

# City Manager's Message

## **City Manager's Message**

February 16, 2010

To the Honorable Mayor and Members of City Council:

**FY 2011 will be the third year of unprecedented fiscal challenges facing the City**

I am pleased to present City Council with the Proposed Fiscal Year 2011 Operating Budget and the Proposed FY 2011-2020 Capital Improvement Program.

**We can expect at least 3 and maybe 4 more years of difficult financial prospects**

FY 2011 will be the third year of unprecedented fiscal challenges facing the City of Alexandria. We can expect at least 3 and maybe 4 more years of difficult financial prospects calling for significant spending restraint. For this reason, we should not rely on expedient, short term fixes to try to solve a long term budget problem. We also need to focus on our strategic goals and objectives in the face of these financial difficulties and not abandon them.

**A budget in accord with City Council guidance of \$534.1 million**

For the FY 2011 budget I am proposing a budget in accord with City Council guidance of \$534.1 million, which is 1.5% less than the peak budget of \$542.0 million two years ago and only 0.8% more than the previous FY 2010 budget. Essentially, we have followed Council guidance to hold the line on the budget coming out of the worst recession since the end of World War II and during the most difficult economic circumstances facing the City in more than 30 years.

**1.5% less than the peak budget of \$542.0 million two years ago**

In building this budget we faced a \$44.2 million budget gap. The gap was "caused" by a decline in revenues under current tax rates and policies of \$20.9 million and an increase in expenses to provide current services of \$23.3 million (\$9.1 million for City cost increases and \$14.2 million to meet School cost increases and School revenue declines from other sources).

**0.8% more than the previous FY 2010 budget**

**A \$42 million budget gap**

To close this gap, the budget proposes a net decrease in spending from this current services baseline of \$19.2 million; and an increase in revenues of \$25.0 million through a real estate tax rate increase of 7.0 cents, which raises \$21.4 million, increases in City fees and service charges of \$1.0 million and increases in other financing of \$2.6 million.

**To close gap, a net decrease in spending of \$20 million; and an increase in revenues of \$22 million**

**Funds managed by the City increase 0.2%**

The Proposed FY 2011 General Fund Operating Base Budget increases 0.8% from the FY 2010 Approved Budget. In accord with City Council guidance, funds managed by the City increase only 0.2% and those funds transferred to the Alexandria City Public Schools (ACPS) increase 2.0%. An attachment to this message lists how this proposed Operating Budget and Capital Improvement Program complies with the guidance provided by City Council last November in Resolution #2368.

**Funds transferred to the Alexandria City Public Schools (ACPS) increase 2.0%.**

# City Manager's Message

## Summary of FY 2011 General Fund Operating Budget

(\$ in millions)

	FY 2010	FY 2011	\$ Change	% Change
City Operations	\$307.6	\$308.4	+\$0.8	+0.3%
Debt Service and Cash Capital	\$41.8	\$41.9	+\$0.1	+0.2%
Transit Subsidies	\$16.0	\$15.9	-\$0.1	-0.6%
Subtotal City	\$365.4	\$366.2	+\$0.8	+0.2%
ACPS transfer	\$164.6	\$167.9	+\$3.3	+2.0%
<b>Total</b>	<b>\$530.0</b>	<b>\$534.1</b>	<b>+\$4.1</b>	<b>+0.8%</b>

City Departments began their work on budget proposals in June of 2009. Over the past 8 months we have diligently reviewed all proposals for spending reductions, revenue increases and service enhancements. This budget contains some significant service reductions, eliminates funding for 67 City positions (in addition to the 119 positions reduced last year), and delays important investments in capital projects and other needed operating service enhancements until the economic condition improves and the City's tax base recovers. In order to avoid almost any growth in the City budget due to workload growth, normal cost pressures, and other established City policies, a wide range of spending reductions are proposed in almost all areas of the budget. The result is a growth rate of only 0.2% for City programs.

