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March 10, 2010

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Over the last 10 years rapidly rising assessments fueled by a real estate bubble created a flow of money that our city government found myriad ways to spend.

Our population increased 12% from the year 2000 to 2009. Population growth can serve as a rough benchmark for growth in city services, income, and expenses.

After adjusting for inflation, here is what I found ....

- General property taxes are up 45% about 4 times faster than population growth.
- City expenditures are up 54%, almost five times faster than population growth.
- Education expenses are up 50%, more than 4 times population growth, and yet serving slightly fewer students.

When all is said and done, are we four times better off as a city than in the year 2000? I don't think so. Certainly we are better off, but not four times better off.

So what happened along the way?

We need to take a macro view of our financial situation. Where does the eye wander first? To the biggest item in the budget.

That's staffing.

Here are some of the facts I found.

For every 1000 residents of the city, we have over 30 city employees. The ratio for the Virginia State government is 14 employees per 1000 residents. Nationwide it is about 17 per 1000. I got my numbers from the City of Alexandria 2009 Financial Report,[i] the State of Virginia 2009 Auditor of Public Accounts,[ii] and the US Census Bureau.[iii]

If our payroll were to be in the same relationship to revenues as Fairfax and Arlington Counties, we would save $85,000,000, over twice the projected budget deficit. I conclude we are way overstaffed.

Being overstaffed also contributes to a long-range challenge that is truly frightening: unfunded pension liabilities, which was a key ingredient in sinking General Motors.

According to the City Annual Financial Report, our unfunded pension liability for year ending June 2008 is almost one-half of the city government's assets and almost one-quarter of the city's revenue.[iv] These numbers are dangerously high and do not take into the account the market decline of 2008 into 2009. In the year 2000 the unfunded liabilities for both assets and revenues were in the 5% range.

What can be done about the revenue side? In the year 2000 the ratio of residential assessments to commercial assessments was about 50/50. Now it is 56% residential and 44% commercial. Commercial square footage and residential units have increased about the same, 18% and 15% respectively since the year 2000.[v] It is important for the city to become far more business friendly to grow the commercial sector. Going forward the commercial sector will require fewer services than growth in the residential sector.

The last point I want to make is to my fellow citizens whether you agree with my analysis and conclusions or not. In these difficult times please rise above any narrow, parochial, or special interests you may be here tonight to advocate or support. The amalgamation of all special interests create their own litmus tests for the members of the city council and box them into making decisions that are not in our long-term best interests.

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[i] Page 128 and 133 of CAFR
[ii] Exhibit I, Comparative Report of Local Government Revenues and Expenditures
[iii] http://www2.census.gov/govs/apes/08stva.txt
[iv] Pages 103, 118, and 122 of CAFR.
[v] Page 137 CAFR and Vice Mayor's Office

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January 25, 2010

To Members of City Council, Mayor, and City Manager:

I have lived in Alexandria for 25 years and paid casual attention to the city's governance and management - until now. Upon hearing of our city's concern over a $40,000,000 potential deficit, I became curious as to how such a prosperous community could find itself in such straits and decided to do some research.

I studied the city' s annual report, the report of the State of Virginia Auditor of Public Accounts, reports from the Bureau of Labor Statistics, and from the Securities and Exchange Commission. What I found was an astonishing lack of management, leadership, and governance in our city.

And here is why.

Growth of the population serves as a solid benchmark against which to compare growth in our government. Our population grew 11.6% between 2000 and 2009. How does an 11.6% growth in population manifest itself in growth of services and expenditures? One would assume they would be roughly in line, but not necessarily a direct correlation. After adjusting for inflation, here is what I found:

Per capita personal income up	17%	Great!
Total assessed property value up	106%	Great!
General property tax up	45%	Four times faster than population growth.
General property tax as percent of city revenue up	54%	Up 6.9 percentage points from 2000. Our city is more dependent on general property tax.
City payroll up	41%	Up 16% faster than revenues and hogs 68.1% of revenues.
Average city salary up	36%	The average city employee makes almost 10% more than the average citizen.
Total city expenditures up	54%	Up five times faster than population growth.
Expenditures per government employee up	49%	Easy to spend money that 's not yours. Four times the rate of population increase. Is the quality of life in the city four times better than in 2000?
City spending per citizen up	38%	Up from $3,450 per citizen to $4,775.
Education expenses up	50%	Four times faster than population growth and with a slightly smaller student population. Are our children four times more prepared or educated?
Expenditures per student up	47%	And one of the highest in the nation. Results?

This looks like a pretty dismal record of milking a cash cow rather than conserving resources.

And just what may be the root causes of this?

When looking at the breakdown by general departments, some areas of concentration stand out and point to areas needing thorough investigation by the city administration:

Department	Size in Millions	Percent Growth From 2000
Education	$165.7	Is it top-heavy with administration? There has been virtually no student growth yet school payroll is up 41.1%
Public Safety	91.8	Up four times population growth? Are we four times safer than in 2000? Anecdotally I do not notice much difference.
General Government	77.6	This looks like general overhead to me. Should not have grown four times as fast as the population growth.

And where might be the best areas to look for savings? Payroll stands out. The city has increased payroll at 3.5 times the rate of increase in our population.

If our payroll in proportion to revenue were the same as ...	Savings to the city would be:
All Virginia Independent Cities	$24,000,000
All Virginia Municipalities	$9,500,000
Fairfax and Arlington Counties	$85,000,000
Goldman Sachs	$97,000,000

It appears that at a minimum no increase in compensation at any level of the government is justified and actually some tough decisions need to be made to get the payroll back in line with a minimum target of no more than 60% of revenues. If there is attrition as a result, so be it. We are in a tough economy with unemployment in Alexandria at 4.6% (U-3) and a projected U-6 rate of almost 8%. That compares to 6.2% and 10.6%, respectively, in the Metropolitan area. There are plenty of qualified people looking for jobs. It is time for the city employees to tighten their belts like the rest of us.

Raising taxes is an unacceptable solution. The job of the city government and leadership is to be faithful stewards of the resources of the city and its citizens. Constant vigilance to prevent the squandering of our resources and reducing costs must always be high on our leadership's agenda.

The city payroll is the largest target and opportunity. Where the rest comes from is a challenge and charge to the city government and leadership from the citizens of Alexandria.

We are in this boat together. To make sure my observations have the widest possible circulations for examination, criticism, and amplification, I shall share this letter with several local publications.

If you wish for me to share my spreadsheet analysis with you, I shall be glad to do so. Please email me at jossmith@mba1962.hbs.edu.

Sincerely,

J.J. Smith