EXHIBIT NO. 1

17
11-24-09

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 20, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: CONSIDERATION OF RESOLUTION ESTABLISHING FISCAL YEAR 2011 BUDGET GUIDANCE FOR THE ALEXANDRIA CITY GOVERNMENT AND THE ALEXANDRIA CITY PUBLIC SCHOOLS

ISSUE: What Budget Guidance to Provide for FY 2011.

RECOMMENDATION: That City Council adopt a resolution which will establish FY 2011 budget guidance for the Alexandria City Government and the Alexandria City Public Schools. (Attachment 1)

BACKGROUND: At its November 10, 2009, legislative meeting Council passed a Resolution #2368 establishing the procedures to use during its term for developing the annual operating budgets and Capital Improvement Programs (CIPs) (Attachment 2). Vice Mayor Donley and Councilman Krupicka were asked by the Mayor to consult with other members of Council and develop proposed guidance specifically for the FY 2011 General Fund Operating Budget and the FY 2011-FY 2020 CIP.

The attached Resolution provides the guidance called for by Resolution #2368 and reflects the recommendations of Vice Mayor Donley and Councilman Krupicka. Specifically this resolution provides guidance to the City Manager to:

1. Prepare a base budget for City-managed programs and activities of no more than $366.2 million[1] – the same amount or less than was provided in the Approved FY 2010 General Fund operating budget for City operations, debt service and cash capital to fund the CIP, and transit subsidies – plus an additional amount required to be appropriated to receive Build America Bond subsidies and whatever amount is proposed for storm water operating and capital expenditures to be funded by a storm water utility fee (see 8 below).
2. Not increase total City employment levels in the base budget above those estimated in the Approved FY 2010 operating budget;
3. Continue to identify and implement cost saving measures and efficiencies in all City operations, including public safety;
4. Include in the base budget funding for merit/step increases for eligible employees and an additional step (the "Q" step) on the pay scale;
5. Not include a Market Rate Adjustment in the base budget;

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[1] The precise number is $365,408,344 plus $833,088 of debt service costs eligible for reimbursement under the Federal Government Build America Bond program in FY 2011for a total of $366,241,432

6. Include in the base budget a transfer to the Schools for operating expenses of $167.9[2] -- a 2% increase over the FY 2010 Approved General Fund operating budget transfer to the Schools;
7. Include in the base CIP only those projects that can be funded within the funding levels contained in the Approved CIP for FY 2010 – FY 2015;
8. Propose a storm water utility fee as necessary and appropriate for the provision of additional storm water capital projects and operating costs above those contained in the Approved FY 2010 – 2015 CIP and such additional Special Revenue expenditures and revenues as are proposed for storm water utility operations and capital shall be considered as part of the base budget allowed by section 1 above.
9. Propose whatever combination of taxes, fees, fines and service charges that are necessary and appropriate to balance the base budget provided that they:
    a. Are within the constraints imposed by the Code of Virginia;
    b. Maximize the non-real estate revenue sources available to the City within those constraints; and
    c. Do not contain an additional real estate tax for transportation purposes on commercial real estate;
10. Propose measures to sell or lease excess City capital assets as appropriate in the base budget and use those proceeds to fund the CIP as cash capital;
11. Propose whatever additional operating costs and capital projects for Council consideration above those specified in the base budget as deemed appropriate to provide additional operating expenditures to improve public safety, transportation or educational services or provide additional capital expenditures deemed necessary and appropriate by the City Manager, together with appropriate sources of revenue available within the constraints imposed by the Code of Virginia; and
12. Provide a special analysis of projected expenditures and revenues for FY 2012 under the base budget as well as any options proposed for additional operating costs and capital projects proposed above the base budget.

The City Manager plans to present his proposed budget on February 9, 2010 and the School Board is required to submit its budget during that same week as required by Resolution #2368. This proposed budget will be the subject of numerous work sessions and at least two public hearings before Council adopts a budget and CIP on May 4, 2010. Regardless of the guidance given in the attached Resolution, Council may choose to amend any element of the City Manager's proposed budget in accordance with the provisions of Resolution #2368 that requires each amendment to include an offsetting change to balance the budget. Such amendments shall be required for any changes to the base budget, which for this purpose shall also include the operations and capital projects to be funded by a proposed storm water utility fee and its revenues.

