
BUDGET AND FINANCIAL SYSTEMS

CALENDAR

FY 12-13 BUDGET PREPARATION SCHEDULE	
ACTIVITY	DATE
Budget Calendar Distributed to Town Council	October 21, 2011
Distribution of Budget Preparation Packet - All Departments	October 21, 2011
Community Donations & Civic Input Response Deadline	December 9, 2011
Budget Requests Submitted to Finance	December 23, 2011
Mid-Year Budget Review by Town Council	January 9, 2012
Department Heads meet with Budget Committee	Week of January 23, 2012
Department Heads meet with Town Manager	Week of February 6, 2012
Distribution of Proposed Budget to Town Council	February 24, 2012
Budget Work Sessions - Town Council	March 10 and 12, April 23, 2012
Public Hearing on Proposed Budget Public Hearing on Proposed Tax Rate Public Hearing on the Proposed Water and Sewer Rates	May 7, 2011
Adoption of Budget - Town Council	May 21, 2012

PURPOSE

The operating budget serves as the Town's annual financial plan. It serves as the policy document that choreographs the Town's actions in accomplishing its goals and objectives. It provides the direction and resources needed to deliver to the community its services and programs.

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ADOPTION OF THE BUDGET

The Charter of the Town of Vienna requires that by July 1 each year, the Town Council adopts by ordinance a budget establishing the tax rate for the incoming year. It must be a balanced budget where estimated revenues are equivalent to estimated expenditures. It is mandated in the Charter that the fiscal year begin on July 1 and end on June 30.

At least one public hearing must be held on the budget prior to its adoption. Seven days prior to this hearing, the Town Clerk must publish a notice of Council's intention to hold such an event. The budget cannot be adopted at the same meeting in which the public hearing is held. Two notices, again at least seven days apart, must then be published in a paper of general circulation announcing Council's intention to adopt the budget. At a public meeting following these notifications, Council may then adopt the budget. After this action is taken, the Clerk publishes the final notice of adoption.

AMENDMENTS TO THE ADOPTED BUDGET

Changes to the adopted budget are possible through the use of fund transfers and budget amendments. The Town Manager has the authority to approve fund transfers between activities and departments; however, only the Town Council has the authority to approve a transfer of funds from the contingency reserve fund.

Any year end operating surpluses revert to unappropriated balances for use in maintaining reserve

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TYPES OF FUNDS

The Town of Vienna utilizes two types of funds:

Governmental Funds: Account for expendable financial resources other than those accounted for in Proprietary and Fiduciary Funds. The individual Governmental Funds are:

General Fund: This is the Town's largest fund and is used to account for all general operating expenditures and revenues. Revenues are primarily derived from general property taxes, other local taxes, licenses, permits and revenues from other governmental units.

Debt Service Fund: Transactions related to resources obtained and used for the payment of interest and principal on long term general obligation debt and capital leases, except for the debt payable by the enterprise funds, are accounted for in the Debt Service Fund. The Debt Service Fund revenues are derived primarily from other local taxes and transfers from the General Fund and Water and Sewer Fund.

Proprietary Funds: Account for operations that are financed in a manner similar to private business enterprises. The Proprietary Funds utilize the accrual basis of accounting in which the measurement focus is upon determination of net income, financial position and cash flows. Proprietary Funds include the Water and Sewer Enterprise Fund.

Water and Sewer Fund: Accounts for the operations of the Town's Water and Sewer Fund. Revenues are primarily derived from user charges. The Town purchases water and conveys sewage under intergovernmental agreements with the City of Falls Church and the County of Fairfax.

BASIS OF BUDGETING

The budgets for the General and Debt Service funds utilize the modified accrual basis of accounting under which revenues and related assets are recorded when measurable and available to finance operations during the year. Accordingly,

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real and personal property taxes are recorded as revenues and receivables when billed, net of allowances for uncollectible amounts, except that property taxes not collected within 45 days after year end are reflected as deferred revenues.

Sales and utility taxes, which are collected by the State or utility companies and subsequently remitted to the Town, are recognized as revenues and receivables upon collection by the State or utility, which is generally in the month preceding receipt by the Town. Licenses, permits, fines and rents are recorded as revenues when received. Intergovernmental revenues, consisting primarily of State and other grants for the purpose of funding specific expenditures, are recognized when measurable and available or at the time of the specific expenditures. Revenues from general purpose grants, such as entitlement programs, are recognized in the period to which the grant applies.

