



FY2016 Budget Frequently Asked Questions: Budget 101

www.fallschurchva.gov/BudgetFAQ

What is the Budget?

The budget is the City's financial plan for the coming year that identifies the revenues and expenditures to ensure that core local government services are delivered. These services include: police, fire protection, public schools, courts, trash and recycling, health and family services, storm water, sewer, library, road maintenance and snow removal, recreation and parks, building inspections, just to name a few. The budget includes both operating (the daily expenses of operations) and capital (infrastructure items with a longer useful life cycle). The proposed Fiscal Year 2016 (FY2016) budget is available at www.fallschurchva.gov/Budget.

All the meeting videos, PowerPoint presentations, materials, and prior year budgets can be found at that location as well.

How is the Budget Developed?

The City's budget process starts in the fall when the Chief Financial Officers presents preliminary revenue and expenditure trends and projections to the City Council and School Board. The Council develops and adopts the annual budget guidance for the City Manager, and over the winter months City staff work with the City Manager to develop the proposed budget. The School Superintendent develops the proposed school budget and presents it to the School Board in January. In March, the City Manager presents a proposed budget to the City Council, which includes general government expenditures, and by the City Charter, must incorporate the full funding request by the School Board. The City budget, including revenue projections, City expenditures, School expenditures, and Capital Improvements Program is reviewed by the City Council and revised as necessary after a series of town hall and work session meetings, and adopted in late April.

The FY2016 Budget is scheduled for adoption on April 27, 2015.

What is the City's Fiscal Year?

For the City of Falls Church, the fiscal year (FY) is July 1 to June 30. For example, FY2016 runs July 1, 2015 through June 30, 2016.

What is the General Fund? School Transfer? Enterprise Fund?

The General Fund is one of several accounts that form the City's budget. The General Fund contains all revenue and expenses related to the City's core services, including expenses for debts issued. The two big components of the General Fund are Schools (see School transfer, below) and General Government, which includes police, recreation and parks, human services, library, development services, public works, finance and administration.

The School Transfer is comprised of the local tax dollars that fund 82% of the Falls Church City Schools and is part of the General Fund. The school transfer is 47% of the General Fund budget.

Enterprise Funds are the separate, self-sustaining funds for storm water and sanitary sewer operations that are fully funded by user fees.

How Can I Have a Voice in the Budget Deliberations?

The budget process is designed to gather the input necessary to ensure that it reflects the values and priorities of the City’s citizens and taxpayers. You have the opportunity to weigh in on the level of city services and the tax rates that you expect by speaking at Council public hearings and town hall meetings or by sending emails to Council (cityclerk@fallschurchva.gov) and budget@fallschurchva.gov. You can also call the City Manager (703-248-5004, TTY 711) or any member of City Council or School Board. Falls Church is The Little City in the large metropolitan region, and is unique for our human scaled community and accessible government. You can make an impact!

An easy way to find up to date information about the budget and public meeting dates is on the City website, www.fallschurchva.gov/Budget.

FY2016 Budget Summary:

- “Organic” revenue growth: 4.1% increase
- General Government: 1.5% increase
- School Board request: 5.3% increase
- Additional revenue required: \$1.4 million = 4.0 cents on the Real Estate Tax Rate
- Recommendation: \$1.345 advertised Real Estate Tax Rate

Why is a 4 Cent Tax Rate Increase Proposed?

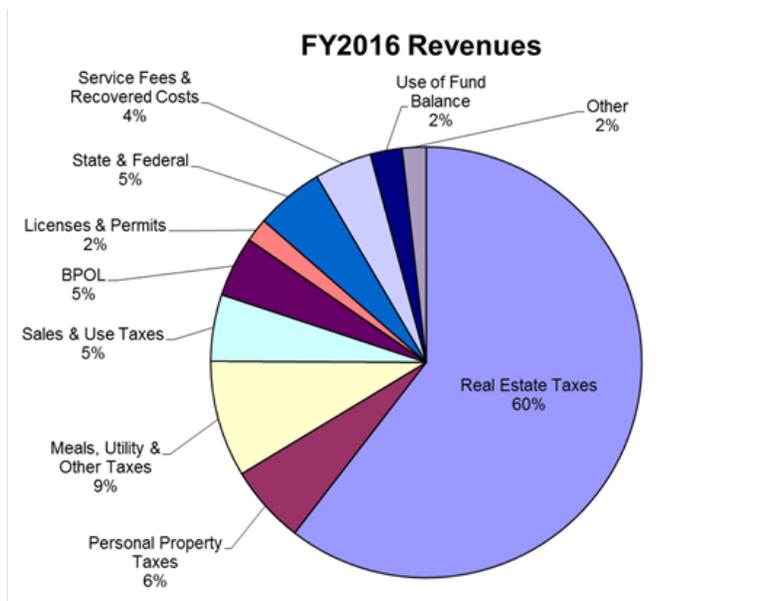
Absent any tax rate increase, economic growth alone is projected to produce a 4.1% growth in revenues for FY2016. General government services, such as police, public works, street maintenance, recreation and parks, libraries, development services and administrations compose the 50% of operating expenses, and local support for schools composes the remaining 50%. General government cost increases are 1.5%. School Board requests a 5.3% increase in local funding for the School Division in order to meet enrollment growth and other needs. Taken together, this requires \$1.4 million above organic revenue growth. To meet that need, the required real estate tax increase is 4 cents to a rate of \$1.345 per \$100.

