

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 24, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *ps*

SUBJECT: BUDGET MEMO # 28: BUDGET MATTERS: (COUNCILMAN SPECK'S REQUEST)

This is a response to 9 of the 11 budget questions posed by Councilman Speck in his April 17 memorandum. Response to the remaining 2 questions will be provided in separate memoranda. Question number 11 was also asked by Councilman Euille.

- 1. Why are Equipment Replacement Internal Service Funds “not available for appropriation to meet general expenditure requirements?” Are these not funds determined by the vehicle replacement schedule, and if that schedule is modified, less funds would be needed to be set aside for a particular fiscal year?**

It is City policy and practice to depreciate equipment costs on an annual basis as a regular expense in the budget and then to set aside funds for appropriation to cover those costs. These funds, which are placed in the Equipment Replacement Internal Service Fund, are considered earmarked and not available for appropriation to meet general expenditure requirements. This is because the calculation of those amounts has been done in such a way that when equipment needs to be replaced (whether it be a low cost sedan, a police car, or a fire ladder truck), sufficient monies have been set aside. These calculations are undertaken and adjusted annually during budget preparation based on updated vehicle costs and changes in estimates of useful life. In general, the calculation is determined by taking the replacement cost and dividing it by the number of years that a vehicle is expected to have a useful life.

While not an exact science, if done according to generally accepted business practices (which is the case for the City), this policy and practice enables the City to achieve the goal of keeping its fleet of vehicles replaced when needed, and provides reliable and safe vehicles for our employees. If a sufficient funding stream for depreciation is not provided, then the City's goal in this area may not be met.

As part of the budget decision process, if City Council wished to change the budget and amend the City's policy by reducing the depreciation budgeted as income to the Equipment Replacement Fund, Council can legally do so. The consequence would be as stated above - - i.e., less funds would be available to fund vehicle replacement. I strongly recommend against action which would have the result of extending the estimated use of City vehicles beyond what staff estimates to be the useful service life to be.

2. In the separation of the Office of Human Rights and the Office on Women, it would appear that operating expenses have increased. Is this correct?

The "separation" of these two offices occurred last July, when the Department of Human Relations was eliminated, the functions of the Affirmative Action Officer and the Special Assistant to the City Manager were transferred to the Manager's office, and the offices of Human Rights and on Women began operating apart from a department structure.

The answer to this question depends on how one defines "operating expenses." If one includes all non-personnel expenses, these have decreased for both offices in FY 2002 by \$5,285. However, if one excludes a \$15,000 reduction in grant-funded contract fees, then operating expenses for both offices have increased by \$9,715, primarily due to the budgeted rent increase for the Office on Women.

The non-personnel expenses of the two offices have changed in the following manner:

The Office of Human Rights FY 2002 Proposed General Fund non-personnel budget has decreased \$16,548, largely due to the \$15,000 decrease in projected contract fees (from \$50,000 to \$35,000) to be reimbursed on a case-by-case basis by the U.S. Equal Employment Opportunity Commission (EEOC). The prior year budget of \$50,000 for this item was overestimated. If that decrease is factored out, the remaining non-personnel budget represents a \$1,548 decrease over FY 2001.

The Office on Women FY 2002 Proposed General Fund non-personnel budget has increased by \$11,263. This increase is primarily attributable to an increase in office space rent (\$10,745) for the Office on Women, which has relocated to renovated space in Tavern Square.

3. Under Contingent Reserves for General Government (p. 4-10), for "FY 2001 Approved" the amount listed in the table is \$247,700, but the amount listed in the footnote is \$427,400. Is this an error? Which figure is correct? And why is this figure increased to \$750,000 for FY 2002?

The correct figure in the footnote on page 4-10 should have been \$462,700, which was the beginning number for the FY 2001 budget for Contingent Reserves. The \$247,700 figure in the text is correct and represents the original amount less the \$215,000 set aside to begin

to implement the Living Wage initiative. This remaining \$247,700 amount had not been allocated to departments at the time the FY 2002 budget was being prepared. A subsequent allocation to the Police Department of \$165,060 for the Gridlock Reduction Intervention Program in FY 2001 (approved by the City Council in the fall but not administratively allocated to the Police Department at the time the FY 2002 budget was prepared) has reduced the remaining FY 2001 Contingent Reserves balance to \$82,640.