Total taxes paid by residents, visitors and businesses will increase by only a very small amount --\$1.9 million or 0.5% in the base budget. In order to address a part of our \$44 million budget gap, the real estate tax rate increases by 7 cents. Due to declining assessments, 34% percent of homeowners would pay less real estate taxes than last year even with a 7 cent tax rate increase and 66% more. The average homeowner would pay \$8.58 more a month or \$103 more a year (+2.4%). Commercial property "averages" are not very meaningful, but overall the real estate taxes on office property, even after a 7 cent tax rate increase, will decrease by 5.4%; hotel property taxes would decrease by 14.8%; general commercial property (retail) taxes would decrease 0.5%; shopping center property taxes would decrease by 4.5%; and warehouse property taxes would decrease by 7.4%.

**Significant service reductions**

**Eliminates funding for 67 City positions (in addition to the 119 positions reduced last year)**

**Delays important investments in capital projects**

**Delays other needed operating service enhancements**

**Total taxes paid by residents, visitors and businesses will increase by only--\$1.9 million or 0.5%**

**Real estate tax rate increases by 7 cents.**

**34% percent of homeowners would still pay less real estate taxes and 66% more**

**Average homeowner would pay \$8.58 more a month or \$103 more a year (+2.4%)**

**Commercial real estate taxes would decline**

# City Manager's Message

**No other tax rate would be raised**

**Increases in user fees and service charges are modest, yielding only \$1.3 million more**

**Asset sales are proposed to raise \$1.15 million**

**Maintains public safety overall. Targeted reductions in some areas and strategic, targeted increases in others**

**Of the few increases proposed, most of the funds are in the public safety area**

No other tax rate would be raised. The proposed increases in user fees and service charges are modest, yielding only \$1.3 million more in total revenue. City asset sales are proposed to raise \$1.15 million for capital program purposes. If more asset sales materialize, those funds would be dedicated to the capital improvement program.

Let me summarize some of the most notable changes proposed in the budget and their effects by the seven new strategic plan goal areas – as they are currently being developed by City Council.:

## Public Safety

- We will maintain public safety overall, although there are targeted reductions in some areas and strategic, targeted increases in a few other public safety programs. Of the few increases I am proposing in this budget, most of the funds are in the public safety area.
- The Police Department budget is reduced by \$1.5 million in measured, highly targeted reductions that should not measurably affect public safety. We have reduced the number of officers assigned to the Community Policing (COPs) program in two neighborhoods, the number of officers assigned to the street crimes, vice and domestic violence units, overtime costs, costs of various administrative activities, and equipment and supplies.
- Initial funding of \$318,300 for a new Department of Emergency Communications, which will combine the Fire and Police communication units into a single organization, and eventually locate all staff in one location.
- An increase of \$385,823 for increased emergency medical services staffing to improve response times during peak periods and \$174,000 for improvements in administrative services in the Fire Department to improve the overall effectiveness and efficiency of the department.

**Of the \$4.1 million total increase proposed, \$3.3 million (86%) goes to the operating transfer to the Alexandria City Public Schools (ACPS)**

**Should protect Schools from severe reductions in service levels**

**Save \$1.2 million in the costs of the Comprehensive Services Act through efficiencies**

**City's budget for the poor, aged, sick, disadvantaged youth, very young and less fortunate Alexandrians declines about \$0.6 million**

**Additional reductions in state funding are being planned of at least \$1.0 million and probably more**

**Close a mentor home for older youth**

**Decrease funding for affordable housing**

## Public Education and Youth

- Of the \$4.1 million increase proposed in the total budget, \$3.3 million (86%) goes to the operating transfer to the Alexandria City Public Schools (ACPS) for our public school system.
- This 2.0% increase in the City's contribution to public education, absent further, significant decreases in State aid, should protect our Schools in Alexandria from severe reductions in service levels. Few, if any, other jurisdictions in the region can make the same statement. The Superintendent's proposed budget requests a slightly higher (about \$700,000) amount from the City, but this budget and his are not that far apart.

## Caring Community with Rich History and Culture

- The City will save \$1.2 million in the costs of the Comprehensive Services Act program as a result of program changes that bring our children home to receive community-based foster care services instead of more expensive, and often less effective, residential treatment outside the City.
- The City's budget for the poor, aged, sick, disadvantaged youth, very young and less fortunate Alexandrians declines about \$0.6 million in programs provided by the Departments of Health, Human Services, as well as the mental health, intellectual disability and substance abuse programs administered by the Community Services Board. Additional reductions in state funding are being planned of \$266,000 for CSB programs, \$256,000 for Health Department programs, and \$473,000 for Department of Human Services programs. More state reductions are probably coming in this area as the General Assembly deals with a very large budget deficit in FY 2011.
- We will close a mentor home for older youth. The youth will be relocated to other residential settings and the home sold for an estimated \$1.1 million to be used for one-time capital project funding. If other asset sales materialize, we will use those funds to reduce the cash capital contribution to the CIP accordingly.
- We will decrease funding for affordable housing from the previously dedicated portion of the real estate tax saving \$0.5 million. This will slow down our ability to expand affordable housing opportunities for many Alexandrians.

