City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 23, 2010

TO: THE HONORABLE MAYOR AND MEMBERS OF COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 84 : BUDGET CHANGES FROM THE FY 2006 BUDGET TO THE FY 2011 BUDGET

As requested by members of City Council at its March 13, 2010 meeting, this memo provides information on the significant budget changes, both procedurally as well as substantive budget changes from the FY 2006 Approved Budget through the FY 2011 Proposed Budget.

The question was asked in part to describe how the City has been preparing to handle the extreme fiscal pressures that began to challenge the City at the beginning of FY 2009 and continue to this day.

Summary

Significant procedural and substantive changes since the FY 2006 budget include the following:

- Budget procedural and format changes have been significant and provide more opportunity for Council guidance and deliberation, as well as a more transparent and open budget process.
- The rate of growth in budget expenditures has leveled off and, in fact, has declined on an inflation-adjusted per capita basis.
- Significant budget reductions have been taken in each year.
- City Staffing has declined.
- City personnel compensation cost increases have been contained.
- Use of realistic revenue projections and immediate responses to the unexpected drops in revenues have prevented deficits in FY 2009 and FY 2010
- Modest use of one-time savings on revenue sources has limited the impact on FY 2011 of prior year budget difficulties.

Budget Procedural and Format Changes Have Been Significant Since FY 2006

Beginning with the FY 2007 budget Council provided guidance in the on the next upcoming budget to be submitted by the City Manager.

- These expectations were initially expressed in terms of expenditure targets (later termed guidelines) for both City and Schools. Sometimes expressed as a % rate of growth, sometimes as a dollar target for both City and Schools, sometimes as a control on the real estate tax rate, often including other instructions or statements of direction, these guidelines have become an important way for Council to communicate its expectations for the next budget cycle.
- Council also established an earlier submission date for the City Manager to submit a proposed budget at the first legislative meeting in February. This provides Council with an extra month to examine the details of the budget before adoption in early May or late April.
- There has been a considerable expansion in the number of budget work sessions conducted by Council and the number of budget memoranda provided to more thoroughly describe the proposed budget and related budget issues.
- Another process change that appeared first with the FY 2008 proposed budget is the City's adoption and use of the Managing For Results Initiative (MFRI). This new budget presentation format divides the budget into some 150 programs and nearly 500 activities – each of which has its own attributed cost, staff usage, and performance measures (the results) showing the outputs, efficiency and effectiveness or outcomes of each program and activity.

Rate of Growth in Expenditures

The rate of growth in expenditures has leveled off since FY 2006 has remained essentially flat after considering the effects of inflation. It has declined after considering both the effects of inflation and population growth.

The following summary table describes the annual rate of growth in expenditures with the FY 2006 Approved General Fund Operating Budget as the starting point in both current dollars and constant dollars (adjusting for the effects of inflation and expressed in terms of FY 2011 dollars). It also shows inflation adjusted per capita spending changes.

Rate of Growth in General Fund Budget Expenditures
FY 2006 Adopted to FY 2011 Proposed

	% Change		Inflation Adjusted % Change		Inflation Adjusted Per Capita Spending % Change	
	Total	Annualized	Total	Annualized	Total	Annualized
Total Expenditures	13.6%	2.6%	0.9%	0.2%	-8.1%	-1.7%
City Share of Budget	10.5%	2.0%	-1.9%	-0.4%	-10.6%	-2.2%
Schools Transfer	21.0%	3.9%	7.5%	1.5%	-2.1%	-0.4%

Budget Expenditure Reductions by Fiscal Year

Each year from FY 2007 through FY 2011, the proposed budget has described reductions in different programs and activities. The total reductions taken each year since then have gradually become more severe. Expenditure reductions totaled

- $3.9 million in FY 2007,
- $3.5 million in FY 2008,
- $2.3 million in FY 2009[1],
- $8.6 million in FY 2010, and
- $9.0 million in FY 2011

Tables showing budgeted amounts and inflation-adjusted totals by broad budget categories, including percent change information, are attached to this memo. Also attached is a table that shows the budgeted amounts and inflation-adjusted totals from FY 2006 through FY 2011 on a per capita basis.

