



MANAGING FOR RESULTS

FY 2009
APPROVED BUDGET IN BRIEF
JULY 1, 2008 – JUNE 30, 2009



ALEXANDRIA CITY COUNCIL

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Approved Budget in Brief

FY 2009 APPROVED BUDGET OVERVIEW

The City Council approved a General Fund Operating Budget of \$542.0 million for FY 2009, an increase of \$22.5 million or 4.3% over the FY 2008 Approved Budget, and a \$456.1 million FY 2009-2014 Capital Improvement Program (CIP) including \$98.3 million in funding in FY 2009.

The Approved General Fund Operating Budget increased the real estate tax rate 1.5 cents from \$0.83 to \$0.845 per \$100 of assessed value, although the average residential tax bill will still be slightly lower (-\$7 or 0.2%) than the previous tax year due to lower assessments.

The Approved Budget reflects the City's continuing Managing for Results Initiative, with a budget format that presents detailed information for about 500 activities, almost all of which have various measures of performance and expected results.

BUDGET SUPPORTS EIGHT GOALS OF THE COUNCIL'S STRATEGIC PLAN

The FY 2009 Proposed Budget advances the eight goals of the strategic plan. Those goals are:

- Quality development and redevelopment that is well planned and consistent with Alexandria's vision.
- A City that respects, protects, preserves and enhances the natural environment and historic resources.
- An integrated, multi modal transportation system that efficiently and effectively gets people from point "A" to point "B."
- A strong local economy that is growing in varied small businesses and job opportunities.
- A caring community that is diverse and affordable.
- A City government that is financially sustainable, efficient and community oriented.
- Public schools that are among the best in Northern Virginia (in partnership with Alexandria Schools).
- A City that ensures the safety, security, emergency preparedness, and well being of the community.

By advancing these goals, the Proposed Operating budget and CIP are intended to work toward the City Council's long term vision for Alexandria. That vision is:

Alexandria 2015 is a vibrant, diverse, historic, and beautiful City with unique neighborhoods and multiple urban villages where we take pride in our great community.

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FY 2009 APPROVED EXPENDITURE INCREASES (In Millions)

General Fund	FY 2008 Approved	FY 2009 Approved	\$ Change	% Change
City Operating Expenditures	\$303.3	\$317.3	\$14.0	4.6%
City OPEB* Funding	0.0	1.4	1.4	NA
Transit Subsidies	15.4	16.7	1.4	9.0%
Capital Projects/Debt Service	40.6	38.6	(2.0)	(5.0%)
<i>City Subtotal</i>	<i>\$359.3</i>	<i>\$374.0</i>	<i>\$14.8</i>	<i>4.1%</i>
City Appropriation to Schools	160.2	167.2	7.0	4.3%
Schools OPEB* Funding	0.0	0.8	0.8	NA
<i>Schools Subtotal</i>	<i>\$160.2</i>	<i>\$168.0</i>	<i>\$7.8</i>	<i>4.8%</i>
Total General Fund Budget	\$519.5	\$542.0	\$22.5	4.3%

* Other (Non-retirement) Post-employment Benefits (i.e., retiree health and life insurance)

MAJOR “BUDGET DRIVERS” SHAPING THE APPROVED BUDGET

The City must pay salaries and benefits that are competitive with neighboring jurisdictions and the generally tight job market in the Washington D.C. area, or risk losing good employees. To do so, City Council approved step increases for eligible employees, a one-time 2% longevity pay to top-of-grade employees (\$0.7 million), and a one time pay supplement to each eligible City employee of \$500 (\$1.3 million). The total of all funds for City salaries and benefits will increase \$13.0 million (5.5%) due to step increases, pay supplements and benefit rate increases.

The Schools’ budget will increase by \$7.8 million or 4.8%. This includes similar funding for a one-time 2% longevity pay to top-of-grade employees (\$0.4 million), and a one time pay supplement to each eligible employee of \$500 (\$1.1 million).

The City and Schools current estimated unfunded liability due to new accounting standards for other (non-retirement) post employment benefits such as retiree health and life insurance (OPEB) totals \$128 million. Meeting the challenge of funding this liability over time will assist the City in maintaining its AAA/Aaa bond ratings. The Approved Budget provides \$1.4 million in initial funding for obligations for future benefits to City employees after retirement and \$0.8 million to fund similar obligations to Schools employees.

