



FALLS CHURCH CITY  
PUBLIC SCHOOLS

# City Council/School Board Retreat Finance Discussion

**November 30, 2009**

# Work Session Purpose

- Comprehensive review of financial status for FY11 budget development
- Preliminary review of long range forecasts and planning
- Review of revenue and expenditure options
- City Council and School Board budget development policy guidance

# Agenda Topics

- FY11 budget challenge - “the Gap”
- Economic conditions
- Revenues parameters
- Expenditures parameters
- Debt Service/Capital
- Options
- Operating and CIP budget development calendar
- Next steps



# Council Vision



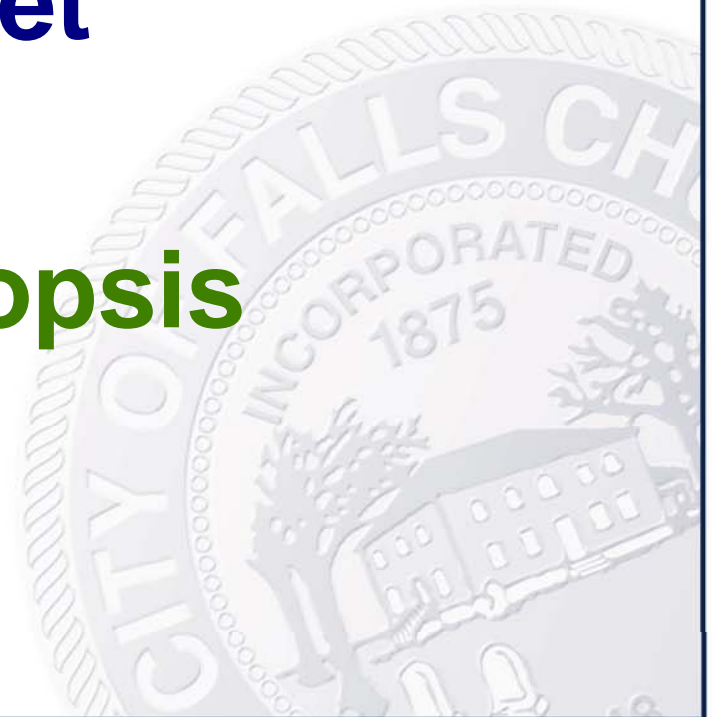
# Lines of Service

- Executes the desired states of the Vision
- Budget adoption establishes policy and funding level to achieve the Vision
- Key programmatic categories includes:
  - public safety
  - code compliance
  - Infrastructure
  - environmental
  - community services
  - schools (education/student development, staff development, community/parent involvement/day care, facilities/environment safety, and food service)
  - government operations



# **FY11 Budget**

## **Situation Synopsis**



## Preliminary General Fund FY2011 Revenue Estimates

	2010 original budget	2011 estimate		2010 revised estimate
RE Tax	37,336,716	30,750,158	(6,586,558)	32,978,895
PP Tax	3,389,223	3,389,223		3,389,223
Other local taxes	9,979,400	9,371,400	(608,000)	8,871,400
Permit, fees, and licenses	3,173,681	3,071,790	(101,891)	3,071,790
Fines and forfeitures	1,210,500	1,516,500	306,000	1,116,500
Revenue from interest and rent	269,200	95,200	(174,000)	95,200
Charges for services	2,511,354	2,561,354	50,000	2,561,354
Miscellaneous	35,650	39,500	3,850	39,500
Gifts and contributions	126,392	126,392	(241,934)	126,392
Recovered costs	1,800,188	1,800,188		1,800,188
State	3,974,814	3,732,880		3,925,422
Federal	579,287	579,287		579,287
Transfer from Water Fund	2,362,411	2,400,000	37,589	2,362,411
<b>Total Revenues</b>	<b>\$66,748,816</b>	<b>\$59,433,871</b>	<b>(7,314,945)</b>	<b>\$60,917,562</b>

# Preliminary General Fund FY2011 Expenditure Estimates

<b>General government</b>	<b>\$37,462,561</b>
<i>Less:</i>	
<b>FY2010 reductions</b>	<b>(600,000)</b>
<i>Add:</i>	
<b>Pension costs</b>	<b>775,000</b>
	<hr/>
	<b>37,637,561</b>
<b>School transfer</b>	<b>29,624,825</b>
<i>Less:</i>	
<b>FY2010 reductions</b>	<b>(300,000)</b>
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	<b>29,324,825</b>
<b>Total General Fund requirements</b>	<b>\$66,962,386</b>
	<hr/>

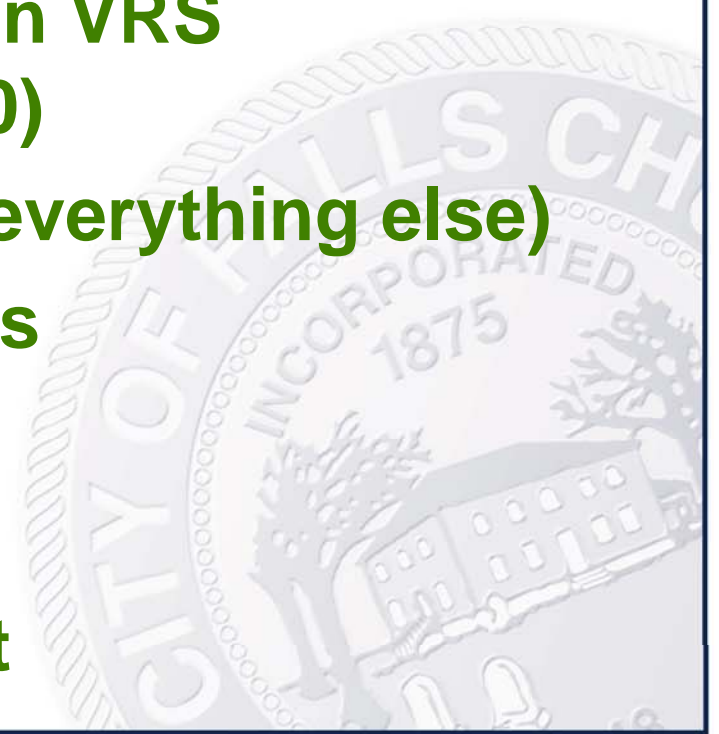
**Footnote: does not include compensation/ health insurance, school pension/VRS or other potential expenditure elements**

# The Gap

<b>Total General Fund requirements</b>	<b>66,962,386</b>
<b>Total General Fund revenues</b>	<b>59,433,871</b>
<b>Expenses over revenues</b>	<b>\$7,528,515</b>

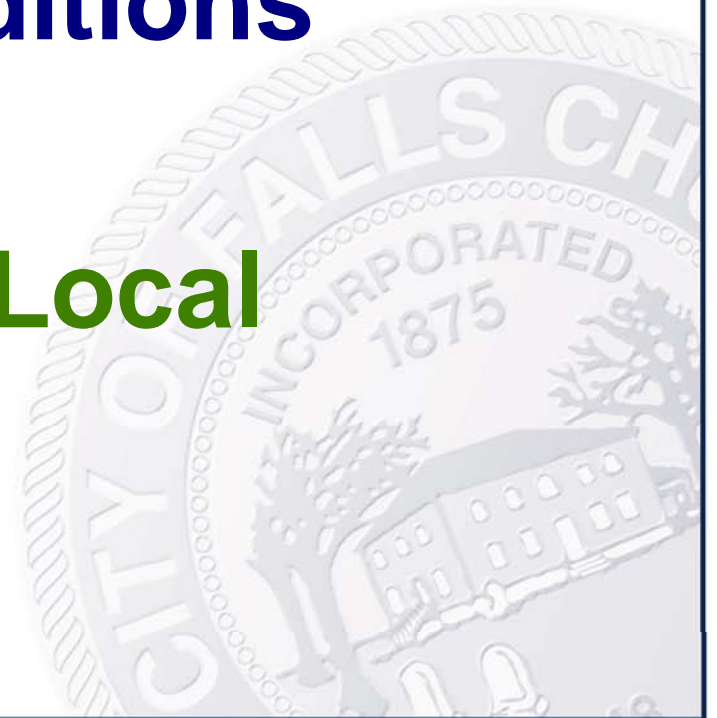
# Further Considerations

- **Health insurance rates (will increase 10-25%)**
- **General Assembly action on VRS (unknown until Spring 2010)**
- **General Assembly action (everything else)**
- **Federal government actions**
- **Energy costs**
- **Interjurisdictional costs**
- **Result of Fairfax Water suit**



# **Economic Conditions**

**General/State/Local**



# General Economic Conditions

- “Jobless recovery”
- Mortgage crisis not over: 14% of U.S. mortgages in arrears
- Commercial real estate depressed
  - 2.5 million office jobs lost
  - Nationwide office vacancy rate projected at 20%
  - Nationwide commercial rents down 17% (50% in Manhattan, NY)

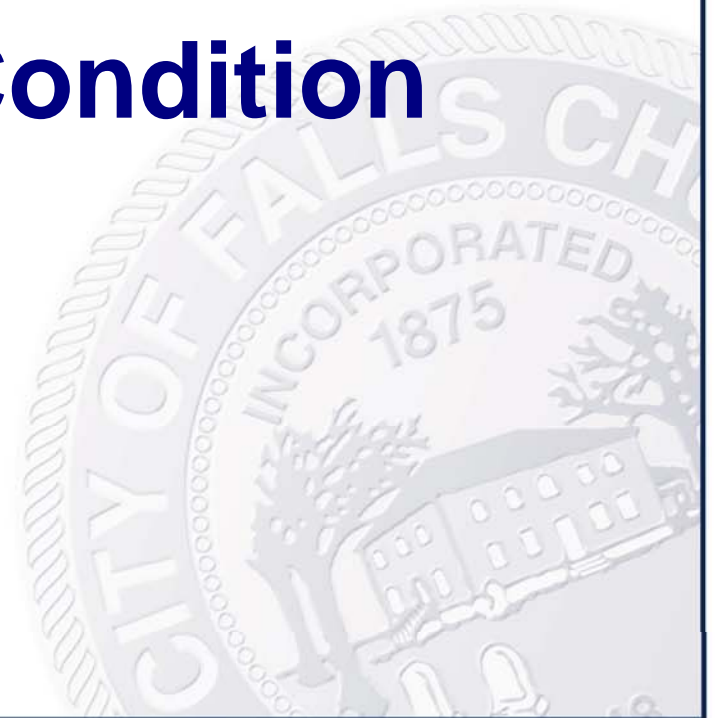
# State/Regional Conditions

- Virginia lost 53,800 jobs in FY2009; 53% in construction
- Transportation trust fund revenues declined 2.7% during FY2009
- Statewide sales taxes projected to decline again: 2.8%
- According to Va. Dept of Taxation, employment and personal income will reach the bottom in FY2010
- 60% of Virginia's FY2010-2011 budget adjustments depended on one-time revenues

# Lag Effect

- **State revenues dependent on personal income and sales taxes. Both expected to rebound in FY2013**
- **Real Estate assessed as of January 1. Recovery, if any in CY2010, not seen until CY2011. Typical recovery in Northern Virginia takes 5-7 years**

# City's Economic Condition



# Personal Income - 2007

		Single Filer Median AGI	Married Couple Median AGI	Total Median AGI
Virginia		\$21,639	\$67,160	\$35,372
Loudoun	County	\$30,064	\$109,120	\$64,087
<b>Falls Church</b>	<b>City</b>	<b>\$32,550</b>	<b>\$116,483</b>	<b>\$54,556</b>
Fairfax	County	\$29,928	\$105,230	\$52,591
Arlington	County	\$38,769	\$106,585	\$48,120
Alexandria	City	\$36,848	\$92,933	\$45,299
Prince William	County	\$26,097	\$84,970	\$44,740
Fairfax	City	\$28,181	\$88,008	\$44,428

# Diversified Economy - Top Taxpayers

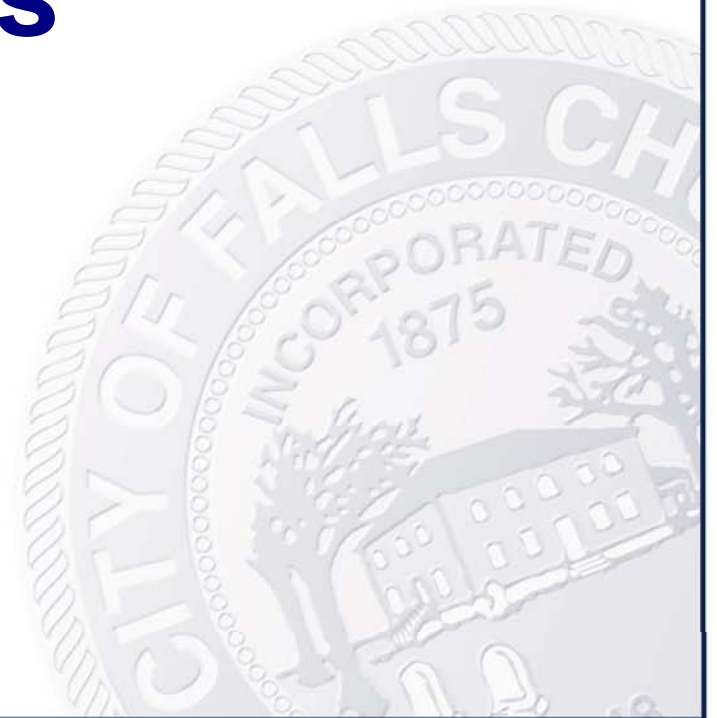
Taxpayer	2009			2000		
	Taxable Assessed Value		% of Total Taxable Assessed Value	Taxable Assessed Value		% of Total Taxable Assessed Value
TMW Pearson Square LLC	86,922,100	1	2.66%			
Spectrum Condominium	78,849,600	2	2.41%			
Falls Church Country Club (Apartments)	72,423,000	3	2.21%	41,000,000	1	3.41%
Eden Center, Inc.	57,384,300	4	1.75%	27,960,000	2	2.32%
Koons Ford	26,987,000	5	0.82%	12,785,800	5	1.06%
Federal Realty Investment Trust	23,389,200	6	0.71%	11,765,000	6	0.98%
West Falls Parcel, Inc	23,053,200	7	0.70%	9,250,000	8	0.77%
Kaiser Foundation Health Plan, Inc. (Mid Atlantic Permanente)	22,048,500	8	0.67%	15,060,000	3	1.25%
B Franklin Kahn, et al	21,878,200	9	0.67%	12,870,000	4	1.07%
Aimco Merrill House, LLC	21,571,100	10	0.66%	9,350,000	7	0.78%
Noland Co. Inc.				7,616,000	9	0.63%
Lee Square				7,030,000	10	0.58%
Totals	\$434,506,200		13.28%	\$154,686,800		12.86%