The FY 2002 Contingent Reserves account is \$750,000, which is equal to approximately two-tenths of one percent of the proposed FY 2002 General Fund budget. The amount is higher than prior years due to the uncertainty of State revenues, grants and subsidies in FY 2002. Much of that uncertainty has now been eliminated. While it would be desirable to keep a \$750,000 starting Contingent Reserve funding level for FY 2002, City Council could use some portion of it to address desired "adds" to the proposed City budget for FY 2002.

4. **The amount listed for real estate tax relief for FY 2002 is \$750,000. This is higher than estimated previously, even with the increased eligibility levels. Why?**

The amount budgeted for real estate tax relief for FY 2002, \$750,000, equals the amount estimated in the January memorandum to City Council amending the provisions of the City Code which establish real estate tax exemptions and deferrals for elderly or permanently disabled persons. In calendar year 2000, the Tax Relief Program cost the City approximately \$627,000. Staff estimated in January 2001 in the docket item that contained the recommendations on expanding this program, that the cost of the program will increase by about \$123,000, to approximately \$750,000 per year as a result of the increase in program benefits and income ceilings.

5. **There is \$500,000 set aside for compensation adjustments. In the FY 1998 budget, this was the amount that was set aside for the same purpose, but never fully expended. What is the purpose of this allocation now?**

This \$500,000 in funding is set aside in the budget to address compensation adjustments that the City will likely have to make during the course of FY 2002 in order to keep its salaries consistent with City Council's adopted pay philosophy. The FY 2001 budget included \$250,000 for this purpose, and it was entirely used to adjust certain information technology and mental health positions and their salaries to ensure comparability and increase our ability to attract qualified applicants. In these areas the City had experienced turnover and recruitment problems, as salaries in comparison to the five comparator jurisdictions that we benchmark against were low.

Given salary and market conditions, as well as the compensation actions that our comparator jurisdictions constantly make, I expect that during FY 2002, based on our benchmark study, we will need to make necessary adjustments in a number of areas. By doing this study, the City is able to adjust and target its salary adjustments, rather than being forced to adjust an entire pay scale whether or not all positions on that pay scale warrant adjustment.

6. There is \$30,500 allocated for cable broadcast of the BAR. Why?

The Board of Architectural Review (BAR) deals with issues that are of interest to the citizens. Under the current cable franchise agreement, Comcast was not required to televise BAR proceedings (only Council and BZA meetings are required under the franchise to be televised by Comcast). During the discussions of the Saul Center development a number of years ago, there was much community interest in televising the BAR meetings. On the basis of a recommendation of the former Planning and Zoning Director, we decided to have BAR meetings (both the Old and Historic and Parker-Gray panels of the BAR) televised at this \$30,500 annual cost. There are about 45 BAR meetings per year.

7. There is \$500,000 allocated for the Living Wage initiative. This is higher than originally estimated. Why?

There will be a separate budget memorandum on the issue of the Living Wage.

8. Regarding MH/MR/SA and DHS, in a number of instances, caseloads have decreased over the past two or three years. For example, the number of mental health outpatient consumers served has decreased from 1,432 in FY 1999 to 1,400 (projected) in FY 2002 (p. 8-76) and the total number of households sheltered has gone from 436 in FY 1999 to 340 (projected) in FY 2002 (p. 8-68). In these and other instances, it appears that expenditures have increased. Why?

In regards to mental health outpatient consumers, it is normal to have small variations in the number of clients served from year to year. This fluctuation can be caused by staff vacancies and/or the type and length of services a consumer might need. However, the mental health program expects to meet the FY 2001 estimate of 1,400 outpatient consumers served. The decrease in the number of clients served with mental retardation from FY 1998 to FY 2000 reflects a change in reporting method. Case Management stopped counting the number of individuals from Alexandria who are living in State mental retardation facilities as active cases, even though contact with those individuals is maintained. This was to get a better count on the true number of outpatients actively served.

In regard to the number of Detox clients served, there is a clear downward trend occurring. While there has been a reduction in the numbers of consumers seen, state licensing regulations mandate a minimum number of staff to be present regardless of the numbers of consumers. The estimate for FY 2001 of 821 clients served is based on program capacity which may be overly optimistic but remains the goal. The City has recently hired a Detox Supervisor and is currently examining the current trending situation to determine what course of action to take.

In the Human Services area, caseloads have changed, with some decreasing and some increasing. In some instances where caseloads have decreased, the caseload carried by the Human Service employees is now more manageable, and in some instances the decrease has allowed a shift in focus and resources towards previously unserved or underserved populations.

