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The Honorable Mayor and Members of City Council:

As we prepare a budget for Fiscal Year (FY) 2014, the City of Alexandria continues to face an extremely difficult fiscal climate, not just locally, but also nationally. Uncertainty remains about the stability of our federal and State resources, and while the recession is behind us, the recovery process is moving slowly. The good news for the City is that our historically balanced approach to planning, careful financial management, and aligning our work with the City's Strategic Plan positions us well as we look ahead to the coming year. In the FY 2014 proposed budget, I have sought to maintain our core services, invest in targeted priorities, and create operational efficiencies wherever possible. I remain focused on achieving the outcomes desired by the community as stated in the City's Strategic Plan.

The budget for FY 2014 that I offer strikes a prudent balance between reductions in expenditure and revenue growth. The choices we have had to make to present you with a balanced budget have been difficult. We began the FY 2014 budget development process with a \$31 million funding shortfall. Simply stated, the cost of delivering services to our citizens exceeds the amount of revenue we currently receive. We have worked diligently to bring the budget into fiscal alignment while thoughtfully addressing rising enrollment in our public schools, needed investment in capital improvements, enhanced transportation and transit services, and employee compensation. Developing a budget that balances the cost of service delivery with the tax burden on our citizens necessarily requires some sacrifice from all.

**Budget Highlights**

For FY 2014, I am proposing a General Fund Operating Budget of \$626 million, an increase of 6.6% (\$38.7 million) from the FY 2013 approved budget. Within that budget, the operating budget transfer to Alexandria City Public Schools (ACPS) would increase by 3.3% (\$6 million) from last year's approved budget; the same as the growth for City operations, less debt service and cash capital (\$10.8 million). My recommendation includes both service cuts and tax and fee increases. As appropriate, I propose the investment of additional resources to help meet the goals of our Strategic Plan. The budget recommendations I offer in this document were carefully evaluated and assessed for their impact on long and intermediate-term outcomes of the City. Our

new and evolving performance management framework has guided how we consider the application of our resources.

## **Taxes and Fees**

The FY 2014 budget proposes a real estate property tax increase of 5.5 cents, or \$1.053 per \$100 of assessed value. I recommend a real estate property tax increase of 2.5 cents to balance the budget and I follow City Council's budgetary guidance by offering additional capital projects in the Capital Improvement Plan (CIP), which require an additional 3 cents on the real estate property tax rate. The motor vehicle personal property tax rate is proposed to increase 25 cents to \$5.00 per \$100 of assessed value, the first increase of this type that has been proposed in many years. Both the real estate property tax (at the 2.5-cent level) and the motor vehicle personal property tax rate increases are necessary to maintain funding for ACPS, transit, prior and current capital commitments (debt service and cash capital), and core City services.

Changes to the tax rates notwithstanding, many homeowners will see an increase in their residential real estate assessment. The average residential real estate assessment growth is 2.72%. When combined, assessment growth and tax rate growth will result in the average residential homeowner experiencing a tax bill increase of \$385 (assuming a 5.5 cent tax rate increase).

With regard to the motor vehicle personal property tax, for vehicles valued at \$17,999 or less, there will be no impact from the increased vehicle tax rate. However, if a vehicle is assessed above \$18,000, there will be an estimated increase of \$72 to \$110 annually.

This proposed budget includes other miscellaneous changes to our tax and fee revenue stream, including an increase in the tobacco tax, which is proposed to increase by 10 cents per pack to \$0.90 per pack. User fee increases, structured to align with the market and/or recoup the City's costs for providing a particular service, are recommended. These include changes to Fire Department permit and inspection fees, City parking meter hours, public parking garages, development fees and recreation and marina fees.

## **Expanded Capital Investments**

Based on Council Guidance, I have proposed a \$1.27 billion capital investment to fund our Capital Improvement Program (CIP) over the next ten years. Our total investment for the FY 2014 Capital Budget is \$83.1 million, representing an additional \$23.8 million (a 13.6% increase) from the prior year approved plan.

With an additional 3 cents (\$126.7 million) of capital investment funding per Council Guidance, capital projects to upgrade parks and recreation facilities, implement an aquatics plan, initiate a municipal fiber network, address additional school capacity and maintenance issues, and upgrade our transportation network are possible.

The proposed 10-year CIP includes initial funding to prepare for both sanitary and stormwater sewer infrastructure system needs related to compliance with federal and State mandates for Combined Sewer Overflow (CSO)/Municipal Separate Storm Sewer Systems (MS4). These increased needs are based upon federal and State requirements to separate our combined sanitary system, deal with sanitary sewer system capacity issues and separate requirements to further treat stormwater runoff and reduce pollutant loads to receiving water bodies.

