FY 2010.
-\$0.1 million	Decrease in Restaurant Meals tax revenues from \$15.3 million to \$15.2 million. This estimate is based on FY 2009 collections through March, a decrease in sales volume of approximately 3% and offset by continuing food inflation, which according to the Bureau of Labor Statistics, is running at an annual rate of 4.8% through February.
+\$0.1 million	Increase in Admissions Tax from \$1.0 million to \$1.05 million based on higher than expected collections through March 2009.
-\$0.2 million	Decrease in Communications Sales and Use Tax from \$12.0 million to \$11.8 million based on YTD collections through January, including the reduction in the amount paid by a vendor to the State, and the recession.
	<b>Description-Fees and Other</b>
-\$0.3 million	Decrease in Building Permits revenue from \$2,642,000 to \$2,342,000 based on lower than expected collections through March 2009. Included in the \$2,342,000 are approximately \$342,000 in revenue from increases to Code fees in FY 2010.
-\$0.1 million	Decrease in Fire Protection System permits from \$0.5 million to \$0.4 million. This is due to the continued slowdown in the real estate market.
+\$0.2 million	Increase in HB599 revenue from \$6.0 million to \$6.2 million. As a result of the federal stimulus package, the cuts in HB599 revenue proposed last fall by the governor were eliminated, and the HB599 budget was restored to its FY 2009 level.
+\$0.5 million	Increase in Compensation Board Revenue from \$7.7 million to \$8.2 million. As a result of the federal stimulus package, the cuts in Compensation Board

	revenue proposed last fall by the Governor were reduced, and Compensation Board Revenue was mostly restored to its FY 2009 level.
+\$0.15 million	Increase in Planning and Zoning fees from \$0.3 million to \$0.45 million. Some fees that were previously credited to a special revenue account will be credited to the General Fund beginning in FY 10.
-\$0.1 million	Decrease in City-owned property rental revenues from \$0.7 million to \$0.6 million due to lower than expected collections through March 2009.
-\$1.0 million	Decrease in interest on General Fund investments from \$2.1 million to \$1.1 million due to lower interest rates expected during FY 2010.
+0.8 million	An increase of \$800,000 in fund balance designated for the FY 2010 operating budget. This decrease in funding for the CIP (and corresponding upward technical adjustment of debt service costs) represents the savings in the CIP attributable to having the City borrow \$12.8 million directly for Metro Matters in lieu of WMATA issuing debt at a higher interest rate. (Approved with Docket Item #12 on March 24, 2009, Ordinance Authorizing and Empowering the Issuance, Sale and Delivery of General Obligation Bonds to Finance Various Capital Projects.)
<b>-\$0.5 million</b>	<b>Total Change</b>