City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 15, 2016

TO: DEPARTMENT HEADS

THROUGH: MARK B. JINKS, CITY MANAGER

FROM: MORGAN ROUTT, DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

SUBJECT: FY 2018 BUDGET ADJUSTMENT INSTRUCTIONS

The purpose of this memorandum is to provide instructions to departments on submitting FY 2018 budget adjustment options, including supplemental expenditure increases, expenditure reductions, and fee increases to improve cost recovery.

Similar to the FY 2017 budget process, departments may request supplemental funding, particularly in targeted areas of investment identified in the City Manager’s Targeted Invested Goals (Attachment 1) but must also submit 5% reduction options.

We realize that developing budget reductions becomes more difficult each year, as there are fewer and fewer options to put forward that do not have a negative impact on customers, clients, neighborhoods or employees. However, in the face of slow growing tax revenues, ever increasing school enrollment, increased external cost pressures, and many unaddressed needs in our community, we have to respond and present a reasonable and responsible budget. We realize that this is not an easy task but have faith that our workforce is up to the challenge.

Unlike the FY 2017 process, departments may count cost recovery related fee increases toward their reduction targets and, in continuation of the 90% exercise conducted in October, may receive credit against future fiscal year reduction targets by implementing a more significant service reduction or beginning a multi-year phase-out of service in FY 2018.

Supplemental requests and reduction options will be due to OMB on Monday, December 5th.
Background

At the Saturday, November 5th City Council budget retreat, staff presented a financial forecast in which projected revenue growth is not expected to match projected expenditure increases resulting in a sizeable projected budget shortfall for FY 2018. The shortfall is preliminarily estimated to be between $20 million and $25 million. At the Retreat, staff updated City Council on a number of significant cost drivers that are likely to pressure the FY 2018 budget, including Alexandria City Public Schools (ACPS) enrollment growth and capital improvement requests, a $6.5 million Washington Metropolitan Area Transit Authority (WMATA) requested operating increase and yet to be determined WMATA capital funding request, unfunded State mandates related to stormwater management infrastructure improvements, City facility maintenance and repair needs, and continuing demands for affordable housing. Staff informed Council that, based on the current revenue and expenditure trajectory, balancing the budget will require one or more of the following options:

- Increasing tax and fee rates
- Reducing City services and/or capital projects
- Reducing ACPS services and/or capital projects

Based in part on this input and their discussions at the retreat, Council adopted guidance for the FY 2018 operating and capital budgets on Wednesday, November 5th that includes the flexibility to request expenditure increases to address some of the needs discussed at the Retreat and other and to propose service reductions and potential tax and fee increases to help fund those increases. More specifically, major elements of the guidance allow the City Manager to:

- Propose increased expenditures necessary to meet the strategic goals and outcomes of the City and/or diminish a specific risk to the community and propose decreases in expenditures of lesser utility in achieving the goals and objectives of the prior and forthcoming City’s Strategic Plan.

- Consider tax and fee rate changes in the proposed budget that advance the priorities of Council.

- Identify and implement cost saving measures and efficiencies and consider reduction of service levels where the performance exceeds the level required by the community, where the service is not a strategic priority, or where performance, over time, has not achieved desired outcomes.

- Include employee compensation that recognizes strong performance and invests in professional growth and development and develop a compensation strategy to maintain pay competitiveness.
• Propose amendments to the City’s debt related financial policy guidelines where necessary and in the City’s long term financial interest.

• Develop a recommended package of additional Capital Improvement Program (CIP) projects for Council to consider funding beyond those included in the FY 2018-2027 Proposed CIP.

• Recommend changes in the Alexandria City Public Schools (ACPS) transfer for student enrollment changes, inflation, ACPS cost saving measures, and efficiencies through shared services.

The approved budget guidance resolution is included as Attachment 2.

FY 2018 Instructions

Given that the financial situation has not changed significantly from last year, the budget instructions for FY 2018 are largely the same as FY 2017 with two key modifications.

Departments may request supplemental funding increases to address targeted investment goals identified by the City Manager included as Attachment 1. These targeted investment goals do not represent a comprehensive list of all potential City needs for FY 2018. They are specific areas selected for investment in FY 2018 because they are high priorities of either City Council and/or the City Manager.

