EXHIBIT NO. 1

23
11-25-03

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 17, 2003

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: PRESENTATION OF ECONOMIC AND FISCAL INFORMATION CONCERNING THE FY 2005 TO FY 2010 CAPITAL IMPROVEMENT PROGRAM (CIP)

ISSUE: Economic, fiscal and budget issues for the upcoming fiscal year.

RECOMMENDATION: Receive the information as presented by City staff at the November 25 legislative meeting.

BACKGROUND: The City Council retreat earlier this month focused on developing a long-term strategic plan for the City. Therefore, the customary City Council Retreat presentation on the current and projected state of the City's fiscal, economic and budget situation for the upcoming fiscal year was not scheduled for the retreat, but was scheduled for the November 25 City Council meeting just prior to the budget hearing. This presentation is planned to be a summary version of what typically has been provided to City Council in prior years at the retreat. An oral presentation will be made during the meeting, accompanied by some handouts.

STAFF:
Mark Jinks, Assistant City Manager
Bruce Johnson, Director, Office of Management and Budget

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City of Alexandria Economic and Fiscal Status FY 2005 Budget Outlook

Presentation to City Council

November 25, 2003

National Economy

- Jobs increasing
- Inflation @ +2%
- Productivity @ +8.3%
- Consumer confidence @ 91.5%
- Mortgage rates increasing

