

# CITY OF *Alexandria* VIRGINIA



## MANAGING FOR RESULTS

### **FY 2009** **PROPOSED BUDGET IN BRIEF** JULY 1, 2008 – JUNE 30, 2009



#### **ALEXANDRIA CITY COUNCIL**

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# Budget in Brief

## FY 2009 PROPOSED BUDGET OVERVIEW

The City Manager has proposed a FY 2009 Operating Budget of \$534.8 million, an increase of \$15.3 million or 2.9% over last year's budget, and a FY 2009-2014 Capital Improvement Program (CIP) calling for \$58.8 million in City funding in FY 2009 and \$388.1 million in City funding over six years.

In accordance with City Council guidance, the operating budget transfer to the Alexandria City Public Schools would increase by 4.1% or \$6.6 million and funding for the remainder of the General Fund budget, including cash capital and debt service funding for all capital projects and transit subsidies, would increase by 2.4% or \$8.7 million.

At the November City Council retreat, City staff identified both an immediate FY 2009 budget challenge and a long term budget challenge, if the City's real estate base growth rate remains low. Council then set an aggressive goal after the retreat for City staff to put together a budget without increasing the real property tax rate, and the proposed budget assumes no increase in the existing real property tax rate of 83 cents per \$100 assessed value.

The Proposed Budget reflects the City's continuing Managing for Results Initiative, with a format that presents detailed information for about 435 activities, many of which have various measures of performance and expected results.

## BUDGET SUPPORTS EIGHT GOALS OF THE COUNCIL'S STRATEGIC PLAN

The FY 2009 Proposed Budget advances the eight goals of the strategic plan. Those goals are:

- Quality development and redevelopment that is well planned and consistent with Alexandria's vision.
- A City that respects, protects, preserves and enhances the natural environment and historic resources.
- An integrated, multi modal transportation system that efficiently and effectively gets people from point "A" to point "B."
- A strong local economy that is growing in varied small businesses and job opportunities.
- A caring community that is diverse and affordable.
- A City government that is financially sustainable, efficient and community oriented.
- Public schools that are among the best in Northern Virginia (in partnership with Alexandria Schools).
- A City that ensures the safety, security, emergency preparedness, and well being of the community.

By advancing these goals, the Proposed Operating budget and CIP are intended to work toward the City Council's long term vision for Alexandria. That vision is:

*Alexandria 2015 is a vibrant, diverse, historic, and beautiful City with unique neighborhoods and multiple urban villages where we take pride in our great community.*

# Budget in Brief

## FY 2009 PROPOSED EXPENDITURE INCREASES (In Millions)

<b>General Fund</b>	<b>FY 2008 Approved</b>	<b>FY 2009 Proposed</b>	<b>\$ Change</b>	<b>% Change</b>
City Operating Expenditures	303.3	312.0	8.7	2.9%
City OPEB Funding	0.0	1.4	1.4	NA
Transit Subsidies	15.4	15.2	(0.2)	(1.1%)
Capital Projects/Debt Service	40.6	39.4	(1.2)	(2.9%)
<i>City Subtotal</i>	<i>359.3</i>	<i>368.0</i>	<i>8.7</i>	<i>2.4%</i>
City Appropriation to Schools	160.2	166.0	5.8	3.6%
Schools OPEB Funding	0.0	0.8	0.8	NA
<i>Schools Subtotal</i>	<i>160.2</i>	<i>166.8</i>	<i>6.6</i>	<i>4.1%</i>
<b>Total General Fund Budget</b>	<b>\$519.5</b>	<b>\$534.8</b>	<b>\$15.3</b>	<b>2.9%</b>

## MAJOR “BUDGET DRIVERS” SHAPING THE PROPOSED BUDGET

The budget identified \$4.7 million in savings sufficient to contain additional spending for other City operations to only \$8.7 million or a 2.4% increase. City salaries and benefits increase 4.1% in order to pay for step increases for eligible employees, increases in retirement rates due to changed actuarial assumptions, and health insurance premium increases.

The City must pay salaries and benefits that are competitive with neighboring jurisdictions and the generally tight job market in the Washington D.C. area, or risk losing good employees. To do so, this budget proposes pay step increases, although no market rate adjustment is proposed.

The Schools’ budget is increased by \$6.6 million or by 4.1%, in accordance with guidance provided by the City Council.