Expenditures, other than interest on long term debt, are recorded as the related fund liabilities are incurred. Principal and interest on long term debt are recognized when due except for amounts due on July 1, which are accrued. The budget for these funds is prepared on a modified accrual basis in conformance with generally accepted accounting principles. Purchase orders are encumbered against budget balances when issued.

For the Water and Sewer Fund, the accrual basis of accounting is used. Under the accrual method, revenues are recognized in the accounting period in which they are earned and expenses are recognized in the accounting period in which the related liability is incurred. The budget is prepared using the accrual basis in conformance with generally accepted accounting principles, with the exception of developer contributions and depreciation expense, which are non-case expenses.

LONG TERM FINANCIAL POLICIES AND GOALS

The following principles are adhered to by the Town of Vienna in administering its fiduciary duties and responsibilities:

Financial Plan

- a. On a continual basis, the Town will operate on a balanced budget where expenditures will never exceed revenues all the while

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- balancing the service expectations of the community against the cost of services.
- b. Staff will provide accurate and timely data on program costs and results so that the Town Council can make sound policy decisions.
 - c. To maintain a stable tax rate, the Town will annually review and update its major expenditure programs (Sidewalk Replacement, Vehicle and Equipment Replacement, Computer Equipment Replacement and Financial Systems) to minimize the effects of large dollar procurements.
 - d. Vienna will provide to all interested current and accurate information on the financial conditions of the Town.

Revenue Plan

- a. On an ongoing basis, Vienna will pursue new and innovative revenue sources.
- b. The Town will aim to attain revenue growth, stability and diversification while maintaining competitiveness with surrounding jurisdictions.
- c. User fees will be established at fair rates that cover the cost of the service being provided to specific individuals or users.
- d. One time revenues will not be used to fund ongoing expenditures.
- e. Vienna will aggressively collect all fees and other revenues due to the Town.

Expenditure Plan

- a. Continually provide to its citizens and customers the highest level of service in the most cost effective manner possible.
- b. Be scrupulous in complying with the Town's procurement regulations.

Reserves

- a. At all times, the Town will maintain a minimum fund balance reserve equal to 30 days of average expenditures.

Debt Capacity

- a. Adhere to the State of Virginia's mandate that Vienna's limit on debt never exceeds ten percent of its assessed value.
- b. The issuance of general obligation bonds will be limited to a period

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not to exceed the expected life of the project.

Capital Improvements Plan

- a. Include only those projects which provide public facilities and infrastructure and prevent the deterioration of those facilities and physical plants.
- b. Use meals and lodging tax dollars to provide a stable, long- term source of funding for capital projects.
- c. Update the Capital Improvements Plan each year to reflect the age and condition of all facilities and the needs of the community

MAJOR TOWN GOALS

Each year, when the annual budget is prepared, great care is taken to ensure that the goals of the Town are met. What follows are the philosophies that guide the Town in serving its citizenry.

Town Services

To provide and maintain adequate public services and facilities to support the residential and business communities within the Town limits. It should do so while offering the highest quality of life for its citizens and ensuring that it is accomplished in a safe and secure environment.

Public Safety

To work in partnership with the community to provide a high degree of effective and efficient law enforcement. This includes a commitment to fully implement the community policing program and furthering the youth drug awareness education and eradication programs.

Finance

To support equitable systems of taxation, fees, fines and other sources of revenues to provide services to all members of the community.

Government and Citizenry Relations

To encourage residents to become active members in the community by educating them on the many opportunities available and to increase the diversity of the participants. To further the lines and levels of cooperation and

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communication between the Town and the federal, state and surrounding local governments.

Transportation

To enhance the transportation corridors serving the Town by improving the movement of traffic along Vienna's major arterial streets and identifying traffic calming techniques for possible use on residential streets.

Environment

To preserve the Town and its citizens by conserving, enhancing and protecting its natural resources so that Vienna continues to be a desirable locality in which to work and live.