# City Manager's Message

**Maintains grants to social service non-profits at FY 2010 levels**

- The budget maintains grants to social service non-profits at FY 2010 levels.
- Cutbacks are being made in the activities and service levels at City libraries, museums and recreation centers totaling \$1.0 million. This includes some reductions in the hours of service availability at all four libraries and the materials budget.

**Cutbacks in the activities and service levels at City libraries, museums and recreation centers**

## Financial Sustainability, Efficiency, Community Oriented and Values its Employees

**Prudent, conservative budgeting practices**

- Prudent, conservative budgeting practices are necessary not only to maintain our AAA/Aaa bond ratings, but also to maintain our long term financial sustainability.

**Limited use of fund balance and other one-time sources of revenue**

- The budget proposes only a limited use of fund balance and other one-time sources of revenue (\$5.0 million) to fund the operating budget.

**Adequate financial reserves**

- The City will maintain adequate financial reserves as required by our own financial policies as well as to meet the scrutiny of the bond rating agencies and preserve our AAA/Aaa bond ratings.

**Compensation and benefits at fair but not generous levels**

- The budget continues to provide adequate funding to the trust funds that are invested to provide future promised benefits for retirement, health and life insurance to City retirees.

**No market rate adjustment for City Employees**

- Compensation and benefits for our dedicated City employees are budgeted at fair but not generous levels.

**No pay upgrades for positions found to be below the average pay levels provided by our comparator jurisdictions**

- There will be no market rate adjustment for all City and School employees for the third straight year.
- Although previous benchmark surveys found some City salaries behind those of the region, no pay upgrades will be funded for positions found to be below the average pay levels provided by our comparator jurisdictions.

**Current City employees will be required to pay a higher minimum share (13% vs. 10%) of the cost of health insurance premiums**

- Also, current City employees will be required to pay a higher minimum share (13% vs. 10%) of the cost of health insurance premiums. New employees will pay the 20% minimum immediately. These changes will save the City approximately \$750,000 in FY 2011. Also, a new plan is in place to increase the current employee minimum share to 20% by FY 2013.

# City Manager's Message

One of the few jurisdictions in the region to propose that employees eligible on a merit basis receive step increases

**Do not propose employee furloughs**

**67 full and part-time City positions will be eliminated or unfunded**

**Wide variety of reductions administrative and management service areas totaling \$2.5 million are proposed**

**\$1.2 million reduction in City Council's contingent reserves**

**Slow the City's contributions to the trust fund for "other" post employment benefits**

**Additional \$255,000 to improve our capacity to better assess real estate values**

- On the positive side, the City will be one of the few jurisdictions in the region to propose that employees eligible on a merit basis receive step increases ranging from 2.3% to 5.0% of salary.
- The average employee with a salary of \$65,145 receiving a 3.5% merit-based step increase would have a \$2,280 raise and pay \$192 to \$868 more in health care premiums depending on which health care plan they participate in.
- We do not propose employee furloughs as in some other jurisdictions in the region. Furloughs are back door pay cuts that have undisclosed and unintended consequences on services to the public. More permanent, recurring reductions in spending have been proposed instead.
- A total of 67 full and part-time staff positions will be eliminated or unfunded throughout the City government, amounting to about 1.7 % of the city workforce (on top of 119 positions reduced in the FY 2010 budget for a 4.7% decrease over 2 years). Seventeen of these positions are currently filled, but we will try to place as many as possible of people in these positions in other City jobs.
- We are also proposing a wide variety of reductions targeted in various administrative and management service areas totaling \$2.5 million. These include reductions in Citizens Assistance, Human Rights, Information Technology Services, Communications, Finance, Human Resources, and General Services.
- The budget contains a \$1.2 million reduction in City Council's contingent reserves, leaving \$300,000 in this account for possible future use to meet unexpected events or provide funds for future program changes.
- We would slow the City's contributions to the trust fund for "other" post employment benefits (health care and life insurance) and reduce funding from General Fund revenues by \$1.0 million to \$1.7 million.
- The budget provides an additional \$255,000 to improve our capacity to better assess real estate values, a process that is more difficult during these trying times, particularly for commercial real estate, and defend those assessments before the Board of Equalization and the Courts.