Transit subsidy costs paid by City funds will increase about \$1.4 million mainly due to the addition of the King Street Trolley (\$1.0 million) and an increase in DASH operating costs (\$0.5 million), and partially offset by decreases in the WMATA operating subsidy (\$0.1 million).

Funding for capital projects through cash and debt service payments on prior year borrowing will decline as well, due to a reduction in CIP cash funding in FY 2009.

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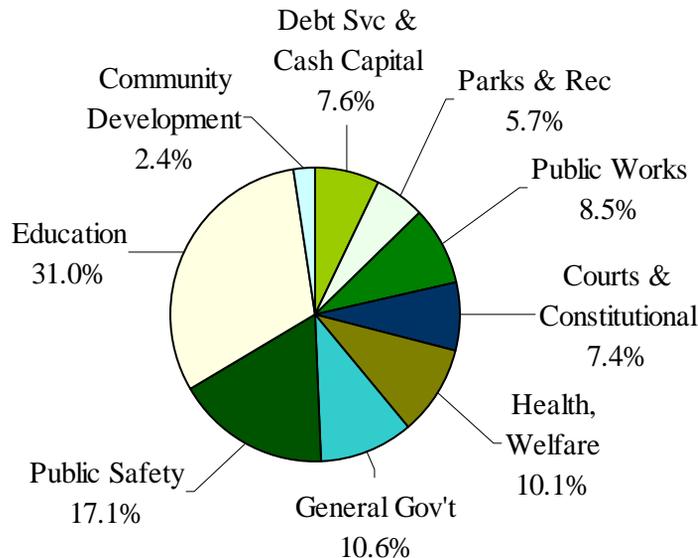
ALEXANDRIA CITY PUBLIC SCHOOLS

Alexandria aspires to have public schools that are among the very best in Northern Virginia. The City's primary role in achieving this end is responsibly funding the School's operating and capital needs. The Approved Operating Budget for FY 2009 provides \$168.0 million in City funds for School operations, a \$7.8 million increase over last year. City funding for School operations increases by 4.8% over FY 2008. This means that almost 31% of the General Fund Operating Budget goes to the Schools.

The \$7.8 million increase is sufficient to fund step increases, any increased benefit costs, and match the City's one-time \$500 pay supplement for each eligible employee and 2% longevity pay for top-of-grade employees.

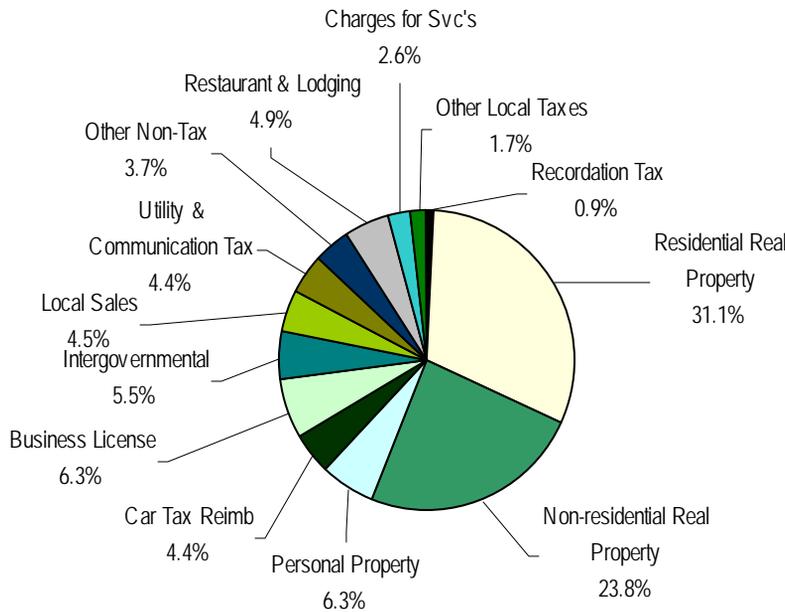
The Approved General Fund CIP provides \$65.3 million for the School Board's submitted capital program for FY 2009 – FY 2014, however this is \$1.9 million short of the School Board's request for FY 2009 and \$26.4 million short of fully funding the School's request for all six years. All CIP needs– both City and Schools– will need to be reexamined during the next CIP cycle to determine priorities and funding availability.