# Diversified Economy - Top Employers

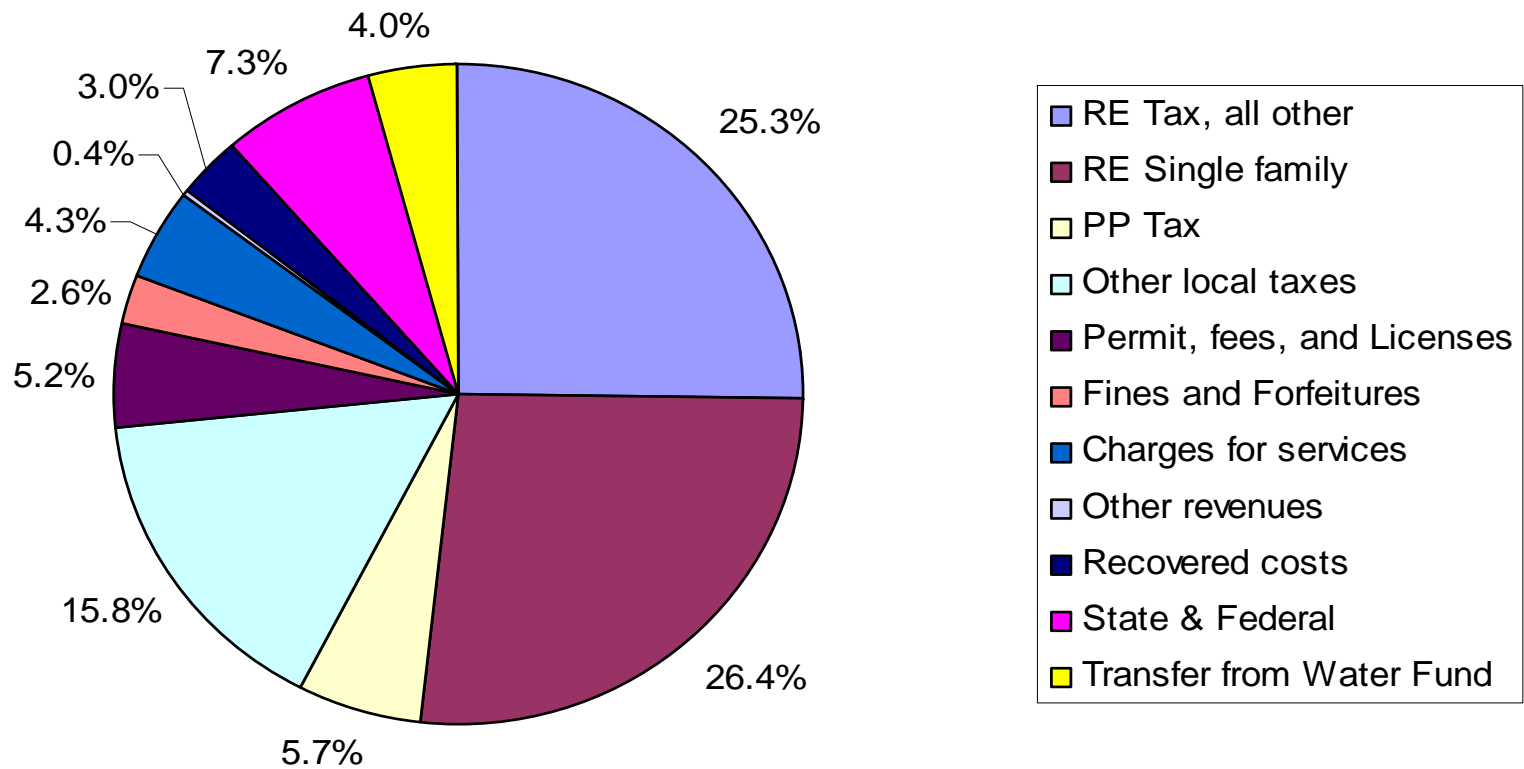
Employer	Employees	Rank	Percentage of Total City Employment
Mid Atlantic Permanente Medical (Kaiser)	500	1	4.39%
City of Falls Church Schools	386	2	3.39%
City of Falls Church	284	3	2.49%
BG Healthcare Services	207	4	1.82%
Tax Analysts	184	5	1.61%
Koons Ford	175	6	1.54%
Giant Food	145	7	1.27%
Care Options	95	8	0.83%
Don Beyer Motors	92	9	0.81%
Home Instead Senior Care	92	10	0.81%
<b>Total</b>	<b>2,160</b>		<b>22.74%</b>

Source: Falls Church Office of Economic Development

# Revenues



# Revenue Mix FY2011 Projection



# **Taxable Real Estate Parcels CY2009**

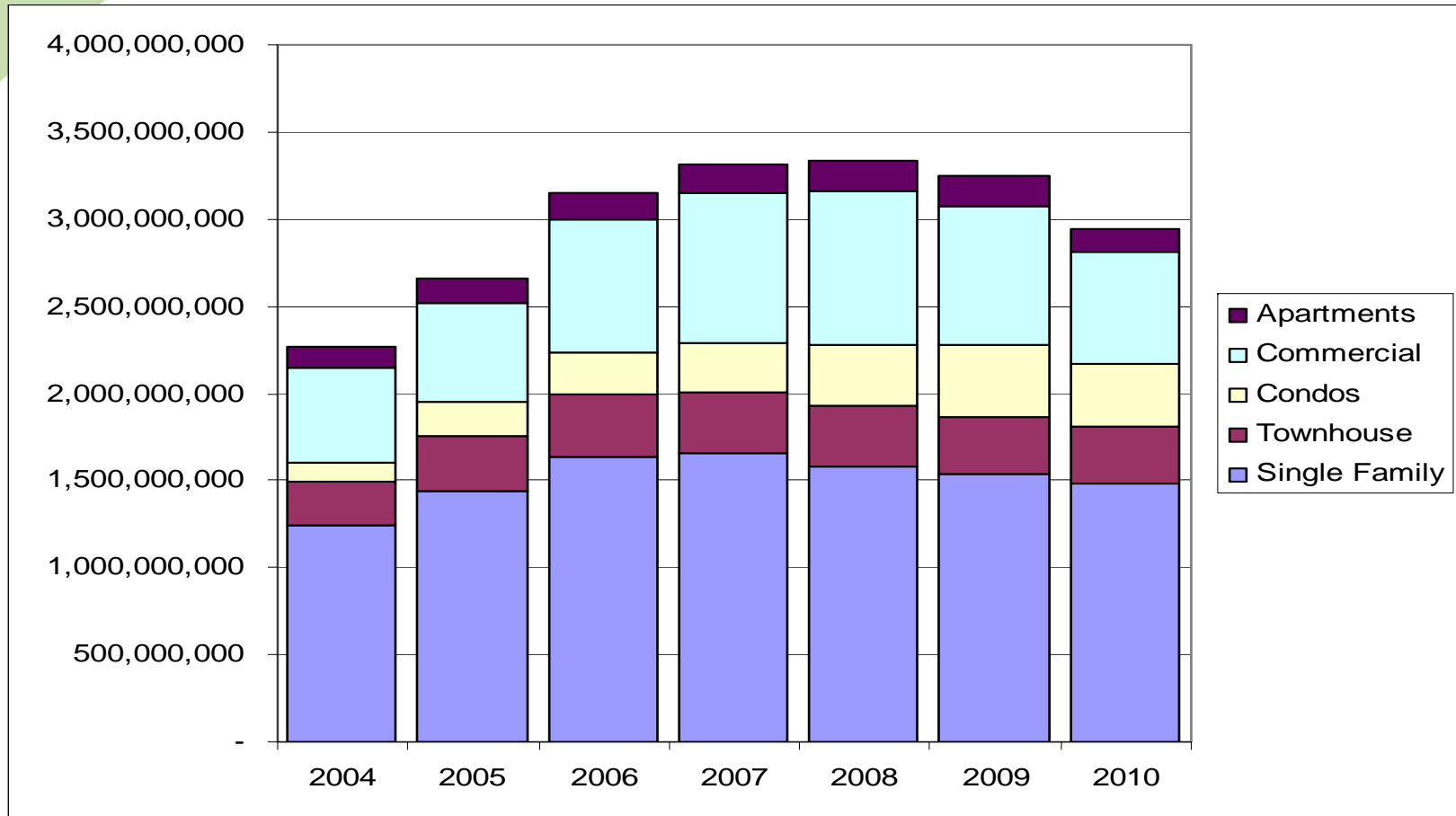
- **9 Apartment Buildings (multi family rental)**
- **1,185 Condominiums**
- **2,384 Single Family Detached (houses)**
- **557 Single Family Attached (townhouses)**
- **519 Commercial Properties**



## Estimated Assessment Change, Calendar 2009 – Calendar 2010

- **Single Family Detached: -3%**
- **Townhouses: -5%**
- **Condominiums: -12%**
- **Multi Family: -18% -20%**
- **Commercial: -18% -20%**
- **Overall: – ~9.25%**

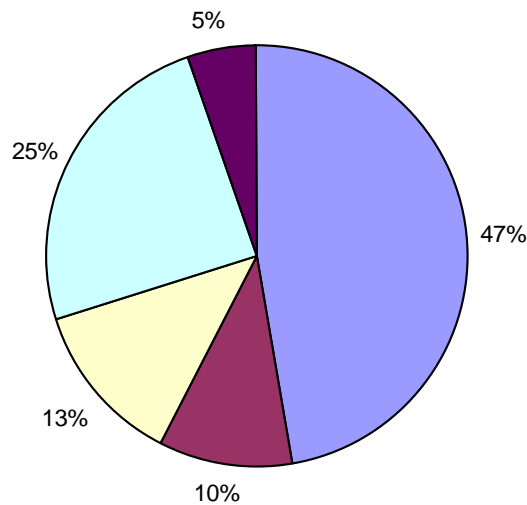
# Distribution of Real Estate Assessments



**Note: Calendar Year**

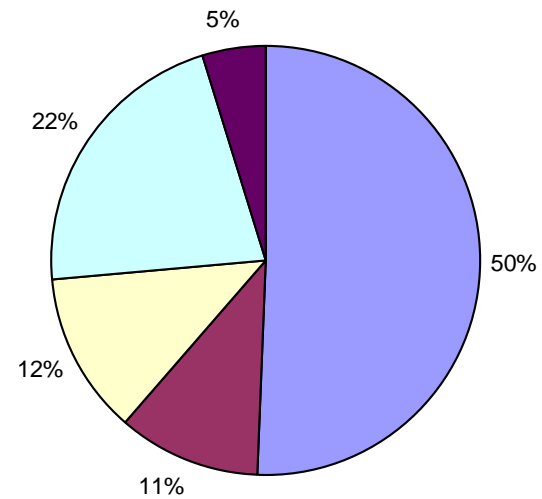
# Change in Distribution of Real Estate Assessments

