

City of Alexandria, Virginia

MEMORANDUM

CORRECTED

DATE: MARCH 17, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #14: EXPENDITURE REDUCTION OPTIONS PROPOSED BY CITY DEPARTMENTS

Confusion has been generated by some who incorrectly believe that there was a budget created for consideration by the City Manager that was 1 percent below the FY 2006 approved budget. That is not accurate. To correct the record and to eliminate this confusion, a memorandum is provided in Attachment I that was sent to City Department and Agency Heads on November 21, 2005, and provided instructions to provide certain information that was used to meet the budget targets established by Council on November 12, 2006.

In summary:

- I asked the 14 largest City departments to provide possible budget reduction options equal 2 percent of their FY 2006 General Fund budget (a total of \$4.8 million).
- Although this amount is equal to about 1 percent of the approved FY 2006 budget, the request was limited to the 14 largest City departments and excluded about half the budget (the schools, debt service, capital project pay-as-you-go spending (which was under a separate review), smaller departments, and other largely uncontrollable, centrally budgeted items).
- The proposed budget incorporates \$2.1 million in budget reductions composed of these and other budget reductions from other departments and proposes an additional \$0.7 million of these reductions to meet the lower, alternative budget target. (These items are on the agenda for discussion at the March 20, 2006 work session with City Council.)
- I have not recommended the other \$2.8 million in expenditure reductions for your consideration because they did not seem to me to either realistic or advisable given the strategic goals and priorities of the Council or the expectations of the community for the continuation of essential services.

- If Council wishes me to generate additional options to reduce spending below those already identified to reach the lower, alternative budget target, City staff stands ready to do.
- We recently have received a request from a citizen for budget work papers related to this request for reduction options, and we have not provided the specific options per long standing City practice. (See Attachment II..)

Attachment I: Memorandum to Department and Agency Heads, from James K. Hartmann, City Manager, November 21, 2006, "FY 2007 Budget Targets Set by City Council and Additional Actions Required of Departments",

Attachment II: Letter from Rose Boyd to Tom Parry dated, March 17, 2006, in regard to the request for budget work papers.

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 21, 2005

TO: DEPARTMENT AND AGENCY HEADS

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: FY 2007 BUDGET TARGETS SET BY CITY COUNCIL AND ADDITIONAL ACTIONS REQUIRED OF DEPARTMENTS

This memorandum reports on the targets established by City Council for the FY 2007 Operating Budget and Capital Improvement Program. I also am requesting certain departments to provide additional information so that the proposed budget will be able to meet those targets.

Overview

For the fiscal year 2007 budget, City Council passed a resolution on November 12 establishing target budgets for the City Manager and the School Board to meet when they submit their requests to Council next February. The target budgets are part of changes in the budget process initiated by City Council last May. Before setting the targets, City Council considered preliminary forecasts of revenues, expenditures and capital needs presented at its fall Retreat by City staff and the Superintendent of the Alexandria City Public Schools. Also, citizen input was provided at a public hearing on the fiscal year 2007 budget.

Council adopted two target budgets. The first budget can be up to 8.5 percent higher than this year's budget. An alternative budget with a 6.0 percent growth rate also needs to be prepared. This 6.0 percent growth target budget means the City would need to show how the first budget can be cut by an additional \$11.4 million. These target budgets levels (after setting aside COLA and School target funding) mean that the City government operating and capital budget target growth rates are 6.0 percent growth rate and an alternative 3.9 percent growth rate. To get from a 6.0 percent growth rate to a 3.9 percent growth rate requires \$6.9 million in options to reduce the City budget.

The table at Attachment A shows the effects of these targets on the budget as contained in the preliminary forecasts provided to City Council at its retreat on October 29, 2005.

Required Additional Actions

We will propose a FY 2007 Operating Budget and the Capital Improvement Program that meets these targets and submit those documents to the Council on February 14, 2006. Council is scheduled to adopt a budget by April 24, 2006, after various work sessions and public hearings to be held in February, March and April.

Council has asked City staff and the School Board to clearly describe and compare the details of what operating programs, activities and capital projects could be funded within the target budgets. In addition, the budget submitted by the City Manager and the Schools also will outline operating programs, activities, capital projects, fees and other policy options not funded in the target budgets that Council may wish to consider.

You also will find attached a memorandum sent to City Council that describes strategies to meet the budget targets set by Council. I ask all of you for your continuing assistance as we adjust to the administrative changes and the fiscal challenges presented by this new budget process.