# City Manager's Message

## Economic Development

- The budget proposes to continue \$3.9 million in funding for the three economic development agencies at the current levels (including the contingent reserves provided in FY 2010 in their base budgets). These three organizations are the Alexandria Convention and Visitors Service, the Alexandria Economic Development Partnership and the Small Business Development Center.
- Stable funding of \$185,000 is also provided for the Marketing Fund.
- The proposed budget reflects the last and second step in phasing out funding for the Eisenhower Partnership in order to put the Partnership on the same footing as other neighborhood business partnerships that focus on specific geographic areas of the City.
- The proposed budget reduces funding for First Night Alexandria from \$47,500 to \$35,000.
- The budget proposes approximately \$316,000 in reductions in the Department of Planning and Zoning through the elimination of 2 positions in small area plans and plan implementation, and a \$65,000 reduction of planning consultant costs. As a result, only one major small area plan study can be initiated in FY 2011, and implementation of existing small area plans will be slowed.

## Transportation and Transit

- Various expenses for sidewalk and bus shelter cleaning, traffic calming and parking meeting maintenance, and sidewalk repair are reduced about \$237,000
- Four development review positions are eliminated saving about \$276,000
- Paratransit subsidies are reduced by about \$102,000 by increasing fares
- DASH bus subsidies are reduced by a combination of fare increases and reductions in low volume routes

## Capital Improvement Program

The base Capital Improvement Program (CIP) will focus most available resources allowable under Council guidance on maintaining existing City and School facilities and public infrastructure. The prioritization process included funding most projects that involved repairs, renovations and upkeep of public facilities and infrastructure. Some major renovation projects had to be delayed to later years, but largely all those projects have been planned for some time in the decade. A limited amount of resources within the allowable funding levels are planned for a small number of new facilities and expanded or improved infrastructure on a staggered basis over the next 10 years. Total City funding available over 10 years is \$612.4 million.

**Continue funding for the three economic development agencies at current levels**

**Funding for the Eisenhower Partnership is eliminated**

**Reduced funding for First Night Alexandria**

**Reductions in the Departments of Planning and Zoning and Code Administration**

**The base Capital Improvement Program (CIP) focus on maintaining existing City and School facilities and public infrastructure**

**Delayed Public Safety Projects**

# City Manager's Message

## Delayed or Reduced School Projects

### Delayed Public Safety Projects

- Fire Station 203 improvements (Cameron Mills) are delayed until FY 2014/2015.
- Fire Station 207 renovations (Duke St.) are delayed until FY 2016/2018.
- Fire Station 206 renovations (Seminary Rd.) are delayed until FY 2017/2018.
- Fire Station 205 renovations (Cameron Street) are delayed until FY 2019/2020.

### Delayed or Reduced School Projects

- No funding is provided for reconstructing the Jefferson Houston Elementary School, which the ACPS proposes to do through a public-private partnership arrangement with a private developer outside of the CIP process.

### Delayed or Reduced Recreation and Parks Projects

- The previous CIP contained over \$20 million to rebuild the Chinguapin Recreation Center. Instead, the CIP proposes \$7 million for necessary repairs and renovations at Chinguapin over 10 years.
- The CIP provides no new funding for additional artificial turf fields until FY 2017 (other than two new fields already programmed in last year's CIP (at Francis Hammond Middle School and Ben Brenman Park and 2 fields to be opened at Witter Field using Woodrow Wilson Bridge settlement funds) In 2017 and each year after that through 2020 one additional artificial turf field will be built and one already in use will have the turf surface replaced.
- The CIP postpones City marina seawall and utility upgrades until FY 2016 and 2017. The Windmill Hill bulkhead repair project is delayed until FY 2016 and 2017.
- Funding for the planned renovation of the Warwick Pool is eliminated. This facility will be decommissioned when ordinary repairs are no longer able to keep it useable.