City Staffing Declined

Total personnel and compensation costs have changed only modestly between FY 2006 and FY 2011. Since FY 2006 total employment has declined by the equivalent of 39.2 full time employees (FTEs). Since the highest point of city work force numbers in FY 2009, the city has eliminated 117.9 FTEs (from 2,660.9 to 2,543). City staff per 1,000 population has declined from 18.8 in FY 2006 to 16.8 in FY 2011. Personnel changes by year as well as staff per 1,000 population are shown in the table below.

City Personnel Changes FY 2006 - FY 2011		
# Change	% Change	Annualized Average Change
-39.2	-1.5%	-0.3%

Staff Changes and Staff Per 1,000 Population										
	FY 2006	FY 2007	%Change	FY 2008	%Change	FY 2009	%Change	FY 2010	%Change	FY 2011	%Change
Population*	137,602	138,237	0.5%	140,233	1.4%	144,579	3.1%	150,006	3.8%	151,056	0.7%
City Staff (FTEs)	2,582.2	2,642.4	2.3%	2,637.3	-0.2%	2,660.9	0.9%	2,577.0	-3.2%	2,543.0	-1.3%
City Staff / 1,000 Population	18.8	19.1	1.9%	18.8	-1.6%	18.4	-2.1%	17.2	-6.7%	16.8	-2.0%

* Population estimate figures obtained from US Census Bureau through FY 2010. 0.7% increase is assumed for FY 2011.

City Personnel Compensation Cost Increases Contained

The following table summarizes the impact of these changes in staffing levels and other changes detailed below on the total cost of salaries and benefits for City employees:

[1] In addition, a mid-year rescission of $9.65 million occurred during FY 2009.

Rate of Growth in Salaries and Benefits
FY 2006 Adopted to FY 2011 Proposed

	% Change FY 2006 to FY 2011		Inflation Adjusted % Change FY 2006 to FY 2011	
	Total	**Annualized**	**Total**	**Annualized**
Total Compensation Costs	22.3%	4.1%	8.6%	1.7%
Salaries	20.7%	3.8%	7.2%	1.4%
Benefits	26.9%	4.9%	12.7%	2.4%

The salary growth documented above is largely due to Market Rate Adjustments (MRAs aka COLAs), and merit-based step increases that occurred earlier during this period, since the actual number of staff have declined by a small percentage.

- In FY 2007, the city provided a COLA of 3.0%, an MRA of 2.0% and included a merit-based step increase in the budget.
- In FY 2008, the city provided a 1.5% MRA and included a merit increase in the budget.
- In FY 2009, the city provided no MRA but did include a merit increase in the budget and provided a one-time bonus of $500 to employees.
- FY 2010 had no pay increases of any kind for employees.
- The FY 2011 Proposed Budget includes a merit increase but no COLAs or MRAs.

The cost of benefits has risen at a faster rate than salaries during this period. Cost drivers for these increases have been threefold:

- The increase in the cost of health care insurance due to the increased cost of health care claims paid. The city has contained health care costs by self-funding claims by United Health Care enrollees and by instituting premium cost sharing with employees (which in FY 2011 will increase to a minimum cost sharing of 13%).
- The increase in the cost of retirement due to increases in the actuarial cost of retirement benefits (The benefits themselves have not been changed).

Realistic Revenue Projections

Staff have used realistic revenue forecasts to project changes in real estate values and and real estate taxes as well as other revenue sources for the City budget. Revenue forecasts made by staff have been conservative and fairly accurate, which have enabled the City to weather the effects of the recession well. As shown in the table below, real estate tax revenue assumptions made on projected assessments in the second half of the calendar year fairly accurately predict the change in assessments in the first half of the calendar year. Accurate projections allowed the city to avoid deficits in the current year requiring the unexpected use of fund balance.

Assessment Forecasts Forecast vs. Actuals					
	CY 2007	CY 2008	CY 2009	CY 2010	CY 2011
% Change in Assessments	4.4%	4.0%	-2.1%	-6.5%	NA
Projected Change in Assessments	4.0%	1.4%	0.0%	-5.0%	-4.5%

Immediate Response to Unexpected Drops in Revenues

During FY 2009 and unexpected drop in projected revenues of about $10 million was forecast in October and by November, City Council had agreed to $10 million in budget adjustments (almost all expenditure reductions) to keep the FY 2009 budget in balance. During FY 2010, a drop in total revenues of $5.6 million has been more than matched by $10.0 million in expenditure reductions by City Staff.