The City and Schools estimated unfunded liability due to new accounting standards for other post employment benefits (OPEB) totals \$128 million. Meeting the challenge of funding this liability over time will assist the City in maintaining its AAA/Aaa bond ratings. The Proposed Budget provides \$1.4 million in initial funding for obligations for future benefits to City employees after retirement and \$0.8 million to fund similar obligations to Schools employees. This funding will need to be increased by these amounts annually until it reaches \$11.0 million.

Transit subsidy costs paid by City funds will actually decline slightly due to the elimination of low-ridership portions of existing Metrobus routes.

Funding for capital projects through cash and debt services of prior year borrowing declines slightly as well, due to a reduction in CIP cash funding in FY 2009.

# Budget in Brief

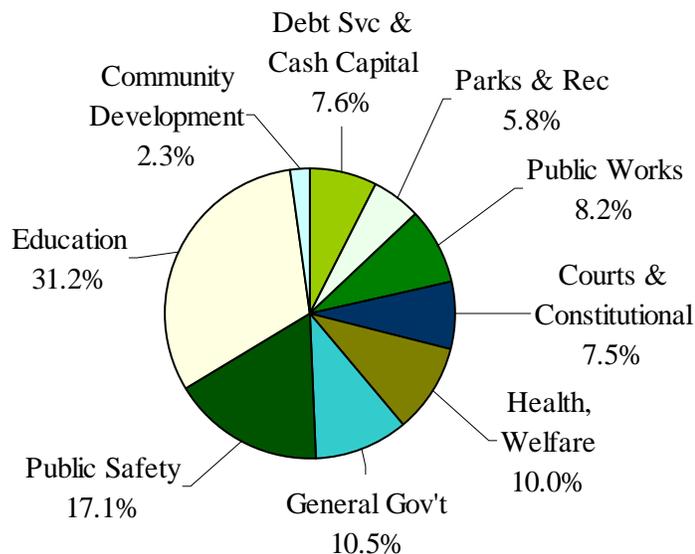
## ALEXANDRIA CITY PUBLIC SCHOOLS

Alexandria desires public schools that are among the very best in Northern Virginia. The City's primary role in achieving this end is responsibly funding the School's operating and capital needs. The Proposed Operating Budget for FY 2009 provides \$166.8 million in City funds for School operations, a \$6.6 million increase over last year. City funding for School operations increases by 4.1% over FY 2008. This means that over 43% of the total budget increase goes to the Schools.

The \$6.6 million increase is sufficient to fund step increases and any increased benefit costs, although it is \$2.9 million short of funding the Schools entire request, which includes \$1.4 million for a 1.0% market rate adjustment for School employees.

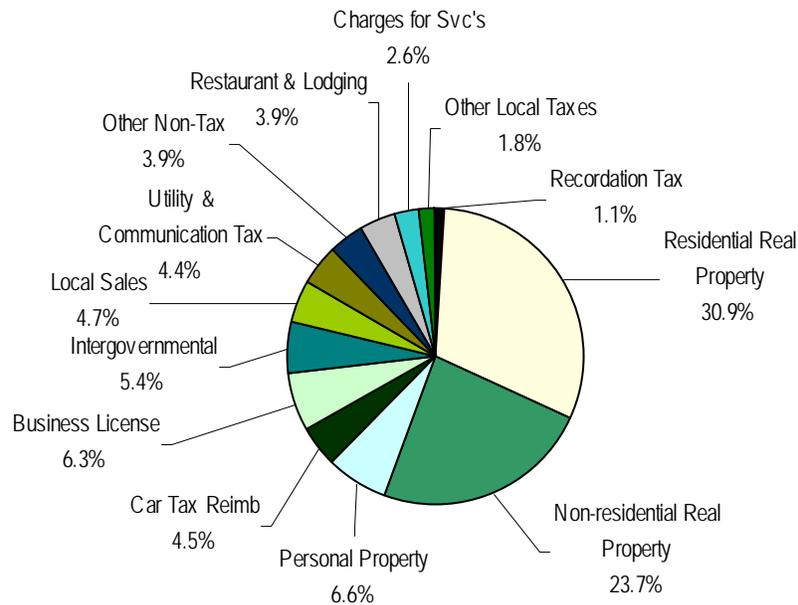
The Proposed General Fund CIP provides \$65.3 million for the School Board's submitted capital program for FY 2009 – FY 2014, however this is \$1.9 million short of the School Board's request for FY 2009 and \$26.4 million short of fully funding the School's request for all six years.