How Does the City’s Proposed Real Estate Tax Rate Compare to Other Localities?

The proposed City real estate tax rate of \$1.345 per \$100 of assessed value is in the middle of the pack for the cities and towns of the northern Virginia region, and higher on average relative to the counties in the region. Below is a chart with the real estate rates of the surrounding jurisdictions. For comparison purposes, the rates shown include special fees for leaf pick up, trash pickup and other items that are included in the City base tax rate. The town rates include both the town and county rate.

	TY2015	Extras	Comparable Tax Rate
Manassas Park City	\$ 1.650		\$ 1.650
Purcellville Town	1.415		1.415
Manassas City	1.368		1.368
Herndon Town	1.355		1.355
Falls Church City	1.345		1.345
Leesburg Town	1.338		1.338
Vienna Town	1.319		1.319
Prince William Co	1.223		1.223
Loudoun Co	1.13	0.050	1.18
Fairfax County	1.090	0.108	1.199
Fairfax City	1.040	0.010	1.050
Alexandria City	1.043	0.063	1.106
Arlington Co	0.996	0.058	1.054
AVERAGE	1.25	0.05	1.28

What are the Main Sources of Revenue for the City Government?



	Proposed FY2016	\$ Change	% Change
Real Estate Tax	\$50,220,000	\$3,913,000	8.4%
Local Taxes	20,078,000	190,300	1.0%
Permits & Licenses	1,484,412	465,412	45.7%
State & Federal	4,233,251	(1,159,883)	-21.5%
Service Charges	3,570,231	(5,000)	-0.1%
Other	1,504,260	114,260	8.2%
Designated Reserves	2,008,000	(972,000)	-32.6%
Total	\$83,098,154	\$2,546,490	3.2%

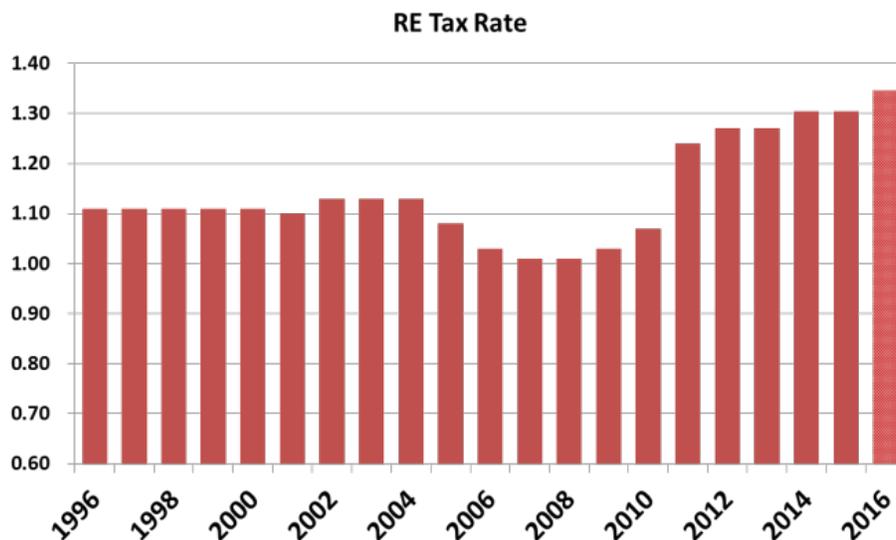
What is the Change in Assessed Value of Residential and Commercial Properties?

Overall, the assessed value of real estate in the City rose 4.8 percent. The chart below provides a breakdown of assessed value growth by type. New construction accounts for \$88 million, or 50% of the overall increase in assessed value. New residential and commercial construction will generate the revenue equivalent to two cents on the tax rate in FY2016.