ATTACHMENTS:

Attachment 1. Draft Budget Resolution Setting Guidance for FY 2011 General Fund Operating Budget and Capital Improvement Program for FY 2011-FY 2020

Attachment 2. Resolution #2368

STAFF:

Bruce Johnson, Chief Financial Officer

[2] The precise number is $167,886,567.

Attachment I

Resolution No. _____

Budget Resolution Setting Guidance for FY 2011 General Fund Operating Budget and Capital Improvement Program for FY 2011-FY 2020

WHEREAS, the City Council of Alexandria passed Resolution 2368 on November 10, 2009, that established the process to be used for formulating the budget during the term of this Council and requires that City Council set budget guidance for the City Manager and the School Board for the FY 2011 budget;

WHEREAS, the City Council held a public hearing on the FY 2010 budget on October 17, 2009; and

WHEREAS, the City Manager and the Alexandria City Public Schools presented to City Council at its November 7, 2009, retreat their preliminary forecasts of revenues, expenditures and capital needs; and

WHEREAS, THE City Council's deliberations on the budget each and every year reflect a balancing of the needs of the community, with the community's ability to afford services to meet those needs; and

WHEREAS, the City Council is committed to continuously improving City government effectiveness and efficiency, and expects the City Manager and City staff to focus on managing for results; and

WHEREAS, the City Council is committed to continue performing fully its obligations to provide the core services expected of a municipal government and to continue to provide quality services and facilities for the residents and businesses of Alexandria; and

WHEREAS, the national economy has suffered the worst recession in at least 30 some years and perhaps 50 years;

WHEREAS, the regional and local economy has also declined significantly, although not at the rate of the national economy;

WHEREAS, a decline in real estate values in the City is expected between 5.7% and 9.4% with a best estimate of 8.1%;

WHEREAS, a loss in State revenues is expected for both the City General Fund budget and the Schools operating budget;

WHEREAS, these reductions in General Fund revenues due to the decline in the national, regional and local economies presents the City Council and City government

with an overall decline of revenues of between 5.4% and 1.8%; with a best estimate at this time of a decline in revenues of -3.9% for FY 2011;

WHEREAS, this decline places demands on the City's ability to deliver services, maintain and expand its infrastructure as well as meeting the expectations of City residents; and

WHEREAS, City Council fully expects that there will be substantial service reductions in the proposed budget and that these reductions may need to be continued for the foreseeable future;

WHEREAS, the budget must contain for all contractual commitments, including debt service; and

WHEREAS, City Council will not make any other material changes that may threaten the City's AAA/Aaa bond rating.

NOW, THEREFORE, BE IT RESOVED BY THE CITY COUNCIL OF ALEXANDRIA:

1. **Base Budget for City-Managed Programs and Activities:** That the City Manager shall submit a proposed FY 2011 Operating Budget for City-managed programs and activities of no more than $365,408,344 million for City operations, debt service and cash capital to fund the CIP, and transit subsidies, plus an additional amount required to be appropriated to receive Build America Bond subsidy from the Federal government ($833,088 in FY 2011) and whatever amount is proposed for storm water operating and capital expenditures to be funded by a storm water utility fee (see section 8 below) .

2. **City Staffing Levels:** That the City Manager shall not increase total City employment levels (as measured on a full-time equivalency basis) in the base budget above those estimated in the Approved FY 2010 operating budget.

3. **Cost Saving Measures:** That the City Manager shall continue to identify and implement cost saving measures and efficiencies in all City operations, including public safety.

4. **City Staff Compensation**: That the City Manager shall include in the base budget funding for merit/step increases for eligible employees and an additional step (the "Q" step) on the pay scale.

5. **Market Rate Adjustment**: That the City Manager shall not include a market rate adjustment for either City or Schools staff;

6. **Schools Transfer:** That the City Manager shall include in the base budget a transfer to the Schools for operating expenses of $167,886,567.