BUDGET ASSUMPTIONS

The FY 12-13 budget was prepared using the following assumptions:

- One time 2% market adjustment for all employees
- Increase salary by 5.45% for full-time employees to compensate for the transfer of payment for the Virginia Retirement System (VRS) from the Town to the employee
- No layoffs or reductions in personnel
- Interest income on investments will decrease or under best circumstance, hold steady
- Property assessments are to remain flat
- Virginia funding levels to the Town to continue to decline due to pressures on the Commonwealth's budget
- Revenues collected by the Commonwealth of Virginia on behalf of the Town of Vienna to continue decline based on higher pass through fees
- Park user fees to continue to decline as a result of customers' selectivity on non-essential purchases

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BASIS OF REVENUE PROJECTIONS

Vienna revenues are derived from a variety of sources: local, Commonwealth and other interjurisdictional bodies. When preparing revenue projections, staff will review prior year economic activity, current year to date figures and future factors that could affect the source. The following techniques are used singly or in combination to prepare revenue projections:

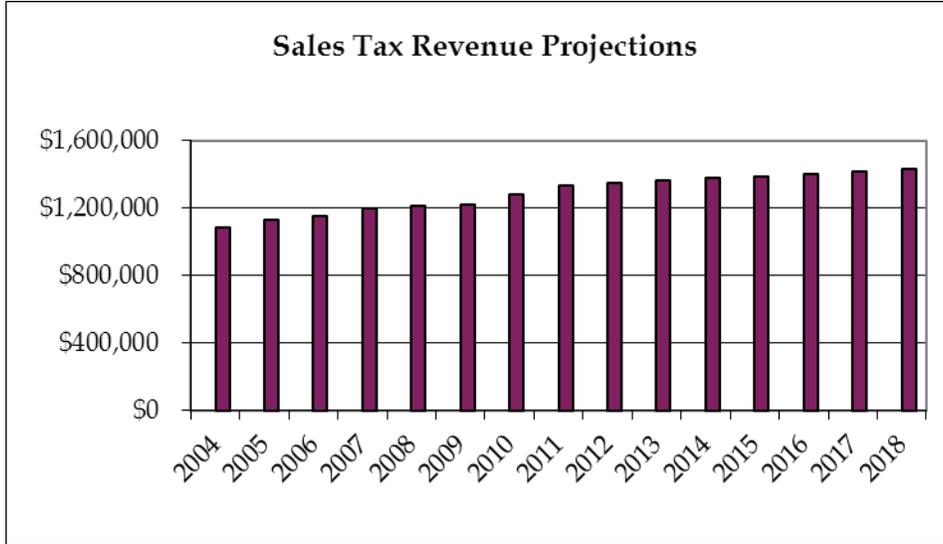
- **Informed/Experienced Opinion:** Prepared in consultation with the applicable department head to identify trends and rising conditions
- **Pass Through:** Estimates received from the revenue source (i.e., Commonwealth of Virginia)
- **Mathematical:** Revenues determined through use of standardize formulas
- **Statistical:** Revenues determined based on averages, prior histories or other means of analysis.

GENERAL FUND REVENUE PROJECTIONS

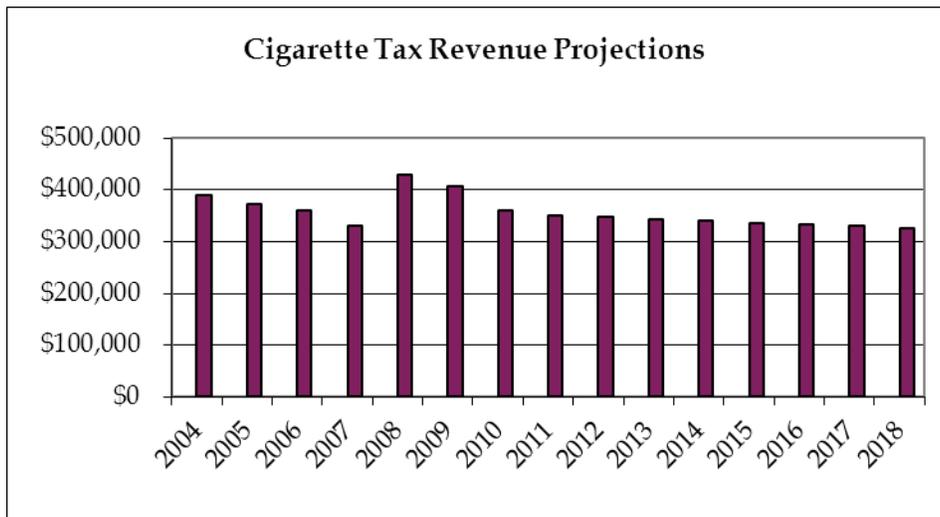
Real Estate Taxes are the largest source of revenue for the Town. During the recession and recovery, Vienna was fortunate as it did not experience the large declines in property assessments that our neighboring jurisdictions did. In 2012, the average residential assessments increased by 2.00% over 2011 while the average commercial assessment increased by 4.40%. Building permit data for residential and commercial projects for both renovations and tear downs allow us to project that assessments will continue to increase at low, but steady rates.