2009 RE assessment distribution



■ SF Houses ■ Townhouses ■ Condos ■ Commercial ■ Apartments

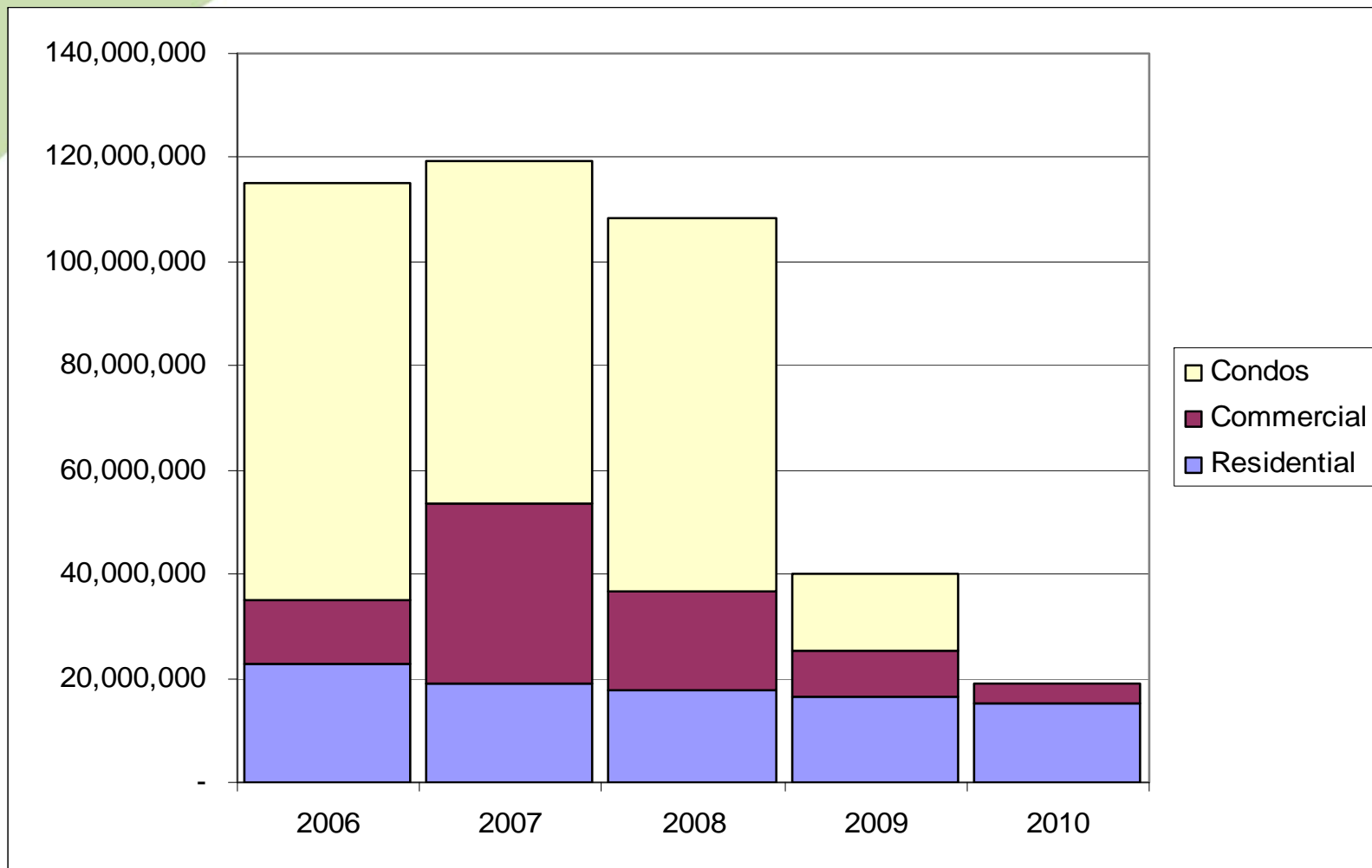
2010 RE assessment distribution



■ SF Houses ■ Townhouses ■ Condos ■ Commercial ■ Apartments

**Note: Calendar Year**

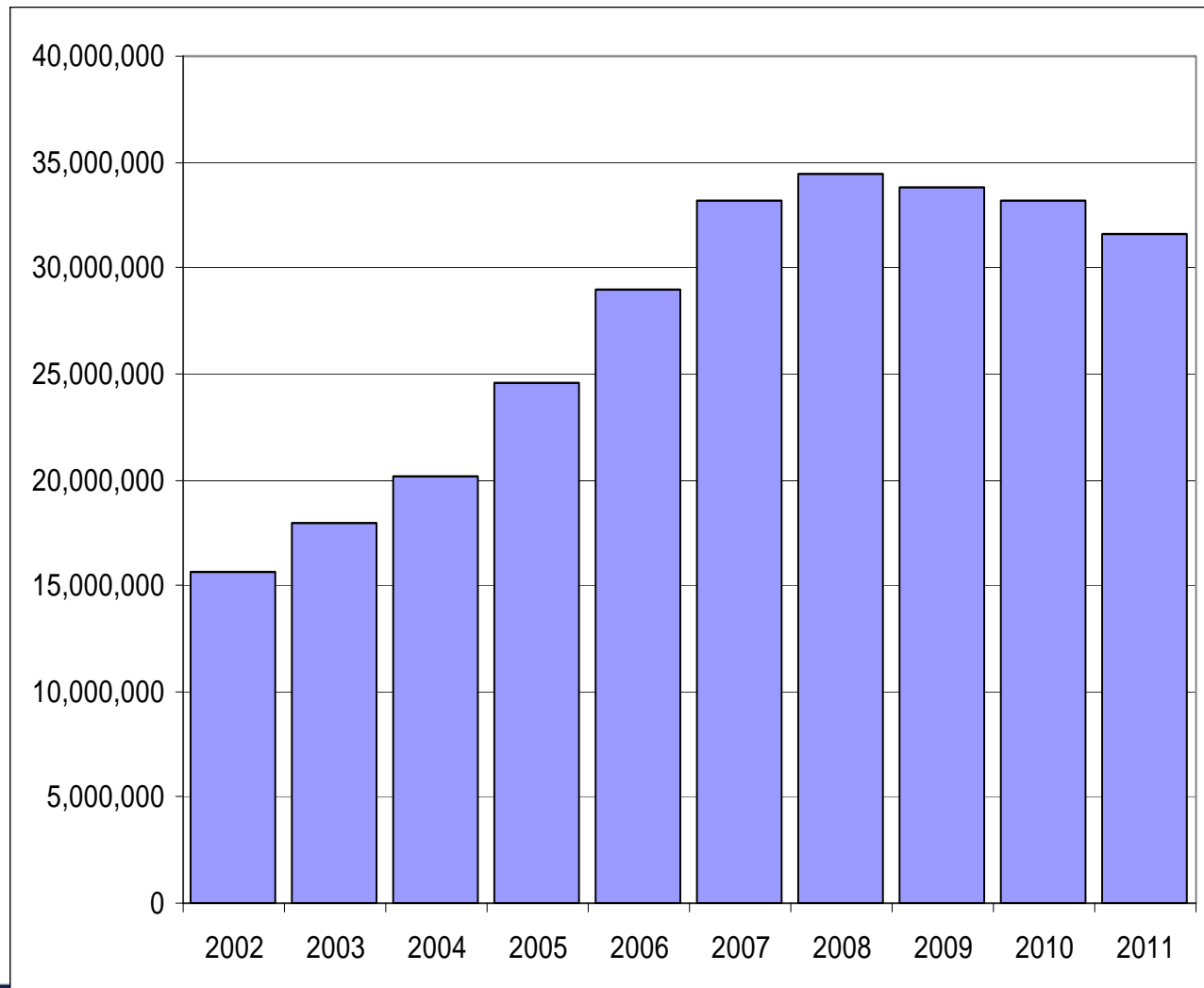
# Assessed Value of New Construction



**Note: Calendar Year**

# Major Revenue Source: Real Estate

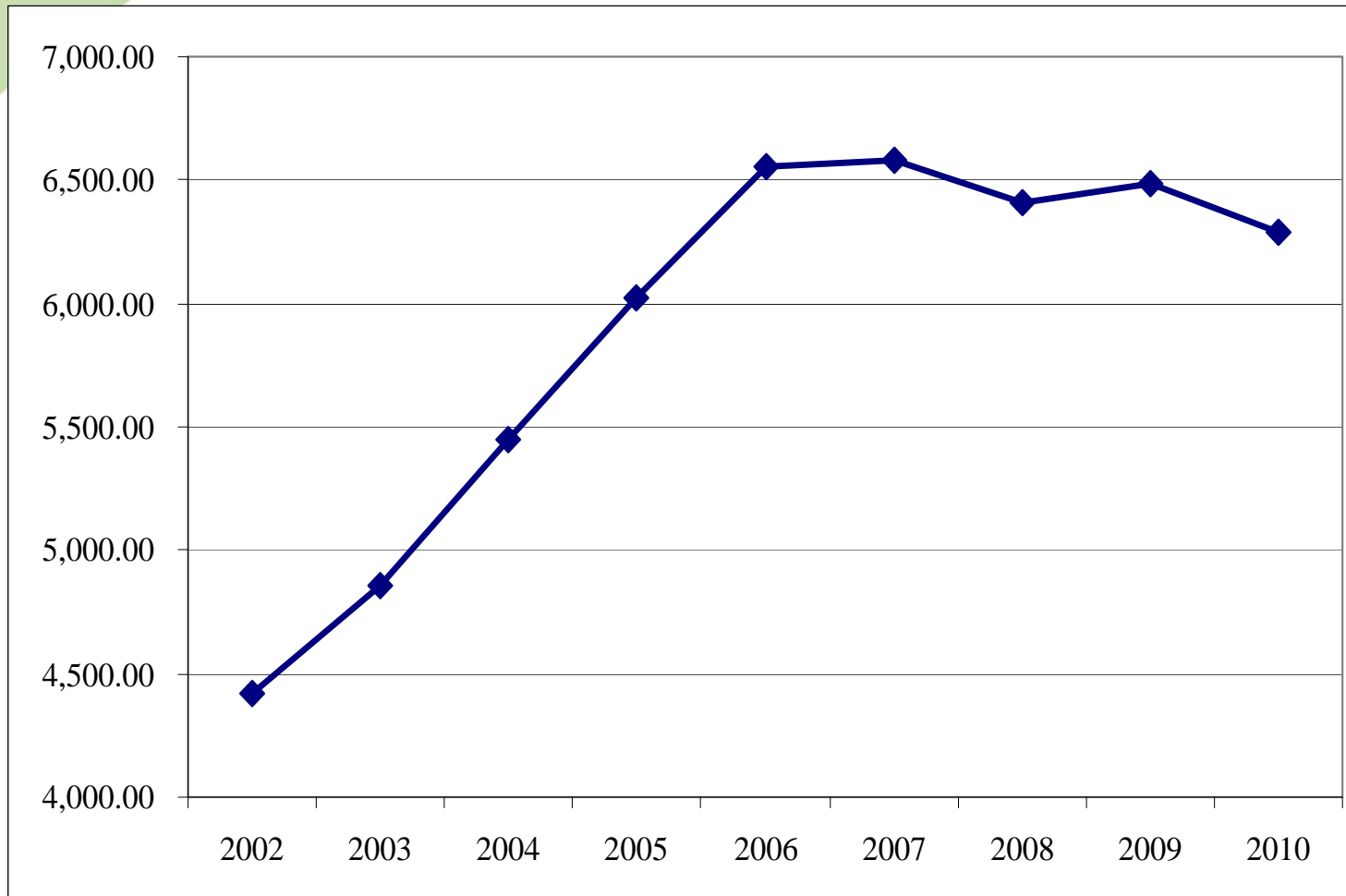
FY	
2002	\$15,630,535
2003	18,003,760
2004	20,198,314
2005	24,572,634
2006	28,985,289
2007	33,165,720
2008	34,488,000
2009	33,850,000
2010 (est)	33,217,895
2011 (est)	31,591,778



# Regional Rates – 2009

		Base Rate	Special Taxing Districts		Commercial Rate
			Low	High	
1	Manassas Park	1.650			
2	Leesburg	1.440			
3	Manassas	1.370			
4	Herndon	1.300			
5	Vienna	1.268			
6	Loudoun	1.245	0.130	0.300	
7	Prince William	1.212	0.00	0.200	
8	Falls Church	1.070			
9	Fairfax County	1.040	0.010	0.220	1.140
10	City of Fairfax	0.935	0.00	0.220	
11	Alexandria	0.887			
12	Arlington	0.878	0.040	0.140	0.978

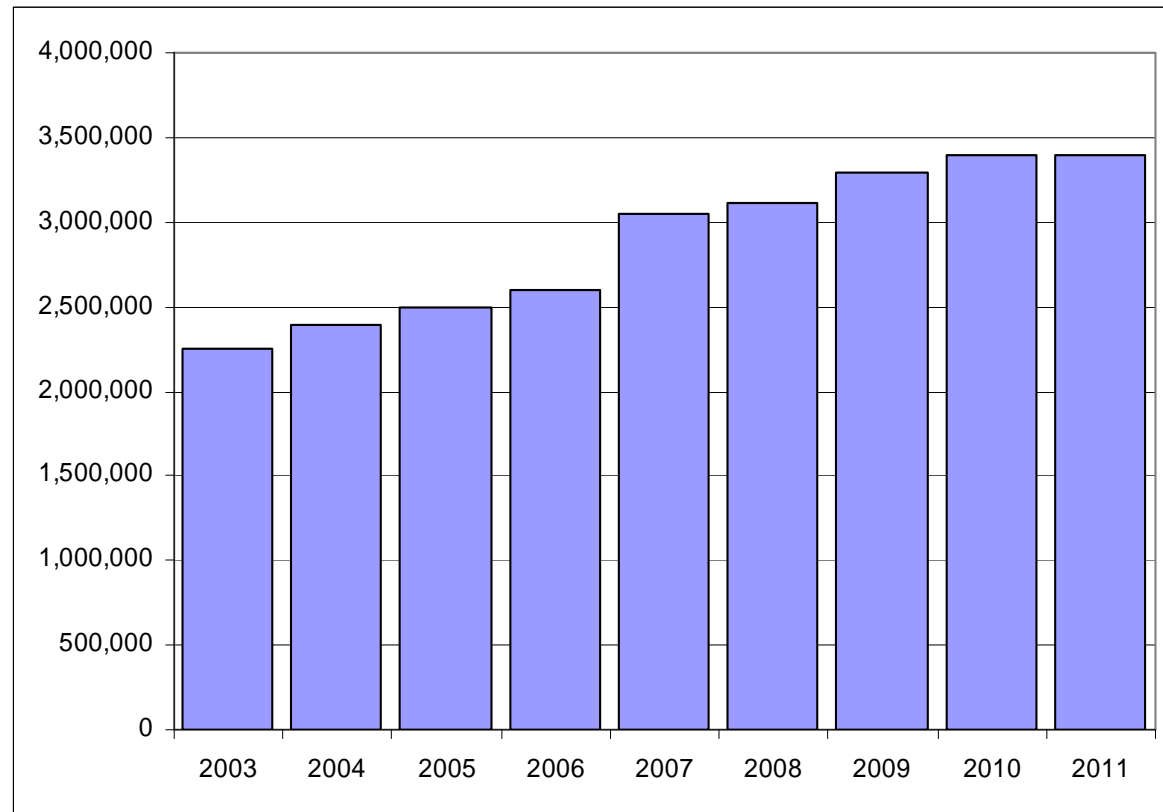
# Median Single Family Real Estate Bill



**Note: calendar year basis**

# Major Revenue Source: Personal Property

FY	
2003	\$ 2,249,397
2004	2,393,411
2005	2,500,000
2006	2,597,000
2007	3,045,139
2008	3,115,000
2009	3,294,000
2010	3,389,223
2011 (est)	3,389,223