FY 2009 GENERAL FUND EXPENDITURES WHERE IT GOES... \$542.0 Million



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FY 2009 COMBINED GENERAL FUND REVENUES, WHERE IT COMES FROM... \$535.4 million



FY 2009 General Fund Revenues	\$535.4
Sewer Fund Transfer In	\$1.3
IT Replacement Transfer In	\$0.7
<u>Use of Prior-Year Surplus</u>	<u>\$4.6</u>
Total General Fund Sources	\$542.0

The Approved General Fund revenues are projected at \$535.4 million. Another \$1.3 million in sanitary sewer fund revenues are available to finance that program's debt service. \$0.7 million is available from the IT equipment replacement fund. An additional \$4.6 million in FY 2007 surplus revenues have been designated for use in FY 2009. As a result, a total of \$542.0 million is available to support the Approved City and Schools' General Fund expenditures, a 4.3% increase in total revenues.

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FY 2009 APPROVED REVENUE SUMMARY

Millions of dollars

	FY 2008 Approved	FY 2008 Projected	FY 2009 Approved	Change from FY 2008 Approved
Real Property Tax	\$278.2	\$285.9	\$293.6	5.6%
Other Taxes	153.7	149.1	157.0	2.1%
Non-tax revenue	31.2	28.6	32.0	2.7%
Fed & state revenue	53.2	53.5	52.8	(0.7%)
PY surplus & other fund transfers	3.3	3.9	6.6	100.1%
Total	\$519.5	\$521.0	\$542.0	4.3% *

* The total change from FY 2008 Projected Revenues is 4.0%

- Real Estate tax revenues are projected at \$293.6 million, a 5.6% increase as compared to last year's approved budget. This reflects a 1.5 cent increase in the real estate tax rate from 83.0 to 84.5 cents per \$100 of assessed value, and a combination of slightly declining residential assessments and increased commercial assessments and new construction. There will not be any change in the program guidelines providing real estate tax relief to elderly and disabled homeowners. However, the City's relief program targeted to low and moderate income homeowners, AHOP, is being reduced in scope in CY 2008 by lowering the maximum household income level to \$72,000 and restricting it to those who obtained relief in CY 2007.
- The collection of Other Taxes are expected to increase by 2.1%, mostly due to the 1% increases in restaurant food and transient lodging tax rates, and offset by a decrease in local sales tax revenue. Recordation taxes are also expected to drop by \$0.9 million as a result of declining home sales.
- Other Non-tax revenues are expected to increase by 2.7%, mostly due to increases in various licenses and permits and charges for services, and offset by decreases in the earnings expected from the use of money and property. Specifically, interest earnings are budgeted to drop by \$3.6 million due to declining short term interest rates.
- Intergovernmental revenue from federal and state sources are expected to decrease by 0.7% from last year's approved budget.

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CAPITAL IMPROVEMENT PROGRAM HIGHLIGHTS

The City of Alexandria's Capital Improvement Program is a comprehensive plan that identifies the City's future infrastructure and facility needs, and the corresponding funding required to meet those needs. Capital Improvement Program costs on a six-year basis through FY 2014 are increasing, reflecting the future plans to continue to improve the City's infrastructure. Last year's CIP totaled \$389.1 million in City funding and \$449.7 million in total funding over six years; this year's Approved CIP totals \$396.9 million in City funding and \$456.1 million in total funding. The Approved CIP contains few new projects, some increased costs for existing projects, and many reductions compared to last year's CIP.

The six-year CIP would be funded by \$288.8 million in borrowing and \$167.3 million from City and non-City cash funds. Planned funding sources include: \$39.2 million in cash capital contributions from current revenues, \$13.9 million from open space funds, \$28.2 million from sewer use and connection fees, \$4.2 million from a vehicle registration fee, \$7.4 million from fund balance, \$14.1 million from bond interest earnings, and \$60.3 million from other miscellaneous sources. The CIP complies with the self-imposed policy limits governing the amount of allowable debt and debt service costs, and is consistent with retention of the City's top AAA/Aaa ratings by the two major bond rating agencies. The CIP also reflects the loss of \$23.7 million in NVTVA transportation revenue funded projects for FY 2009-FY 2014, of which Council decided to pick up \$10.0 million with City funding.

