

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 25, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER *J*

SUBJECT: BUDGET MEMO # 109: ADDENDUM TO THE BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC) REVIEW OF THE FY 2006 PROPOSED BUDGET

The attached is an addendum to the Budget and Fiscal Affairs Advisory Committee (BFAAC) report on the FY 2006 Proposed Budget, which was delivered to City Council on April 16, 2005.

The addendum provides a menu of potential budget savings items prepared by BFAAC to support Council deliberations in meeting the additional real estate property tax rate reduction of at least 4 cents beyond that which was included in the Proposed budget.

This report is in accordance with the Committee's mission to advise and support City Council by reviewing future revenue and expenditure forecasts and evaluating tax, fee, revenue, and expenditure levels in Alexandria.

BFAAC will discuss this report (attached) with City Council at the budget work session on April 27, 2005.

Attachments

Addendum to BFAAC Report on FY2006 Proposed Budget April 23, 2005

In addition to the City Manager's proposed 4-cent reduction in the real property tax rate, the City Council has decided to cut at least an additional 4 cents. This document is an addendum to the BFAAC report issued on April 16, 2005. At the time our initial report was submitted, we had not yet reviewed the City Manager's proposed approach to meeting the additional 4-cent reduction (Budget Memo #48). To support Council deliberations, BFAAC presents several considerations to keep in mind as well as our recommendations and suggested priorities to reduce expenditures or raise additional revenues. Some of our proposals are the same as those put forth by the City Manager and some differ.

This document presents a menu of items from which Council may choose. If every one of these options were implemented, more than \$29 million in budget savings would be realized. However, BFAAC does not endorse adoption of every item presented here. Rather, this document presents a host of options for Council to consider in its final budget deliberations.

General Principles and Priorities

BFAAC urges the City to maintain its relatively conservative fiscal approach, considering the longer-term implications of decisions made in the current budget deliberations. Specifically, BFAAC recommends that:

- City Council should ensure that the Debt-Policy Guidelines are adhered to and that decisions made to reduce FY2006 spending are sustainable, not merely one-time expenditure reductions or delays that will create larger budgetary pressures in future years.
- City Council should first look to new hires as a source of budgetary savings and then consider opportunities to reduce the CIP.
- City Council should also look to new sources of revenue that will help the City become less reliant on the real property tax to fund City and ACPS needs.

Updates and Revenue Re-estimates

Before considering additional sources of revenue or budget reductions, City Council or staff should analyze the proposed budget to identify items such as increased state aid beyond what was anticipated in the proposed budget at the time of its preparation, revised revenue estimates in excess of projected levels, reduced expenditure estimates, etc. Specific items and corresponding impacts, as identified in Budget Memo #48 include:

- \$4.7M Revenue re-estimates for FY2005 and FY2006
- \$0.7M Increase in CIP financing resources from bond premium paid

\$0.2M	Re-estimate of amount of elderly and disabled tax relief due to additional rate reduction
\$0.25M	Reduction in estimated cost of AHOP program due to additional rate reduction
\$2.0M	Savings from WMATA subsidy re-estimates
\$0.16M	Technical adjustment to ACPS budget to reflect increased final state aid

Staff has also increased the estimated cost of the Comprehensive Services Act by \$62,643.

Net Savings: \$8.01 million.

Operating Budget

We urge Council to look to increases in staffing as a source of cost reduction. BFAAC reviewed only new spending recommended by the City Manager for FY2006, so any cuts in the operating budget would have little or no impact on current City or ACPS services or staffing levels.

Nearly 80 new staff positions are proposed in the City and ACPS budgets combined. With declining school enrollment and minimal, if any, growth in the City's population, City Council should conduct a rigorous evaluation of the need for staff before adding *any* new positions. These proposed new positions create recurring operating expenditures in future years plus additional benefits costs and operating costs (e.g., police equipment). If no additional positions were approved, **\$6 million** in operating costs (City and ACPS combined) would be saved.

Budget Memo #48 also includes a potential **\$0.7 million** reduction in the ACPS retirement system based on recent fiscal statements showing an over-funding of \$5.3 million in the retirement fund. There is no impact on employee retirement benefits. BFAAC concurs with staff and recommends Council review this "accumulated over-funding" of \$5.3 million.

