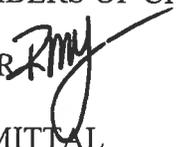


City of Alexandria, Virginia

MEMORANDUM

DATE: FEBRUARY 14, 2012
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: RASHAD M. YOUNG, CITY MANAGER 
SUBJECT: FY 2013 PROPOSED BUDGET TRANSMITTAL

The proposed Fiscal Year (FY) 2013 General Fund operating budget for the City of Alexandria of \$585.6 million addresses the guidance presented by City Council in the fall, provides for the core service needs of residents, business owners, and visitors and meets the requested needs of the Alexandria City Public Schools (ACPS). The City is very fortunate that we are continuing to see an economic recovery that enables us to be cautiously optimistic. The willingness to make difficult choices and continue strong fiscal policies over the past five years helped build the foundation for the City's comparably strong fiscal condition and provides the ability for Alexandria to maintain core services, fund new operations and initiatives approved by City Council, and provide a modest pay increase for City employees, without the necessity of a real estate tax increase. In the fall, City Council held a series of work sessions during which staff presented a projected shortfall of City operations alone of \$14.4 million. Not included in this amount were similar increases in funding for current service needs for the school system and transit operations of approximately \$7.8 million. In order to provide the same level of service at the same real estate tax rate as 2011, we began the budget decision process with the need to identify additional resources of \$22.2 million.

Each year when the City begins the budget process, we calculate what our estimates for revenues are based on current policies and identify the expenditure needs to fund our current programs and services with our existing workforce. Unfortunately, rising personnel costs, maintenance agreement obligations and equipment replacement needs result in increased expenditures for providing the same level of service. In addition, each year, new policy decisions and the desire to enhance and expand service cause the need for additional resources in the budget.

Although revenues are increasing by \$18.7 million, or 3.3%, they are not increasing at the same level as our costs. The difference between our expenditure needs to maintain current services

and fund new policy initiatives and the new revenue growth compared to the prior year represents a budget shortfall that has to be addressed through increases in revenue, or reductions in spending.

A portion of the resources needed to address that gap was provided by \$9.0 million more than anticipated growth in revenues, primarily real estate property taxes, as compared to our initial estimate. The modest growth in real estate assessments of 3.4% results in an increase in the average residential tax bill in FY 2013 of \$52, or 1.2%. In addition, the growth in real property will provide a revenue surplus of \$7.5 million in FY 2012. I am proposing to use some of this surplus for one-time initiatives in FY 2013, as well as a capital reserve to fund future anticipated cash capital requirements. The one-time initiatives include a Landmark/Van Dorn land use study (\$100,000), an Eisenhower West transportation study (\$100,000), a Waterfront Union Street traffic congestion study (\$300,000) and a \$100,000 contingency for additional Waterfront study needs, a public arts master plan (\$60,000), a data quality study of the City's real estate assessment information (\$75,000), and start-up money for an Old Town valet parking program.

In order to address the remaining shortfall, City Departments worked together throughout the fall as Strategic Plan Goal Groups to consider reduction options that would help to make up the shortfall and considered potential service reduction options totaling \$17.8 million. Of that amount, we are recommending \$6.8 million in expenditure reductions. Included in this reduction is the elimination of 27 City positions for a savings of \$1.7 million. Our Human Resources staff will begin working with affected employees to explore their opportunities both inside and outside the organization. Tradeoffs and reallocations were implemented throughout City operations, the School system and the Alexandria Transit Company (DASH) to meet the expenditure demands of new and existing services while minimizing the tax burden on residents and business owners in the City.

New Initiatives

The FY 2013 budget includes \$1.4 million in new funding initiatives. These initiatives include new staffing for implementation of priority capital projects such as the Waterfront, Landmark redevelopment, and Potomac Yard (\$309,000); additional staffing to enhance operational performance and increase accountability (\$236,000); destination advertising to increase tourism; an emergency planner in the Health Department (\$105,000); a new home-based youth therapist in the Department of Community and Human Services (\$46,000), and a City-wide ethics initiative (\$25,000). This budget also includes expanded DASH bus service planned for FY 2013 in the FY 2012 budget and funded by 2.2 cents of the real estate tax reserved for transportation improvements (\$1.0 million).

FY 2013 Operating Budget

The FY 2013 Proposed General Fund Operating Budget is \$585.6 million, a 3.3% increase compared to FY 2012. The real estate tax rate for calendar year 2012 is proposed to remain at

\$99.8 per \$100 of assessed value. **No tax rate increases of any kind are proposed in this budget.** Fees and charges for services have been reviewed and adjusted when necessary to continue City Council's policy of full cost recovery.

The proposed appropriation for ACPS is \$180.7, an increase of \$5.8 million or 3.3%, and reflects the City Council guidance in which the transfer to the Schools for operating expenses increases at the same percentage rate as total General Fund revenues. My proposed budget for the ACPS fully funds the General Fund transfer request included in the Superintendent's proposed budget.

General Fund Revenues

Real estate tax revenue continues to be the primary source of funding for the City's General Fund Operating budget, providing 58% of total revenues. The total growth in real property tax revenue is projected to be 4.1%, from the FY 2012 budgeted amount of \$ 321.7 million to \$334.9 million estimated for FY 2013. Other sources of general fund revenue are growing at a very low rate or are flat compared to FY 2012. Two areas of modest growth are \$2.6 million in increased personal property tax revenue, \$1.1 million in increased business license tax revenue.