Departments must also submit reduction options equivalent to 5% of their FY 2017 budget. As in last year’s budget, staff does not anticipate needing to reduce expenditures by the full 5%, however 5% is requested in order to produce sufficient options for prioritization and careful selection by the focus area teams and senior staff. Reductions included in the FY 2017 proposed budget were about 2.7% as compared to the 5.0% submitted. Consistent with Council guidance, departments should look first to expenditures of lesser utility in achieving the goals and objectives of the prior and forthcoming City’s Strategic Plan for reductions and consider reduction of service levels where the performance exceeds the level required by the community, where the service is not a strategic priority, or where performance, over time, has not achieved desired outcomes. Departments are also encouraged to reach out to their employees to generate creative ideas to help us better deliver services, as well as to identify possible savings.

Unlike last year, departments may apply revenue from fee increases to their target provided that the fee increase is specifically related to maintaining or increasing cost recovery for the services funded by the fee and that the fee increase results in a General Fund savings.

The 90% expenditure reduction exercise conducted in October acknowledged that without significant changes in the economy or services provided by the City and ACPS,

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1 Some limited exemptions for emergency responders, non-City agencies, and fee-funded activities apply. Specific target amounts will be provided by OMB staff.
budget gaps will continue into the foreseeable future; communicate the potential consequences of that reality to Council and the public; and begin planning beyond FY 2018 for service reductions to address the situation. In continuation of that effort, departments that fully implement service reductions identified in the 90% exercise in FY 2018 may count the value of that reduction against their reduction targets in FY 2018, and any possible reduction targets in 2019 and 2020. Departments that begin phasing out services identified in their 90% exercise may count the FY 2018 portion of the phase-out against their FY 2018 target and continued phase-out savings against future fiscal year targets.

Department heads are encouraged to work with employees to get feedback on areas of reduction, efficiency and innovation.

Thank you for all of the hard work and consideration that went into the 90% exercise and the Council retreat and for your continued cooperation throughout this process. Please contact your OMB analyst if you have any questions.

Attachments:
1. City Manager’s Targeted Investment Goals for FY 2018 Budget Consideration
2. City Council Adopted Budget Resolution for FY 2018
City Manager’s Targeted Investment Goals
For
FY 2018 Budget Consideration

A. Address the capacity of the Alexandria Police Department to provide community policing through accelerating the filling and training of patrol officer positions, as well as consideration of increasing the number of patrol positions in order to increase community policing activities.

B. Address Housing Trust Fund resources so that projected non-profit sponsored affordable housing projects can be funded with City leveraging significant outside financial resources.

C. Improve “State of Good Repair” and overall condition of City facilities, streets and parks whose needs were documented in the recent Facilities Condition Index, Pavement Condition Index analyses, and other reports ensure equipment used by City employees is safe, reliable and technically up-to-date.

D. Invest in Information Technology systems and community broadband so that the City, its residents and its businesses benefit through improved and more reliable services.

E. Take actions to address key City compensation issues to ensure continued regional competitiveness via benchmarking and ongoing salary comparisons. Move the City more towards a “best places to work” environment by considering new human resource policies and practices to better attract and retain a quality, engaged workforce.

F. Address operating and capital funding requests in a cost effective manner arising from Alexandria City Public Schools (ACPS) previous and projected increases in enrollment.

G. Address increased substance abuse treatment needs as evidenced by increased opioid availability and increased opioid usage.

H. Consider alternative funding sources for City programs and services to reduce General Fund budget pressure including consideration of a storm water utility fee, increased fees to better cover costs, improved tax collection, increased gifts and donations to the City, expanded public-private partnerships, as well as increased utilization of volunteers to augment City services and programs.

I. Consider from individual departments and City employee innovations, efficiencies and budget savings that could help close the FY 2018 budget gap and future budget gaps, improve services to the City’s residents/clients/internal customers, and/or achieve long term financial sustainability in the budget.
Setting Guidance for FY 2018 General Fund Operating Budget and Capital Improvement Program for FY 2018 – FY 2027

WHEREAS, the City Council of Alexandria passed a resolution establishing Council’s process for formulating the Operating Budget and the Capital Improvement Programs (CIP) during the term of this Council and requires that City Council set budget guidance for the City Manager and the School Board for the FY 2018 budget.