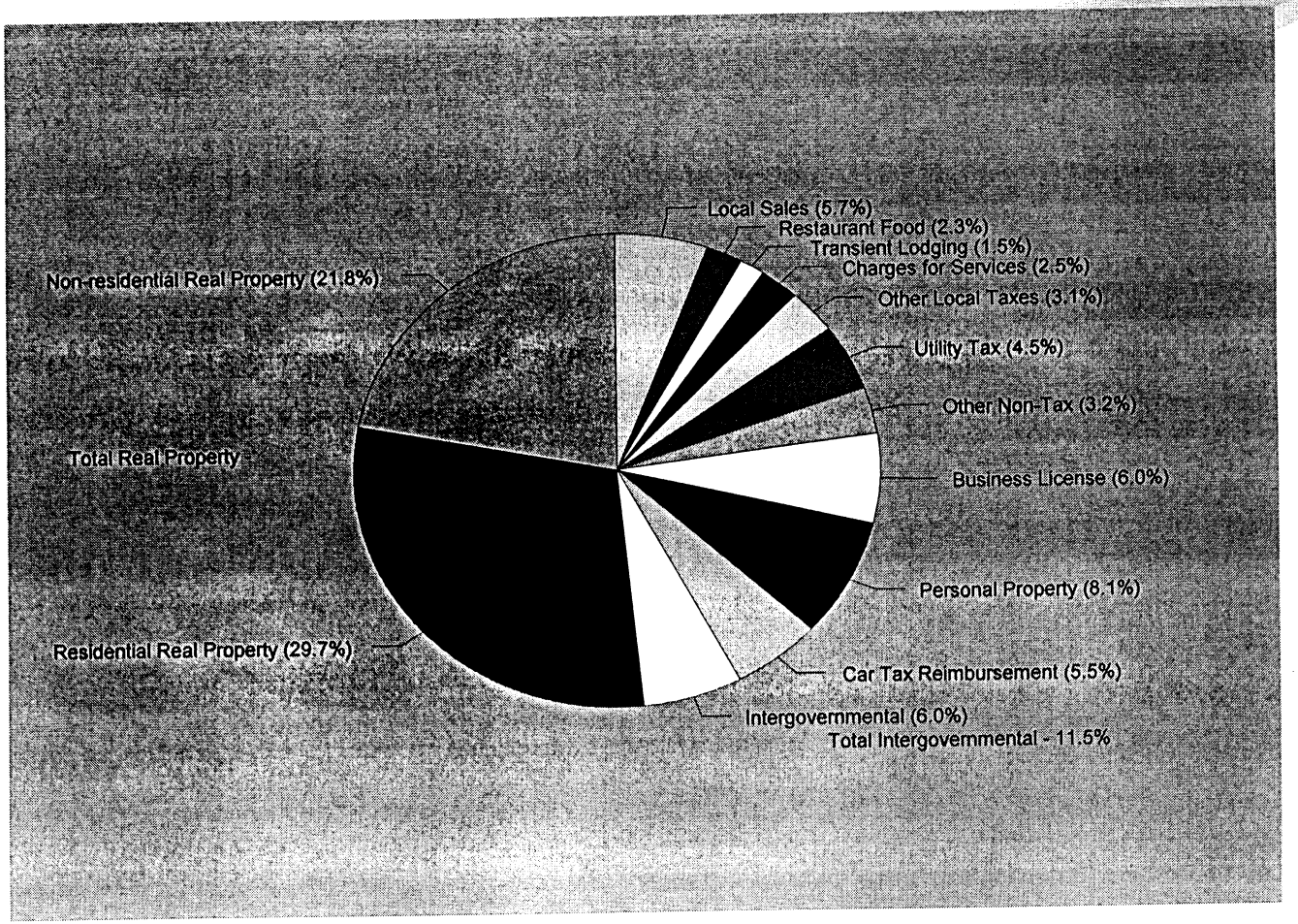
Virginia Economy and Budget

- Sales and withholding revenues @ +5%
- Job growth usually outperforms U.S.
- Funding needs results in $1.2 billion shortfall

City Economy

- Unemployment rate @ 2.5%
- Jobs increasing
- Office vacancy rate @ 10.8%
- Home sales volume level
- Hotel occupancy down to 65%