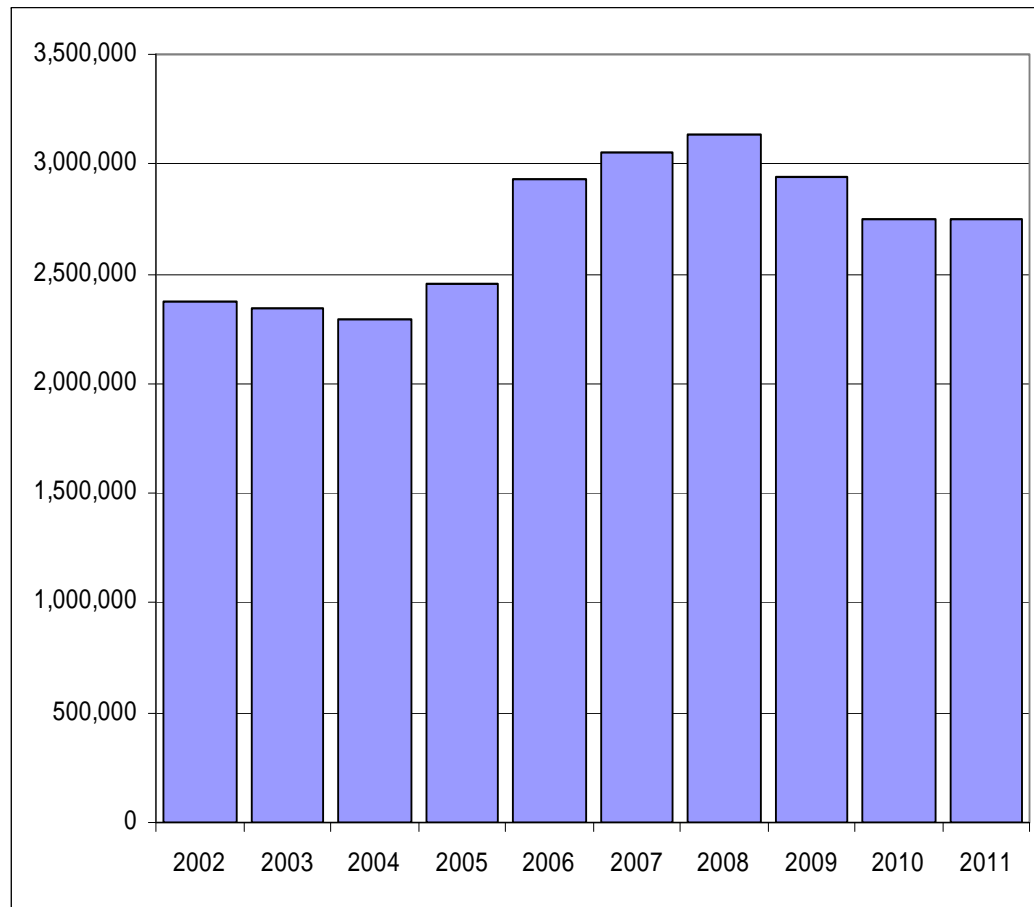
**Business property = 30%**

**Personal vehicles = 70%**

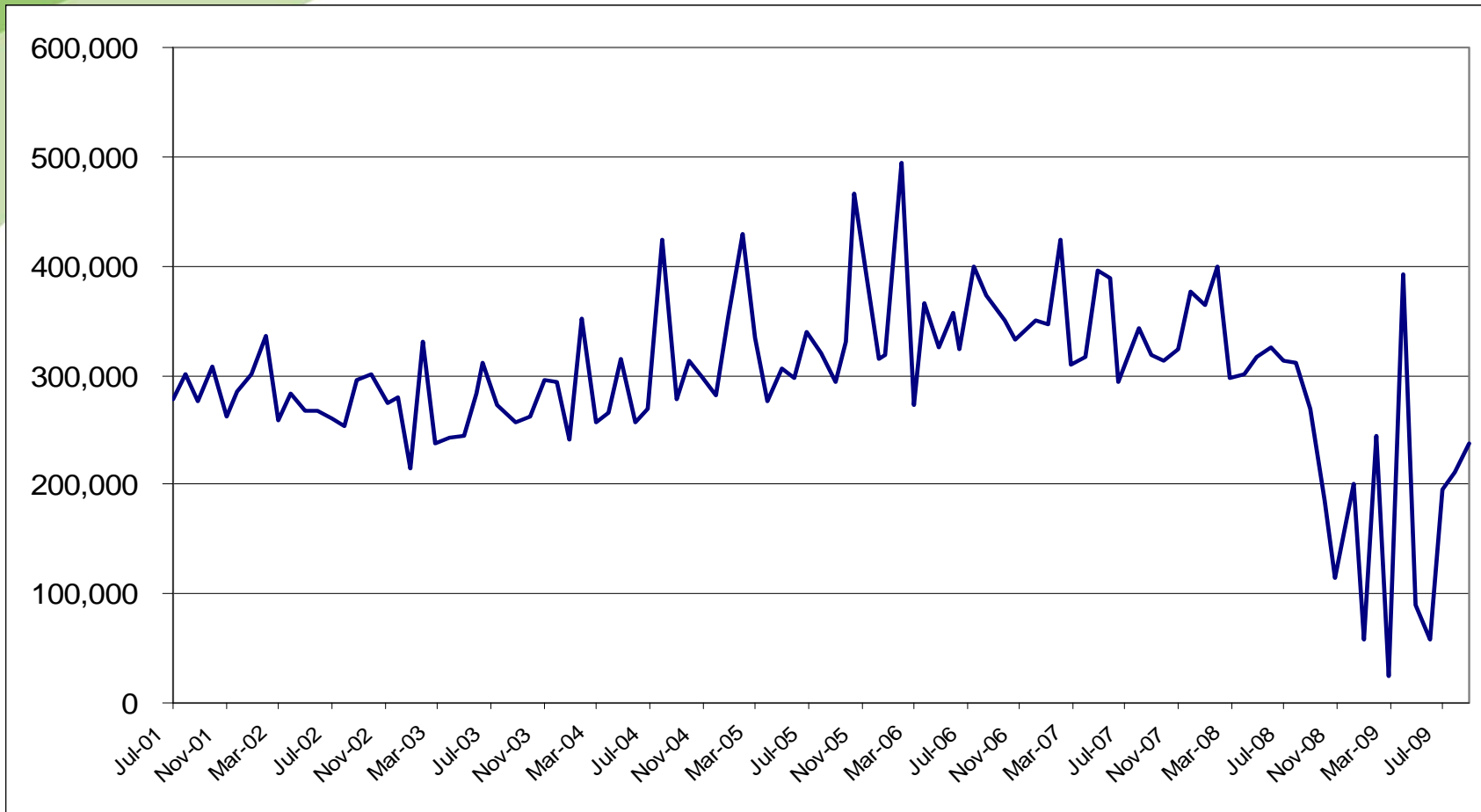
# Major Revenue Source: Business License

FY	
2002	2,370,279
2003	2,343,068
2004	2,296,618
2005	2,458,000
2006	2,936,648
2007	3,053,350
2008	3,138,550
2009	2,941,214
2010 (est)	2,754,267
2011 (est)	2,754,267

Construction contractors are required to pay BPOL for projects within the City



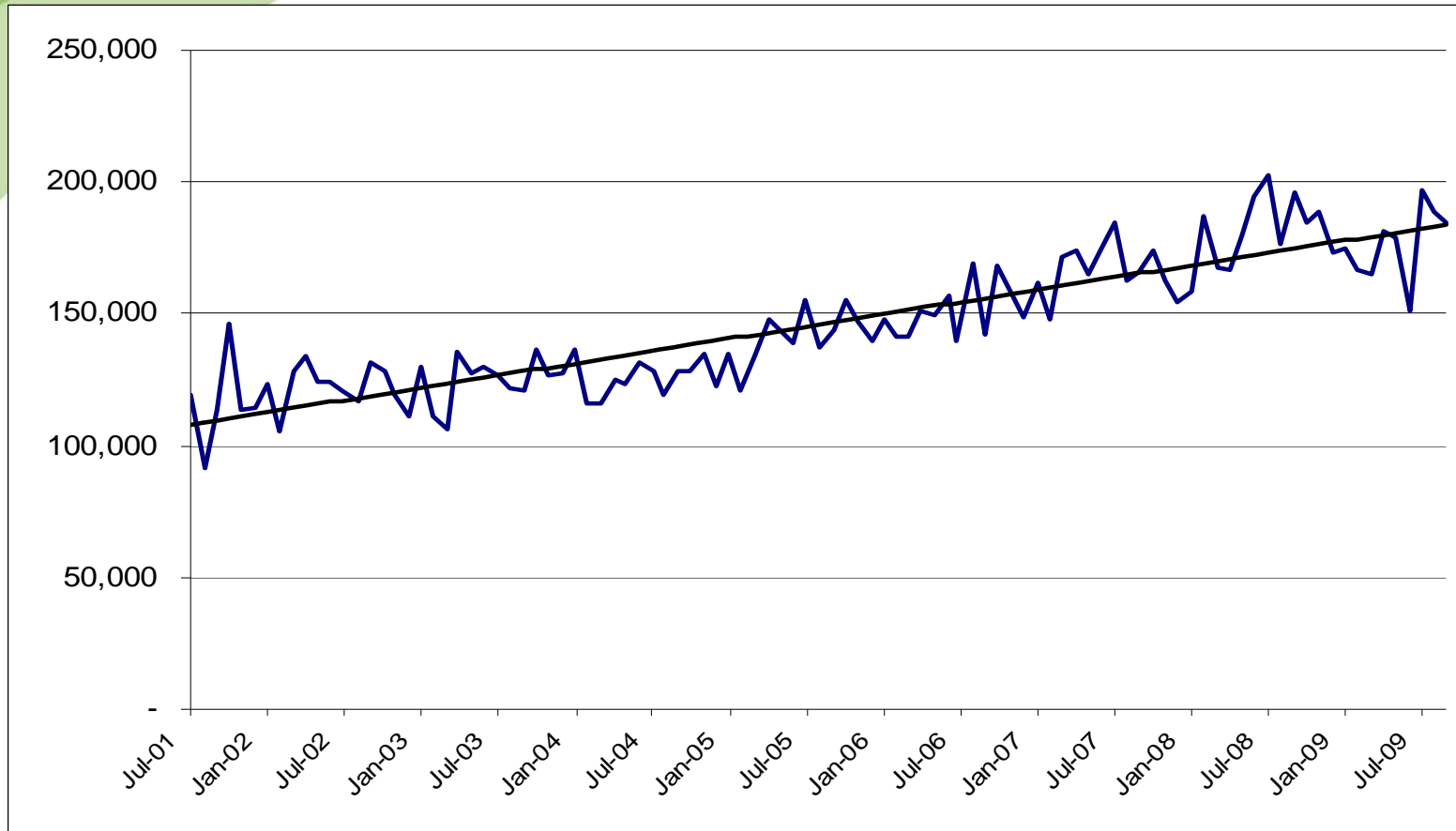
# Sales Tax



**FY2008 monthly average = \$331,259**

**FY2010 monthly average (5 mo) = \$231,240**

# Meals Tax



**FY2009 Monthly Average = \$178,207**

**FY2010 Monthly Average (5 mo) = \$179,796**

# Projected School Revenue Change

## Source of Revenue

## FY11 Change

- Federal (2% of budget)
- Sales Tax (5% of budget)
- State (9% of budget)
- City Transfer (80% of budget)
- Other Revenue (2% of budget)
- Carry Forward (2% of budget)

