

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 22, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: BUDGET MEMO # 83 OPERATING EXPENSE INCREASE AND DISCRETIONARY SPENDING

This memo is in response to Mayor Euille's request as follows: 1) Is an operating expense increase of 8.8 percent a reasonable increase? 2) Is there flexibility for reduction, deferral or elimination of any of the line items? 3) Is there some flexibility for the proposed \$11.1 million as identified in the budget as recommended discretionary supplemental budget requests for deletion or deferral? and 4) How does this increase compare with neighboring jurisdictions' proposed budgets?

Question 1: Is an operating expense increase of 8.8 percent a reasonable increase? I believe the Proposed FY 2005 Operating Budget and Proposed FY 2005 - 2010 Capital Improvement Program are sound proposals. They are in line with the City's debt policies and financial reserve guidelines; they make relatively modest use of fund balance; and they will enable us to maintain our triple-A bond ratings. They reflect a three-cent reduction in the real estate tax rate, as well as a new program designed to provide further tax relief to lower income home owners. They also advance many of the major goals that have been defined in a preliminary fashion by Council in its recent strategic planning sessions, and in doing so have set a framework for the development and presentation of future budgets. Expenditure increases just to maintain current services and programs are approximately \$27.0 million or 6.8 percent of last year's operating budget. Also, some \$2.3 million in reductions or efficiencies have been squeezed from the proposed budget. As shown in Budget Memo #21, the City departments require an increase of approximately 5.0 percent to maintain current services and programs (3.5 percent for compensation and 1.5 percent for non-compensation). In addition, this year a 1.5 percent increase was needed for the proposed CIP through debt service and cash capital payments. The Schools require an 8.0 percent increase for compensating current staff, and the proposed City budget provides an additional 1.4 percent.

Question 2: Is there flexibility for reduction, deferral or elimination of any of the line items? The FY 2005 Proposed Budget is one that maintains current services and programs and follows Council-adopted policies relating to City debt, fund balances and employee compensation. Despite this, however, we also required each department this year to reduce expenditures by one

percent. This was done in lieu of reductions in specific line items or major service areas (see Budget Memo #40). Possible additional areas for reduction or exclusion include reducing or eliminating capital projects proposed for FY 2005, and thereby reducing the amount budgeted for cash capital in the Operating Budget. Also, some of the proposed discretionary supplemental increases for City departments or the Schools could be deleted or deferred if Council determined that some of the additions were not priority items. (See answer to next question.)

Question 3: Is there some flexibility for the proposed \$11.1 million as identified in the budget as recommended discretionary supplemental budget requests for deletion or deferral? The discretionary supplemental budget requests are characterized as \$5.9 million for City operations, \$2.0 million for cash capital for the CIP, and \$3.1 million for the Schools. There is, of course, flexibility in all of these line items for deletion, reduction or deferral, but it is my belief that they all have merit and represent reasonable enhancements to services or programs. Again, if Council determines that some of these increases should not be funded, Council can choose to reduce in this area.

Question 4: How does this increase compare with neighboring jurisdictions' proposed budgets? The following chart illustrates the proposed budgets in nearby Northern Virginia jurisdictions and their percentage and amounts of increase. I emphasize that all jurisdictions may not structure their budgets the same or fully count all increases. Contingents left in fund balance, FY 2004 carryovers not excluded, differences in fund accounting, how School Board requests were handled - all these different accounting treatments make a direct comparison misleading.

FY 2005 General Fund Budgets

Jurisdiction	Percentage/Amount of increase FY 2004 Approved to FY 2005 Proposed	
Alexandria	8.8%	\$35.1 million
Arlington	7.1%	\$47.0 million
Fairfax	3.6%	\$160.0 million
Loudoun	24.8%	\$198.5 million
Prince William	11.1%	\$67.9 million