

City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 30, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: FY 2011 CURRENT SERVICES BUDGET ESTIMATES

The General Fund cost of maintaining the current level of City and Schools services in FY 2011 is estimated to be \$552.8 million, an increase of \$22.8 million, or 4.3% from the FY 2010 approved budget. The following table shows the total General Fund budget including City operating, cash capital, debt service, transit subsidies, and the Schools transfer.

GENERAL FUND EXPENDITURES (in millions of \$)	FY 2010 Approved Budget	FY 2011 Current Services	\$ Chg	% Chg
City Operations	307.6	314.3	6.7	2.2
CIP-related Expenditures				
Cash Capital	4.4	4.0	-0.4	-9.1
Debt Service	37.4	38.4	1.0	2.7
Transit Subsidies	16.0	17.3	1.3	7.9
Total City Managed Funds	349.4	374.0	8.6	2.4
Schools Transfer	164.6	178.8	14.2	8.6
Total General Fund	530.0	552.8	22.8	4.3

The largest portion of the \$22.8 million increase is a \$14.2 million, or 8.6%, increase in the Schools transfer. The most significant reasons for the increase are declining State sales tax and American Recovery and Reinvestment Act (ARRA) revenues, increasing enrollment, employee benefit rate increases of 13% in health insurance and 4.5% in retirement, and the cost of merit pay increases implemented mid-year in FY 2010 being funded for a full year in FY 2011. More detailed information on the Schools increase will be provided by Schools staff.

Transit subsidies increase by \$1.3 million due to an estimated 9.1% increase in Washington Metropolitan Area Transit Authority (WMATA) and DASH subsidies based on historical, trends and a 5% increase in the Virginia Railway Express (VRE) subsidy. Capital Improvement Program (CIP) related expenditures increase by \$0.6 million due to a \$1.0 million increase in debt service offset by a \$0.4 million in cash capital as planned in last year's CIP plan.

The remaining \$6.7 million increase in general City operations can be attributed to the following factors:

Cost savings (\$1.5 million)

- Personnel costs would decrease by \$1.1 million as a result of new employees entering the workforce at lower steps than their predecessors.
- Comprehensive Services Act (CSA) costs in the Department of Human Services (DHS) are estimated to decrease by \$0.3 million due to cost containment measures undertaken by City staff.
- The removal of FY 2010 one-time funding items from the budget saved \$0.1 million in FY 2011.

Cost Increases (\$8.2 million)

- Restoration of merit/step pay for City employees for FY 2011 would cost \$2.8 million. (Schools employees are scheduled to receive a merit/step increase on January 1, 2010). City employees received no merit/step increase in FY 2010.
- City employee retirement benefit rates increased by 2% at a cost of \$1.7 million. (This estimate is preliminary and subject to change.)
- Vacancy savings decreased by \$1.1 million as a result of 74 vacant positions being eliminated in the FY 2010 budget.
- Vehicle depreciation costs increased by \$0.7 million due to the cyclical nature of vehicle replacement schedules and increasing costs for trucks and equipment replacement.
- Health insurance benefits rates for City employees are estimated to increase by 5% at a cost of \$0.4 million if employee cost sharing is not increased. Employees currently pay for at least 10% of cost. Increasing that share is among the options that could be considered to reduce General Fund expenditures in FY 2011. (This estimate is preliminary and subject to change.)
- Lease costs for City office space and other facilities increased by \$0.4 million.
- Information Technology Services (ITS) costs for maintaining broadband internet connectivity, new VOIP telephone systems, and the Institutional Network (I-Net) increased by \$0.4 million.
- Other Post Employment Benefit (OPEB) costs increase by \$0.2 million according to previously approved plans to provide 100% of the annual required contribution to meet future liabilities.
- Supplies and equipment costs are estimated to increase by \$0.2 million.

- Fees for professional services are estimated to increase by \$0.2 million. This increase is due primarily to increases in audit and banking fees in Finance and increased mowing contract costs in Recreation, Parks, and Cultural Activities (RPCA).
- Household hazardous waste collection costs are estimated to increase by approximately \$100,000 due to the cost of disposing hazard materials.

Due to current deflation and relatively stable fuel and utility prices, no price increases have been assumed in the City's current services budget for fuel, utilities, or contracts that are indexed for inflation.

At this point, the FY 2011 current services budget should be considered a rough estimate. OMB and the departments may update some expenditures between now and the City Manager's budget presentation in February. Some variations from these estimates may occur in the Proposed Budget (particularly in the areas of employee benefit rates, fuel prices, utilities costs, and inflation if any significant changes occur in the coming months).