At this time I also am asking for specific additional information to help us develop the reduction options needed to achieve a 6 percent target budget as follows:

1. All departments and agencies with FY 2006 General Fund operating budgets of more than \$2.8 million¹ are asked to examine and report on the annual savings equal to 2 percent of their FY 2006 General Fund budget (a total of \$4.8 million). These savings may be achieved by:
 - a. possible ways to reduce overhead costs without affecting service delivery;
 - b. whether any hours of service can be reduced marginally when there is lower demand for those services;
 - c. whether there are any ways to reduce or eliminate programs where the benefits compared to the costs may be marginal; and
 - d. whether there are any ways to reduce the non-personnel budget where there is discretion in the volume of item purchased and services contracted.

Departments may include in their list any suggestions or recommendations already made in response to earlier requests for suggested expenditure reductions, whether or not that request was included by the City Manager in round two discussions of its FY 2007 budget request.

2. For all other departments, any department requesting discretionary supplementals that are

¹Police, Fire, T&ES, Sheriff, Human Services, RPCA, MH/MR/SA, General Services, Finance, ITS, Health, Library, Planning and Zoning, Personnel Services). Funds for entities budgeted for in Transit Subsidies and Other Public Safety and Justice are excluded.

still under consideration by the City Manager is asked to provide similar options that could be used to offset dollar-for-dollar the requested discretionary supplementals. If no such options are specified, the assumption will be made that the provision of current services is considered to be of higher priority than the requested supplemental.

3. For the submission of information in #1 and #2 above, at this time we need only the title of the program, its FY 2007 proposed budget, FTEs and a brief description of the impact if these reduction options are taken.
4. The Capital Improvement Program and the Information Technology Plan review committees will be prioritizing capital budget requests as part of this budget exercise.

Responses to this request for information are due to Bruce Johnson, the Director of the Office of Management and Budget, by no later than December 6, 2005. Questions about this request may be addressed to him or your assigned OMB analyst.

Attachments: Attachment A: "Alternative Target Budgets Adopted by City Council"
Attachment B: "Strategies to Meet Budget Targets" Memorandum from the City Manager to City Council dated November 11, 2005

Attachment A
Alternative Target Budgets Adopted by City Council

Impact on FY 2007 Budget	Requests Pending	Target Budget	Alternative Target Budget
City Target (\$ in M)	\$353.5 M	\$350.5 M	\$343.6 M
School Target (\$ in M)	\$151.8 M	\$148.9 M	\$146.0 M
Minimum COLA Allowance (\$ in M and % increase)		\$9.6 M (3%)	\$8.0 M (2.5%)
City Expenditure Growth without COLA (in %)	7.0%	6.0%	3.9%
Schools Expenditure Growth with COLA (in %)	9.4%	7.3%	5.2%
Total Expenditure Growth with COLA (in %)	9.7%	8.5%	6.0%
Real Estate Tax Rate Reduction (in cents)	-3.6 cents	-5.4 cents	-8.9 cents
Average Residential Real Estate Tax Increase (in %)	13.8%	11.5%	7.0%
City Reductions from Preliminary Forecast Requests	\$0.0 M	-\$3.1 M	-\$9.9 M
Schools Reductions from Preliminary Forecast Requests	\$0.0 M	-\$2.9 M	-\$5.8 M
COLA Reduction from 3% increase	\$0.0 M	\$0.0 M	\$1.6 M
Total Reduction from Preliminary Forecast Requests	\$0.0 M	-\$6.0 M	-\$17.4 M

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 11, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: STRATEGIES TO MEET BUDGET TARGETS

During discussions on Wednesday, November 9th at its legislative meeting, City Council requested more information on how the City Manager might approach holding the growth in residential real estate taxes at or below any possible targets set City Council by a combination of the following strategies outlined in the docket item for that meeting:

Postponing or reducing discretionary program increases

There are now on the table approximately \$6 million in City discretionary supplemental requests and \$3 million in what City staff would term School discretionary supplemental requests. These requests may need to be not funded, postponed, or funded if and only if equivalent reductions can be found in other parts of the budget.

Reducing a 3% Cost of Living Adjustment (COLA)

In my memorandum to City Council of November 10, 2005, staff has suggested assuming a minimum COLA allowance of between 3% and 2% in the establishment of the overall budget targets for the City and Schools. A 1% point reduction in the COLA results in a \$3.2 million savings.

Cutting health insurance benefits

City staff, working in tandem with School staff and the Budget and Fiscal Affairs Advisory Committee, will approach this issue by giving priority first to efficiency savings that may be possible by making changes in the administration of the program, then by looking at marginal changes in benefits or employee co-pays or deductibles to create incentives to control costs. Only once those changes are fully explored in that order, would City staff look at cost sharing of premiums.