Flat

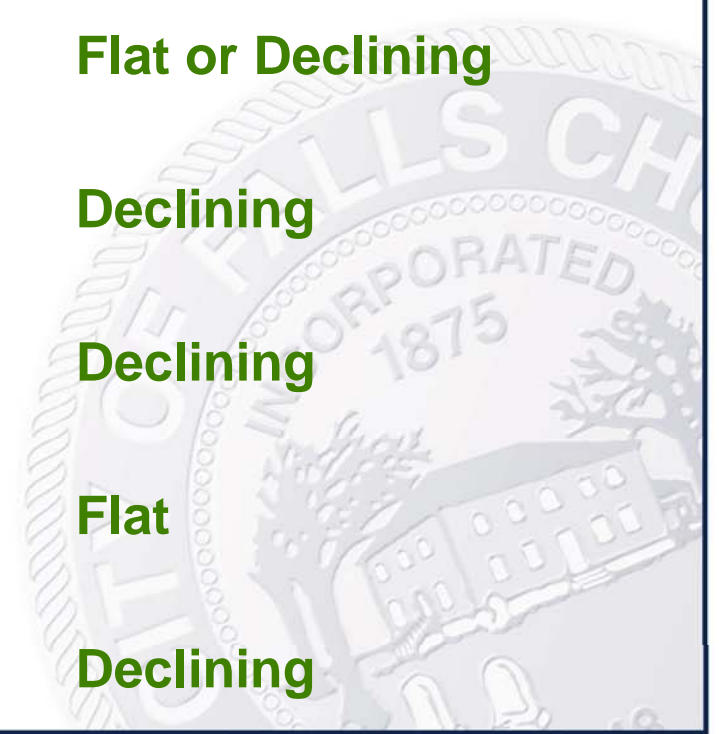
Flat or Declining

Declining

Declining

Flat

Declining

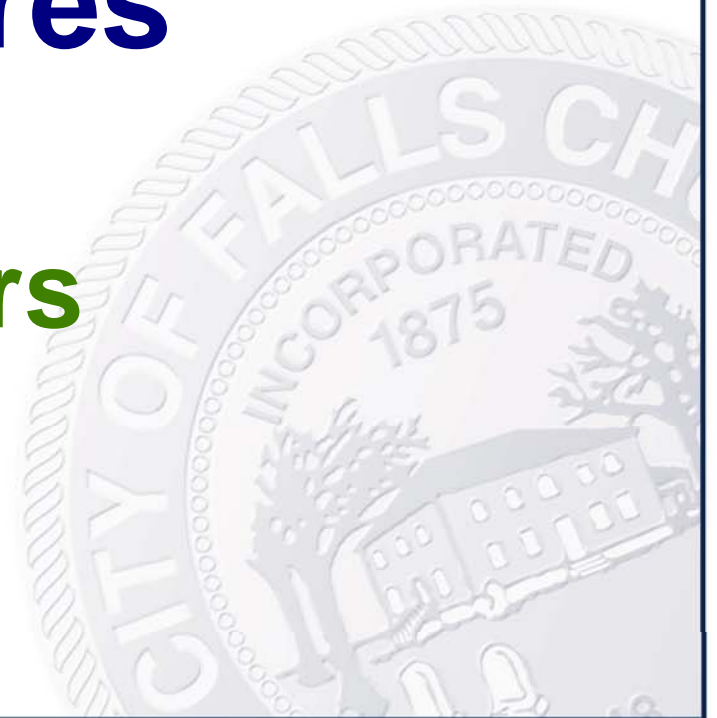


# FY2012 and beyond

- **State will face a \$1.5 billion+ deficit in FY2012**
  - Federal stimulus funds run out, \$300,000+ in State funding to FCCPS
  - \$2 million of PPTRA held harmless?
  - \$1.5 million of other general fund support
- **State has no more borrowing capacity under its fiscal guidelines**

# Expenditures

## Cost Drivers

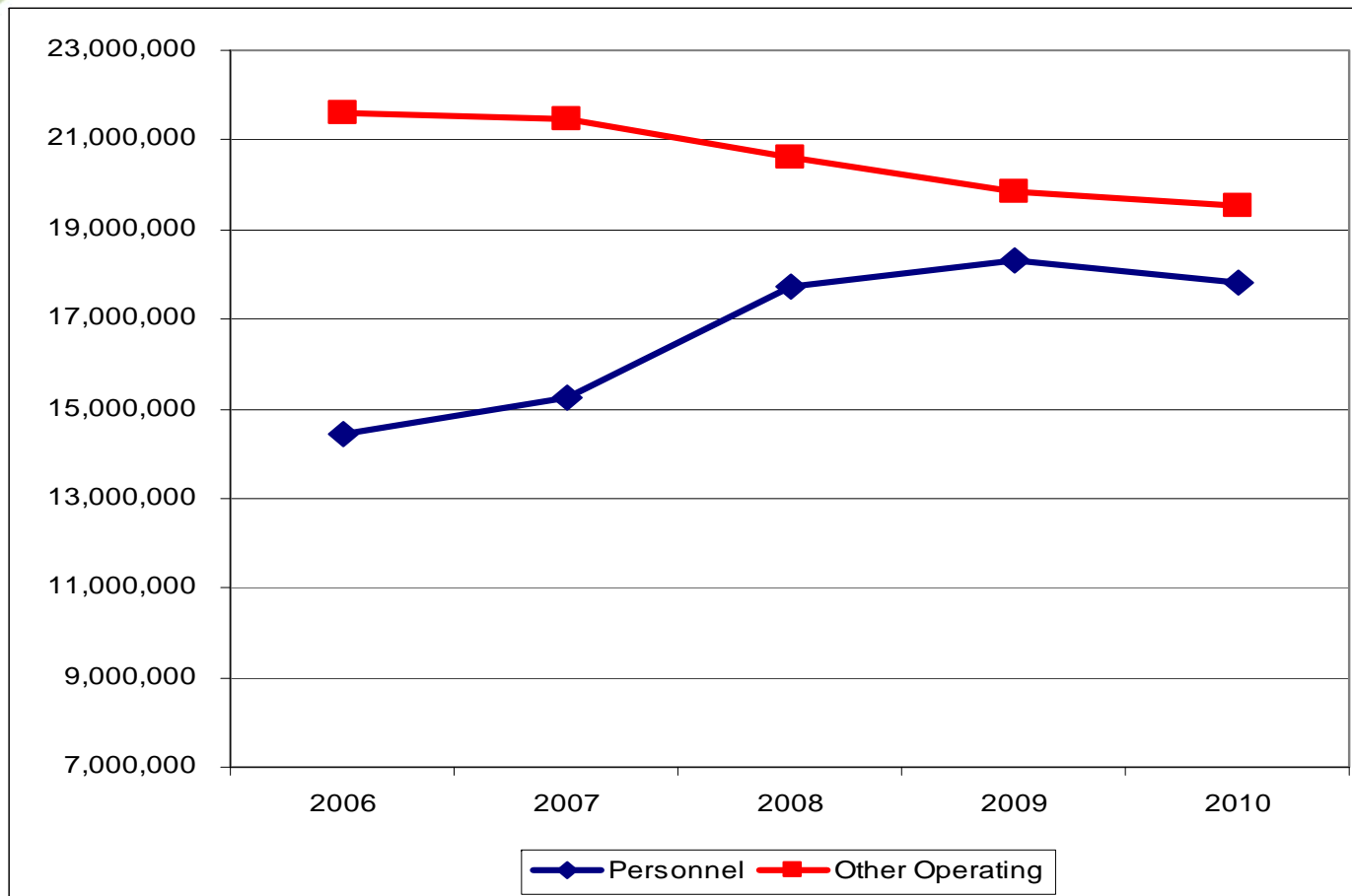


# “Chavern Chart”

## General Government (Budget)

	2006	2007	2008	2009	2010
<b>Regular Salaries</b>	\$11,011,237	\$11,337,743	\$12,415,457	\$13,422,914	\$13,078,921
		2.97%	9.51%	8.11%	-2.56%
<b>Other Pay</b>	850,777	936,287	907,251	1,104,177	894,945
		10.05%	-3.10%	21.71%	-18.95%
<b>Benefits</b>	2,556,879	2,975,471	4,404,645	3,805,219	3,851,546
		16.37%	48.03%	-13.61%	1.22%
<b>Other Operating</b>	21,606,215	21,457,042	20,617,688	19,846,171	19,524,149
		-0.69%	-3.91%	-3.74%	-1.62%
<b>Total</b>	<b>\$36,025,108</b>	<b>\$36,706,544</b>	<b>\$38,345,041</b>	<b>\$38,178,481</b>	<b>\$37,349,561</b>
		1.89%	4.46%	-0.43%	-2.17%
<b>FTEs</b>	<b>205.15</b>	<b>207.61</b>	<b>203.14</b>	<b>205.57</b>	<b>200.09</b>

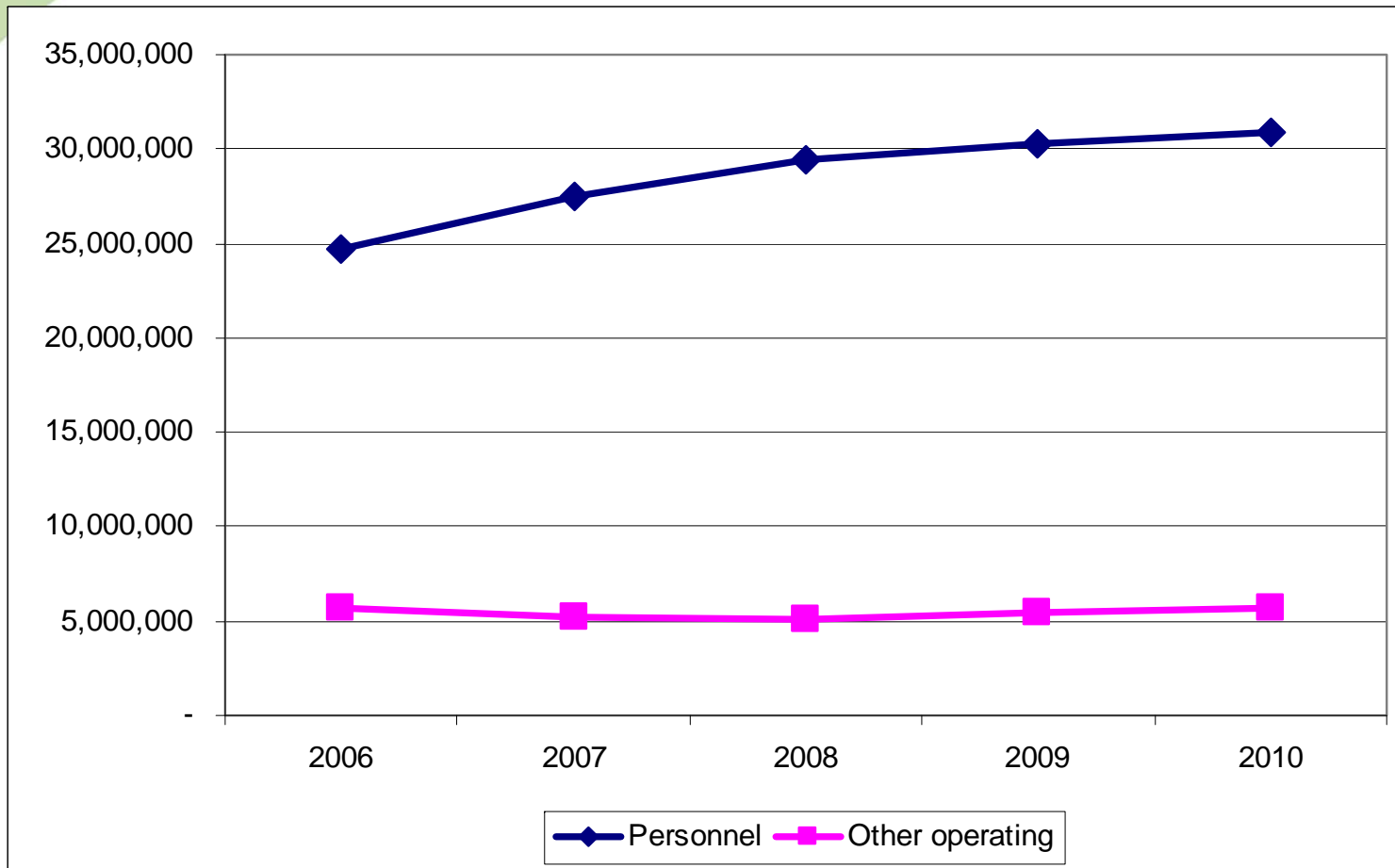
# General Government Budget Personnel and Non-personnel



# “Chavern Chart” Schools (Budget)

	2006	2007	2008	2009	2010
<b>Salaries:</b>	\$19,481,420	\$21,076,589	\$22,025,976	\$23,087,491	\$23,442,363
		8.19%	4.50%	4.82%	1.54%
<b>Benefits:</b>	5,234,963	6,380,844	7,368,022	7,195,845	7,423,819
		21.89%	15.47%	-2.34%	3.17%
<b>Other Operating:</b>	5,695,287	5,244,496	5,145,332	5,404,359	5,716,393
		-7.92%	-1.89%	5.03%	5.77%
<b>TOTAL:</b>	<b>\$30,411,670</b>	<b>\$32,701,929</b>	<b>\$34,539,330</b>	<b>\$35,687,695</b>	<b>\$36,582,575</b>
		7.53%	5.62%	3.32%	2.51%
Prof. FTEs	195.50	198.18	199.68	207.00	207.90
Support FTEs	143.80	148.74	147.13	142.71	144.28