The Council's capital funding priorities, school capacity needs, transportation infrastructure, and maintenance of existing facilities and infrastructure, are reflected in the budget proposal. To more precisely assess capital projects that merit funding consideration, a CIP Process Improvement Team was established during Fiscal Year 2013. The CIP Team developed a scoring tool to evaluate projects to be funded in the CIP based on how well they align with the Strategic Plan. This year, new projects for the FY 2014 Capital Budget were evaluated using the scoring tool, which incorporated Council Guidance. Next year, all projects in the CIP will be evaluated using the scoring tool and additional formatting changes to the CIP document will be made.

### **Commitment to Education and Transportation**

As City Council has directed, ACPS funding changes should be based on student enrollment. The proposed budget reflects the City's commitment to meeting the operating and capital needs of our schools, particularly as it relates to enrollment. I am proposing \$6 million in additional funding for ACPS' operating budget in FY 2014, and \$11 million in the FY 2014 Capital Budget for both capacity needs and maintenance needs. Of the 2.5 cent proposed increase in real estate taxes for operating needs, 70% would be used to pay for the proposed increase for ACPS.

To meet the increasing cost of our transportation commitments, the proposed budget also provides more operational funding for transit operations, including resources for the regional Metrorail and bus systems and for the City's local DASH bus system, representing a \$2.5 million increase from last year. The additional \$2.0 million in revenue from the motor vehicle personal property tax increase provides most of the funding for this increase.

### **Investments in Our Workforce**

The City's workforce is dedicated and committed to the superior delivery of public services. This budget proposal reflects upon the quality of our workforce and includes a full merit increase and merit-based payment for those employees at the top of the pay scale. The proposal also requests additional funding for expanded career ladders and for enhancing compensation for critical public safety positions where pay is not appropriately aligned with the market.

However, given our fiscal constraints, our ability to enhance the pay of our employees is limited and only made possible by decisions that we have made to recommend changes in our healthcare plan designs and pension program costs. Changes in healthcare plans will encourage greater accountability of our employees as they access the healthcare system and in turn, help us contain

upwardly spiraling costs that are unsustainable in the long term. Plan design changes include new deductibles that will cost employees more as their use of the healthcare system increases.

With regard to our employee pension programs, I am recommending that police and firefighters contribute 2% more to their pensions to share the burden of the increasing cost of their plan. This will bring their total contribution to 10% of their salary. Benefits related to the plan are unchanged. Requiring an increase in employee contributions to the pension for police and firefighter employees is similar to the requirement previously made of other employees who participate in the Virginia Retirement System (VRS). I remain open to options for the resolution of outstanding funding issues related to the Police and Firefighter pension program, and I am committed going forward to develop a cost sharing formula that ensures the plans long term viability.

Where this budget proposal offers service cuts, there are corresponding reductions in staff positions. I am proposing the elimination of 27.8 full-time equivalent positions, 14 of which are currently filled with an employee. For those employees affected by this reduction, I have directed staff to openly communicate their options, and if they are unable to be reassigned to other vacant positions within City government, to assist in their transition to the greatest extent feasible.

### **Performance Management: Our Accountability to Your Taxpayer Investment**

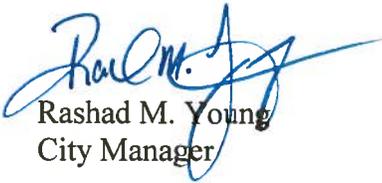
Quality performance management and accountability are key components of our City's Guiding Principles. It is our intention to use a data-driven process to operationally evaluate our work, analyze information that helps us deliver services more effectively, and look at outcomes as we make choices about how to allocate resources efficiently. Most importantly, we want to ensure that our taxpayers clearly understand how their investment in government services is delivering results for them.

It is important to have the structure and internal coordination in place to support organizational accountability. This coordination includes internal efforts within each department as well as inter-departmental collaboration with each other throughout the City. In order to achieve the goal of quality performance management, in FY 2013, the Office of Performance Accountability (OPA) was established. OPA is identifying and implementing tools that help the City approach performance management from an organizational perspective while aligning our outcomes interdepartmentally with the Strategic Plan. OPA recently launched AlexStat, an effort to collect and analyze data to help us make outcome-driven decisions and to improve the quality of our departmental operations. Over the next year, AlexStat and other results-driven processes will be used to shape the way we develop our budget, prioritize resources, and report on our progress toward achieving outcomes in the City's Strategic Plan.

## **Financial Sustainability for the Future**

As you deliberate over my proposed budget in the coming months, we will have a better understanding as to how the federal government's impending sequestration will affect our local economy, the revenues we receive from local taxes, and the direct support from the federal and State governments. If we lose direct local aid from the State and federal governments, we will have to reevaluate the programs that these funds support to determine if we should continue providing them. We will continue to monitor our revenue projections and collections very closely and adjust our spending accordingly in the event that our revenue assumptions do not materialize. We will keep City Council and the community informed on how the sequestration may affect the City and its residents and what steps the City government will take to ensure fiscal strength and prudence.

Sincerely,



Rashad M. Young  
City Manager