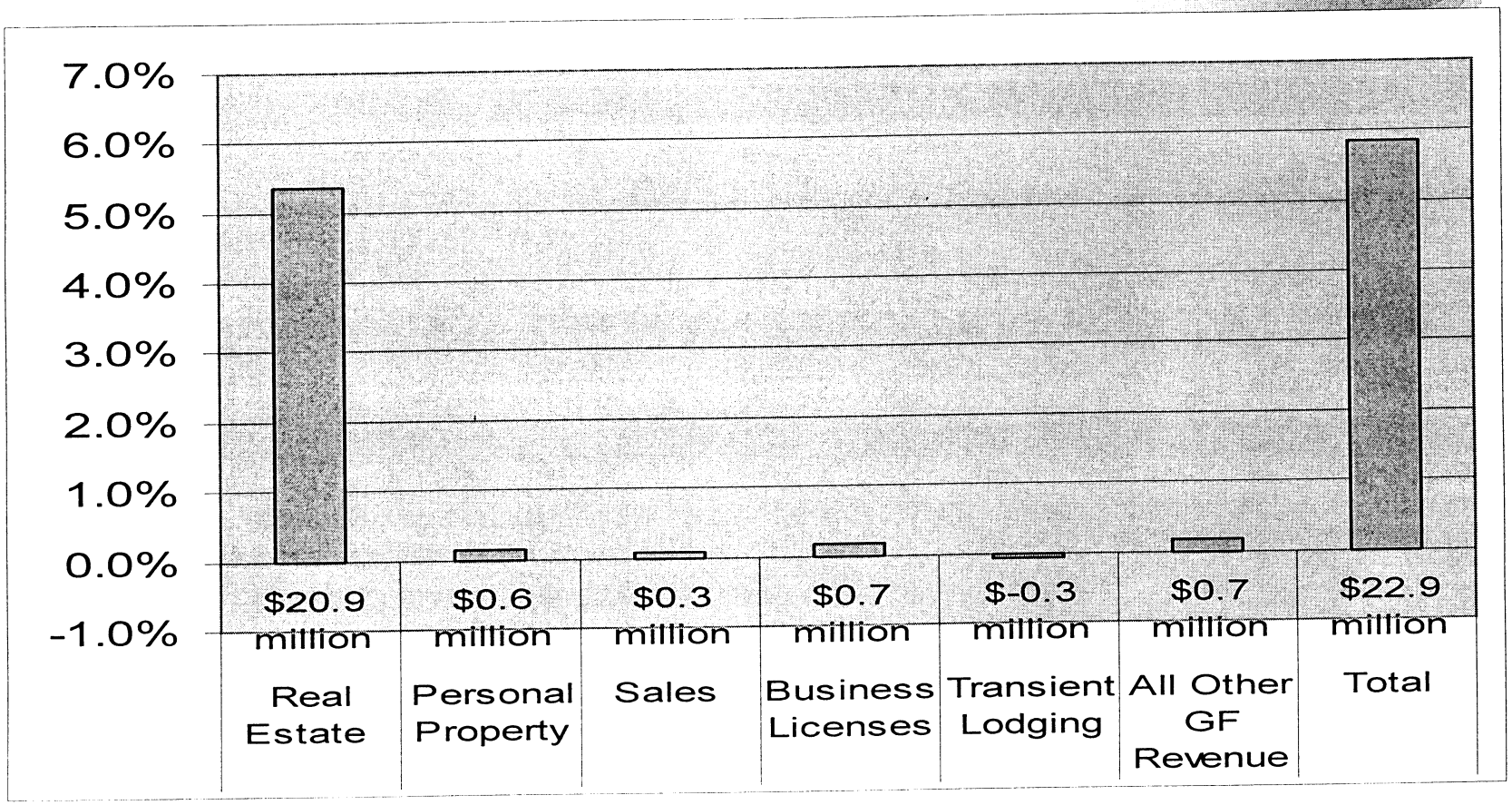
FY 2005 Revenue Outlook



Real Estate for CY 2004

- Estimates based on trends to date
- Single family @ +11%
- Condominium @ +18%
- Commercial @ +7%
- New construction @ 1.8%
- Total @ +11%