### FY 2009 GENERAL FUND EXPENDITURES WHERE IT GOES... \$534.8 Million



# Budget in Brief

## FY 2008 COMBINED GENERAL FUND REVENUES, WHERE IT COMES FROM... \$528.2 million



FY 2009 General Fund Revenues	\$528.2
Use of Prior-Year Surplus	\$4.6
Sewer Fund Transfer In	\$1.3
IT Replacement Transfer In	\$0.7
<b>Total General Fund Revenues</b>	<b>\$534.8</b>

The Proposed General Fund revenues are projected at \$528.2 million. Another \$1.3 million in sanitary sewer fund revenues are available to finance that program's share of debt service. \$0.7 million is available from the IT equipment replacement fund. An additional \$4.6 million in FY 2007 surplus revenues have been designated for use in FY 2009. As a result, a total of \$534.8 million is available to support the proposed City and Schools' General Fund expenditures, a 2.9% increase in total revenues.

# Budget in Brief

## FY 2009 PROPOSED REVENUE SUMMARY

Real Estate tax revenues are projected at \$288.3 million, a 3.7% increase as compared to last year's approved budget, reflecting a combination of slightly declining residential assessments and increased commercial assessments and new construction.

- This reflects the real estate tax rate remaining at 83.0 cents per \$100 of assessed value, and no change in the program guidelines providing real estate tax relief to elderly and disabled homeowners. However, the City's relief program targeted to low and moderate income homeowners, AHOP, is being reduced in scope in CY 2008 by lowering the maximum household income level to \$72,000 and restricting it to those who participated in CY 2007.
- The collection of Other Taxes are expected to increase by 0.6%; other Non-tax revenues are expected to increase by 5.5%; and Intergovernmental revenue from federal and state sources are expected to decrease by 1.5% from last year's approved budget.
- The budget also includes a \$17 increase in solid waste collection fees from \$264 in FY 2008 to \$281 per residence in FY 2009 to keep that activity self-supporting through user fees.

Millions of dollars

	FY 2008 Approved	FY 2008 Projected	FY 2009 Proposed	Change from FY 2008 Approved
Real Property Tax	\$278.2	\$282.3	\$288.3	3.7%
Other Taxes	153.7	151.5	154.6	0.6%
Non-tax revenue	31.2	29.5	32.9	5.5%
Fed & state revenue	53.2	53.3	52.3	(1.5%)
PY surplus & other fund transfers	3.3	3.9	6.6	100.1%
<b>Total</b>	<b>\$519.5</b>	<b>\$520.4</b>	<b>\$534.8</b>	<b>2.9% *</b>

\* The total change from FY 2008 Projected Revenues is 2.8%

# Budget in Brief

## CAPITAL IMPROVEMENT PROGRAM HIGHLIGHTS

The City of Alexandria's Capital Improvement Program is a comprehensive plan which identifies the City's future infrastructure and facility needs, and the corresponding funding required to meet those needs. Capital Improvement Program costs on a six-year basis through FY 2014 are up significantly reflecting the future plans to continue to improve the City's infrastructure. Last year's Amended CIP totaled \$389.1 million in City funding and \$449.7 million in total funding over six years; this year's Proposed CIP totals \$388.1 million in City funding and \$478.3 million in total funding. The Proposed CIP contains few new projects except for those transportation projects funded with new Northern Virginia Transportation Authority (NVTA) revenues, some increased costs for existing projects, and many reductions compared to last year's CIP.

The six-year CIP would be funded by \$280.1 million in borrowing and \$198.2 million from City and non-City cash funds. Planned funding sources include: \$40.0 million in cash capital contributions from current revenues, \$13.9 million from open space funds, \$28.4 million from sewer use and connection fees, \$4.2 million from a vehicle registration fee, \$7.4 million from fund balance, \$14.1 million from bond interest earnings, and \$90.2 million from other miscellaneous sources, including \$31.0 million from the new NVTA revenues. The CIP complies with the policy limits governing the amount of allowable debt and debt service costs, and is consistent with retention of the City's top AAA/Aaa ratings by the two major bond rating agencies.

The major building projects funded in the CIP over the next 6 years include the completion of a new police headquarters, the renovated Patrick Henry, Charles Houston and Chinquapin Recreation Centers, Windmill Hill Park, athletic field improvements, All-City Sports Complex, historic property preservation, restoration of areas damaged by the flood of 2006 and new fire stations in Eisenhower Valley and Potomac Yard. Significant funding also is provided for transportation and sewer infrastructure projects.