## Delayed or Reduced Recreation and Parks Projects

### Delayed or Reduced Transportation Projects

- DASH bus fleet replacement and expansion funding is both reduced and delayed.
- The reconstruction of the streets near the Madison/Montgomery intersection is delayed until FY 2017/2018.
- The Potomac Yard High Occupancy Transit Way needs to be funded either by Federal grants or funded by dedicated transportation tax revenues from commercial real estate. No funding is provided from existing City resources.

## Delayed or Reduced Transportation Projects

# City Manager's Message

## Delayed or Reduced Information Technology Projects

## First year of the CIP will provide \$82.3 million in City funding

## Over 10 years the CIP will provide \$612.4 million in City funding

### Delayed or Reduced Information Technology Projects

•Other than the replacement of police and fire emergency communication and dispatch systems and the human resource and payroll system, virtually no significant new technology system is programmed for funding this decade. The focus of the remaining IT capital funds is on maintenance and required upgrades to the existing IT infrastructure.

The first year of the CIP will provide \$82.3 million in City funding. Highlights include:

- \$44.9 million would go to the construction of the new Police Department headquarters facility.
- \$15.2 million would go to sanitary sewer repairs and upgrades.
- \$13.6 million would go to the Schools, including \$7.6 million to meet immediate capacity needs.
- \$7.0 million would go to meeting our capital commitment to the Washington Metropolitan Area Transit Authority.
- \$4.9 million would go to information technology system development and infrastructure maintenance, including \$2.15 million for completion of a new human resources/payroll system.

Over 10 years the CIP will provide \$612.4 million in City funding. Highlights include:

- \$106.5 million for School maintenance needs and \$53.7 million for projects to increase School capacity.
- \$54 million to expand current facilities to meet immediate needs for additional capacity at selected schools in the City in FY 2011 and FY 2012 and to completely rebuild two elementary schools, one in FY 2012 and FY 2013 and one in FY 2015 and FY 2016.
- \$47 million for completing the funding for the new Police Headquarters facility currently under construction in FY 2011 and FY 2012, and
- \$43 million for one new fire station in the immediate future in the Eisenhower Valley in FY 2011 and FY 2012 and 4 expanded fire stations, albeit delayed to later fiscal years in the decade.

# City Manager's Message

- \$42.6 million for fire station replacements or expansions.
- \$35 million for a completely new fire and police emergency communications and dispatch system funded over 4 years – FY 2011 through FY 2014.
- \$18 million for essential upgrades to the internal heating and air conditioning systems at City Hall,
- \$12 million for replacement of the Windmill Park bulkhead and dredging of the waterfront marina, and
- \$10 million for replacement of artificial turf fields at several locations.

## Three additional options for Council consideration proposed

We are proposing three additional options for Council consideration above the base operating budget and CIP as allowed by the Council budget resolution. In our opinion the case for these improvements is strong. The question is not so much whether these public infrastructure systems need to be significantly enhanced, but rather when and exactly how to pay for them.

### •Storm Water Management Fee

#### • Storm Water Management Fee

Increase storm water management capacity and protect our region's waterways and the Chesapeake Bay by creating a Storm Water Management Utility and impose a Storm Water Management fee. This fee would cost the average homeowner \$48 a year. Nineteen million dollars in improvements would be funded over 10 years by this fee and additional borrowing secured by this fee.

### •Increase in Sanitary Sewer Usage Fee

#### • Sanitary Sewer Usage Fee

Meet sanitary sewer capital and operating needs, increase the sanitary sewer usage fee (to \$1.25 per 1000 gallons of water used from \$1.00). The average residential user would pay \$17.50 more a year – a 25% increase. These funds and the borrowing it will allow would provide \$13 million more over the next 10 years. Without these funds we also may have difficulty providing capacity for new development and meeting Clean Water standards. The City has committed as a policy to having users pay for these improvements through this fee and a fee imposed on new development. This fee increase will continue that commitment.

