

City of Alexandria, Virginia

MEMORANDUM

CORRECTED

DATE: MARCH 31, 2006

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #50: IDENTIFICATION OF OPTIONS TO REACH A GENERAL FUND OPERATING BUDGET WITH FIVE PERCENT GROWTH

As requested, to assist the City Council in identifying reductions necessary to identify a budget providing 5.0 percent rate of growth, an additional \$3.5 million in budget reductions need to be identified in addition to the reductions already identified to get to the alternative, lower budget target of \$497.6 M.

	Net New Fund Balance Designations	Expenditures	% Growth	Real Estate Tax Rate
City Manager's Proposed Budget	+\$0.1 M	\$503.5 M	7.0%	84.7 cents
COLA reduction from 3% to 2.5%		-1.6 M		
CIP Reductions		-3.8 M		
City Operating Budget Reduction		-1.2 M		
School Operating Budget Reduction		-0.5 M		
Reduction of FY 2006 Surplus Available for CIP		+1.1 M		
Reduction in Fund Balance Designation for Schools	<u>-\$1.8 M</u>			
NET TOTAL OF CHANGES	-\$1.8 M	- 5.9 M		-1.8 cents
Alternative Budget Target (6 percent)	-\$1.7 M	\$497.6 M	5.75%	82.9 cents
Restore COLA to 3.0%		+1.6 M		
Technical Expenditure Adjustments		+0.4 M		
Revised Funding Sched. for Police HQ		-2.8 M		
Old Town Undergrounding		-0.5 M		
City Health Insurance Co-Pay Increase		-0.6 M		
City Health Insurance Premium Cost Sharing		-0.5 M		
School Operating Budget Reduction		<u>-1.1 M</u>		
NET TOTAL OF CHANGES		- 3.5 M		TBD
5% Growth Target	-\$1.7 M	\$494.1 M	5.0%	TBD

The percentage increases in the General Fund Operating Budget under the various budget options and scenarios as proposed are listed below for both the City and the Schools separately, as well as the combined total.

	% Increases in General Fund Budget			<u>Reduction in R.E. Tax Rate</u>
	<u>City</u> ¹	<u>Schools</u>	<u>Total</u>	
City Manager Proposed	6.4%	8.4%	7.0%	-6.8 cents
Alternative Budget Target (6%)	5.0%	7.6%	5.75%	-8.6 cents
5% Growth Target	4.1%	7.2%	5.0%	TBD

¹ Includes debt service and cash capital

In more detail, the list of possible additional spending reduction options to reach the 5% target are:

- \$1.1 M A general \$1.1 million reduction in the City transfer to the School's operating budget. This amount is equal to 30% of the \$3.5 million in net savings necessary to reach a 5% growth target of \$494.1 million. This roughly equates to the Schools' base share of the budget. Together with a \$0.5 million reduction in School funding already proposed to get to the alternative target, the Schools would have \$1.6 million less available than in the City Manager's original proposed budget. Budget memorandum #10 describes in general terms the School's request for increased resources that would have to be reconsidered by the School Board to meet this lower budget. Those include: \$6.8 million for adjustments to teacher salary scales; \$1.3 million for reserve teachers; \$0.6 million for new positions; \$0.5 million for other program improvements; and \$0.1 million for other miscellaneous additions.
 - \$2.8 M Rescheduling the planning and design for the new Police Headquarters Facility from FY 2007 to FY 2008. \$2.0M remains in FY 2007 for this activity. (See Budget Memorandum #39.)
 - \$0.5 M Old Town Undergrounding project is scheduled to receive an additional \$1.0 million in FY 2007, which when combined with \$2.4 million in unallocated balances for this project, would allow completion of Phase III covering the 200 and 300 blocks of South Lee Street, the 100 and 200 block of Duke Street and the 100 block of Wolfe Street with construction to begin in the Winter of 2006. This reduction would require a delay in a portion of phase III work, a postponement of the entire phase III for a year, or a post-budget search for other budget resources to complete this phase.
 - \$0.6 M Reduction in Health Insurance Contingent for City employees by increasing co-pay amounts would save approximately \$600,000. (See Budget Memorandum #51 to be discussed at work session.)
 - \$0.5 M 3.3% cost sharing of premiums with current employees for Health Maintenance Organization (HMO) health care coverage options. New employees would pay 10%. Additional costs for Point of Service (POS) plans continue to be fully borne by employees. (See Budget Memorandum #51 to be discussed at work session.)

 - \$5.5 M Total Spending Reduction Options**
 - +\$0.4 M Technical Expenditure Adjustments (see next section)

 - \$5.1 M Net Spending Reductions**
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The following technical expenditure adjustments are also presented for Council's consideration at this time as well and would require \$410,000 in additional expenditures.

These adjustments are:

\$150,000	Campagna Center Head Start Salaries offered as part of alternative budget target no longer recommend as a reduction option as staff has learned salary increases were granted last July.
\$250,000	Technical correction to include increased costs to medical services contract for jail inmates in the budget of the Office of Sheriff
<u>\$ 10,000</u>	Technical correction to Northern Virginia Regional Park Authority FY 2007 budget request
+\$410,000	Technical Expenditure Adjustments

Budget Memorandum #52 describes additional revenue re-estimations based on more recent information as follows:

+\$3.1 M	Increase in estimated FY 2006 revenues (non-real estate) over proposed budget.
<u>+\$1.4 M</u>	Increase in estimated FY 2007 revenues (non-real estate) over proposed budget.
+\$4.5 M	Net additional revenues available from re-estimates

In total the City Council has available a potential net of \$9.6 million in additional resources from these reduction options (\$5.1 million) and revenue re-estimates (\$4.5 million) that could be used to:

- 1. reduce the budget to 5% growth rate;**
- 2. substitute for other reduction options proposed in the alternative lower budget package of spending reduction options;**
- 3. Increase fund balance designations to provide resources to meet future financial challenges in FY 2008;**
- 4. provide funds for program enhancements;**
- 5. reduce the total budget below a 5% growth rate; or**
- 6. reduce further the real estate tax rate**

We recommend that serious consideration to devoting at least some of these resources as a designated fund balance for FY 2008 given the uncertainties of the emerging real estate market upon which the City is so heavily dependent for revenue.

Next Steps

This list of additional budget reduction options combined with options already presented to reach the alternative lower budget target, could be used by Council members for constructing a preliminary add/delete list for consideration at Council's work session on Monday, April 17th.

In addition to the items presented above, there may be additional changes that may be recommended by the City Manager in the add/delete process.

City Council members have until April 12 to submit preliminary add/delete items to the Office of Management and Budget previously established in Budget Memorandum #1. Staff then will provide a consolidated list of all add/delete items to City Council on Friday, April 14th by budget memorandum, for its consideration at the Monday, April 17th work session on the preliminary add/delete list.

Staff will be providing Council with a single list of all individual budget reduction options so that it will be easier for Council members to draft their proposed add/delete lists. The starting point for the FY 2007 budget add/delete process is the City Manager's proposed budget. That means in order to go lower than the 7% budget Council members will each need to identify specific items to reduce the 7% budget to a lower level as part of their add/delete list.

cc: Rebecca Perry, Superintendent, Alexandria City Public Schools