Last September, City Staff identified significant funding shortfalls in the planned FY 2009 and FY 2010 CIP totaling about \$85 million. Major revisions were made to project schedules and cost estimates to reflect both operational realities and funding constraints. The CIP projects were prioritized so that only \$3.4 million in reductions needs to be proposed in FY 2009. City staff are revising procedures for managing major capital projects to incorporate a phased review process that will more clearly identify potential costs and benefits and allow City staff to control and manage these projects better over their lifetime. The City's debt capacity and plans for issuing new debt were closely looked at so that the long term benefits of many capital projects might be more fairly allocated to future taxpayers.

The CIP for FY 2009 through FY 2014 provides \$478.3 million over a six-year period as follows:

- \$65.3 million for public schools;
- \$118.4 million for public buildings, including \$51.3 million for construction of the new police headquarters;
- \$102.7 million for public transportation and traffic control;
- \$41.9 million for streets, bridges, pedestrian improvements, other traffic improvements and mass transit;
- \$57.6 million for recreation and parks, including \$20.2 million for renovations and improvements to the Chinquapin Recreation Center and \$13.9 million for open space acquisition;
- \$44.0 million for reconstruction, extension & rehab of sewers-sanitary sewers funded 100% from sewer fees;
- \$24.9 million for information technology projects; and
- \$23.4 million for community development, libraries and other regional commitments.

# Budget in Brief

## FINANCIAL OUTLOOK

During consideration of the FY 2009 budget, several longer range challenges continue to be considered and require future attention to assure the financial condition of the City is sustainable.

The City faces future challenges in meeting competitive pressures of the regional labor market. Health care insurance premiums for current employees are increasing, and OPEB accounting standard changes caused the City and Schools to each develop parallel multi-year plans to fund long-term liabilities for retiree health and life insurance benefits. Although increased premium cost sharing with City employees helps mitigate this budget pressure, longer term strategies need to be developed. The City also must redesign the process by which it measures and maintains staff pay and benefit competitiveness with other Washington metropolitan jurisdictions. To do so, the City launched the Personnel Services Department efficiency and benchmark audit in FY 2008. One focus is going to be improvements in the City's Wellness Program in order to improve employee health, workplace productivity, and possibly lower future health insurance costs. The City is also reviewing the employee compensation philosophy as part of a consultant study of employee classification and pay systems and is likely to revise the current compensation philosophy during FY 2009.

The City has positioned itself well financially to be ready for the slowdown in the real estate market. For future planning purposes the budget assumes little growth in assessments next year. The City has the ability to adjust City spending by slowing down planned capital projects, and staff can closely monitor spending and revenues during the year so that any negative trends in revenues or expenditures can be identified and adjustments made as necessary.

Over the long range, the economic vitality of the City is the major determinant of the budget health of the City. The Mayor's Economic Sustainability Work Group has recommended actions that the City could take to enhance and attract retail, commercial, office and tourism prospects. Retaining existing businesses and non-profit associations is equally important, as is growing the City's tax base. City Council adopted the Economic Sustainability Work Group recommendations in December 2007.

There is insufficient capital project CIP funding to meet all the needs in FY 2009, 2010 and 2011, even after rescheduling many projects to a later time. In addition to the \$3.4 million shortfall in FY 2009, there still is a shortfall of \$23.2 million in FY 2010 and \$20.6 million in FY 2011. The impact on the operating budget of proposing additional cash capital or bond issuance is more than existing or projected revenue at current tax rates could handle. Those projects that are proposed for funding focus on making needed investments now that will avoid future costs. The CIP focuses on repairing, refurbishing, renovating, rehabilitating, and reconstructing existing physical assets as necessary. The CIP continues to reflect the continued dedication of 1% of real estate tax revenues for open space. It also focuses on projects that will save future operating costs such as the new Police facility that will eliminate lease costs over future years and allow more efficient consolidated police operations.

# Budget in Brief

## CITY MANAGER'S ALTERNATIVE BUDGET

As provided in the City Council Resolutions governing the budget process, the City Manager is simultaneously presenting an Alternative Budget that is \$3.3 million below the maximum 5% growth rate target established by the City Council for FY 2009. The increases to the Proposed Budget totals \$6.8 million on a net basis in FY 2009 and would result in an overall budget increase of 4.3%. The biggest single item on that list is a 1.0% market rate adjustment for both City and Schools staff adding \$3.76 million. An additional \$3.1 million is proposed for various other valuable City operating programs.

