

City Manager's Updated Message

July 1, 2008

To the Honorable Mayor and Members of City Council:

I am pleased to present City Council and the Alexandria community with the Approved Fiscal Year 2009 Operating Budget and the Proposed Fiscal Year 2009-2014 Capital Improvement Program. The budget passed by City Council affirms not only the City's commitment to fiscal responsibility, but also underscores our commitment to providing quality services to our residents. It gives us the resources we need to be responsive to the growing needs of the community during difficult economic times.

The specific changes approved by City Council are listed in the attachment to this updated message – "Budget Memo #133: FY 2009 Adopted Add/Delete List".

The budget approved by City Council would increase total General Fund spending by 4.3 percent or \$22.5 million for a total of \$542 million. This rate of growth is below the 5.0% maximum rate of growth adopted by Council last fall to guide the budget process.

The Approved Budget increased the real estate tax rate 1.5 cents from \$0.83 to \$0.845 per \$100 of assessed value, although the average residential real estate tax bill will still be slightly lower (-\$7 or -0.2%) than the previous year due to lower assessments. This rate is now the lowest among major jurisdictions in Northern Virginia.

The commercial real estate tax rate will remain the same as that for residential property, giving Alexandria a distinct business retention and recruitment advantage as other nearby jurisdictions have adopted commercial property tax rates 15% to 22% higher than the City's rate.

In the face of declining national and regional economies, our local economy is in a transition that limits revenue growth. In fact, during the spring budget deliberations, City staff had to revise revenue estimates downward \$4.4 million from those originally issued in February. Also, the Commonwealth of Virginia, in response to its own fiscal crisis, reduced its grant funding to Alexandria by \$1.1 million in the middle of our budget process. Lastly, a ruling by the State Supreme Court in late February invalidating the levying of taxes and fees by the Northern Virginia Transportation Authority (NVTVA), together with reductions in State funding for urban roads and transit projects created a shortfall of more than \$20 million in funding for City transportation projects and activities in FY 2009, and a far greater shortfall through FY 2014.

FY 2009 General Fund Operating Budget increases by 4.3% -- within 5.0% guidance

Real estate tax rate lowest major jurisdiction rate in region and average residential real estate tax bill down 0.2%

Commercial real estate tax rates remain equal to residential rates

Revenue growth is limited

Economic Slowdown Major Impacts

- Sales taxes (-\$3.4M)
- Personal property taxes (-\$2.4M)
- Interest earnings (-\$3.6M)

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The highlights of the Adopted Budget include:

Economic sustainability emphasized

- Economic sustainability initiatives, such as \$1.0 million funding for the new King Street trolley and for a new regional marketing initiative.

School funding up

- The total funding provided to the Schools will increase 4.8%.

Increases for land use and transportation planning

- New funding for land use planning as well as transportation and parking planning.

Significant budget savings and user fees

- \$2.3 million in budget savings and \$3.5 million in increased user fees and service charges.

Plan to meet future post employment obligations

- Begins a multi-year funding plan to meet future post employment obligations for retiree health and life insurance.

Holds line on City operations

- Holds the line on City operations by a net increase of only 0.2% in the City workforce (6.6 positions).

Slows down growth in employee compensation

- Provides one-time supplemental payments for City and School employees totaling \$3.1 million in lieu of a permanent 1.0% market rate adjustment that would have cost \$3.8 million.

The specific program highlights of changes made by City Council in the Approved Budget include:

Key transportation initiatives funded after elimination of NVTA revenues

- Funding for several key transportation initiatives facing elimination after the loss of NVTA revenues, including the King Street trolley service, DASH bus operating expenses, and additional positions for a parking planner and transportation planner, and funding for a Potomac Yard Metrorail Station Feasibility study.

Restaurant/Meals tax and Hotel Occupancy tax increased by 1.0%

- The Restaurant/Meals tax and Hotel Occupancy tax were each increased by 1.0% in order to help fund economic sustainability initiatives such as the King Street trolley, CIP transportation projects, as well as additional land use and transportation planning staff resources.