Raising other taxes or fees

City staff have been developing an inventory of fees and service charges currently assessed by City departments for their services and looking into whether those fees and charges have been recently updated to reflect more accurately the costs of providing those services and whether the share of those costs borne by the users or beneficiaries is set at an appropriate level. Recommendations will be made in the budget proposed to City Council if City staff determines that changes may be appropriate. Included in these recommendations will be annual updates to the fees charged for solid waste removal and for sanitary sewer service to keep those programs self-supporting.

City staff also will be examining whether there should be any marginal changes that could be made to the tax rates or taxes that can be applied under existing Virginia law. Real estate tax relief program benefits and eligibility also will be reviewed for possible expansion.

Freezing local funding for grant supported programs

If chosen, this option would probably be implemented gradually by not replacing grant funded positions as attrition occurs in those program areas that are not receiving sufficient increases in grant funding to keep up with program cost increases. However, because many grant programs are in the human services and mental health areas, use of this option would likely be limited.

Making targeted program/service level reductions

City staff are reviewing what is now a short list of possible program or service level reductions. Any such reductions would be recommended as a result of staff determinations that funds saved by eliminating or reducing one program could be used more effectively in funding a proposal to increase services in another program area. However, if a moderate to low budget target level is chosen by Council, additional service level reduction options will need to be developed for consideration. Examples of service and operational reduction options include:

- delaying the replacement of equipment,
- reducing administrative overhead costs,
- slowing the implementation Information Technology projects,
- reducing hours of service of City programs,

- reducing or eliminating programs where the benefits compared to the costs may be marginal, and
- reducing the non-personnel budget where there is discretion in the items purchased.

Reducing or deferring capital projects

City staff are conducting a comprehensive review of capital projects contained in the approved FY 2006 to FY 2011 Capital Improvement Program. We likely will be recommending the elimination or deferral to later years of some of these approved capital projects as one response to finding ways to reduce the FY 2007 budget and meet City Council's target.

Increasing the issuance of bonds for capital project (CIP) funding

As the upcoming CIP is prepared, a review of cash capital and bond funding will occur. City staff currently are reexamining the debt policy guidelines previously adopted by Council and used as benchmarks for borrowing funds for capital projects and maintaining Alexandria's excellent bond ratings. Our analysis will be based on comparisons to other jurisdictions that maintain triple A bond ratings and using that information to benchmark our fiscal capacity to borrow and do likewise. We will provide City Council those recommendations before the end of December and, if there is any ability to borrow additional funds and still remain with those guidelines, we will consider recommending doing so next February.

March 17, 2006

Mr. Thomas Parry
Marzouk & Parry
1120 19th Street, N.W., #750
Washington, D.C. 20036

Dear Mr. Parry:

This is to acknowledge receipt of your Freedom of Information Act (FOIA) request. Your request for copies of documents that sets expenditures levels related to the proposed FY 2007 budget has been assigned number 06-347. Much of the budget preparation information that you have requested is considered working papers of the City Manager, and therefore, are not subject to disclosure, per Section 2.2-3705.7(2) which excludes “working papers requested and held by the City Manager for his deliberative use” from the provisions of the FOIA.

According to Deputy City Manager Mark Jinks, this type of request for budget work papers has come up before. The City Attorney has reaffirmed that this exclusion of budget work papers is the correct interpretation of state law. The reason that budget work papers are not being released (a long standing practice), is that the budget preparation process is one where the free flow of ideas and alternative thinking needs to occur. If such papers were subject to release the internal budget preparation process would be less effective, and the City Manager may not get the advice and ideas he needs from staff in order for him to make the best recommendations to City Council.

You should know that technically the City's budget preparation process for FY 2007 did not include a 1% reduction exercise you referenced in your letter. Rather major departments were requested to prepare reduction options of 2% (see attached), and the budget staff looked at the smaller departments for possible reductions. The end result of this process is the same \$2.1 million in base budget reductions and same \$4.9 million in reduction options in the alternative budget. The details of these reductions are reflected in pages 18 to 26 of the proposed budget.

The information not protected under FOIA, represents internal communications that discuss only reduction process instructions and issues - and not any specific reduction proposal - within departments, as well as between departments and the Office of Management and Budget and the City Manager's Office. If you wish to obtain copies of these communications, it largely will mean the searching by about 50 people of their e-mail and hard copy files. The time period of the research involved would need to cover about a three month period. We estimate that would take about 75 hours and cost \$1,450.

Checks should be made payable to the City of Alexandria and forwarded to the Office of Citizen Assistance, P.O. Box 178, City Hall, Alexandria, VA 22313. If you are hand delivering the check and wish to pick up the materials at the same time, please call the Citizen Assistance Office at the telephone number listed above to arrange for a mutually agreeable pick up time.

Sincerely,

Rose Williams Boyd
Freedom of Information Officer