Modest Use of One-Time Savings or Revenue Sources

The City has also been modest in using fund balance from prior year surpluses to balance the next year's budget. The chart below shows the amount budgeted in FY 2007 through FY 2011 from prior year surpluses.

	FY 2007	FY 2008	FY 2009	FY 2010	FY 2011
Fund Balance designated for Operating Budget (in millions)	$3.800	$3.300	$4.000	$1.285	$4.744

The City has not used furloughs, delayed pay raises to the middle of the fiscal year, postponed or artificially reduced payments to its pension trust funds, sold assets to fund operating costs, or skimped on capital maintenance and repair costs. These steps can help a city balance its budget in one year, but they almost always "come home to roost" and make future budgets that much more difficult to balance. By avoiding these short-term budget balancing measures, we have been able to limit the impact on FY 2011 of decisions made in prior budgets.

Budget Memo #10 from the FY 2008 budget cycle, dated March 16, 2007, provides further information of budget changes from FY 2002 through FY 2008 and is attached.

General Fund Budgets
(In millions of dollars)

	FY 2006 Approved	FY 2007 Approved	% Change	FY 2008 Approved	% Change	FY 2009 Approved	% Change	FY 2010 Approved	% Change	FY 2011 Proposed	% Change
Schools	$138.8	$149.9	8.0%	$160.3	6.9%	$168.0	4.8%	$164.6	-2.0%	$167.9	2.0%
Public Safety	80.1	84.9	6.0%	88.6	4.4%	92.6	4.5%	93.1	0.5%	92.5	-0.6%
Health and Welfare	46.2	51.4	11.3%	52.9	2.9%	54.7	3.4%	54.8	0.2%	55.1	0.5%
Public Works	35.9	39.7	10.6%	42.7	7.6%	46.0	7.7%	43.3	-5.9%	43.2	-0.2%
Courts and Constitutional Offices	33.4	36.5	9.3%	38.2	4.7%	40.3	5.5%	39.2	-2.7%	40.0	2.0%
Cash Capital / Debt Service	45.6	34.3	-24.8%	40.6	18.4%	38.6	-4.9%	41.8	8.3%	41.9	0.2%
Parks, Recreation, Cultural	27.1	29.4	8.5%	30.0	2.0%	31.2	4.0%	27.6	-11.5%	28.0	1.4%
Community Development	11.0	12.2	10.9%	11.6	-4.9%	13.2	13.8%	10.9	-17.4%	10.5	-3.7%
General Government	52.2	55.3	5.9%	54.7	-1.1%	57.4	4.9%	54.8	-4.5%	55.0	0.4%
City Total (Excluding Schools):	**$331.5**	**$343.7**	**3.7%**	**$359.3**	**4.5%**	**$374.0**	**4.1%**	**$365.5**	**-2.3%**	**$366.2**	**0.2%**
Total:	**$470.3**	**$493.6**	**5.0%**	**$519.6**	**5.3%**	**$542.0**	**4.3%**	**$530.1**	**-2.2%**	**$534.1**	**0.8%**

	FY 2006 - FY 2011 % Change	Annualized Average Change
Schools:	21.0%	3.9%
City Total:	10.5%	2.0%
Total:	**13.6%**	**2.6%**

General Fund Budgets Adjusted for Inflation
(In millions of dollars)