WHEREAS, the City has held public outreach designed to collect community input into the development of the FY 2018 budget; and

WHEREAS, the City Council’s budget deliberations and annual spending decisions should reflect a balancing of the goals articulated in the prior as well as forthcoming City’s Strategic Plan;

WHEREAS, those services directly supporting the achievement of the City’s strategic goals are considered for funding support; and

WHEREAS, the City Council is committed to continuously improving the efficiency and effectiveness of City government and expects the City Manager and City staff to focus on achieving service outcomes and providing programs that benefit the community and its residents; and;

WHEREAS, the City Council is committed to continue providing core services expected of a municipal government including the provision and maintenance of the City’s capital infrastructure; and

WHEREAS, the City Council will not make budgetary changes that may threaten the City’s ‘AAA’/‘Aaa’ bond ratings; and

WHEREAS, the City Council acknowledges that the resources required to achieve the goals of the Strategic Plan must be weighed against the appropriateness of the tax burden placed upon citizens; and

WHEREAS, the City Council recognizes the need to measure the impact of programs and lines of business against expected outcomes, to deemphasize or eliminate programs that do not yield those outcomes desired, and to identify efficiencies wherever possible; and

WHEREAS, the City Council desires to emphasize a multi-year perspective for fiscal planning; and
NOW, THEREFORE, BE IT RESOLVED BY THE CITY COUNCIL OF ALEXANDRIA THE FOLLOWING:

(a) Operating and Capital Improvement Program Expenditures: The City Manager may propose for Council consideration, increases in operating and capital project expenditures including compensation adjustments so long as any increased operating or capital project expense can be demonstrated as necessary to meet the strategic goals and outcomes of the City, and/or can be demonstrated to diminish a specific risk to the community. Likewise, the City Manager may propose decreases in operating and capital project expenditures provided the decrease can be demonstrated to be of lesser utility in achieving the goals and objectives of the prior and forthcoming City’s Strategic Plan. An appropriate source, or sources, of revenue, compliant with applicable laws regarding revenue sources as established by the Code of Virginia, must be identified for all proposed operating and capital project expenditures.

(b) Taxes, Fees, Fines and Service Charges: In funding the proposed budget, the City Manager may consider changes to tax rates, tax designations/reservations, fees/fines/service charges that are equitable, fair and administratively feasible provided that these proposals are observant of the constraints imposed by the Code of Virginia. Such changes can only be considered where they advance the priorities of the Council as stipulated in this resolution, through Legislative Sessions, or the Council Retreat.

(c) Growth-oriented Economic Development Tax and/or Policy Changes: Informed by the recommendations of the Business Tax Reform Task Force, the work of the Alexandria Economic Development Partnership, and the work of the Finance Department, the City Manager may consider administrative regulation/procedural, tax rate, or policy changes that the City Manager believes will promote in a cost-effective manner the short/medium-term commercial tax revenue growth and that aligns with the City’s targeted economic development strategies.

(d) Cost Saving Measures: The City Manager shall continually identify and implement cost saving measures and efficiencies in all City operations and consider reduction of service levels where the performance exceeds the level required by the community, where the current level of service is not a strategic priority, or where performance, over time, has not achieved the desired outcomes.

(e) City Workforce: The City Manager shall ensure that the proposed budget includes employee compensation (salary and benefits) that recognizes strong performance and continues investments in professional growth and development opportunities. The City Manager shall also incorporate into the 5-Year Financial Planning Model a compensation strategy that enables the City to achieve and maintain pay competitiveness for positions throughout the organization, including correcting inequitable pay practices and compensation
structures, in an effort to attract and retain top talent. The compensation strategy should be considered within the City’s overall priorities and investment obligations.

(f) **Use of Surplus:** The City Manager will recommend use of prior-year surplus funds first to ensure that the Capital Improvement Program includes sufficient cash capital funding, then to address one-time or manageable ongoing costs that positively impact the expected goals in the prior and forthcoming City Strategic Plan.