Financing the Alternative Budget would require a 2.0 cent increase in the real estate tax rate. This is less than the 3.0 cent increase that would be necessary to fund the maximum 5.0% growth budget. City Council could decide to limit the increase in the real estate tax rate to 1.6 cents – an amount that would keep the average residential taxes paid by a homeowner the same as before and produce \$5.6 million in additional FY 2009 revenues. Any of these alternative increases in the real estate tax rate provide additional one-time monies in FY 2008. It is proposed that these one-time funds be designated to meet some of the unfunded School and City one-time capital project needs in FY 2010. Using these one-time funds to further increase recurring FY 2009 operating expenses would make balancing the FY 2010 operating budget one year from now very difficult.

<b>Tax Rate Increase</b>	<b>FY 2009 Revenue</b>	<b>Ave. Change Res. Tax Bill</b>
none	\$0.0 M	(\$82)
1.6 cents	\$5.6 M	(\$2)
2.0 cents	\$7.0 M	\$18
3.0 cents	\$10.5 M	\$68

# Budget in Brief

## TAX FACTS & ASSESSED VALUE

Type	Unit	FY 2008 Actual Rate	FY 2009 Proposed Rate
Real Estate	\$100/AV	83.0 cents	83.0 cents
Personal Property & Relief Percentage	\$100/AV	\$4.75 / 69%	\$4.75 / TBD
Refuse Collection Disposal	Household	\$264	\$281

Average Residential Home Assessed Value .....	\$498,670
Average Residential Tax Bill CY'07 .....	\$4,219
Average Residential Tax Bill CY'08 (Proposed 83.0 cents rate) .....	\$4,139

## Median Assessed Value of Homes and Condominiums CY 2008

<u>Assessed Value</u>	<u>Units</u>	<u>Total Value</u>	<u>Median</u>
Less than \$100,000	10	\$717,432	\$79,687
\$100,000-\$249,999	6,084	\$1,277,875,456	\$217,300
\$250,000-\$499,999	18,523	\$6,727,176,684	\$355,000
\$500,000-\$749,999	9,695	\$5,871,334,457	\$597,700
\$750,000-\$999,999	3,637	\$3,106,065,963	\$844,500
\$1,000,000-\$1,999,999	1,689	\$2,164,826,659	\$1,204,500
\$2,000,000 and over	220	\$583,513,634	\$2,410,800

*Source: Department of Real Estate Assessments*

The value of each one-cent on the real property tax rate is approximately \$3.5 million for FY 2009.

# Budget in Brief

## FY 2009 BUDGET CALENDAR

City Council will hold two public hearings and eleven public work sessions to review the budget in depth. The Budget schedule and work session agenda items are as follows:

Tuesday, February 12	7:00 p.m.	Presentation of Proposed FY 2009 Operating Budget and Proposed FY 2009-2014 Capital Improvement Program
Wednesday, February 13	7:00 p.m.	Work Session on Revenues
Wednesday, February 20	7:00 p.m.	Work Session on Personnel Compensation
Monday, February 25	7:00 p.m.	Work Session on Capital Improvement Program
Monday, March 3	7:00 p.m.	Joint Work Session with the ACPS School Board
Monday, March 10	7:00 p.m.	Work Session on Development-Related Programs & Activities
Tuesday, March 11	5:00 p.m.	Work Session with AEDP and ACVA
Tuesday, March 18	7:00 p.m.	Work Session on Transportation & Transit
Tuesday, April 1	7:00 p.m.	Work Session on Public Safety & Administration of Justice Programs & Activities
Monday, April 7,	7:00 p.m.	Work Session on Caring Community & Other Programs & Activities
Monday, April 14	4:00 p.m.	Budget Public Hearing
Wednesday, April 16	7:00 p.m.	Budget & Fiscal Affairs Advisory Committee Work Session
Tuesday, April 22	7:00 p.m.	Public Hearing on the Effective Real Estate Tax Rate at Regular Council Legislative Session
Monday, April 28	7:00 p.m.	Work Session on Preliminary Add/Delete List Review
Monday, May 5	6:00 p.m. 7:00 p.m.	Work Session on Finalization of Add/Delete List Budget and Tax Rate Adoption Special Council Meeting

Reference copies of the budget are available online at [alexandriava.gov/budget](http://alexandriava.gov/budget) and are also available at all Alexandria City public libraries.