7. **Capital Improvement Program (CIP):** That the City Manager's proposed CIP shall include:
    a. Specific estimates for FY 2011 through FY 2016 and preliminary estimates for FY 2017 through FY 2020;
    b. No more cash capital from current revenues than that planned for FY 2011through FY 2015 in the Approved FY 2010 – FY 2015 CIP;
    c. No more debt issuance than that planned for FY 2011 through FY 2015 in the Approved FY 2010 – FY 2015 CIP;
    d. The use of General Fund operating budget surplus expected in FY 2010 as a designation for capital projects in FY 2011 and beyond, provided that the first $3.6 million of any such surplus will be designated for the FY 2012 General Fund operating budget;
    e. Specific descriptions of projects that can be funded within recommended levels of funding and their costs estimated for all years (FY 2011 – FY 2020); and
    f. Identification of projects that exceed the recommended levels of funding whether or not the estimated costs are identified or remain to be developed. These projects should be shown by year if known or alternatively listed in a general appendix.

8. **Storm Water Utility Fee:** That the City Manager shall propose a storm water utility fee as necessary and appropriate for the provision of additional storm water capital projects and operating costs above those contained in the Approved FY 2010 – 2015 CIP. Such additional Special Revenue Fund expenditures and fees proposed for storm water utility operations and capital projects under this section shall be considered as a part of the base budget allowed by section 1 above.

9. **Taxes, Fees, Fines and Service Charges**: That the City Manager shall propose whatever combination of taxes, fees, fines and service charges that are necessary and appropriate to balance the base budget provided that these proposals:
    a. Are within the constraints imposed by the Code of Virginia;
    b. Maximize the non-real estate revenue sources available to the City within those constraints; and
    c. Do not contain an additional real estate tax for transportation purposes on commercial real estate.

10. **Sale/Lease of Capital Assets:** That the City Manager shall propose measures to sell or lease excess City capital assets as appropriate in the base budget and use those proceeds to fund the CIP as cash capital.

11. **Options for Additional Operating and CIP Expenditures**: That the City Manager may propose whatever additional operating costs and capital projects as deemed appropriate for Council consideration above those specified in the base budget, together with appropriate sources of revenue available within the constraints imposed by the Code of Virginia, so long as those options would provide additional operating expenditures to improve public safety, transportation

or educational services or provide additional capital expenditures deemed necessary and appropriate by the City Manager.

12. **Fiscal Year 2012 Special Analysis**: That the City Manager shall prepare a special analysis that shows the projected expenditures and revenues for FY 2012. That analysis shall contain:
    a. Revenue estimates at the same level of detail as shown in the long range forecast section of the budget document, including three forecast estimates – high, mid and low level.
    b. Revenue estimates that assume the same tax rates as those proposed for FY 2011 in the base budget.
    c. Expenditure estimates in the same level of detail as provided in the long range forecast section of the budget document.
    d. A detailed estimate of the impact in FY 2012 of any recommended expenditures in the FY 2011 base budget.
    e. The impact on FY 2012 revenues and expenditures of any of the options for additional operating and CIP expenditures proposed under the authority of section 11 above; and
    f. A general discussion of the types of actions that might be necessary to balance the FY 2012 budget if there is a projected deficit for that year.

    The City Manager shall also provide estimates of the revenue and expenditure impact in FY 2012 of any budget amendment proposed by a Council member for consideration during the FY 2011budget development process.

ADOPTED: _____

ATTEST:

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WILLIAM D. EUILLE MAYOR

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Jacqueline M. Henderson, CMC, City Clerk

Attachment 2

Resolution No. 2368

Budget Resolution Establishing the Process To Be Used
To Adopt Operating Budgets and Capital Improvement Programs

WHEREAS, the Alexandria City Council wishes to establish specific policies to guide upcoming budget deliberations to ensure responsible actions with current economic resources; and

WHEREAS, resolutions No. 2088, 2150, 2166, and 2256 previously adopted by City Council have now expired; and

WHEREAS, City Council wishes to establish a budget process that is responsive to the economic times in which we live and that provides the Council and community with clear information about the trade-offs between revenues and services in order to facilitate the creation of the final budget; and