FY 2013 – 2022 Capital Improvement Program

The Capital Improvement Plan (CIP) proposes \$1.1 billion in expenditures for the next 10 years and \$99.0 million in FY 2013. It is funded by \$61.7 million in the operating budget for cash capital and debt service. This represents a \$2.6 million increase over the FY 2012 approved budget. The CIP prioritizes maintenance of existing facilities and infrastructure and funding for the new Fire Station. Some other examples of major projects included in the CIP are:

- A computer-aided dispatch system (\$15.0 million)
- Bus rapid transit and a new Metrorail station in Potomac Yard (\$279.0 million)
- Holmes Run greenway improvements (\$5.6 million)
- Waterfront open space acquisition and flood mitigation (\$1.8 million)
- Jefferson-Houston and Patrick Henry school replacements (\$84.1 million)
- Patrick Henry recreation center replacement (\$6.1 million)
- Fire station renovations (\$35.3 million)
- Sewer capacity expansion (\$73.0 million)

City Council Guidance and the Strategic Plan

Each year City Council provides guidance in the fall to help the City Manager propose a budget that reflects City Council's expectations for the coming fiscal year. City Council has also directed that City staff consider the Strategic Plan when developing, implementing or reviewing the delivery of public services, and in presenting request for fiscal resources. The FY 2013 budget reflects the guidance set by the public and City Council in the Strategic Plan revised and

adopted in June 2010. The seven goals of City Council, as well as many objectives, are reflected in the funding decisions presented in the FY 2013 budget.

Objective – Expand fire and injury prevention activities, in concert with City and other partners, to help reduce the community’s risk of emergency incidents arising from all hazards.

City Council’s guidance provided a clear message that the provision of public safety services is a core function of the city and that services should be preserved. In 2014, the City will be expanding fire protection services with a new Fire Station in the Eisenhower Valley. The FY 2013 budget includes funding to hire and train the individuals who will provide this core service. The rate of growth of the City’s budget for all public safety activities is 4.7%.

Objective – Increase the vitality and economic success of the City Waterfront and King Street Corridor while maintaining and strengthening the City’s commitment to historic preservation and neighborhood quality of life.

In January 2012, City Council approved the implementation of a new Waterfront Plan. The proposed budget includes several new initiatives to begin work on this historic transformation. Recognizing the limitations of resources available for new initiatives, I am proposing to use FY 2012 surplus revenues for several one-time costs. The vibrancy of King Street remains a high priority and resources have been included in the proposed budget to maintain and enhance this vital corridor, including Waterfront plan implementation funds and staffing, a request for proposals to sell or lease City owned parking lots on King and Patrick Streets, development of a parking smartphone application, creating a on Old Town valet parking program, accepting credit cards at City owned parking garages, and extending holiday lighting through March. Despite the slow economic recovery, neighborhoods throughout the City are in various stages in the planning and redevelopment process. I am proposing funding to address land use and transportation planning in both the Landmark/Van Dorn and Eisenhower Valley areas of the City.

As we see commercial construction projects taking place throughout the City, it is important to keep in mind the revenue generated by the permitting process. In FY 2011, we established a Code Administration Enterprise Fund to more closely align the revenue and services associated with building permits. By dedicating the revenue generated from permits, we were able to dedicate staff to streamlining the permitting process. Initially, the revenues were only sufficient to cover the direct costs, but as the economy continues to improve, we are projecting sufficient revenues to cover the costs of more of the indirect support associated with permitting, including payment processing and database administration.

Objective – Maintain a competitive compensation program that attracts, retains and motivates a work force that can deliver quality services and programs to the community, reflects the diversity of that community, and provides for the fair and equitable treatment of all those employees.

My proposed FY 2013 operating budget recognizes the value of our employees and the competitive market that exists in this region for a talented workforce. Based on City Council guidance, this budget includes funding for a merit/step increase for all eligible employees. It also continues the final year of a multi-year plan to phase in a 20% minimum employee contribution for healthcare premiums and maintains the current policies guiding the employee retirement contribution rates. Based on recent study of the City's job classifications, it was determined that the salary scales for both General Government and Sworn Public Safety employees had fallen behind the market when compared to our neighboring jurisdictions, making it difficult for us to attract and retain our workforce. The FY 2012 Approved budget included the addition of one step and subsequently brought the Public Safety scale in line with the market. In FY 2013, I am proposing to bring the general pay scale more in line with the market by eliminating the two lowest steps and adding an additional step to the top of the schedule (and also providing compensation for public safety employees at the top of grade). This is the first of several planned initiatives to change the City's pay practices, including pay banding and a shift to a pay for performance system.

Intergovernmental Revenues

The same economic difficulties that are facing the City of Alexandria are also evident in other levels of government. The most significant impact for the City is lost federal revenue for housing programs. Although the appreciation in the City's real estate tax base provides additional resources in FY 2013 through the dedication of real estate taxes for affordable housing, the Office of Housing is estimating a reduction of \$1.2 million in CDBG and HOME revenues from the federal government. It is not possible at this time for these resources to be made up with general funds and there will be a reduction in loans for lower and moderate income residents and City employees to become home owners.

Although the lost revenue to the Office of Housing represents the largest service reduction, throughout City and Schools operations there are reallocations of resources to better serve the community and to provide funding to maintain core services throughout the City. The specific details of these decisions are described in the departmental section of this document. The focus of the FY 2013 Operating Budget and Capital Improvement Program is to maintain current services, including public safety, transportation, education and public infrastructure.

Next Steps

My proposed budget represents the beginning of the FY 2013 budget development process to be conducted over the next several months. Through work sessions, public hearings and countless tradeoffs and difficult decisions, City Council and the community will work together to identify an FY 2013 budget that will reflect the priorities of the City of Alexandria, balancing both core service needs with the need to continue the City's history of strong economic sustainability.