Funds for child care and early childhood education

- Contingent reserves for additional families seeking child care assistance and enhanced early childhood education programs.

Funding for Fire Safety needs

- Additional funding for the Fire Department for shift safety officers and to meet other safety needs.

Retention of program to ease traffic congestion

- Retention of the Gridlock Reduction Intervention Program (GRIP), providing additional police staff to ease evening rush hour traffic and reduce congestion.

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Other needs met

•Expanded youth summer employment program, and additional funds for Small Business Development Center, Arlandria Health Clinic, Mirant power plant air emission monitoring equipment, and to purchase clean energy.

Emphasis remains on maintaining existing assets

The Approved CIP continues its emphasis on maintaining existing assets. As I noted in my February 12, 2008 message, the City's CIP is designed to avoid balancing the budget by deferring maintenance. The CIP focuses on maintaining existing physical assets as necessary.

Backlog of unfunded CIP projects is reduced but not eliminated

Nevertheless, to deal with significant shortfalls of \$85 million in the previously Approved CIP, the Proposed CIP and Approved CIP for FY 2009 to 2014, as well as the shortfall of transportation funding, major revisions were made to project schedules and cost estimates to reflect both operational realities and funding constraints. After Council action, a total of \$4.5 million in reductions were taken in FY 2009, and a shortfall still exists in the outyears causing unfunded projects totaling \$30.7 million in FY 2010 and \$22.3 million in FY 2011. These unfunded projects were deemed lower priority, in part because of our focus on maintaining existing assets, and they are listed in CIP document. In addition, there is still \$13.7 million of unfunded capital transportation projects that were to be funded by NVTA revenues.

Other long range challenges remain

Besides dealing with the shortfall in available CIP funding, several other longer range challenges remain to be considered in future years.

Maintaining pay and benefits adequate to meet the competition for a capable workforce

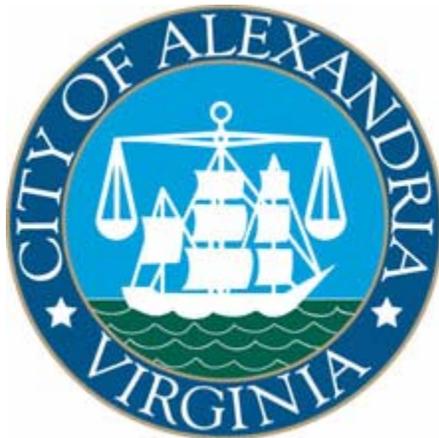
•We must meet the competitive pressures of the regional labor market. This challenge includes recruiting and retaining a capable workforce while controlling and meeting our future obligations for post-employment health and life insurance benefits, reducing the rate of growth in health benefits for active employees, and reviewing and revising as necessary our employee compensation systems and policies.

Continuing to deal with the slowdown in revenue growth

•We also need to be prepared to continue to deal with the slowdown in the real estate market and perhaps other revenue sources as well. For future planning purposes the budget assumes no growth in real estate assessments next year. The City has the ability to adjust City spending by slowing down planned capital projects, and staff will closely monitor spending and revenues during the year so that any negative trends can be identified and adjustments made as necessary in the operating budget. We look forward to working with City Council as the community as we deal with these challenges from the position of financial strength we now maintain.

Sincerely,

James K. Hartmann,
City Manager



City of Alexandria, Virginia

MEMORANDUM

DATE: MAY 15, 2008
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: JAMES K. HARTMANN, CITY MANAGER
SUBJECT: BUDGET MEMO #133: FY 2009 ADOPTED ADD/DELETE LIST

City Council adopted the FY 2009 General Fund Revenue and Expenditure Operating Budget in the amount of \$541,978,347, an increase in fund balance designations of \$2,626,958 for the FY 2010 – FY 2015 Capital Improvement Program, and a FY 2009 – FY 2014 Capital Improvement Program of \$396,865,457. This budget is based on the City Manager’s FY 2009 Proposed Budget of \$534,791,005 with the following amendments derived from the “add/delete” process and adopted on May 5, 2008.