	FY 2006 Approved	FY 2007 Approved	% Change	FY 2008 Approved	% Change	FY 2009 Approved	% Change	FY 2010 Approved	% Change	FY 2011 Proposed	% Change
CPI Value*	*198.3*	*202.416*		*211.080*		*211.143*		*216.687*		*223.188*	
Schools	$156.2	$165.3	5.8%	$169.5	2.5%	$177.6	4.8%	$169.5	-4.5%	$167.9	-1.0%
Public Safety	90.2	93.6	3.8%	93.7	0.1%	97.9	4.5%	95.9	-2.0%	92.5	-3.5%
Health and Welfare	52.0	56.7	9.0%	55.9	-1.3%	57.8	3.4%	56.4	-2.4%	55.1	-2.4%
Public Works	40.4	43.8	8.3%	45.1	3.1%	48.6	7.7%	44.6	-8.3%	43.2	-3.1%
Courts and Constitutional Offices	37.6	40.2	7.1%	40.4	0.4%	42.6	5.5%	40.4	-5.2%	40.0	-0.9%
Cash Capital / Debt Service	51.3	37.8	-26.3%	42.9	13.5%	40.8	-5.0%	43.1	5.5%	41.9	-2.7%
Parks, Recreation, Cultural	30.5	32.4	6.3%	31.7	-2.1%	33.0	4.0%	28.4	-13.8%	28.0	-1.5%
Community Development	12.4	13.5	8.7%	12.3	-8.8%	14.0	13.8%	11.2	-19.5%	10.5	-6.5%
General Government	58.8	61.0	3.8%	57.8	-5.1%	60.7	4.9%	56.4	-7.0%	55.0	-2.6%
City Total (Excluding Schools):	**$373.1**	**$379.0**	**1.6%**	**$379.9**	**0.2%**	**$395.3**	**4.1%**	**$376.5**	**-4.8%**	**$366.2**	**-2.7%**
Total:	**$529.3**	**$544.3**	**2.8%**	**$549.4**	**0.9%**	**$572.9**	**4.3%**	**$546.0**	**-4.7%**	**$534.1**	**-2.2%**

	FY 2006 - FY 2011 % Change	Annualized Average Change
Schools:	7.5%	1.5%
City Total:	-1.9%	-0.4%
Total:	**0.9%**	**0.2%**

* CPI (Consumer Price Index) figures used represent CPI values in January of each year from 2006 to 2010. For 2011, a 3% increase in the CPI is estimated.

All Funds: Salaries and Benefits
(In millions of dollars)

	FY 2006	FY 2007		FY 2008		FY 2009		FY 2010		FY 2011	
			% Change		% Change		% Change		% Change		% Change
Salaries	$150.1	$174.1	16.0%	$176.9	1.6%	$184.2	4.1%	$178.9	-2.9%	$181.1	1.2%
Benefits	52.8	62.6	18.6%	61.7	-1.4%	67.4	9.2%	64.7	-4.0%	67.0	3.6%
Total:	**$202.9**	**$236.7**	**16.7%**	**$238.6**	**0.8%**	**$251.6**	**5.4%**	**$243.6**	**-3.2%**	**$248.1**	**1.8%**

	FY 2006 - FY 2011 % Change	Annualized Average Change
Salaries:	20.7%	3.8%
Benefits:	26.9%	4.9%
Salaries & Benefits:	**22.3%**	**4.1%**

All Funds: Salaries and Benefits (Inflation Adjusted)
(In millions of dollars)

	FY 2006	FY 2007		FY 2008		FY 2009		FY 2010		FY 2011	
			% Change		% Change		% Change		% Change		% Change
*CPI Values**	*198.3*	*202.416*		*211.080*		*211.143*		*216.687*		*223.188*	
Salaries	$168.9	$192.0	13.6%	$187.0	-2.6%	$194.7	4.1%	$184.3	-5.4%	$181.1	-1.7%
Benefits	$59.4	$69.0	16.1%	$65.2	-5.5%	$71.2	9.2%	$66.6	-6.5%	67.0	0.5%
Total:	**$228.4**	**$261.0**	**14.3%**	**$252.3**	**-3.3%**	**$266.0**	**5.4%**	**$250.9**	**-5.7%**	**$248.1**	**-1.1%**

	FY 2006 - FY 2011 % Change	Annualized Average Change
Salaries:	7.2%	1.4%
Benefits:	12.7%	2.4%
Salaries & Benefits:	**8.6%**	**1.7%**

* CPI (Consumer Price Index) figures used represent CPI values in January of each year from 2006 to 2010. For 2011, a 3% increase in the CPI is estimated.