The sales tax in Vienna and the Commonwealth of Virginia is 4% (grocery based food is 2.5%). Monies from the sales tax are allocated back to the Town based on the Commonwealth of Virginia's formula. The Town's sales tax distribution is based on the number of school age children in Vienna. Given the Town's stable population rate, substantial growth based on population will not occur. Despite the previous years' economic conditions, the Town's revenues in this area held the course or increased slightly. Future year revenues are anticipated to hold steady or increase moderately.

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The Town of Vienna is part of the Northern Virginia Cigarette Tax Board, a consortium of 14 area jurisdictions formed for the purpose of collecting and disseminating cigarette tax revenues. Overall, historical pack sales have declined in both Vienna and the Northern Virginia area. Future year revenues should continue to ebb in conjunction with a decrease in the number of smokers and overall consumption.



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Business license tax revenues continue to grow. Vienna's solid reputation is witnessed by the increasing number of business licenses issued each year. Previous years' data show that the number of business licenses issued is flat with a slight decrease in the dollars collected.

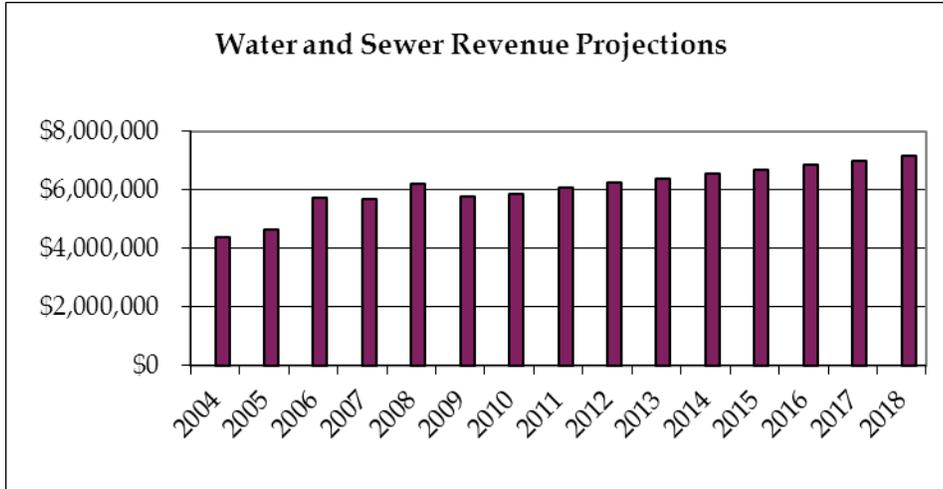


Water and Sewer Charges

Charges for water and sewer usage and fees are directly related to the costs associated with them. Within the Water and Sewer Fund, rates have been set at the levels necessary to fully support the activities of this operation. These rates are calculated annually and are adjusted as needed.

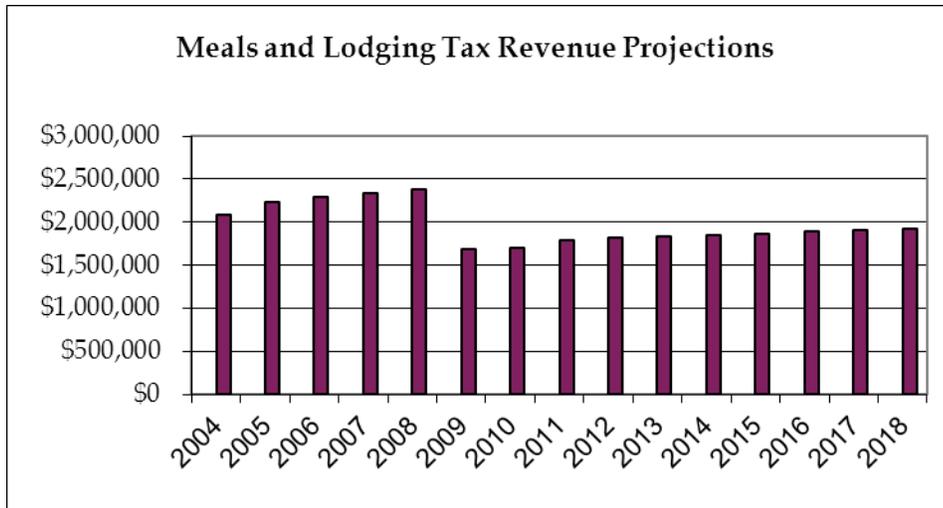
Inflation is the major factor in increased expenditures, especially in the areas of labor and commodities such as fuel and utilities. As our rates are established to strictly cover costs, the water and sewer rates charged to the Town's customers are impacted by the area's inflation rates. In addition, revenues each year are based on consumption, which is driven in part by weather conditions. A drought one year can create a bounce up in total water revenues due to increased water demand while a rainy year can have the opposite effect.