This memorandum is organized into seven sections as follows:

- I. Expenditure Budget Changes
 - a. Technical Adjustments
 - b. City Manager Budget Reallocations
 - c. Compensation Adjustments
 - d. Changes to Proposed General Fund Operating Budget
- II. Revenue Budget Changes
- III. Fund Balance Designations
- IV. Contingent Reserves
- V. Capital Improvement Program (CIP)
- VI. Summary of FY 2008 General Fund Budget
- VII. Comparisons to FY 2007 Amended and FY 2008 Proposed Budgets

I. Expenditure Budget Changes:

Technical Expenditure Adjustments to Proposed Budget (Budget Memo #78)		
\$	13,000	Animal Welfare League of Alexandria increased FY 2009 Costs (BM#58)
\$	84,000	Sheriff's Personnel Budget (BM #58)
\$	13,000	Police Department Vehicle Depreciation (BM #111)
\$	(15,076)	Sheriff Increase in Grant Revenues (BM #117)
\$	94,924	Total Technical Expenditure Adjustments

b.

City Manager Budget Reallocations to Proposed Budget		
\$ 249,633	Revised Planning and Zoning Work Program (BM #121)	
\$ (300,000)	Self-Funding MAMSI Health Care Benefits (BM #118)	
\$ 500,000	Potomac Yard Metrorail Station Feasibility (BM #27)	
\$ (474,500)	Highway Traffic Video Monitoring System Grant Match (BM #122)	
\$ (24,867)	Total City Manager Budget Reallocations	

c.

Compensation-related Changes to the Proposed Budget (BM #131)		
\$ 1,327,163	One-time \$500 pay supplement for City (per FTE)	
\$ 740,000	2% one-time longevity pay supplement to Top-of-Grade for City	
\$ (75,000)	Retiree Life Insurance elimination for future employees (BM #41)	
\$ 1,992,163	Total Compensation-related Budget Increase	

d.

Changes to Proposed City General Fund Operating Budget Expenditures		
\$ 342,489	Fire, Three Shift Safety Officers (BM #48)	
\$ 188,259	Fire, Depreciation of Grant Funded Equipment	
\$ 30,000	Sheriff, Emergency Response Team	
\$ 2,365	Sheriff, Marked Vehicles	
\$ 225,000	Police, Red Light Camera Program (BM #45, #108)	
\$ 150,000	Police, Gridlock Reduction Program (BM #46)	
\$ 591,269	DHS, Child Care Fee System	
\$ 60,500	MHM RSA, Infant Development Specialist	
\$ 169,278	P&Z, Historic Preservation Positions	
\$ 235,021	P&Z, Neighborhood and Community Development Positions (BM #121)	
\$ 100,000	ACVA, Regional Marketing Initiatives (BM #120)	
\$ 75,000	AEDP, Regional Marketing Initiatives. Contingent Reserves	
\$ 50,000	AEDP, Consulting Services, Contingent Reserves	
\$ 20,000	RPCA, Brenman Park Storm Water Pond Maintenance	
\$ 28,522	Non-Departmental, Contingent Reserves	
\$ 222,696	Fire Department Safety Improvements, Contingent Reserves (BM #50)	
\$ 50,000	RPCA, Arts Districts (BM #60)	
\$ 50,000	Small Business Development Center	
\$ 135,000	DASH Service Expansions (BM #57)	
\$ 50,000	DHS, Youth Summer Employment Program Sustainability/Expansion (BM #72)	
\$ 90,000	DHS, Consultants for Aging Study, Contingent Reserves (BM #64, #86)	
\$ 45,150	TES, Commercial Recycling Position (BM #105)	
\$ 100,000	TES, Mirant Monitor (BM #114)	
\$ 40,000	Arlandria Health Clinic	
\$ 47,000	TES, Clean Energy (BM #113)	
\$ 2,000	Community CIP Prioritization Effort (BM #92)	