WHEREAS, City Council understands that after four years of program reductions, audits and efficiency efforts, the capacity of the city to do the same work for less money has been essentially eliminated; and

WHEREAS, City Council believes that flexibility is needed for both the preparation and evaluation of expense items as well as with regard to diversifying the sources of revenue available to fund the General Fund Operating Budget; and

WHEREAS, City Council's deliberations on the budget each and every year reflect a balancing of the needs of the community, with the community's ability to afford services to meet those needs; and

WHEREAS, the City Council desires to provide the core services expected of a municipal government and to continue to provide quality services and facilities for the residents and businesses of Alexandria, but understands that economic reality will require stark trade-offs between services and revenues; and

WHEREAS, over the last ten years, residential real estate taxes have borne an increasing share of the burden of paying for City and School services both because of the earlier run-up in residential home value and development and most recently because of the decline of commercial property values; and

WHEREAS, the City Council is committed to managing the growth of City General Fund operating and capital expenditures in order to properly balance residential real estate taxes; and

WHEREAS, the City Council is committed to assisting Alexandria City Public Schools improve student performance, decrease drop-out rates and in achieving its mission and being among the best in Northern Virginia; and

WHEREAS, the City-Council understands that delayed infrastructure maintenance threatens the health and safety of the community as well as its long-term economic prosperity; and

WHEREAS, the City Council is committed to maintaining a fair, reasonable and competitive compensation plan for City and School employees; and

WHEREAS, the City Council is committed to continuously improving City government effectiveness and efficiency, and expects the City Manager and City staff to continue its focus on managing for results, sharing services with the Alexandria City Public Schools, and developing clear accountable metrics for all city programs and services; and

WHEREAS, the City Council is committed to maintaining its top AAA/Aaa credit ratings; and

WHEREAS, the City Council desires to achieve the vision and strategic goals, objectives, and initiatives as outlined in the City Council's Strategic Plan; and

WHEREAS, sufficient time for the budget process is necessary for the City Council and the community to deliberate on the various issues raised given the budget's complexity and importance.

NOW, THEREFORE, BE IT RESOLVED by the Council of the City of Alexandria, Virginia, that the Council shall, for the purposes of consideration of the Budget for the City of Alexandria, adopt this resolution and adhere to the following rules of procedure:

Section (a) The Timing of the Setting of Budget Guidance by City Council and the City Manager's Budget Submission to City Council

(1) That the City Manager shall plan and prepare the proposed Operating Budget and proposed six-year Capital Improvement Program and that such preparations shall include, but not be limited to, requests for City departments to identify efficiencies, low priority programs not crucial to achieving City Council strategic goals, objectives, and initiatives, potential discretionary supplemental increases crucial to achieving City Council's strategic goals, objectives, and initiatives, and potential City-wide process changes that would be beneficial to City operations and to the public.

(2) That the City Manager shall present to City Council in time for the fall Council Retreat a preliminary forecast and outlook for (a) revenues (including the outlook for real estate assessments), (b) expenditures necessary to maintain appropriate services and policies (including in the City Manager's forecast of cash capital and debt service costs related to the most recently approved Capital Improvement Program and estimates of the cost of any appropriate market rate-adjustment for City and School staff), (c) the outlook for possible additional requests for City operating needs in the upcoming fiscal year and future capital needs in the upcoming fiscal year and succeeding 5 to 10 fiscal years, (d) the outlook for possible budget reductions and increases in fees, fines and charges for services, and (e) the outlook for Federal and State grants and the costs of meeting unfunded Federal and State mandates, both current mandates and projected new mandates.

(3) That the Alexandria City School System shall separately present to City Council, but in a format coordinated with the City Manager, its preliminary forecast and outlook for (a) expenditures necessary to maintain appropriate services and policies, (b) the outlook for additional requests for Schools operating in the upcoming fiscal year and capital needs through the upcoming fiscal year and the succeeding 5 to 10 years, (d) the outlook for possible budget reductions and increases in fees, fines and charges for services, and (e) the outlook for Federal and State grants, and the costs of meeting unfunded Federal and State mandates, both current mandates and projected new mandates.

