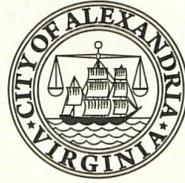


City Manager's Message



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March 3, 2015

Mayor Euille and Members of Council:

I am pleased to present my proposed operating and capital budgets for Fiscal Year (FY) 2016 (beginning July 1, 2015), and my proposed FY 2016 to FY 2025 Capital Improvement Program.

The most significant organizational responsibility of a city manager is to prepare and present a budget for City Council's consideration. As acting city manager during a regional economic downturn and sluggish revenue forecast – the eighth straight year of budgetary challenges – I was faced with especially difficult choices. While the following budget proposal is faithful to City Council's guidance and sustainably balanced in accordance with state law, I'm most proud that it stays true to our community's values and priorities and lays the groundwork for a better future.

Backdrop of Constraints

The context of this budget is an economy that is still only slowly recovering from recession and has not yet fully regained past job loss. The largest recent increases in private sector jobs are in the lowest-paying categories, and one of every six square feet of office space in Alexandria sits vacant. There is enormous potential for further economic growth in the City. Combined with significant cutbacks in the federal spending that fuels our region, Alexandria's economy, like those of our neighbors, is not producing the revenue it once did.

Going into the budget process, the previous city manager faced a then-estimated gap of approximately \$16 million to sustain existing programs. By the time I took office two months ago, this gap had widened to \$31 million as new revenue projections were developed. The outlook for FY 2016 includes declines in federal revenue and virtually flat state revenue.

This year's budget process incorporated the new approach first used to develop the FY 2015 budget, which seeks to link spending to long-term outcomes. Each department prepared a budget submission based on their contributions to City Council's Strategic Plan and the City Manager's Performance Plan. I then directed my deputy city managers and the Office of Management and Budget to solicit and analyze options from departments on ways to reduce spending strategically, without making the kind of across-the-board cuts that tend to encourage quantity over quality. Incorporating many of these options is one reason why my proposal avoids the need for more dramatic cuts.



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Priorities Developed Through Engagement

We placed significant new emphasis on civic engagement this year, and the results detailed later in this document show that the community is interested in being part of the budget process and willing to participate. Between October 2014 and February 2015, we hosted four public meetings and conducted a survey using the City's *AlexEngage* online engagement platform. Community input influenced City Council's budget guidance, the City Manager's Budget Priorities, department work plans, and this proposed budget. We also gained important experience that we will apply to future civic engagement efforts, including opportunities for public input available in March and April.

My predecessor adopted five priorities to begin developing the FY 2016 budget last year. My proposed budget continues these priorities, with refinements based on the engagement input we received, and constrained by limited revenues. These priorities are: I) diversification and expansion of the City's tax base; II) sustained community health and social equity; III) educational achievement; IV) public safety response; and V) recruitment and retention of City staff.

All budgets are forward-looking in the sense that they allocate funds for a future period. A shortcoming of budget processes in many governments is to focus more on the next year than on the next generation. This sometimes results in stop-gap measures or deferments that eventually prove counterproductive and unsustainable. By applying City Council's Strategic Plan, analysis in the City's Five-Year Financial Plan, and the priorities identified above, my budget provides a sustainable path to the future without relying on gimmicks, prior fund balances, or sacrifices in core services. This budget proposes the necessary investments to ensure a continued bright future for the City.

I am proposing a General Fund Operating Budget of \$647.9 million and an All Funds budget of \$815.0 million, which represent increases over the current year of only 1.7% and 1.3%, respectively. This modest growth necessitates an emphasis on core mission and essential spending.

Revenue

City Council's budget guidance permitted me to recommend tax rate increases, which would have been one route to take to close the \$31 million budget gap. Indeed, taking this option would have made it much easier to produce a balanced budget and even added funding for many fine programs. At the same time, we recognized that the fiscal fatigue and stress we face as a government are felt even more keenly by our City's residents and businesses. With this in mind, I chose to recommend an FY 2016 budget with no increase in any tax rate.

By applying a level real estate tax rate to modest growth in real estate assessments, the average homeowner's real estate tax bill will increase by less than \$17 per month, with no increase in sanitary sewer or solid waste collection fees. An increase in the ambulance transport fee (a cost usually covered in large part by a patient's health insurance) places Alexandria within the range of regional rates. Small increases in permitting and recreation fees will help keep these services funded by the customers who use them most.