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The Town’s capital improvement program is funded through the collection of a meals and lodging tax. Collections have experienced a steady growth rate since its implementation in January 1990. The Town has seen an increase in both the number of restaurants locating within the Town as well as increases in overall sales. At least four new restaurants or food service businesses are anticipated to open in Vienna within the coming twelve months.

Historical revenue data from the comprehensive annual reports show a six year historical high of 6.19% and low of 1.63%. Again with the sales tax projections, a modest annual increase of 1% has been projected as a result of new businesses projected to open in Town.



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DEBT SERVICE FUND HISTORY

A \$4,500,000 general obligation bond was issued in 1993 for a 15-year term at annual interest rates that vary from 3.95 to 5.30 percent. Principal in the amount of \$300,000 is retired each year. Proceeds from the bond issue were used for new public works facilities; park improvements; facility modifications required to comply with Americans with Disabilities Act legislation; street and sidewalk improvements; and water and sewer system improvements. The bonds were retired in fiscal year ending 2009.

General obligation bonds worth \$4,900,000 were issued in 1996 for a 15-year term at annual interest rates varying from 4.70 to 5.00 percent. These bonds are being retired at an annual rate of \$330,000 for the first five years and then at the rate of \$325,000 for the years thereafter. The bond proceeds are being used for a new public works facility; park improvements; facility modifications required by the Americans with Disabilities Act legislation; water system improvements; and street and sidewalk improvements. The bonds were retired in 2010.

General obligation bonds worth \$4,900,000 were issued in 1998 for a 15-year term at annual interest rates that vary from 3.90 to 4.75 percent. These bonds are being retired at an annual rate of \$330,000 for the first five years and then at the rate of \$325,000 thereafter. The bond proceeds are being used for a new public works facility, community center improvements, water and sewer system improvements, storm drainage improvements, and street and sidewalk improvements. The bonds will be retired in 2013.

General obligation bonds worth \$4,800,000 were issued in 1999 for a 15-year term at annual rates that vary from 4.050 to 4.375 percent. These bonds are being retired at an annual rate of \$320,000. The bond proceeds are being used for various public improvements including public works facilities, recreational facilities, improvements and renovations to other Town facilities, street improvements, and water and sewer improvements. The bonds will be retired in 2014.

General obligation debt worth \$4,900,000 was issued in 2002 for a 15-year term at an annual rate of 4.17 percent. This debt is being retired at an annual rate of \$326,666.67. Debt proceeds are being used for various public improvements

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including street improvements and the development of open space for a Town Center. The debt will be retired in 2017.

General obligation debt worth \$4,950,000 was issued in 2006 for a 15-year term at an annual rate of 3.77 percent. This debt is being retired at an annual rate of \$330,000. Debt proceeds are being used for various public improvements including street improvements; development of the Town Center; new sidewalks; storm sewer improvements; water and sewer infrastructure improvements; and facility improvements for police operations and record storage. The debt will be retired in 2021.

\$4,990,000 worth of general obligation debt was issued in 2010 for a 15-year term at a true-interest cost of 2.49 percent. The bonds are being retired at an annual rate of \$335,000. Debt proceeds are being used for various public improvements including street and storm drainage improvements, water and sanitary sewer system improvements, and various public facility improvements. The bonds will be retired in 2026.