Projected Growth in General Fund Revenues

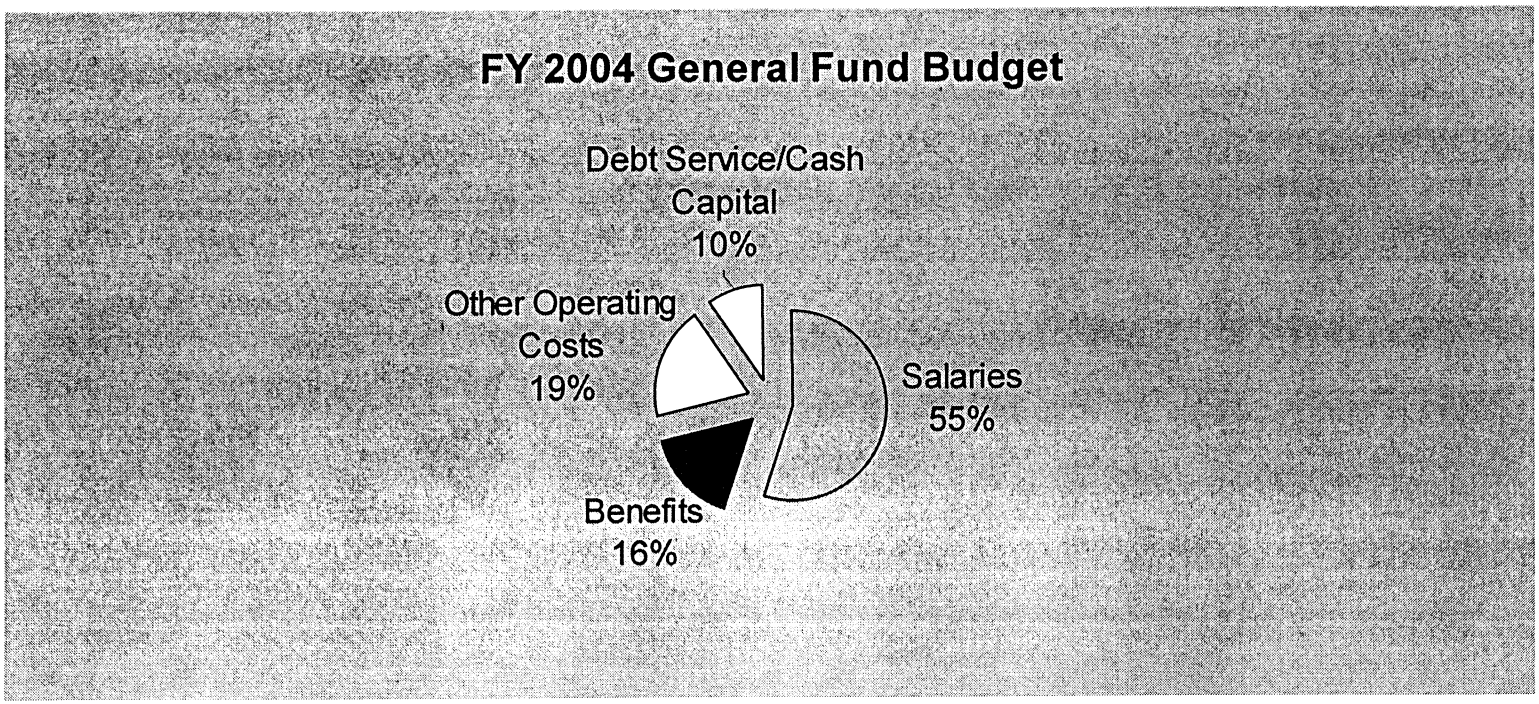


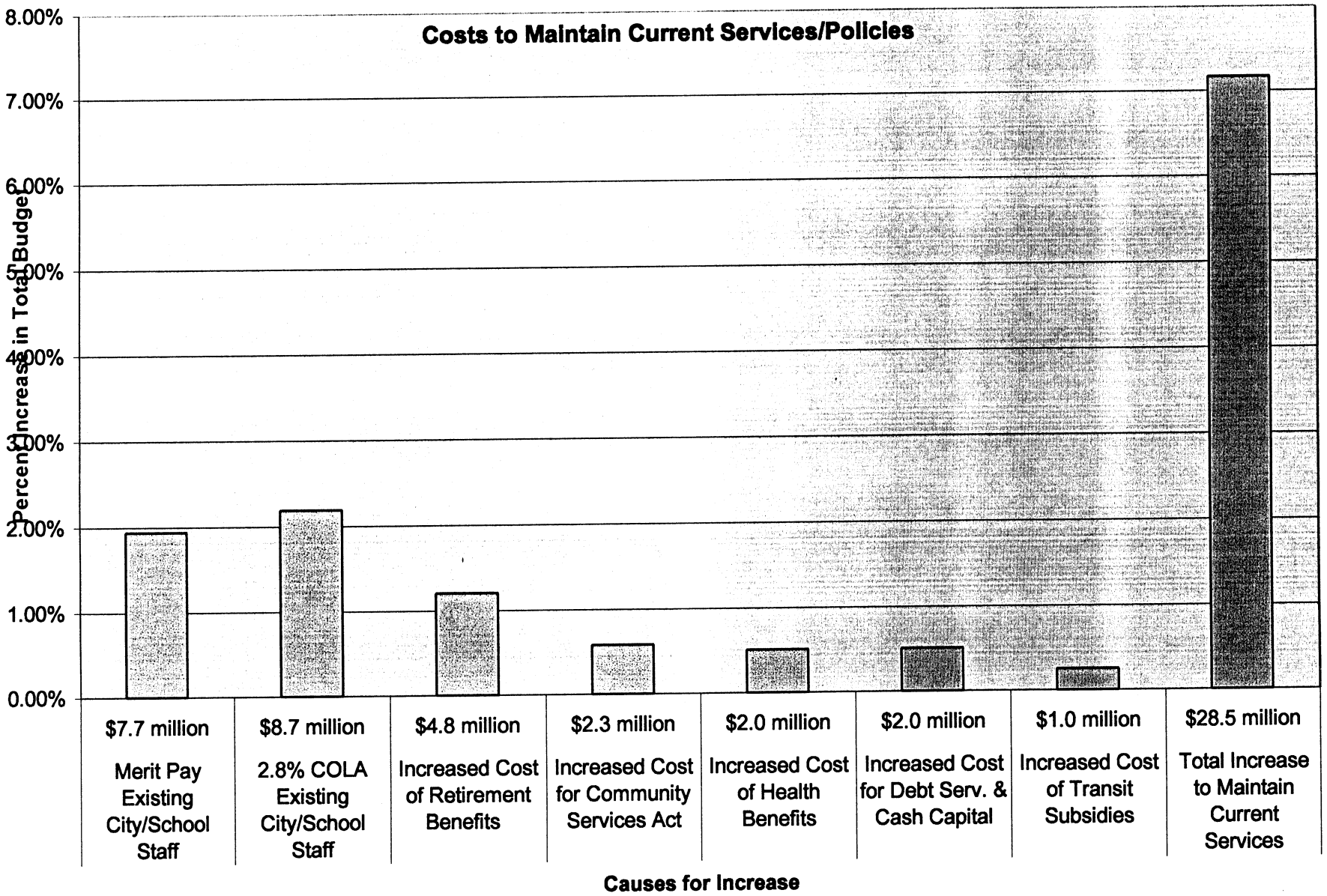
Growth in Revenues

FY 2005 Expenditure Outlook

- Fiscal Year 2004 General Fund Budget = $398 million
- Each one percent increase = $4 million
- The challenge:
  - Maintaining current staff, services and policies will require a significant increase in spending as costs increase
  - Unless cuts are made, funding new initiatives will require more than a 7.2 percent increase in total revenues

FY 2005 Expenditure Outlook




Costs to Maintain Current Services/Policies
Percent Increase in Total Budget
8.00%
7.00%
6.00%
5.00%
4.00%
3.00%
2.00%
1.00%
0.00%
$7.7 million
Merit Pay Existing City/School Staff
$8.7 million
2.8% COLA Existing City/School Staff
$4.8 million
Increased Cost of Retirement Benefits
$2.3 million
Increased Cost for Community Services Act
$2.0 million
Increased Cost of Health Benefits
$2.0 million
Increased Cost for Debt Serv. & Cash Capital
$1.0 million
Increased Cost of Transit Subsidies
$28.5 million
Total Increase to Maintain Current Services
Causes for Increase

FY 2005 Expenditure Outlook

- Salary for existing staff (both City and ACPS)
  - Regularly scheduled merit pay increases = approximately $7.7 million including benefits.
  - Each 1 percent COLA = about $3.1 million.
    - 2.8 percent COLA, providing adjustment at rate of inflation = $8.7 million.
  - Merit + 2.8% COLA = 4.1 percentage point increase in the total budget

FY 2005 Expenditure Outlook

- Increased retirement benefit costs for existing staff
  - The employer cost of teacher retirement may increase as much as $3.8 million due to actuarial valuations by the Virginia Retirement System
  - The employer cost of city employee retirement may increase $1 million