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With development in the Potomac Yard neighborhoods maturing, nearly one of every five new dollars of real estate tax revenue for this budget comes from the return on investment in Potomac Yard. My budget embraces Potomac Yard's full potential as a thriving neighborhood with smart mixed use development and modern transportation infrastructure like the new, award-winning premium bus rapid transitway on Route 1 and the proposed infill Metrorail station projected to be completed near the end of 2018.

Employee Compensation

Virtually every City program or service requires staff to administer or operate it. Our dedicated and talented workforce is the engine that drives the City's ability to meet the community's demands on government.

Although salary is only one component of total compensation, it is a key indicator for candidates considering job choices, and is critical for an employee's ability to live in a high-cost region like ours. My budget recognizes that attracting and keeping high-quality employees is absolutely essential to government performance, and includes \$4.8 million to fund annual merit increases for all eligible employees with satisfactory performance. The budget also funds a 1% salary increase for those City employees who participate in the Virginia Retirement System, to help offset the 1% increase in contribution rates required by state law.

I also recognize that annual increases in basic expenses can diminish the effective value of salaries. That's why my proposed budget reflects a slowdown in the rate of increase for health insurance costs, offers a new consumer-driven health plan option, and provides an additional \$20 per month subsidy for employees who commute to work by public transit.

Nowhere is the importance of competitive compensation more evident than in public safety. Our first responders risk their lives to protect ours, and everyone in our community wants to see them recognized appropriately. At the same time, the government's fiduciary responsibility to taxpayers is to ensure that funds in all areas of the budget are spent only in proportion to need. The City's compensation philosophy looks to the market to judge whether we are paying positions enough to recruit and retain qualified candidates, and in most cases – including some public safety positions – we have not had difficulty recruiting and retaining personnel.

A glaring exception is in our police officer compensation. Alexandria must recruit and retain officers in a field of literally hundreds of law enforcement agencies in the National Capital Region alone. While our top-notch officers frequently say they enjoy working in a nationally accredited and 21st-century department with a small-town feel, they also often feel compelled to seek the higher salaries offered by many of our competitors. We see this in declining numbers of applicants and increasing numbers of officers who leave for other agencies after we invest in them. This is occurring despite the investments we have made over the last few years to expand career ladders and address pay compression. A causal factor is that our comparator jurisdictions have been increasing police pay in recent years at a faster rate than the City.

To continue to address this issue, my budget provides \$2.1 million for a 9% increase in starting pay for police officers, an upgrade for the lieutenant rank, and an across-the-board salary

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increase of 4.5% for all other sworn police positions. I am also proposing an additional level for the firefighter and medic career ladders, to reward those who increase their knowledge, skills and abilities to better serve our community.

Due to funding constraints and prioritization of budget needs, this proposed budget does not fund a “years of service” adjustment for Police, Fire and Sheriff’s uniformed employees, which would have cost \$1.7 million.

Each budget must strike a balance between its levels of compensation and position count. My budget proposes a net reduction of 3.8 full-time equivalent (FTE) positions, despite an increase in the City’s population, bringing the size of City government to the smallest in more than a decade. My proposal adds 10.7 FTEs, with many of these positions directly tied to revenue sources to fund them. I am proposing the elimination of 14.5 FTEs, nearly all of which are vacant positions. We will work with the very few employees currently serving in positions to be eliminated with the goal of offering them other available positions for which they are qualified.

Focus Area Investments

In addition to the other investments I have previously described, my budget includes targeted spending and savings in the four focus areas of the City Manager’s Performance Plan. For example:

Safe, Secure & Just Community: Alexandria continues to be a safe place for residents, businesses, and visitors alike. As in any community, we must always guard against threats to safety and be prepared to respond to crime, fire, medical emergencies, and natural disasters. Recognizing that public safety is the fundamental function of government, my proposed budget includes no change in the number of public safety positions or facilities. We will shift existing resources to increase traffic and neighborhood safety through two new motorcycle officers in Police, and provide improved fire and EMS response over time by cross-training firefighters and paramedics. My budget also completes the supplemental pay scale implementation for General District Court and Juvenile & Domestic Relations District Court deputy clerks, which the judges of these courts identified as a critical issue last year.

Healthy & Thriving Residents: My proposed budget maintains the crucial social safety net our community values to preserve every resident’s human dignity and economic security. These investments in programs like child and adult protective services, emergency assistance, hunger and homelessness prevention, and mental health support all help us remain a community in which everyone is valued. I have also proposed \$125,000 in new funding to support the Children and Youth Master Plan, and \$50,000 in additional one-time match funding for library materials while maintaining current library branch operating hours.