Analysis of Outstanding Debt Balances Only						
Issue	As of 6/30/09	As of 6/30/10	As of 6/30/11	As of 6/30/12	As of 6/30/13	As of 6/30/14
1996	\$650,000	\$325,000	\$0	\$0	\$0	\$0
1998	\$1,300,000	\$975,000	\$650,000	\$325,000	\$0	\$0
1999	\$1,920,000	\$1,600,000	\$1,280,000	\$960,000	\$640,000	\$320,000
2002	\$2,613,336	\$2,286,669	\$1,960,002	\$1,633,336	\$1,306,669	\$980,002
2006	\$3,960,000	\$3,630,000	\$3,300,000	\$2,970,000	\$2,640,000	\$2,310,000
2010	\$0	\$0	\$4,990,000	\$4,655,000	\$4,320,000	\$3,985,000
Total	\$10,443,336	\$8,816,669	\$12,180,002	\$10,543,336	\$8,906,669	\$7,595,002

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Payment on the Town's existing debt is budgeted through the Debt Service and Water and Sewer funds. A summary below highlights the combined payments with more specific details contained in the Debt Service and Water and Sewer expenditure sections later in this document.

Debt Service Payments in FY 11-12				
Issue	Fund	Principal	Interest	Total
98 Bonds	Debt Service	\$278,526	\$26,181	\$304,707
	Water & Sewer	\$46,474	\$4,369	\$50,843
99 Bonds	Debt Service	\$258,240	\$39,123	\$297,363
	Water & Sewer	\$61,760	\$9,357	\$71,117
02 Bonds	Debt Service	\$326,667	\$81,732	\$408,399
	Water & Sewer	\$0	\$0	\$0
06 Bonds	Debt Service	\$297,000	\$115,236	\$412,236
	Water & Sewer	\$33,000	\$12,804	\$45,804
10 Bonds	Debt Service	\$275,705	\$12,850	\$288,555
	Water & Sewer	\$59,295	\$27,637	\$86,932
Total		\$1,636,667	\$329,289	\$1,965,956

Debt Service Payments in FY 12-13				
Issue	Fund	Principal	Interest	Total
98 Bonds	Debt Service	\$278,526	\$13,230	\$291,755
	Water & Sewer	\$46,474	\$2,208	\$48,683
99 Bonds	Debt Service	\$258,240	\$28,084	\$286,324
	Water & Sewer	\$61,760	\$6,716	\$68,476
02 Bonds	Debt Service	\$326,667	\$68,110	\$394,777
	Water & Sewer	\$0	\$0	\$0
06 Bonds	Debt Service	\$297,000	\$103,712	\$400,712
	Water & Sewer	\$33,000	\$11,524	\$44,524
10 Bonds	Debt Service	\$275,705	\$122,989	\$398,694
	Water & Sewer	\$59,295	\$24,451	\$85,746
Total		\$1,636,667	\$381,024	\$2,017,691

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The constitution of Virginia mandates a limit on the debt of the Town. The computation of the Town's legal debt margin as of June 30, 2011 is as follows:

Assessed Value of Real Property, January 1, 2011:	\$3,647,157,809
Debt Limit: Ten Percent (10%) of Assessed Value:	\$364,715,781
Amount of Debt Applicable to Debt Limit:	
General Obligation Bonds:	<u>\$12,180,002</u>
Total amount of Debt applicable to Debt Limitation:	<u>\$12,180,002</u>
Legal Debt Margin:	<u>\$352,535,779</u>

FUND BALANCE

The fund balance is defined as for all funds, the excess of the fund's assets over its liabilities and reserves. Information in the following charts has been taken directly from past year audits and the FY 12-13 budget document. Any differences between ending balances in one year and beginning balances in the next year are due to auditor adjustments to prior year balances. Negative differences between General Fund revenues and expenditures reflect planned use of unreserved, undesignated surplus. Negative differences between Water and Sewer Fund operating income and expenses reflect use of retained earnings balances. The reductions shown in the following chart reflect the assumption that use of prior year fund balances for FY 11-12 and FY 12-13 will be as budgeted. The actual use of prior year fund balances for said fiscal years will likely vary but estimated variances were not available at the time this document was prepared.

The Town of Vienna had previously committed to maintaining a minimum fund balance reserve of at least 10% of revenues. It has been attaining this goal and is committed to this principle. These funds are undesignated, but during January of each year, amounts in excess of this standard may be appropriated by the Town Council to fund previously deferred or newly identified capital needs.