# School Budget Personnel and Non-personnel



# Cost Driver: Personnel Costs

- **General Fund = ~50% of budget**  
1% change in compensation = \$180,000
- **School Division = 84% of Budget**  
1% change in compensation = \$310,000

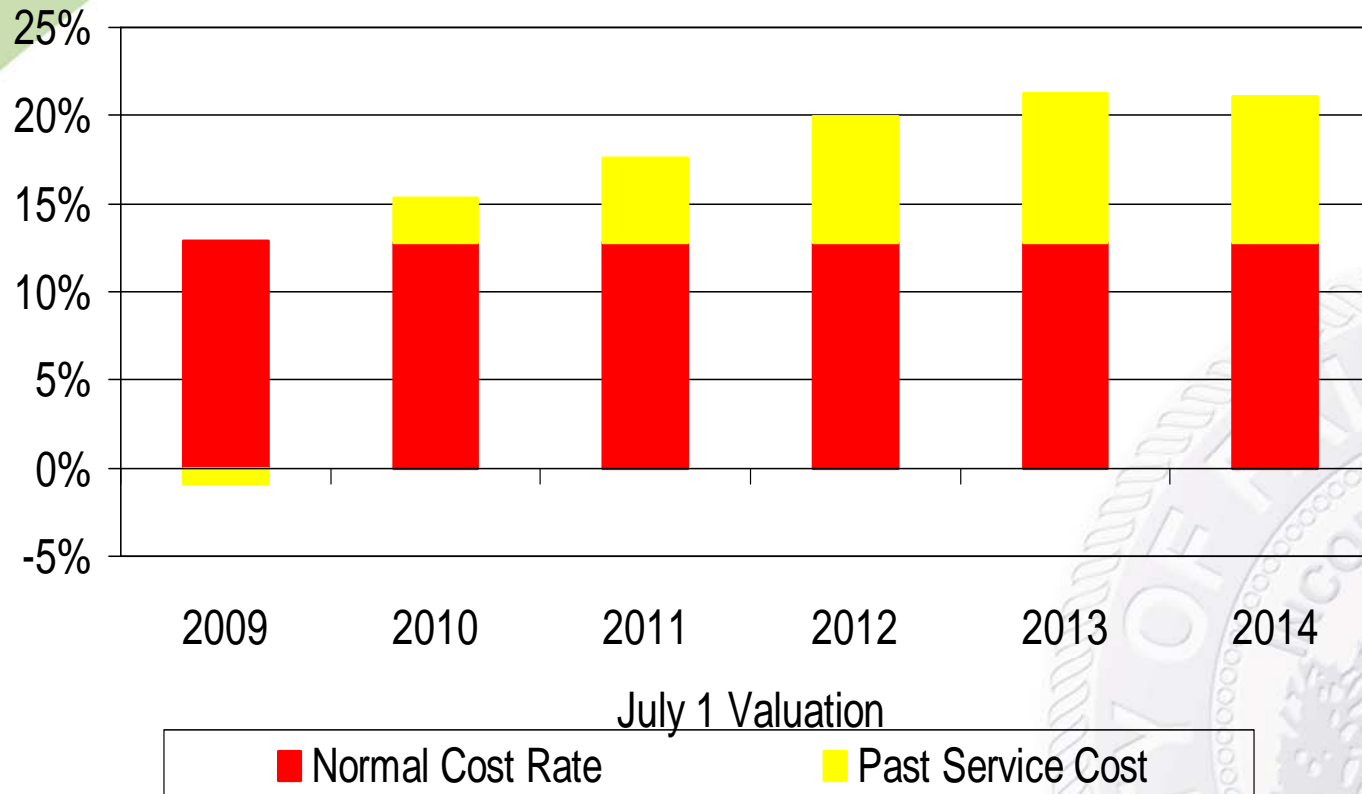
# Cost Driver: Pension Costs

- **City participates in four plans:**
  - **Basic**
    - School (approx. 80 employees)
    - General Government (non-public safety)
  - **Police**
  - **VRS (constitutional officers)**
  - **VRS (teachers & schools' administrators)**
- **50+% invested in equities**
- **Total pension contributions FY2010**
  - **General Fund = \$852,000**
  - **School Operating Fund = \$2.98 million**

# Cost Driver: Pension Costs

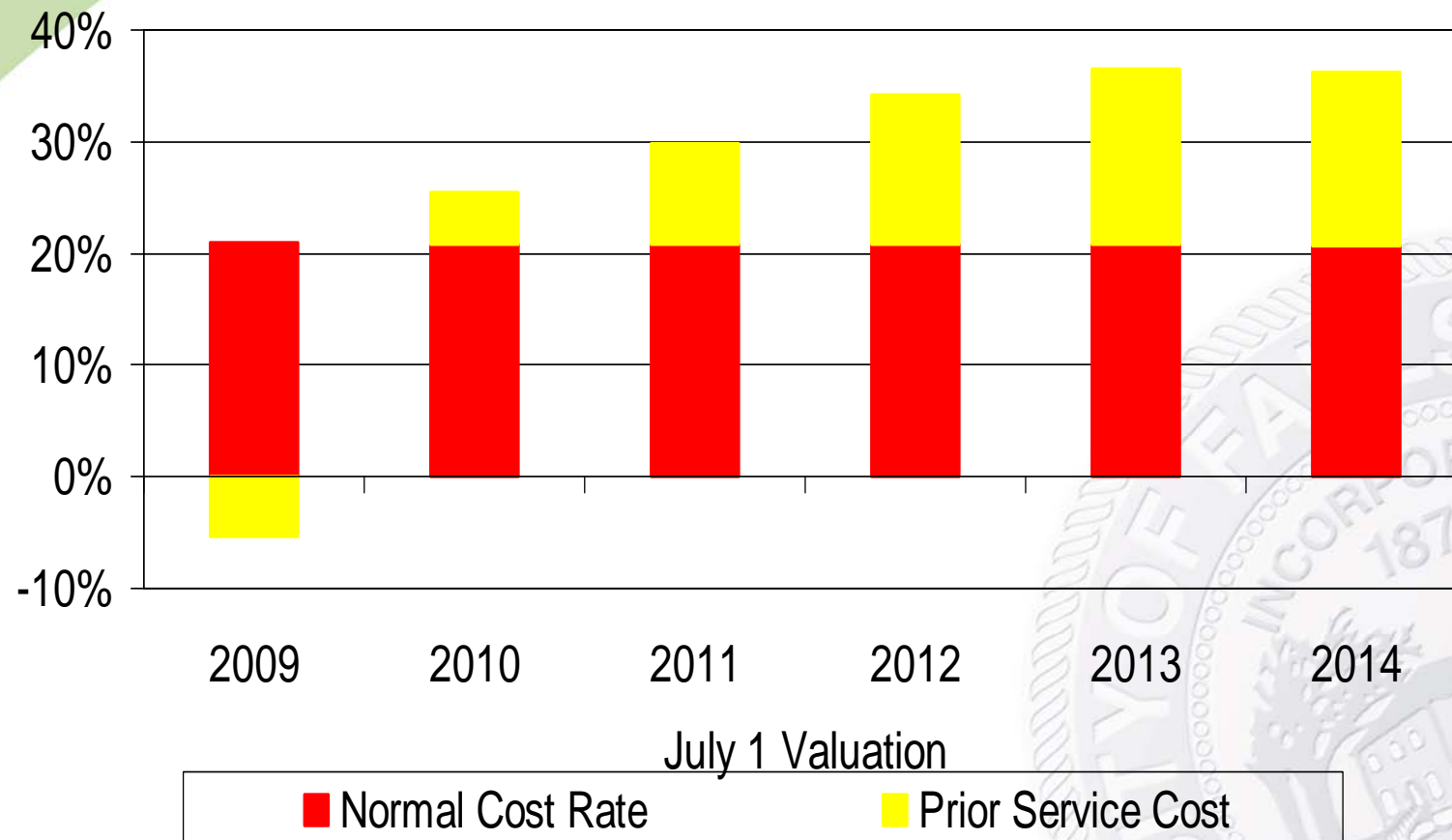
- **City Pension Funds are solid, fully funded**
- **Lowest contribution rates of any government pension plan in Virginia, FY10**
- **Investments experienced the best returns (-14%) of any fund in Virginia, FY09**
- **In FY10, the highest funding ratio of any government pension plan in Virginia: 102%**

# And Pensions – Basic Plan\*



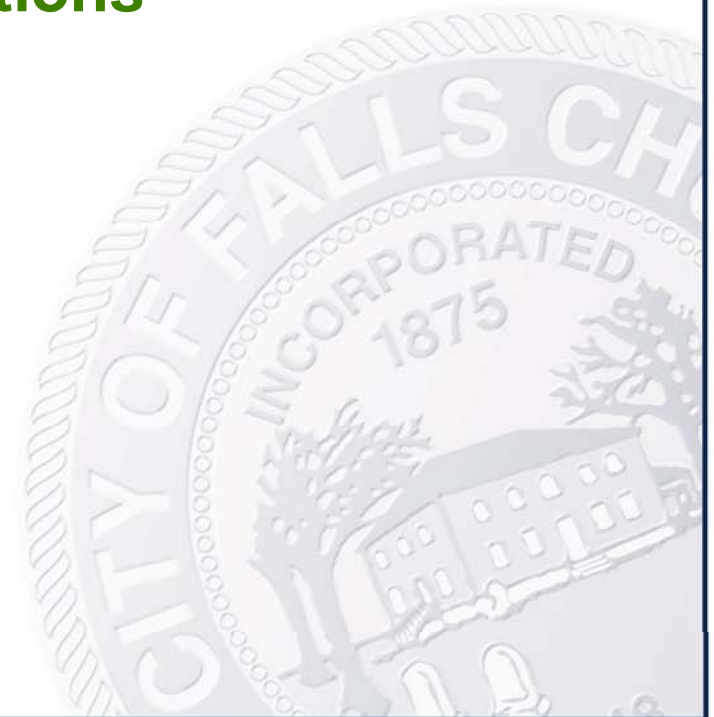
\*Approximately 80 School employees are in the Basic Plan

# And Pensions – Police Plan



# Cost Driver: Lines of Service

- **General Government operates over 70 distinct functions**
- **Schools operate 5 distinct functions**
- **Implemented by:**
  - In-house
  - Inter-jurisdictional
  - Contracts
- **Level of service determined by:**
  - Mandatory/ minimal level of effort
  - Core Service
  - Revenue offset
  - Community value/ quality of life



# **Cost Driver: Academic Benchmarks**

## **“Closing the Achievement Gap”**

### **Student Performance Goals (State Mandated)**

	<b>Reading</b>	<b>Mathematics</b>
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<b>2009/10</b>	<b>85%</b>	<b>83%</b>
<b>2010/11</b>	<b>85%</b>	<b>83%</b>
<b>2011/12</b>	<b>89%</b>	<b>87%</b>
<b>2012/13</b>	<b>93%</b>	<b>91%</b>

- State required 100% SOL Reading and Math passage by 2014 in all 32 categories
- Aggregated FCCPS score above state benchmark
- Disaggregated scores in 5 categories range from 9-20% below the mean
- Factors impacting performance goals are class size, student academic support, staff training and high rigor

# Cost Driver: School Enrollments

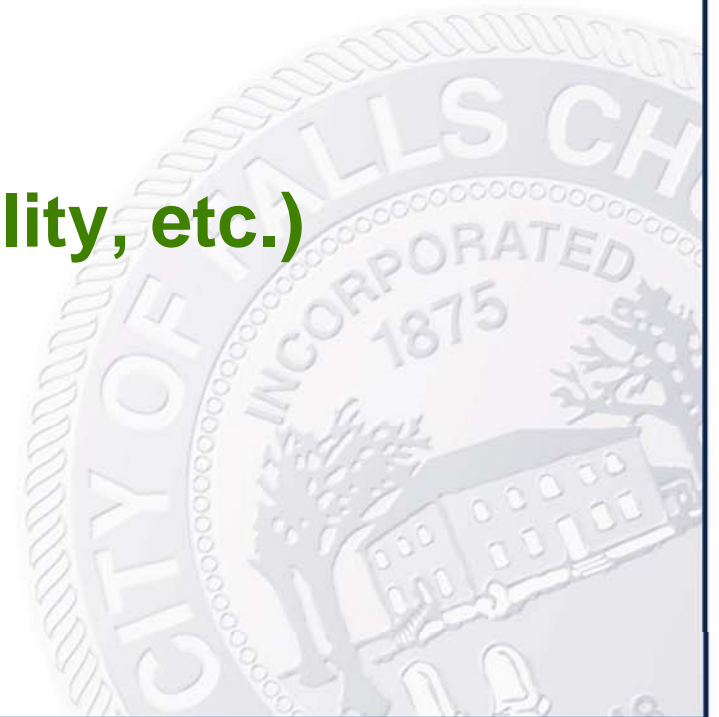
	2009 Actual	2010 Actual	2011 Projected	2012 Projected	2013 Projected
MD	258	289	295	296	295
TJ	427	423	431	458	497
MEH	455	451	472	485	484
GM	<u>801</u>	<u>828</u>	<u>834</u>	<u>866</u>	<u>879</u>
Total	1,941	1,991	2,032	2,105	2,155