Livable, Green & Prospering City: In addition to maintaining competitive regional tax rates, my budget promotes livability and economic development by funding an expansion of the Alexandria Economic Development Partnership’s business recruitment and retention efforts; investing in a new Code Administration permitting software system to speed processing of applications and improve customer service; planning and implementing long-term storm and sanitary sewer system improvements; and enhancing the efficiency of solid waste collection



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routes. By shifting funds from other transit and transportation expansion programs, we will be able to meet WMATA's \$4.1 million requested increase in operating funds for Metrorail and Metrobus.

Accountable, Effective & Well-Managed Government: The City's internal services departments provide the foundation for operations across the government. My proposed budget maintains key funding in human resources, information technology, facilities maintenance, financial management, and other vital support services. I have also added small investments in space planning and teleworking to make better use of City facilities now and long-term, and provide more attractive work options for employees. Funding for the Tuition Reimbursement and Professional Development programs remains stable, to encourage employees to pursue and achieve their professional goals in support of City service.

Public Education

The largest single category of expenditure in the City's budget is the transfer to the Alexandria City Public Schools (ACPS), typically around 30% of the General Fund. My budget includes \$197.8 million in school operating funds -- an increase of \$6 million, or 3.1%, over the current year. While this is \$3.2 million less than what ACPS requested, it represents 55% of all the revenue growth in my proposed FY 2016 General Fund budget. This investment in our schools is informed by increased enrollment projections.

ACPS requested \$47.6 million of capital funds from the City for FY 2016, of which my proposed budget funds \$44.3 million, or 93%. This is an increase of \$5.5 million over the FY 2016 capital funding from the City that ACPS was previously scheduled to receive. The increase to \$44.3 million derives from capital funds the City appropriated to ACPS in previous fiscal years and ACPS proposes to reallocate.

Although my proposal for \$296.9 million of school capital funding in the FY 2016 to FY 2025 CIP is 95% of the \$311.4 million ACPS requested, it does add \$35.6 million to the capital funds ACPS was scheduled to receive from the City Council-adopted FY 2015 to FY 2024 CIP. Whereas the ACPS proposal front-loads the CIP -- placing 70% of funding in the first four years -- my proposal distributes funding more evenly across all 10 years. It is important for the City and ACPS to reconcile this long-range school funding issue between the adoption of the City's CIP in May and ACPS' next proposed CIP.

Capital Improvement Program

My proposed budget plans for the future by investing in a 10-year Capital Improvement Program (CIP) of \$1.6 billion that maintains the City's conservative and targeted use of bond financing. More than one third of funding is from cash instead of bonds, with a cash capital transfer from the General Fund of \$3.1 million above City Council's required minimum. In addition to nearly \$300 million in school improvements over 10 years, the CIP includes such vital projects as Phase I implementation of the Waterfront Plan (including flood mitigation and core area parks), modernized sanitary sewer and stormwater infrastructure, capital contributions to regional Metrorail and Metrobus service, street resurfacing, and athletic field improvements.



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While the CIP also reflects near-term financing of the planned new Potomac Yard Metrorail Station, these bonds will be completely repaid without any current General Fund dollars: through developer contributions; federal, state, and regional capital grants; two special tax districts around the station; and the net new real estate tax revenue from surrounding development. Last month, the City was awarded a \$50 million loan from the Virginia Transportation Infrastructure Bank, which locks in an extremely low interest rate of 2.17% for 30 years, defers initial principal payments, and provides an accelerated repayment option if revenue exceeds expectations. This loan avoids the need to use higher-interest City-issued bonds for a portion of the station funding.

Acknowledgements

My proposed budget reflects the input and diligence of many stakeholders, including in-person and online feedback contributed by the public, comments from boards and commissions and employee associations, overall guidance from City Council, and the efforts of City staff across the government who worked hard to develop solid departmental budgets. I thank all who helped shape the recommendations contained in my proposals. The ideas, data and recommendations that came from all of these stakeholders were formed into a cogent set of budget reports and documents coordinated or written by the City's able Office of Management and Budget, led by director Nelsie Birch. I thank the budget staff for their diligence and acumen in leading the preparation of this proposed operating and capital budget and CIP.

Conclusion

My proposed FY 2016 budget recognizes the realities of our current economy while ensuring we meet our community's expectation that Alexandria remains an extraordinary place to live, work, visit, and do business. It is a responsible, sustainable, and balanced budget that funds core services, invests in human and physical capital, and plans for the future.

Sincerely,

A handwritten signature in blue ink, appearing to read "M. Jinks", with a horizontal line extending to the right.

Mark B. Jinks
Acting City Manager