Because of our strong fund balances and reserves, Vienna continues to receive outstanding ratings from both Moody's and Standard & Poor's. In FY 07-08, Standard and Poor's rating of the Town increased from AA- to AA. During the past year Moody's upgraded the Town's rating to Aaa as part of its Global

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Rating Realignment and the Town's 2010 general obligation bonds were rated AAA by Standard & Poor's.

Fund Balance Summary General Fund					
	<i>FY08-09 Actual</i>	<i>FY09-10 Actual</i>	<i>FY10-11 Actual</i>	<i>FY 11-12 Adopted</i>	<i>FY 12-13 Adopted</i>
Beginning Fund Balance	\$8,206,581	\$8,110,164	\$7,546,690	\$7,806,449	\$6,906,449
Revenues	\$20,492,519	\$20,070,022	\$20,807,631	\$20,372,703	\$21,009,785
Expenditures	\$20,588,936	\$20,633,496	\$20,547,872	\$21,272,703	\$21,029,785
Revenues Less Expenditures	(\$96,417)	(\$563,474)	\$259,759	(\$900,000)	(\$1,020,000)
Ending Fund Balance	\$8,110,164	\$7,546,690	\$7,806,449	\$6,906,449	\$5,886,449

Historical Data General Fund Reserve Balances		
<i>Year Ending June 30</i>	<i>Ending Balance Revenue Collection</i>	<i>Undesignated Fund Reserves</i>
2011	\$20,807,631	\$4,089,728
2010	\$20,070,022	\$3,602,251
2009	\$20,492,519	\$3,691,280
2008	\$19,741,865	\$3,805,255
2007	\$18,880,899	\$4,166,530

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Fund Balance Summary Water and Sewer Fund					
	<i>FY 08-09 Actual</i>	<i>FY 09-10 Actual</i>	<i>FY 10-11 Actual</i>	<i>FY 11-12 Adopted</i>	<i>FY 12-13 Adopted</i>
Beginning Retained Earnings	\$9,055,430	\$8,837,489	\$8,214,545	\$8,017,298	\$8,017,298
Operating Income and Transfers	\$6,374,620	\$6,367,141	\$6,404,146	\$6,486,947	\$7,497,212
Operating Expenses and Transfers	\$6,592,561	\$6,990,085	\$6,601,393	\$6,486,947	\$7,497,212
Net Income (Loss)	(\$217,941)	(\$622,944)	(\$197,247)	\$0	\$0
Ending Retained Earnings	\$8,837,489	\$8,214,545	\$8,017,298	\$8,017,298	\$8,017,298

Water and Sewer Fund Reserve Balances		
<i>Year Ending June 30</i>	<i>Ending Balance Revenue Collection</i>	<i>Retained Earnings Balance</i>
2011	\$6,404,146	\$8,017,545
2010	\$6,367,141	\$8,214,545
2009	\$6,374,620	\$8,837,489
2008	\$6,578,343	\$9,055,430
2007	\$5,868,147	\$8,201,054

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Fund Balance Summary Debt Service Fund					
	<i>FY 08-09 Actual</i>	<i>FY 09-10 Actual</i>	<i>FY 10-11 Actual</i>	<i>FY 11-12 Adopted</i>	<i>FY 12-13 Adopted</i>
Beginning Balance	\$4,317,423	\$3,964,342	\$3,882,446	\$3,916,827	\$3,909,32
Revenues and Transfers	\$2,074,258	\$1,960,737	\$2,074,693	\$2,074,406	\$2,248,594
Expenditures	\$2,427,339	\$2,042,633	\$2,040,312	\$2,080,909	\$2,248,594
Revenues Less Expenditures	(\$353,081)	(\$81,896)	\$34,381	(\$7,503)	\$0
Ending Fund Balance	\$3,964,342	\$3,882,446	\$3,916,827	\$3,909,324	\$3,909,324

Historical Data Debt Service Fund Reserve Balances		
<i>Year Ending June 30</i>	<i>Ending Balance Revenue Collection</i>	<i>Undesignated Fund Reserves</i>
2011	\$2,074,693	\$3,916,827
2010	\$1,960,737	\$3,882,446
2009	\$2,074,258	\$3,964,342
2008	\$2,872,202	\$4,317,423
2007	\$2,847,652	\$3,958,312