In some cases the nature of the cases has changed. For instance, the number of households sheltered appear to be declining due to the fact that the average length of stay is increasing. In FY 1998, the average length of stay was 33.2 days; FY 1999 average length of stay was 49.2 days; FY 2000 average length of stay is 55.3 days; and the FY 2001 average length of stay is projected to be 60.0 days. According to DHS staff and Alexandria Community Shelter staff, clients are forced to stay in the shelter longer because of the lack of affordable housing for them to go into upon obtaining self sufficiency.

9. **Regarding benefits for retired employees, the amount that is provided to retirees for health insurance has remained at approximately \$100 for several years. I assume, but do not know, that the amount, as a percentage of a retiree's costs, has declined. Why do we not include an inflation adjustment in this benefit?**

This issue of how much the City subsidizes retiree health insurance has been under study by City staff over the course of the last year. For FY 2002, we plan to increase the monthly subsidy by 12%, from its current \$106.83 per month (\$1,282 per year) to \$120 per month (\$1,440 per year). Until last year, there had been no inflationary adjustment provided, and as a result the subsidy as a percentage of retiree's health costs has declined. Starting with last year, this is an issue we are looking at annually in conjunction with the annual review of the health insurance costs and subsidies for active employees.

Also starting in FY 2002, the monthly health subsidy for City retirees will be continued (on a prospective basis and at the same rate) for spouses of City retirees upon the death of the retiree who was eligible for, and was receiving, the City health insurance subsidy at the time of death. Previously, only continued basic Medicare coverage was available for eligible spouses of deceased City retirees.

Both of these issues were raised by employee representatives at a meeting with me and at the budget public hearing.

10. **The amount set aside for the Commission for the Arts for grants has only increased by a 3% inflation factor. Did we not discuss previously a desire to increase that amount by some standard other than a small percentage increase from year-to-year? (I am a member of a board of one of the grant recipients).**

There will be a separate budget memorandum on this question.

11. **With regard to revenue, the actual revenue for Local Sales Tax in FY 2000 was \$19,802,533 (p. 4-27). The budgeted amount for FY 2001 was \$20,085,000, an increase of approximately 1.5%. The estimated revenue for FY 2001 is \$20,600,000, an increase of 4%. If the proposed amount for FY 2002 were approximately the same percentage increase as between the FY 2000 Actual and the FY 2001 Estimated, then that figure would increase for FY 2002 by \$200,000. Same question for Business Licenses, Transient Lodging, Restaurant Meals and Other Miscellaneous. If each of those items increased by the same percentage, the total increase in projected revenues would be approximately \$3,500,000. Please comment on whether some revenue projects are underestimated.**

The answer to the question on revenue projections should be reviewed in conjunction with budget memo #14, which contains an analysis of revenues expected in FY 2001 and proposed for FY 2002. The above question was drafted prior to budget memo #14 being issued to City Council. In that memorandum, some of the revenue projections for FY 2002, which are represented in this question (sales, transient lodging, restaurant meals taxes), have been increased based upon year-to-date performance, but others have been reduced (personal property and business license taxes) based on year-to-date performance. Overall, budget memo #14 projects \$0.7 million less revenue for FY 2002 than is projected in the proposed FY 2002 budget.

This revenue projection reduction is based on the increasing evidence that the local economy, which has seen tremendous growth in recent years, has slowed. For example, business license tax revenues and business personal property tax revenues (excluding changes in law and policy) have not shown any increase in the first nine months of FY 2001 to date when compared to the same months of FY 2000. While staff believe that there will be some revenue growth in the remaining months of this year and into next year, revenue growth will not likely keep pace with the rates of growth seen in recent prior years. Therefore, revenue growth in FY 2002 has been projected conservatively, and has not been projected entirely on the basis of the revenue increases we may experience between FY 2000 and FY 2001.

I must emphasize that revenue projections for FY 2002 must be cautious, as the predictions by economic experts of near term economic difficulty are broader and deeper than they have been for the last six years. For instance, local layoffs in the information technology industry, which has largely fueled most of the recent growth, are unprecedented.

This cautionary practice of conservative revenue projections is important given that the spending side of the budget is largely set and more difficult to change during the course of a year. This conservative budgeting practice is important to the bond rating agencies which frequently note it in their credit analyses.