

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 27, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 28: INCREASES IN ACPS PROPOSED BUDGET

This memorandum is in response to Councilman Krupicka, who asked what percentage of the Schools' budget increase in the City Manager's proposed budget would be for salaries, retirement benefits, health care and non-personnel expenditures. Of course, the School Board has broad discretion to change its operating budget as it sees fit. However, this memorandum attempts to approximate an answer.

On January 26, 2006 the School Board adopted an operating budget of \$180,517,320 for FY 2007, which included a requested transfer from the City of \$148,299,781. These figures do not include a COLA. The City Manager's Proposed FY 2007 Operating Budget for the Schools is \$182,617,320 and proposes a transfer to the Schools of \$150,399,781, including a 3% COLA of \$3.9 million. The attached table compares the Schools Revised FY 2006 budget, the School Board's FY 2007 Approved Budget and the City Manager's Proposed FY 2007 Budget, broken down into broad personnel and non-personnel categories.

Employee Health Care Costs

It should be noted that health insurance increases account for a small portion of the increase in benefits, approximately \$137,000. Although the School Board's approved budget included \$1.9 million for health insurance increases, this amount was based on a preliminary forecast, which was subsequently adjusted. The City Manager's proposed budget reduces this increase by \$1.8 million and sets aside an equal amount in fund balance designation, which Council could appropriate later if needed. However, this fund balance designation is eliminated if Council chooses to meet the lower alternative budget 6.0 percent target.

Reduction Option to Meet Lower Alternative Budget Target

To meet the lower alternative budget target established by City Council for the Schools, an additional reduction of \$0.5 million is required in the City transfer of operating funds to the Schools. How this reduction would be applied would be at the discretion of the School Board. Also, the COLA increase of 3.0 percent that would be applied to both City and School staff across-the-board would be reduced to 2.5 percent to meet the lower budget target. This option would decrease the transfer to the Schools by \$650,000.

Attachment

cc: Rebecca Perry, Superintendent, ACPS

ACPS OPERATING EXPENDITURES (All Sources)

(Figures rounded to nearest \$1,000)

	ACPS FY 2006 Revised	School Board FY 2007 Approved w/o COLA	City Manager FY 2007 Proposed /1 w/ 3% COLA	\$ Change FY 2006 Revised to FY 2007 Proposed	% Change
Salaries & Wages	\$109,056,000	\$115,529,000	\$118,454,000	\$9,398,000	8.6%
Employee Benefits /2	\$32,984,000	\$40,332,000	\$39,507,000	\$6,523,000	19.8%
Supplies & Services	\$21,379,000	\$20,613,000	\$20,613,000	(\$766,000) /3	(3.6%)
Capital Outlay	\$3,797,000	\$3,755,000	\$3,755,000	(\$42,000)	(1.1%)
Other Uses of Funds	\$481,000	\$289,000	\$289,000	(\$192,000)	(40.0%)
TOTAL /4	\$167,698,000	\$180,517,000	\$182,617,000	\$14,919,000	8.9%

The net increase in total operating expenditures is \$14.9 million and is attributable to personnel-related costs. Components of this increase include: \$3.9 M for a 3% COLA; \$3.5 M for merit increases; \$2.0 M for Bachelor degree salary scale increases; \$4.8 M for Masters degree salary scale increases; and \$1.3 M for twenty-two reserve positions. These items total \$15.5 million.

- /1 The City Manager's proposed budget differs from the Schools approved budget in two ways: (1) A 3% COLA of \$3.9 million is included, split proportionately between salaries and benefits, and (2) \$1.8 million is reduced from benefits for health insurance increases. A corresponding \$1.8 million is set aside as a designation in fund balance and would be available for Council to appropriate if necessary.
- /2 Benefits include not only retirement and health insurance, but Social Security, Medicare, disability insurance, workers' compensation, and unemployment compensation. As a general rule, personnel costs can be split approximately 75/25 between salary and benefits. Using this general rule, of the \$15.5 million increase, City staff have attributed \$11.6 million to salaries and \$3.9 million to benefits. In addition, VRS retirement costs are projected to increase by \$3.6 million.
- /3 School non personnel expenditures are expected to decrease, primarily due to decreases in textbook purchases (down \$0.9 million) and software/on-line charges (down \$0.9 million).
- /4 Figures may not total due to rounding.