# Cost Driver: School Budget Discretionary Expenditures

- Staff Salaries
- Staffing Levels
  - class size
  - course offerings
  - classroom support
- Local Retirement Plans
- Staff Tuition Payments
- Disability Insurance
- Non-mandated Programs
  - Family Literacy Program
  - After-school Clubs/Activities
- Use of Consultants
- Student Field Trips
- Staff Conferences/Travel
- Textbook Replacement
- Building Schedules
- Capital Replacements
  - Vehicles
  - Computers
  - Furniture
  - Building Systems
- Reserve for Contingencies

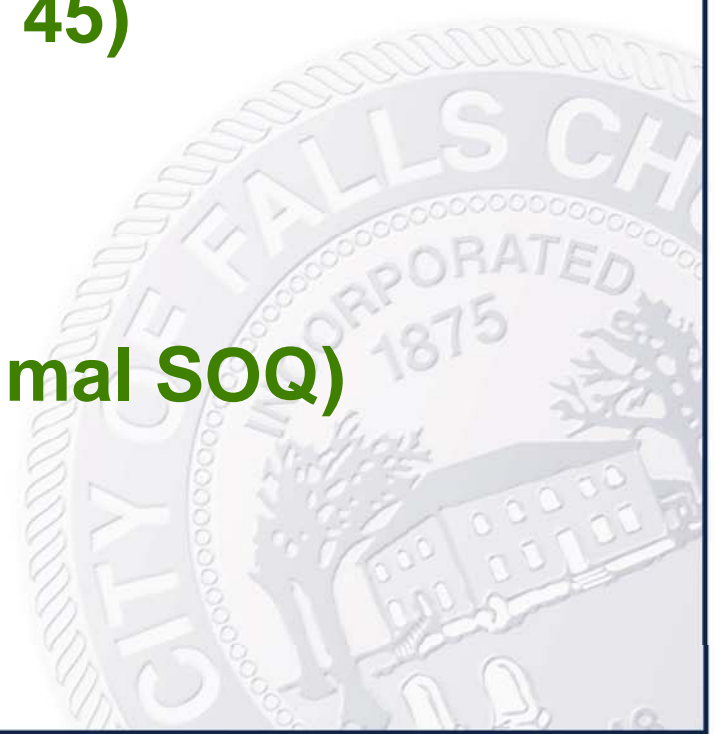
# **Cost Driver: School Budget Less Discretionary Expenditures**

- **Health Insurance Costs**
- **Transportation**
- **Insurance (e.g. General Liability, etc.)**
- **School Calendar**



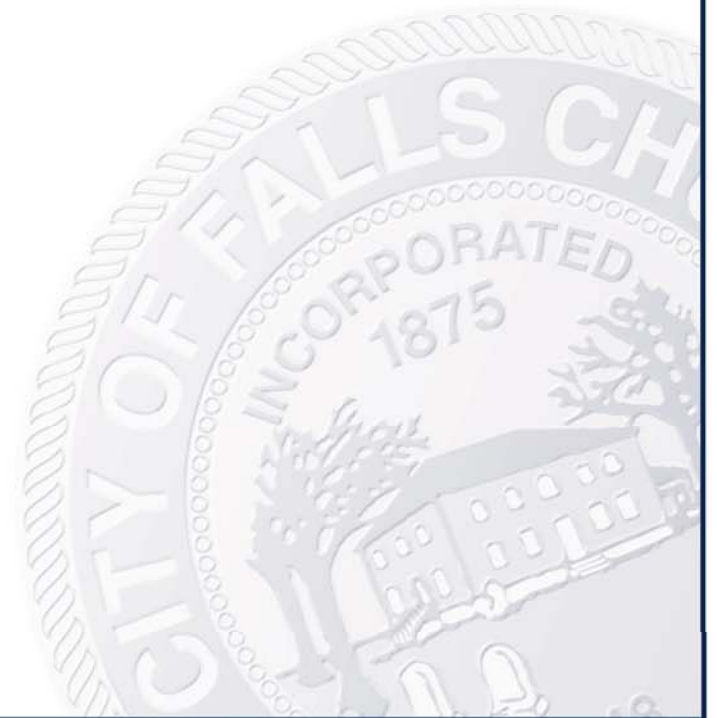
# **Cost Driver: School Budget Non-Discretionary Expenditures**

- **State Retirement Plan**
- **City Retirement Plan**
- **Retiree Trust Fund (GASB 45)**
- **Fuel Costs**
- **Utility Costs**
- **Legal Fees**
- **Student Enrollments (minimal SOQ)**
  - **Staffing**
  - **Instructional Materials**
  - **Buses and Drivers**
  - **Special Education Cost**



**Revenue**

**Options**



# Budget Scenarios: Expenditure Decreases vs. RE Tax Rate Increases

	FY2010 Adopted	No change in Rate	\$0.05	\$0.10	\$0.15	\$0.20	\$0.25
General Fund	32,199,181	3,940,121	3,161,068	2,400,373	1,639,678	878,984	118,289
School Transfers	29,324,825	3,588,395	2,878,886	2,186,097	1,493,308	800,518	107,729
Total	61,524,006	7,528,515	6,039,954	4,586,470	3,132,986	1,679,502	226,018

**\$0.01 change in tax rate = \$300,000**

**Assumes debt service is fully funded; no compensation increase for schools and general government**

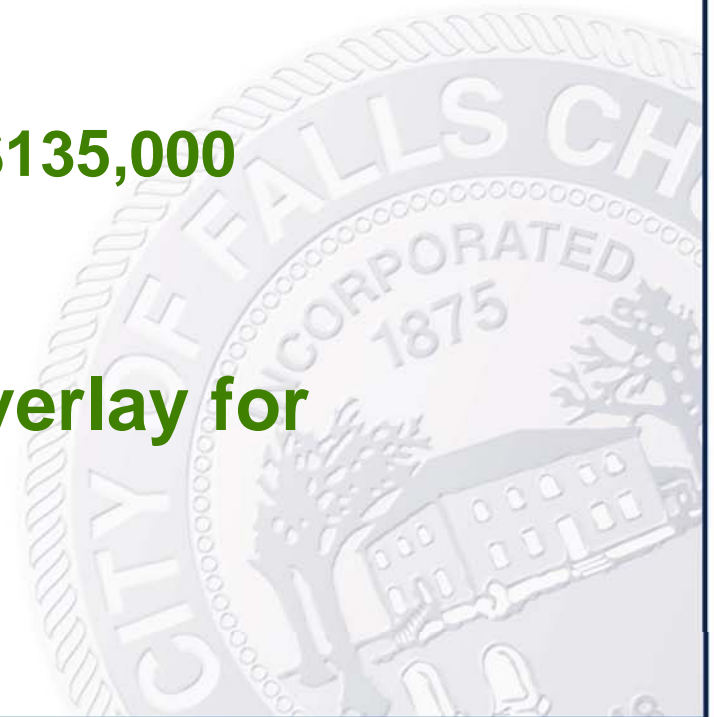
# Local Revenue Options

- **Real Estate Tax**  
+\$0.01 = \$300,000
- **Personal Property Tax**  
+\$0.01 = \$30,000
- **BPOL**
  - Bring all rates to legal maximum = ~\$150,000
- **Meals Tax**  
+1% = \$500,000



# Local Revenue Options

- **Cigarette Tax (assumes same level of sales)**  
+\$0.01 = \$3,000
- **Decal fee**  
Increase to State maximum = \$135,000
- **Amusement Tax**  
Unknown
- **Commercial Real Estate Overlay for Transportation**  
+\$0.01 = \$75,000



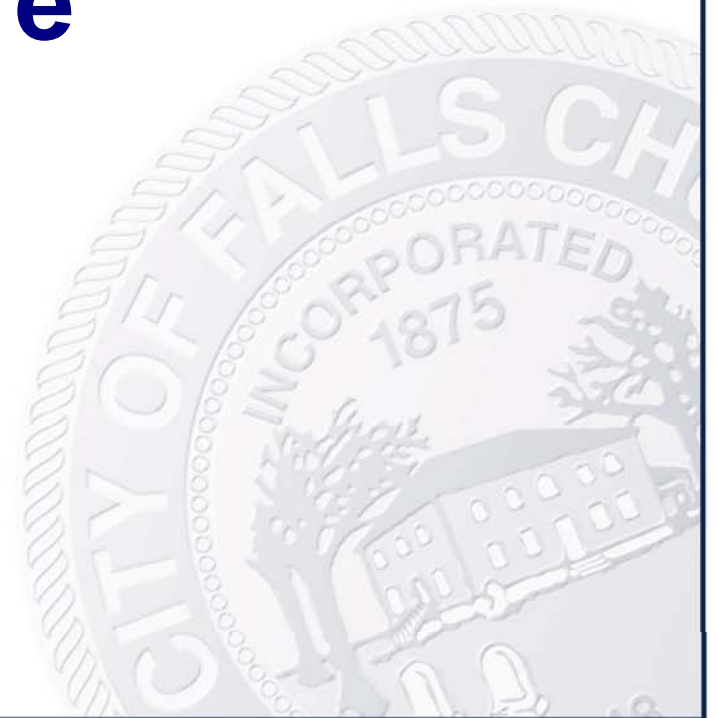
# Local Revenue Options

- **New Fees**
  - Solid waste
  - Stormwater
  - Other cost recoveries
- **Sell Property**
  - One time/fund balance recharge



**Expenditure**

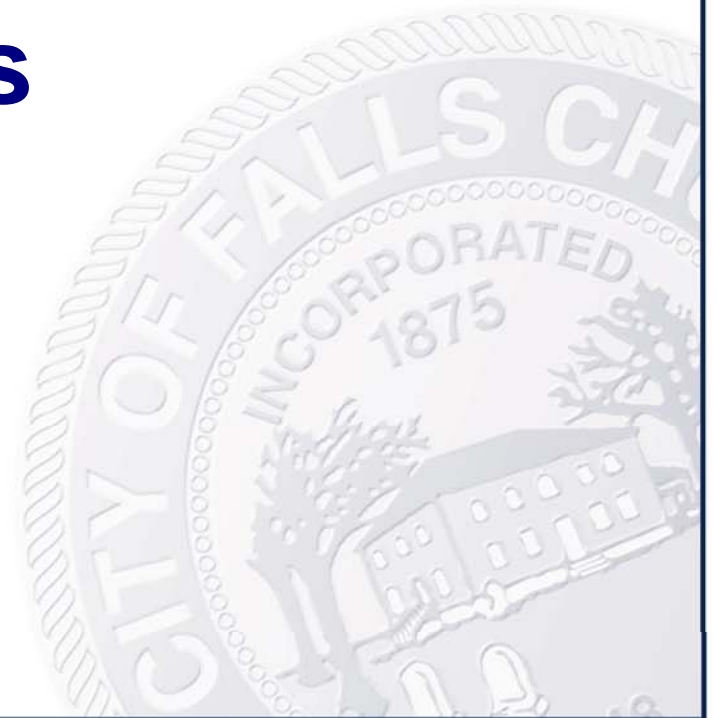
**Options**



# Expenditure Options

- **Lines of Service (General Government & Schools)**
  - Reduce level of service delivery
  - Maintain mandatory or maintain minimal level of service only
  - Fund core or valued community services
- **General Government & School Function Consolidation**
  - Review actions to date
  - Assess efficiency/effectiveness & cost savings
  - Pursue other options
- **Employee Compensation changes**
- **Other**

# Budget Development Processes



# Threshold Funding for Schools

- **Create new budgetary construct**
- **Establish an annual “floor” of funding based on per pupil costs**
- **Guaranteed minimal level of funding for the schools**
- **Review lines of service against strategic plan**
- **Not a “revenue sharing” percentage**



# General Government Line of Service Review


- Update functional services
  - Review against adopted vision and strategic plan
  - Identify cost/expenditures per function
  - Identify mandatory thresholds
- Categorize as inter- jurisdictional agreements, contracts, revenue offset and all other; examples:
  - Mandatory: federal, state or City regulations
  - Agreements/contracts: judicial, health, fire marshal
  - Revenue offset: permits, recreation and parks program fees
- Prioritized, assess efficiency options, develop service delivery scenarios

# Revenue Team

- **Charter:** provide a high level of analysis and rigor to our revenue forecasting, by reviewing every revenue line item in the budget and developing a projection for the coming fiscal year based on City data, regional data, state law, and possible changes to rates.
- **Team Members:**
  - CFO
  - Deputy Finance Director
  - Commissioner of the Revenue
  - Treasurer
  - Director of Economic development
  - City Engineer
- **Timeline:**
  - **November 24:** develop preliminary revenue forecasts for FY11 for November 30, 2009.
  - **January 15:** provide update on revenue forecasts for FY11.
  - **February 20:** provide final revenue forecasts for FY11.