Changes to Proposed City General Fund Operating Budget Expenditures (cont'd)	
\$ 13,000	Consumer Education
\$ 14,400	Hazardous Waste Collection Expansion (BM #115)
\$ 671,662	Cash Capital, DASH Facility Cash Match (BM #14, #27)
\$ 1,000,000	King Street Trolley (BM #14, #27)
\$ 276,565	DASH, Adjustments to Base Budget Increase (BM #14, #27)
\$ 166,852	TES, Parking Planner and Professional Services (BM #14, #27)
\$ 147,629	TES, Transportation Planner (BM #14, #27)
\$ 800,000	Cash Capital, Washington Street Reconstruction (BM #14, #27)
\$ 130,000	DASH, New operating costs (BM #57)
\$ (184,000)	Cash Capital, DASH 5% Bus Purchase Contingency
\$ (250,000)	Cash Capital, Eisenhower Ave City Match
\$ (100,000)	Cash Capital, Non-public safety Automated Vehicle Locator System
\$ (1,225,000)	Cash Capital, Wayfinding sign program
\$ (300,000)	Cash Capital, Reduction in Neighborhood Traffic Calming
\$ (260,000)	Cash Capital, All City Sports (Capital Development Foundation) (BM #124)
\$ 4,000,657	Net City Expenditure Increases and Reductions (Total)

Change in Proposed Transfer to Alexandria Public Schools Operating Budget (BM #116)	
\$ 1,062,465	One-time \$500 pay supplement for Schools (per FTE)
\$ 62,000	2% one-time longevity pay supplement to Top-of-Grade for Schools
\$ 1,124,465	Total Schools Transfer Option*

\$ 7,187,342 Total Expenditure Budget Adjustments

* The amounts listed above as funding for a one-time \$500 pay supplement for ACPS employees and a 2% one-time longevity pay supplement were calculated (based on information from ACPS staff) to provide an equivalent amount of funding as that provided for City Staff. Nothing in these calculations affects the final decision making authority over the use of these additional funds that lies with the Alexandria School Board.

II. Revenue Budget Changes:

Technical Revenue Re-estimates to Proposed Budget (Budget Memo #33)	
<u>FY 2009</u>	
\$ (1,000,000)	Decrease in Local Sales Tax revenues
\$ 300,000	Increase in Utilities Tax revenues
\$ (300,000)	Decrease in Bank Franchise Tax revenues
\$ 100,000	Increase in Motor Vehicle License Tax revenues
\$ (900,000)	Decrease in Recordation Tax revenues
\$ (200,000)	Decrease in Tobacco Tax revenues
\$ 200,000	Increase in Transient Lodging Tax revenues
\$ 200,000	Increase in Restaurant Meals Tax revenues
\$ (100,000)	Decrease in Admissions tax revenues
\$ (1,250,000)	Decrease in Personal Property Tax revenues
\$ 200,000	Increase in Court Fines revenues
\$ 200,000	Increase in Indirect Costs
\$ 1,172,382	Increase in Sheriff's Compensation Board reimbursement
\$ 123,274	Increase in Finance Department Compensation Board reimbursement
\$ (1,050,000)	Reduction in State Aid to local governments
\$ 22,000	Increase in Animal Shelter Revenue
\$ (500,000)	Decrease in Clerk's Fees
\$ 400,000	Increase in Ambulance Transport Fees
\$ 100,000	Increase in Sales of Recyclables
\$ (1,860,000)	Decrease in General Fund Short-term investments
\$ (307,519)	Decrease in proceeds of sale of impound lot vehicles revenue
<u>\$ 21,600</u>	
\$ (4,428,263)	Total FY 2009 Technical Revenue Re-estimates