Other options available to Council include elimination of the proposed half ("or P") step in the City employee pay scale and postponing the implementation of the compensation survey results. BFAAC does not recommend these actions because they merely postpone expenditures for one year rather than producing long-term structural savings.

While we support the proposed merit and COLA increases for City and ACPS employees, we do not support the additional \$3.0 million designation for possible changes in sworn public safety personnel compensation.

Choosing to decrease the number of new hires would be a preferable way to reduce the operating budget in FY2006 and beyond.

Net savings: \$6.7 million.

Economic Development

As noted in our April 16, 2005 report on economic development activities, BFAAC recommends that the City Council devote funds in FY2006 to determine how best to proceed in developing an overall economic development strategy, whether by assigning/hiring professional staff or seeking advice from outside consultants.

To the extent that Council may wish to increase existing economic development spending for FY2006, we recommend additional appropriations to the City's Marketing Fund for specific projects. BFAAC does not support staff's proposed 3 percent inflation adjustment for the economic development organizations.

Net savings: Unspecified.

Revenue Opportunities

BFAAC supports adoption of the admission tax and the cell phone tax, increasing the tobacco tax, and accelerating the increase in the sanitary sewer use fee. These actions would result in additional revenues of **\$5 million**.

BFAAC also recommends that Council and staff increase the DASH system's cost recovery levels. One option would be to increase DASH fares to the equivalent of WMATA base fares, which would yield approximately **\$200,000** in savings in FY2006.

Net revenue increase: \$5.2 million.

Capital Improvement Program

BFAAC reviewed the timing of projects as compared with the Debt-Policy Guidelines as well as the use of cash capital. As discussed more fully in the CIP section of our report to Council, BFAAC recommends reducing the use of cash capital to more equitably spread the cost of capital projects to include future residents who will benefit from these projects and increasing the City's use of bonding to finance projects. BFAAC also recommends delaying future projects as needed to ensure that the City stays within the Debt-Policy Guidelines.

BFAAC recommends that City Council prioritize its options for reducing the CIP as follows: (1) postpone projects that cannot be completed as scheduled; (2) reduce cash capital and delay projects as needed to stay within borrowing limits; (3) use unallocated prior year balances to reduce FY2006 expenditures.

Specifically, we recommend consideration of the following CIP reductions to reduce the FY2006 budget:

- We concur with staff recommendations in Budget Memo #48 to postpone planned FY2006 funding as follows: **\$2.13 million** for the design of the Public Safety Center, **\$1.3 million** for the Information Technology Plan, and **\$1 million** for the next phase of the Old Town utility undergrounding project. We note, however, that these actions only postpone this spending for one year - this is not a real reduction in future costs.

- Move the timing of the All-City Sports Facility so the bulk of the costs occur in 2010 or beyond. This would give the City more flexibility under its Debt-Policy Guidelines in borrowing money to pay for this project which will benefit future generations of Alexandrians. Deferring this project might also allow the City to reduce planned cash capital contributions by **\$2 million** in FY2006.
- Review the carry-forward in unallocated resources from prior-year CIPs (FY2005 and earlier) carefully and push back or eliminate any projects that the City will not be able to complete within the next few years. Budget Memo #48 identifies **\$2.0 million** for consideration toward this goal - \$1.8 million for renovations to Market Square and \$221,000 for the Information Technology Plan. BFAAC supports the staff recommendation.
- Conduct a similar review of all new projects in the CIP and postpone those that are not essential and would require new hires to complete; for example, the Coordinated Sign and Wayfaring System which would cost **\$400,000** in FY2006.
- BFAAC concurs with the Manager's proposed reduction of \$0.35 million in the ACPS CIP. Of this money, \$200,000 would be postponed to ensure that expansion of the school bus parking lot is properly coordinated with the public safety center plans, and \$150,000 would be eliminated since the ACPS can now co-locate its Information Technology "hot site" at the City's new site.

Net CIP savings: **\$9.18 million.**