(4) That as part of its fall Retreat, City Council will consider this information and any other relevant information available to it at that time from the efforts described above, including resident input to be provided by a public hearing on the upcoming budget to be conducted prior to City Council's fall Retreat.

(5) That City Council shall, as a result of information available to it at the Retreat, direct that the City Manager prepare a budget resolution to be adopted by City Council to guide the preparation of the upcoming Operating Budget and next Capital Improvement Program.

(6) That City Council plans to adopt such a budget resolution during the month of November for the next fiscal year.

(7) That the City Manager shall submit a proposed Operating Budget and Capital Improvement Program to the City Council no later than the first legislative meeting of Council in February, prior to the upcoming fiscal year. Such budget shall meet any guidance for General Fund revenues and expenditures established by City Council.

(8) That the Board of the Alexandria City Public Schools is requested to approve an Operating Budget and Capital Improvement Program no later than the week of the first legislative meeting of the Council in February, prior to the upcoming fiscal year. Such budget, if it shall exceed or otherwise not comply with the guidance provided by City Council, shall clearly identify what operating programs and activities would be funded, if additional funding were provided above that guidance, and the reasons therefore.

(9) That the Council shall hold a budget public hearing on the City Manager's proposed budget in the month following the budget submission by the City Manager and may hold an additional public meeting on the budget, if Council deems it necessary, in April, in addition to any effective tax-rate public hearing needing to be held prior to budget adoption.

(10) That the council requests that staff create a way for residents and organizations to submit written budget comments to the Council in lieu of or in addition to participation in public meetings.

(11) That City Council shall consider these recommendations and endeavor to enact an Operating Budget and Capital Improvement Program that balances the needs of the community with the community's ability to afford services to meet those needs.

Section (b) Proposed Budget for the City of Alexandria -

(1) For purposes of this resolution, the proposed budget of revenue rates and expenditure levels for the fiscal year shall be that proposed by the City Manager.

(2) For purposes of this resolution, the Chief Financial Officer shall provide revenue and/or expenditure projections for any motion or amendment that could affect the proposed budget specified in Section (b) (1).

Section (c) Maximum Expenditure Levels May Not Exceed Sum of Projected Revenue and Appropriation from Fund Balance in Proposed Budget

(1) It shall not be in order in the Alexandria City Council to consider any motion or amendment to the proposed budget of the City of Alexandria if there has not been a budget memo requested that relates to the specific item or a Council discussion of the proposal during a budget work-session or public hearing and

(ii) such motion or amendment would have the effect of increasing any specific budget expenditures above the level of such expenditures contained in the proposed budget specified in Section (b) of this resolution, or would have the effect of reducing any specific revenues below the level contained in the proposed budget specified in Section (b) of this resolution, unless such motion or amendment makes at least an equivalent reduction in other specific budget outlays, identifies an equivalent increase in other specific revenues, or an equivalent combination thereof, and

(iii) such motion or amendment is not provided in writing electronically or in hard copy to all members of Council and the City Manager or Chief Financial Officer at least 7 days before the first budget work session to consider such motions or amendments (the preliminary add-delete work session), or discussed at the preliminary add-delete work session to be considered at the final add-delete work session.

(2) In the Alexandria City Council, any appropriation from the Fund Balance or any like account beyond that proposed in the Manager's proposed budget shall require an affirmative vote of five Council Members.

(3) In the event that the City Manager recommends final revenue technical adjustments that result in a net increase or net decrease from the revenue estimates specified in section (b) of this resolution, the net change in the revenue estimate shall be reflected as a change in the proposed appropriation from the Fund Balance. As specified in Section c (2), any appropriation from the Fund Balance beyond that proposed in the Manager's proposed budget, including the net effect of final revenue adjustments, shall require an affirmative vote of five Council Members.

Section (d) Expiration -- The provisions of this resolution shall expire with the expiration of the term of this City Council.

ADOPTED: 11/10/2009

William D. Euille Mayor

ATTEST:

Jacqueline M. Henderson, MMC City Clerk