### •Transportation Add-on Tax on Commercial Real Estate

# City Manager's Message

- Transportation Tax on Commercial Real Estate

Provide for much needed transportation improvements, with a 3 cent tax on commercial real estate for this purpose. Although no additional real estate tax on commercial properties for transportation purposes is included in the base budget per Council guidance, a 3 cent tax is proposed as an option, which is allowed by the Council resolution. This fee would provide for the capital and related operating costs of high capacity transit corridors, peak period bus service, METRO station improvements, and alternative transportation initiatives. Without such a tax, these improvements cannot be funded from existing available revenue sources.

We are forecasting 3 and maybe 4 more years that will require difficult budget decisions. Our mid-range forecast for FY 2012 is a shortfall of \$22 million and the deficit climbs by about \$10 million to \$12 million each year through FY 2015 to an annual shortfall of around \$55 million, after which it begins to decline slightly each year. Considerable uncertainty still exists. In FY 2012 alone the range of uncertainty is from a worst case forecast of a \$35.7 million deficit to a best case forecast of a \$7.8 million deficit.

We are not alone in facing these challenges. All of the local governments in our region, and indeed the entire nation, face similar, if not more severe financial difficulties. Through this period our strategic objective is to have an operating budget and capital improvement program that is structurally balanced for the long term and to improve continuously our ability to manage City resources effectively and efficiently.

It is important that we work together to deal with this difficult financial situation responsibly with a long term perspective and strategy. This Operating Budget and Capital Improvement Program does so by maintaining both a long term focus on financial sustainability and the high quality of life enjoyed by Alexandrians.

Sincerely,

James K. Hartmann

City Manager

**We are forecasting 3 and maybe 4 more years that will require difficult budget decisions**

**We are not alone in facing these challenges**

**Important to work together to deal with this difficult financial situation responsibly**

**Maintain a long term perspective and strategy**

### **Compliance with City Council Guidance in Resolution #2368**

#### **Compliance with City Council Guidance in Resolution #2368**

This Proposed Operating Budget and Capital Improvement Program is in accord with all guidance provided by City Council in Resolution #2368.

- The operating transfer to the Schools is \$167.9 million or a 2.0% increase.
- The remaining operating budget administered by the City, including funding for capital projects, does not exceed the \$366.2 million limit.
- City staffing levels do not increase. In fact, City staffing decreases by 67 positions a 1.7% decrease.
- Cost saving measures and efficiencies have been identified and proposed in the amount of \$9.7 million in City programs.
- Funding for merit based step increases for eligible employees and an additional step at the top of grade is provided.
- No funds are provided for a general market rate adjustment for City and School salaries.
- The CIP is financed by no more pay-as-you-go cash capital from current revenues and borrowings from new debt issuances than that planned in the previously approved CIP through FY 2015.
- The CIP identifies specific projects that can be funded and those that cannot be funded under this allowable level of financing through FY 2020.
- The use of \$11 million in FY 2010 surplus generated by a real estate tax rate increase of 7 cents is designated for the CIP in future years.
- The sale or lease of capital assets is proposed in the amount of \$1.2 million and is directed to fund the Capital Improvement Program. Additional asset sales may be possible.
- A total of \$1.3 million in additional user fees and service charges are proposed as necessary and appropriate, partially offset by a decline of \$0.1 million in the residential refuse collection fee (equivalent to a \$4 a year reduction for the residential customer from \$331 to \$327). No tax rate increases are proposed except for the increase in the real estate tax rate.

# City Manager's Message

- A storm water utility fee is proposed to provide additional funding for necessary expansion of storm water management capacity and increased operating costs.
- An increase in the sanitary sewer fee is proposed for Council consideration above the CIP base budget to provide additional funding to meet the need for sanitary sewer improvements.
- A new tax is proposed on commercial real estate to provide additional transportation infrastructure and capacity.
- An option for either a voluntary or mandatory use of larger recycling bins in the residential refuse collection program is proposed for Council consideration to increase recycling rates. The mandatory option would cost \$9 a year more for each residential customer (a net increase of \$5 per year from \$331 to \$336 or 1.5%).
- The Multi-Year Revenue and Expenditure Forecast Scenarios section contains an analysis that provides
  - a detailed estimate of the impact in FY 2012 of any recommended expenditures in the FY 2011 base budget,
  - 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 of the resolution which allows options for additional operating and budget expenditures above the base budget, and
  - 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.

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