  - Together increased retirement costs may = 1.2 percentage point increase in the total budget

FY 2005 Expenditure Outlook

- Community Services Act
  - provides mandated assistance to emotionally and/or behaviorally disturbed children
  - Expenses so far are running far above the budget for FY 2004
  - The FY 2005 budget may have to be set as much as $2.3 million higher than the $6.1 million CSA budget for FY 2004
  - $2.3 million = 0.6 percentage point increase in the total budget

FY 2005 Expenditure Outlook

- Health benefits for existing staff
  - The employer cost of health insurance benefits for the city and schools may increase approximately $2.0 million or 10%
  - $2 million increase = 0.5 percentage point increase to the total budget

FY 2005 Expenditure Outlook

- CIP financing
  - Last year's approved CIP contained total of $40 million in debt service and cash capital contributions for FY 2005 – a $2 million increase over FY 2004
  - $2 million = a 0.5 percentage point increase in the total budget

FY 2005 Expenditure Outlook

- Transit Operating Subsidies
  - WMATA, DASH and VRE operating subsidies are estimated to increase $1 million
  - $1 million = 0.25 percentage point increase in the total budget

FY 2005 Expenditure Outlook

- 1% Saving Initiatives
  - City departments and agencies asked to identify potential efficiency savings or service reductions of 1% of their fiscal year 2004 approved budgets
  - 1% savings may generate up to $2 million in potential reductions that could be used to help fund new initiatives

FY 2005 Budget Outlook

- Conclusion
  - $22.9 million in new revenues vs.
  - $28.5 million in expenditure increases to maintain current services/policies
  - Finding room in FY 2005 for any major new city and school initiatives without cutting something else will be extremely difficult