Per Capita Budgeted Expenditures											
	FY 2006	FY 2007	%Change	FY 2008	%Change	FY 2009	%Change	FY 2010	%Change	FY 2011	%Change
Population*	137,602	138,237	0.5%	140,233	1.4%	144,579	3.1%	150,006	3.8%	151,056	0.7%
Per Capita Budgeted City Expenditures	$2,711	$2,486	-8.3%	$2,562	3.1%	$2,587	1.0%	$2,437	-5.8%	$2,424	-0.5%
Per Capita Budgeted Schools Expenditures	$1,009	$1,084	7.5%	$1,143	5.4%	$1,162	1.7%	$1,097	-5.6%	$1,112	1.3%
Per Capita Budgeted Total Expenditures	$3,418	$3,571	4.5%	$3,705	3.8%	$3,749	1.2%	$3,534	-5.7%	$3,536	0.1%

Per Capita Budgeted Expenditures (Inflation Adjusted)											
	FY 2006	FY 2007	%Change	FY 2008	%Change	FY 2009	%Change	FY 2010	%Change	FY 2011	%Change
Per Capita Budgeted City Expenditures	$2,711	$2,741	1.1%	$2,709	-1.2%	$2,734	0.9%	$2,510	-8.2%	$2,424	-3.4%
Per Capita Budgeted Schools Expenditures	$1,135	$1,196	5.3%	$1,209	1.1%	$1,228	1.6%	$1,130	-8.0%	$1,112	-1.7%
Per Capita Budgeted Total Expenditures	$3,847	$3,937	2.3%	$3,918	-0.5%	$3,963	1.1%	$3,640	-8.1%	$3,536	-2.9%

* Population estimate figures obtained from US Census Bureau through FY 2010. 0.7% increase is assumed for FY 2011.

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 16, 2007

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 10: BRIEF HISTORY OF EXPENDITURE REDUCTIONS IN THE OPERATING BUDGET AND CAPITAL IMPROVEMENT PROGRAM (CIP)

This budget memorandum briefly summarizes the history of expenditure reductions, savings and operational efficiencies recommended for the proposed Operating Budget and Capital Improvement Program (CIP).

For various different reasons, in retrospect, it appears that identification of expenditure reductions, savings and operational efficiencies have become routine components of the annual budget process. During the FY 2002 to FY 2008 time period, operating budget savings and expenditure reductions totaled $19.6 million, and CIP reductions or deferrals totaled $ 17.2 million. The details of the total significant savings and reductions within past fiscal years include:

FY 2002

- The events of September 11 and their resulting impact on the regional and City economy led to a one-time $5 million reduction in the operating budget, during the fiscal year, as the City experienced a decline in tourism and related businesses.

FY 2003

- Most City department budgets were reduced in order to cope with State budget reductions and the continuing economic downturn. (Public safety agencies were required to cut only their non-personnel budgets). These budget reductions produced a one-time savings of $3.4 million.

FY 2004

- During the approval of the FY 2004 budget, departments were directed to reduce spending by $1.5 million as part of an across-the-board reduction adopted by City Council during add-delete deliberations.

FY 2005

- Approved savings reductions for City departments totaled $2.3 million. Seventy-two percent of these savings were efficiency savings; twenty-eight percent were service reductions.

FY 2006

- Department budgets were reduced by $2.5 million as one of many actions that occurred in order to reduce the real estate tax rate 4 cents lower than the City Manager's proposed budget rate.
- CIP expenditures also were reduced by $4.9 million in FY 2006 to reduce the real estate tax rate.

FY 2007

- City Council directed the City Manager to identify sufficient reductions to provide a 10 cent real estate tax rate reduction.
- The City Operating Budget included $2.1 million in expenditure decreases.
- Under the Council Approved Budget, various CIP projects were postponed or eliminated, saving $7.5 million.

FY 2008

- The City Council established a target for City expenditures that provides 1.6% growth ($5.6 million) over the FY 2007 Approved Budget
- Twenty departments were able to request less, to maintain current services, than provided in FY 2007—for a total savings of $2.8 million in those departments.
- The City Manager requested all City departments to identify additional potential expenditure reductions and savings due to the need to meet City Council established expenditure targets. The proposed budget includes $3.6 million in savings and expenditure reductions from current services.
- The proposed CIP also deferred $4.8 million in CIP projects to minimize the need for cash capital payments from the operating budget.