Changes in Proposed Tax and Fee Rates and New Revenues (BM #25)	
\$ 5,253,914	Increase in Real Estate Tax Revenues due to 1.5 cent tax rate increase to 84.5 cents effective for both payments in FY 2009
\$ 270,000	Red Light Camera Revenues - Budget Memos #45 and #108
\$ 3,700,000	Restaurant Meals Tax Rate Increase of 1 %
\$ 1,600,000	Transient Lodging Tax Rate Increase of 1%
\$ 194,000	Board of Architectural Review (BAR) Fee Increases
\$ 13,000	Payday Lending Business Professional and Occupational License Tax (BPOL)
\$ 69,040	Increase in Recycling Fees
\$ 141,000	Increase in Parking Fines
\$ 374,652	Residential Refuse Fee Increase of \$20 for Leaf Collection Services
\$ 11,615,606	Total Increase in Tax and Fee Rates and New Revenues
<u>\$ 7,187,343</u>	Total Revenue Increases

III. Fund Balance Designations

Changes in Proposed Fund Balance Designations	
Undesignated	
	Contribution to Fund Balance in FY 2008 tentatively designated for FY 2010 -
\$ 2,626,958	2015 CIP
\$ 2,626,958	Total
\$ 2,626,958	Changes in Fund Balance (as of the end of FY 2008)

IV. Contingent Reserves

Changes and Reservations of Proposed Council Contingent Reserves	
\$ 200,000	Contingent Reserves in the Proposed Budget
\$ 616,218	Amount added by City Council (C.M. Alternative Budget included \$175,000)
\$ (222,696)	Fire Department Safety Improvements
\$ (125,000)	AEDP Options
\$ (50,000)	Arts Districts
\$ (100,000)	Monitor for Mirant
\$ (228,522)	Watson-Wyatt Payscale Adjustments
\$ (90,000)	Aging Study
\$ (816,218)	Net Reduction in Undesignated Contingent Reserves
\$ -	Remaining Contingent Reserves

V. Capital Improvement Program Budget Changes

Changes in the Cash Capital Transfer to the CIP	
\$ 5,739,524	FY 2009 Proposed Cash Capital Transfer to the CIP
\$ (184,000)	DASH 5% Bus Purchase Contingency
\$ (250,000)	Eisenhower Ave. City Match
\$ (100,000)	Non-Public Safety Automated Vehicle Locator System
\$ (1,225,000)	Wayfinding Sign Program
\$ 671,662	DASH Facility Cash Match
\$ 800,000	Washington Street Paving
\$ (260,000)	All City Sports (Capital Development Foundation)
\$ (300,000)	Reduction in Neighborhood Traffic Calming
\$ 4,892,186	Total FY 2009 Cash Capital Transfer to the CIP

VI. Summary of the FY 2009 General Fund Budget

Summary of Growth in FY 2009 Budget	
\$ 534,791,005	FY 2009 Proposed General Fund Operating Revenues and Expenditures
\$ 7,187,342	Total Change in City General Fund Operating Budget Expenditures over Proposed
\$ 541,978,347	Resulting FY 2009 General Fund Operating Budget
\$ 2,626,958	Change in Fund Balance (at the end of FY 2008)
\$ 4,892,186	Resulting Cash Capital Funding of the FY 2009-FY 2014 CIP

VII. Comparisons to the FY 2008 Approved and FY 2009 Proposed Budgets

	City	Schools	Total
FY 2008 Approved General Fund Budget	\$359.3	\$160.2	\$519.5
FY 2009 Proposed General Fund Budget	\$368.0	\$166.8	\$534.8
FY 2009 Approved General Fund Budget	\$375.1	\$166.8	\$542.0
Amount Over FY 2008 Approved	\$15.8	\$6.6	\$22.5
Percent Over FY 2008 Approved			4.3%