(g) **CIP:** The proposed FY 2017-2026 CIP shall incorporate the following:

1. Compliance with the City’s adopted/proposed Debt Related Financial Policy Guidelines for any debt issuance planned for FY 2018 through FY 2027;
2. Consistency with the City’s adopted cash capital investment policy of a General Fund cash capital transfer amount of between 2.0% and 2.5% of General Fund revenues;
3. The optional use, as determined by the City Manager, of an additional General Fund operating budget surplus from FY 2017, if any, as commitment for capital projects in FY 2018 and beyond;
4. Specific descriptions of projects that can be funded within recommended levels of funding, their associated operating costs, estimated for all years of the CIP, and a description of the criteria used to prioritize the projects as recommended by the Budget and Fiscal Affairs Advisory Committee (BFAAC);
5. Proposed amendments to the City’s Debt Related Financial Policy Guidelines for City Council’s consideration necessary for the proposed Potomac Yard Metrorail station project, as well as any other changes in these Financial Policy Guidelines that the City Manager determines are in the City’s long term financial interest.
6. An annual update to the Capital Projects Requested vs. Proposed appendix including a scalable funding proposal to address unfunded projects, but projects the City Manager would recommend if there were available resources. Proposal shall include a mix of cash, debt and any other funding sources. Necessary policy amendments, including those related to the Debt Related Financial Policy Guidelines shall be included.

(h) **ACPS Funding:** That the City Manager shall, (1) recommend for transfer to the Alexandria City Public Schools an appropriation equal to the amount approved by City Council for FY 2017, except that the City Manager may vary from FY 2017 approved appropriation if specifically to address anticipated changes in student enrollment, inflationary increases not related to enrollment growth, expense changes resulting from cost saving measures employed by ACPS, or cost changes which results from efficiencies gained
through the sharing of services with other entities, (2) develop options for potential funding of proposed public school capital needs for the FY 2018 through FY 2027 time period, and (3) recommend ACPS capital project debt service in the FY 2018 proposed budget and include such amount as an element of his total recommended FY 2018 budget for the ACPS.

(i) **Outside Agencies:** Organizations outside the City government that receive funding support from the City must demonstrate an alignment of their efforts with accomplishments of the City’s strategic objectives. In cases where there is discretion over the level of funding, organizations external to the City government must demonstrate the purpose and consequence of the funding.

(j) **Add/Delete Process:** The City Council shall adhere to the following Add/Delete Rules of Engagement for amending and adopting the final budget. These Rules of Engagement were first adopted for use during the FY 2016 budget process and continued in the FY 2017 budget process:

1. Continue use of the add/delete spreadsheet that was produced by OMB prior to the FY 2016 budget process and reintroduced in the FY 2017 budget process.
2. A City Council Budget Proposal form will be required in order to add or delete anything from the City Manager’s Proposed Budget. The form will require the following prior to Council consideration:
   i. Additional information related to how the change advances the Council’s goals/priorities.
   ii. Additional information related to how the change impacts the performance of that program, service or goal.
   iii. The support of at least 3 of 7 Council members (the original sponsor and two co-sponsors).
   iv. Must be accompanied by an add/delete spreadsheet prepared by the Council member or OMB in which the sum of the individual Council member’s adds and deletes, including the items originally sponsored by that member and those co-sponsored by that member, are in balance or produce a revenue surplus.
3. The completed City Council Budget Proposal form must be returned to the Office of Management & Budget (OMB), with each of the steps from #2 above completed, at least 14 days prior to the adoption of the budget [for FY 2018, April 20].
4. A combined list of all City Council Budget Proposals that meet the criteria in #2, any technical adjustments from OMB, and any City Manager recommended changes, will be provided and discussed at the 2nd Legislative Meeting in April [for FY 2018, April 25].
5. Council will work with OMB to refine/develop funding figures based on the proposals submitted, to be completed 7 days prior to budget adoption [for FY 2018, April 27].
6. Completed Council Budget Proposals, with funding, will be circulated to Council and the public the Friday prior to budget adoption [for FY 2018, April 28].

7. City Council will be required to keep the budget in balance once all decisions are made.

8. Final decisions will be made 72 hours prior to budget adoption and discussed at a Special City Council work session [for FY 2018, May 1].

9. Final decisions will be made available to the public 48 hours prior to budget adoption [for FY 2018, May 2]

Budget Adoption will occur on May 4, 2017 with all City Council Budget Proposals, those approved and those not approved, made public upon adoption of the budget.