- Single Family: +3.7%
- Townhouses: +5.8%
- Condos: +5.7%
- Commercial: -1.2%
- Apartments: +35%
- Overall: +4.8%

How Have the Tax Rate and Real Estate Property Assessment Values Changed My Homeowner Tax Bill?

Tax rate and assessed value are key components of a homeowner's tax bill. The chart below shows the year over year change from 2006 to 2015.



Fund Balance

What is the Fund Balance?

The fund balance represents the City's current assets reduced by current liabilities. It consists of the following:

1. Committed and assigned fund balance – these are funds already set aside by Council action for a specific purpose or project. By policy, fund balance is used only for one time capital expenditures.
2. Unassigned fund balance - the portion that is uncommitted and unencumbered for any specific purpose.

The City relies on fund balance to meet cash flow requirements through the year, as revenues do not come in consistently from one month to the other. The unassigned fund balance also provides a critical buffer

for unanticipated events such as, economic downturns which impact revenue estimates, weather-related catastrophes, and other emergencies.

What is the Fund Balance Policy?

The City's Fund Balance policy requires a fund balance minimum of 12% of annual expenditures and a target of 17% of annual expenditures. The 17% target is a best management practice typical of jurisdictions our size, and represents two months of city expenditures. Fund balance is a key measure of financial health as it reflects the City's ability to meet its financial obligations. The City's unassigned Fund Balance is \$13.5 million at the beginning of FY2015, which is in compliance with the policy target of 17% of annual expenditures (\$13.5 million represents two months of general government and school expenses).

The City's bond ratings were last reviewed in 2014 with the following results:

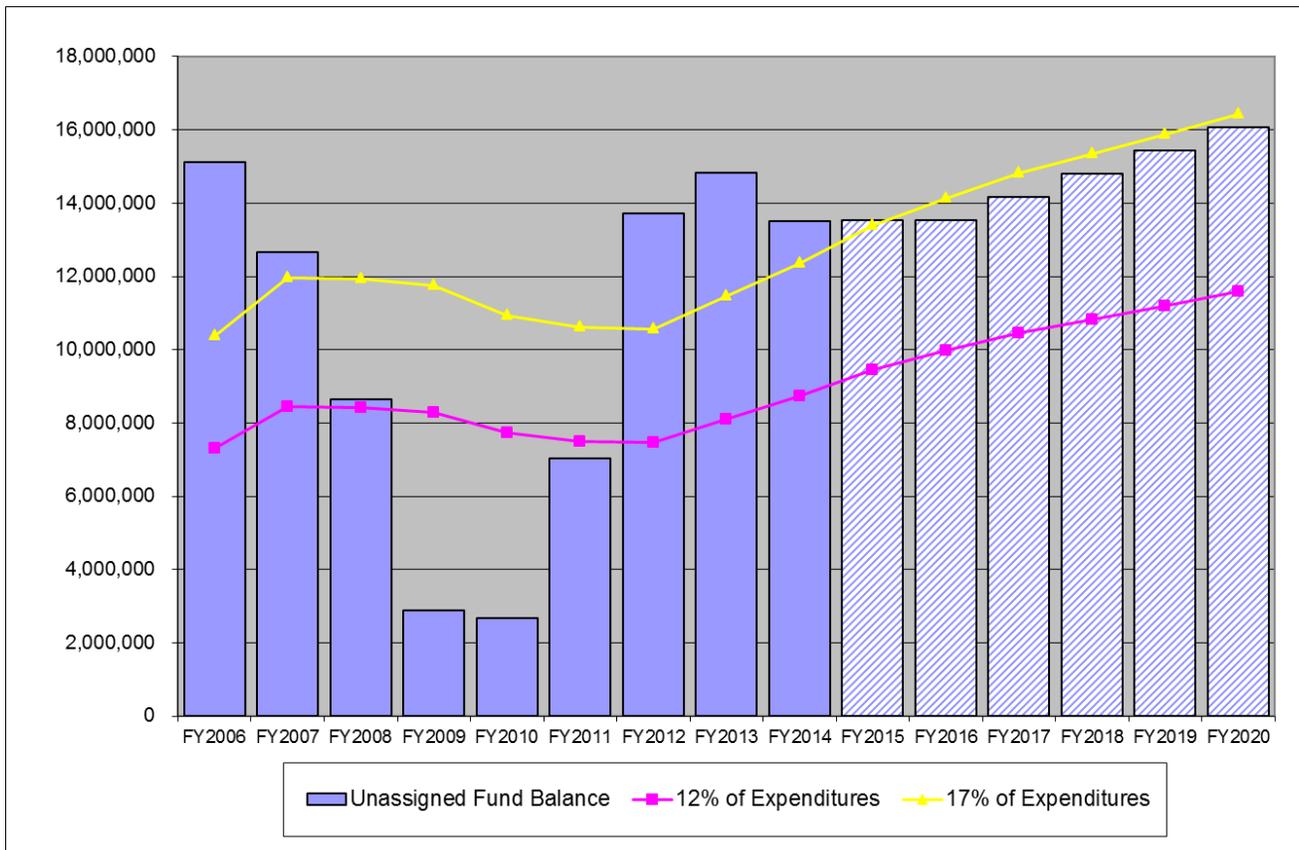
AAA Fitch
AAA S&P
AA1 Moody's

These excellent ratings reflect the City's tradition of sound financial management and save tax payer money through lower bond interest rates for new construction of schools, public safety, library and other core infrastructure.

What is typical fund balance for localities?

The Moody's Investor Service report on 2010 U.S. Local Government Medians provides data gathered from 2,985 cities that issued general obligation bonds. In general, cities with bond ratings of "A" to "Aaa" (the highest Moody's rating) have unassigned fund balances ranging from 17.63% to 18.40% of expenditures. Total fund balances, including capital reserves, range between 27% and 32% of expenditures.

Small jurisdictions like Falls Church must maintain higher fund balances as they are more susceptible to swings in revenue and expenditures. This was true in 2009 - 2010 for the City when adverse financial events related to the recession, water litigation, and a major sales tax correction by the Virginia Department of Taxation resulted in a heavy reliance on fund balance to fund critical public safety, education, and community services while the City made the necessary changes to respond to those setbacks. (See chart below.)



What Happens if the City Falls Below Policy?

If the City falls below the 12% policy minimum, funds must be appropriated by the City Council to restore fund balance above the minimum within two years, and back the policy target of 17% within an additional three years.

How is Fund Balance in Excess of the Policy Target Used?

Fund balance in excess of the 17% target is allocated toward specific capital projects through the adoption of the five year Capital Improvements Program.

Can the City Use Fund Balance for Operating Expenses?

The City’s financial policy calls for fund balance to be used for one-time capital expenditures only. The City Council has steadily adhered to this policy through the years for good reason. If the City takes on higher operating costs (for employee salaries or new hires, for example) paid for with one time funds, then the following year, those costs will remain but with no funding support. Localities that fail to make the difficult decisions each year to pass a balanced budget, quickly find themselves in deep financial trouble. The City has a strong tradition of discipline in this regard and this is a key to long term sustainability of everything we do.

Debt

What is the City’s Current Debt Obligation?

The City currently has \$54.1 million in local tax-supported general obligation debt. The Capital Plan identifies an additional \$19.4 million in projects (Excluding major school projects) in the next five years. It is not realistic to enter the bond market for even a fraction of those project costs unless the City’s Fund

Balance is equal to or above those of the City's peer jurisdictions. Accordingly, if the City is to accomplish school and other capital improvements, it is necessary to maintain a healthy fund balance and capital reserves.

What are the capital reserves? How do they differ from the fund balance? How are they used?

Capital Reserves are funds set aside now to pay for known capital projects in the future. Beginning in FY2016, the City proposes the creation of a \$500,000 Capital Reserve Fund to address future capital needs. This is in accordance with the financial policies adopted in 2011. Capital Reserves lower the amount of indebtedness and allow significant projects (such as the construction of a new school) to be accomplished in an affordable manner.

What is Debt Service?

Debt Service is the obligation the City incurs when it borrows money in the financial marketplace. Like a home mortgage, Debt Service includes principle and interest. The City typically issues debt in the form of tax-exempt municipal bonds with a term of 20 years.

The City's current outstanding debt includes \$40.9 million for school facilities and \$13.2 million for general government facilities (Community Center, Fire Station) for a total of \$54.1 million in outstanding debt. The City spends \$6.0 million per year (7% of the total General Fund budget) to repay principle and interest on this debt.

What is "Pay as You Go"?

A sound Capital Plan relies on both "Pay as You Go" (PAYGo) and debt-funded reinvestment. The City budget includes \$1,692,000 in funding for PAYGo capital projects, including facility repairs, park improvements and traffic signal improvements. The source of "pay as you go" funds can either be ongoing operating revenues (taxes), or accumulated fund balance.

What impact does the water sale net proceeds on the FY2016 budget?

The City Council has determined that an investment of the water sale proceeds in capital projects will consist of \$11.3 million, 85% of which will be invested in long range capital projects such as facilities and not more than 15% will be invested in downtown area projects improvements.