# Employee Benefits Taskforce

- **Charter**: analyze potential plan changes on employees and cost impacts; recommend possible plan amendments
- **Membership**: 12 members from general government departments, Schools, employee advisory committee and retirement board
- **Process**: review pension plans, life insurance, LT disability and health insurance benefits, compare to other plans, assess impacts of changes formulate recommendations to City Manager
- **Timeline**: November 2009- February 2010; work through budget adoption

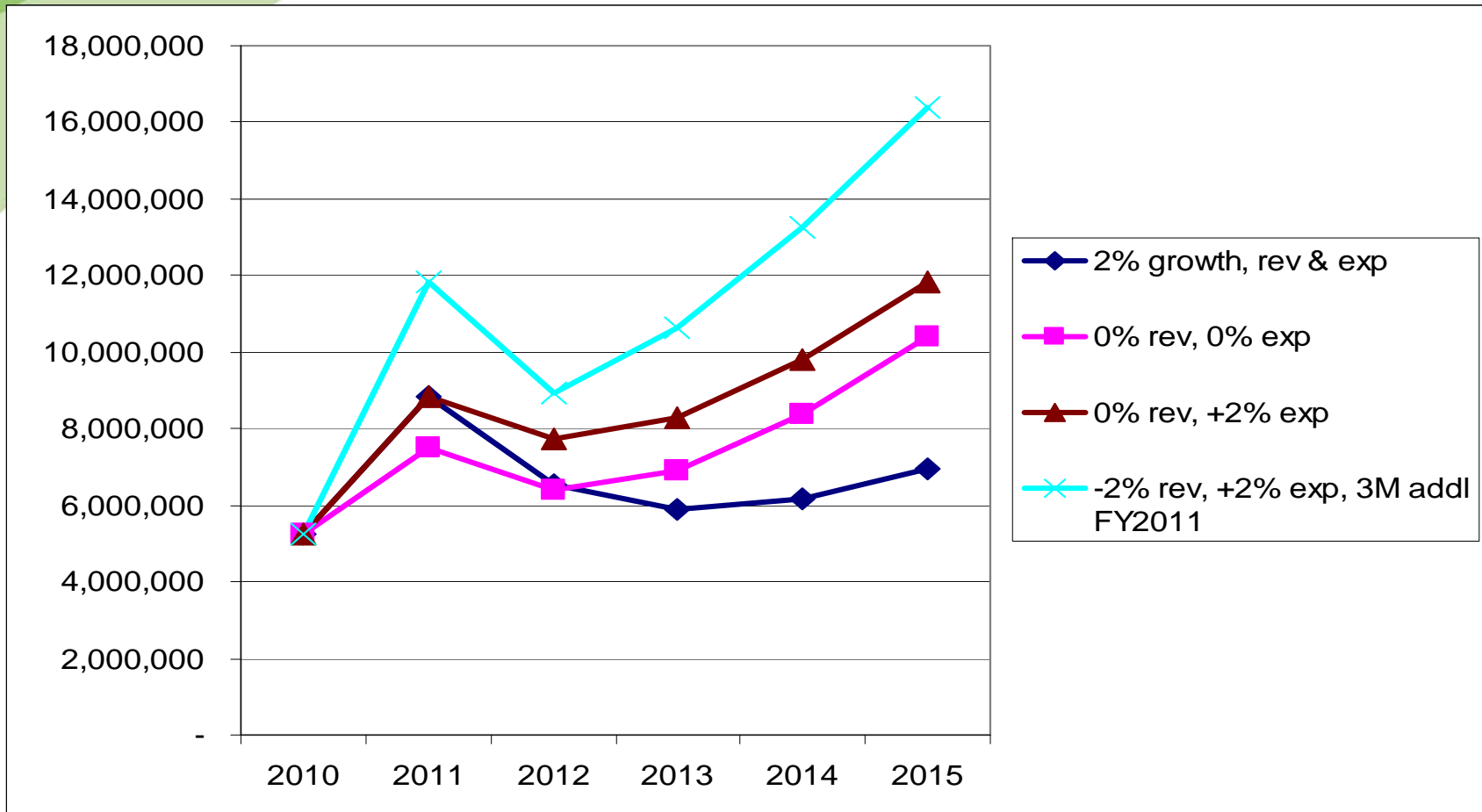


# **Revenue and Expenditure Forecasts**

## **Five Year History and Projections**



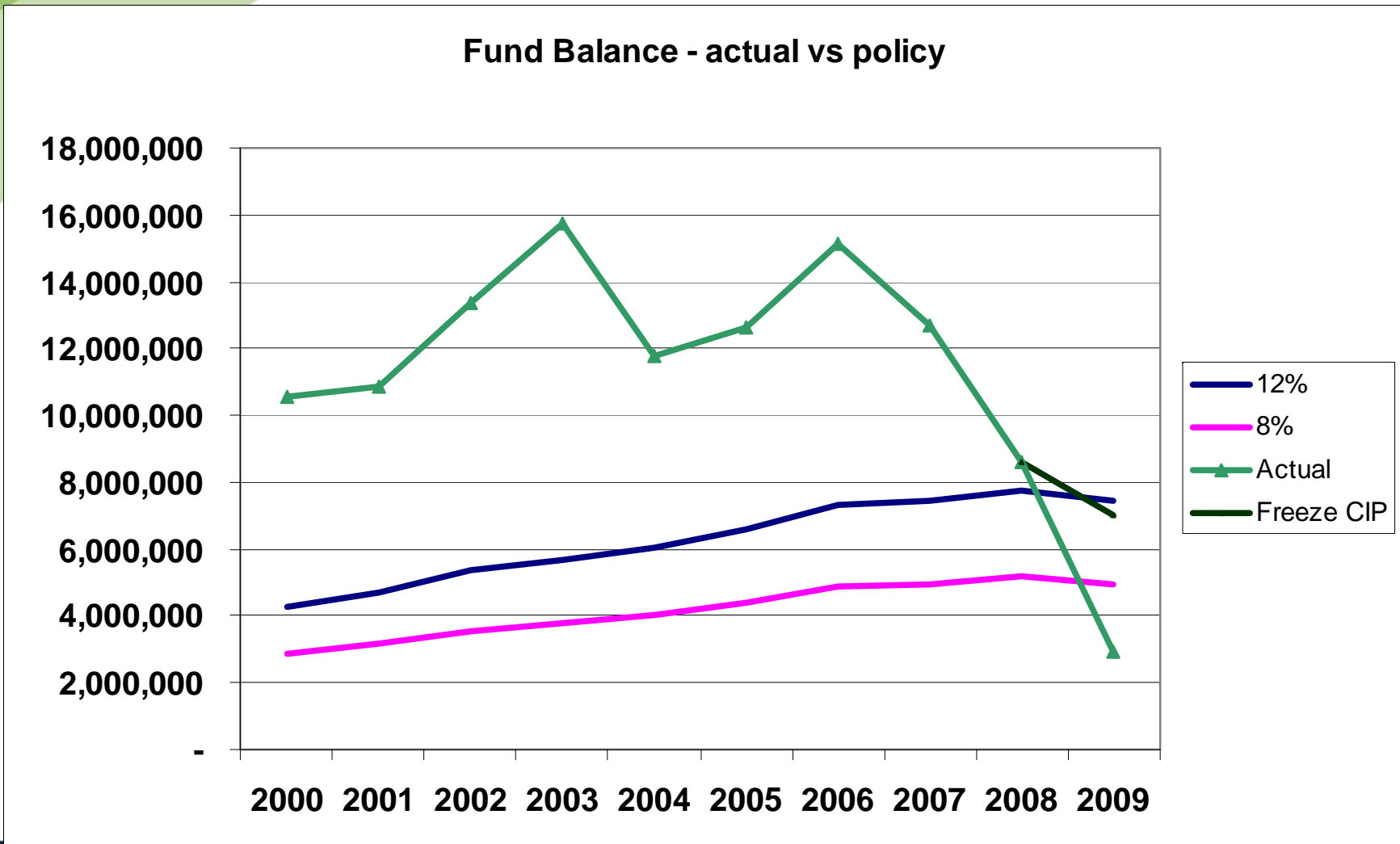
# 5 Year Gap Projections



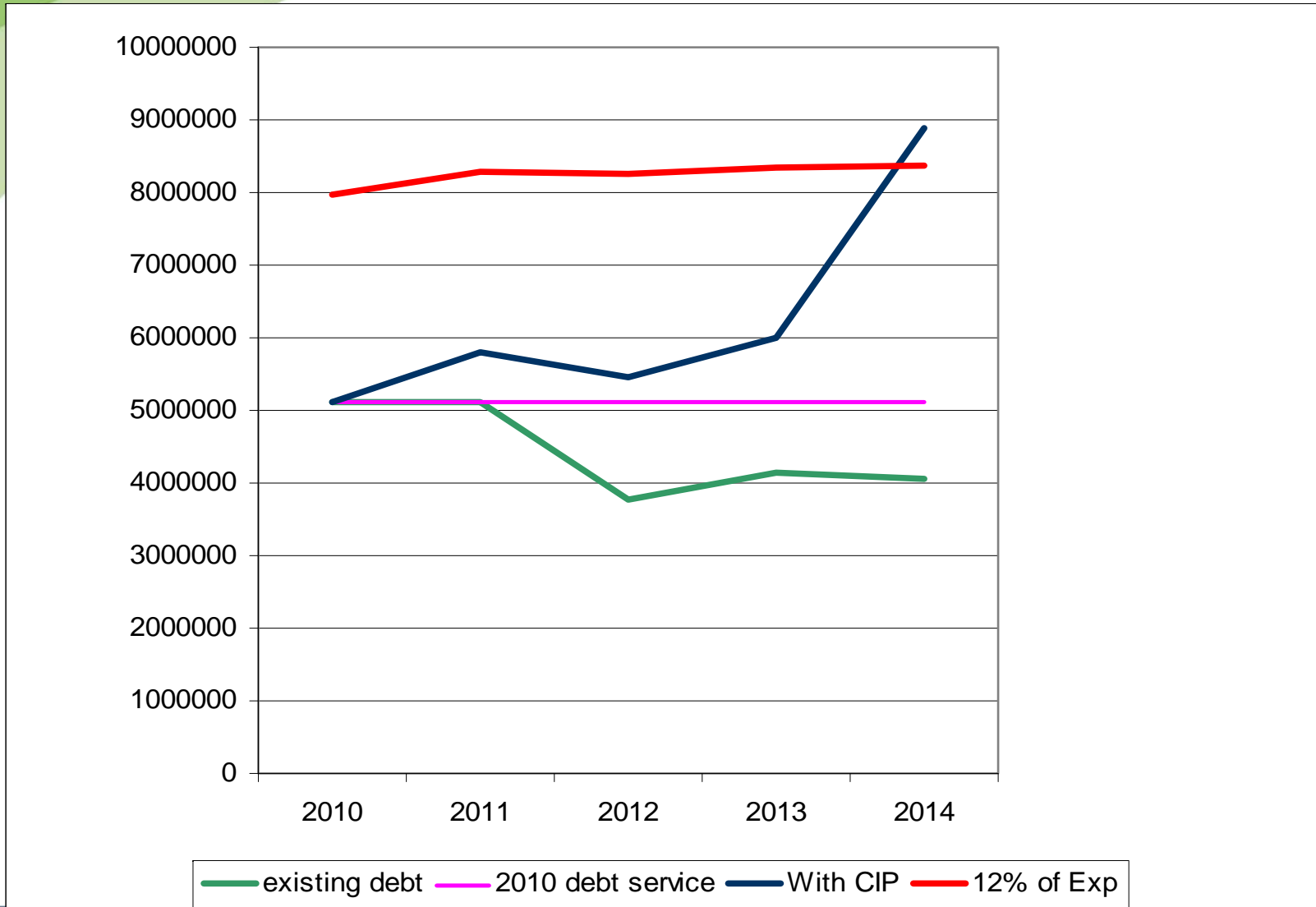
**Note: Budget gap growth, no tax rate increase, actual debt service projections and pension cost projections**

# Fund Balance

Fund Balance - actual vs policy



# Debt Service



# Capital Improvements Program FY2011-2015

- **Policy:**
  - FY10 “holds” restored to 8% policy compliance
  - Propose FY11 CIP achieves 12% policy goal
- **Process (two phases):**
  - Phase 1: concurrent with FY11 budget development
    - Reassess and reprioritize all projects
    - Assume zero PAUG projects and rebuild
  - Phase 2: final CIP adopted post FY11 operating budget; June 2010
    - Fund Balance at 12% known; fund projects above 12%

# Capital Improvements Program FY2011-2015

- **Timeline:**
  - **Dec 2009/Jan 2010: Staff prioritize projects**
  - **Jan/Feb 2010: Planning Commission review and recommend draft CIP project listing**
  - **March 2010: City Manager FY11 budget incorporates proposed CIP projects**
  - **May/June 2010: PC adopts CIP; Council adopts Supplemental Budget Amendment**

# **FY11 Budget Schedule Highlights**

- **Jan 12: Superintendent's Budget Recommendations**
- **Feb 23: School Board Adopts Preliminary Budget/ Transfer**
- **Mar 8: Manager's Budget Recommendations**
- **Mar 16: School Board Adopts Budget**
- **Apr 26: Council Adopts Budget**
- **June 1: Planning Commission Adopts CIP**
- **Jun 28: Council Adopts CIP**
- **July 1: Beginning of Fiscal Year**

# **FY 11 Budget Development Guidance**

- **Questions and Answers**
- **Discussion of Revenue and Expenditure Options**
- **Consensus of budget development direction for City Manager and School Superintendent**
- **Next Steps**



# FY11 Budget Development Process and Calendar

- Review/revise
- Provide staff budget development direction
- City Council and School Board concurrence motions:
  - On behalf of the [City Council or School Board] I move concurrence with the 11/30/09 overall FY11 budget development process and calendar. Furthermore, [I/we] authorize staff to refine specific components and dates as necessary.