Last September, City Staff identified significant funding shortfalls in the planned FY 2009 and FY 2010 CIP totaling about \$85 million. Major revisions were made to project schedules and cost estimates to reflect both operational realities and funding constraints. The CIP projects were prioritized so that \$4.5 million in reductions were taken in FY 2009. City staff are revising procedures for managing major capital projects to incorporate a phased review process that will more clearly identify potential costs and benefits and allow City staff to control and manage these projects better over their lifetime. The City's debt capacity and plans for issuing new debt were closely looked at so that the long term benefits of many capital projects might be more fairly allocated to future taxpayers.

The CIP for FY 2009 through FY 2014 provides \$456.1 million from all City and non-City funding sources over a six-year period as follows:

- \$65.3 million for public schools;
- \$118.4 million for public buildings, including \$76.1 million for construction and equipping of the new police headquarters;
- \$85.5 million for public transportation and traffic control;
- \$37.9 million for streets, bridges, pedestrian improvements, other traffic improvements and mass transit;
- \$57.9 million for recreation and parks, including \$20.2 million for renovations and improvements to the Chinquapin Recreation Center and \$13.9 million for open space acquisition;
- \$44.0 million for reconstruction, extension & rehab of sewers-sanitary sewers funded 100% from sewer fees;
- \$24.8 million for information technology projects; and
- \$22.2 million for community development and other regional commitments.

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FINANCIAL OUTLOOK

During consideration of the FY 2009 budget, several longer range challenges continue to be considered and require future attention to assure the financial condition of the City remains sustainable.

The City faces future challenges in meeting competitive pressures of the regional labor market. Health care insurance premiums for current employees are increasing, and OPEB accounting standard changes caused the City and Schools to each develop parallel multi-year plans to fund long-term liabilities for retiree health and life insurance benefits. Although increased premium cost sharing with City employees helps mitigate this budget pressure, longer term strategies need to be developed. Among them is the switch to self-funding of employee health insurance, beginning in FY 2009. This change will allow the City and Schools to eventually save millions of dollars over time.

The City also must redesign the process by which it measures and maintains staff pay and benefit competitiveness with other Washington metropolitan jurisdictions. To do so, as part of a multi-year benchmarking and performance audit process of City departments, the City launched the Personnel Services Department efficiency and benchmark audit in FY 2008. One focus is improvements in the City's Wellness Program in order to improve employee health, workplace productivity, and possibly lower future health insurance costs. The City is also reviewing the employee compensation philosophy as part of a consultant study of employee classification and pay systems and is likely to revise the current compensation philosophy during FY 2009.

The City has positioned itself well financially to be ready for the slowdown in the real estate market. For future planning purposes the budget assumes no growth in real estate assessments next year. The City has the ability to adjust City spending by slowing down planned capital projects, and staff will closely monitor on an ongoing basis, spending and revenues during the year so that any negative trends in revenues or expenditures can be identified and adjustments made as necessary.

There is insufficient capital project CIP funding to meet all the needs in FY 2009, FY 2010 and FY 2011, even after rescheduling many projects to a later time. In addition to the \$4.5 million shortfall in FY 2009, there still is a shortfall of \$30.7 million in FY 2010 and \$22.3 million in FY 2011. This excludes the impact of the loss of NVTA revenues for transportation projects. These unfunded capital transportation projects total \$13.7 million. The impact on the operating budget of proposing additional cash capital or bond issuance is more than existing or projected revenue at current tax rates could handle. Those projects that are proposed for funding focus on making needed investments now that will avoid future costs. The CIP focuses on repairing, refurbishing, renovating, rehabilitating, and reconstructing existing physical assets as necessary. The CIP continues to reflect the continued dedication of 1% of real estate tax revenues for open space. It also focuses on projects that will save future operating costs such as the new Police facility that will eliminate lease costs over future years and allow more efficient consolidated police operations.

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TAX FACTS & ASSESSED VALUE

Type	Unit	FY 2008 Actual Rate	FY 2009 Approved Rate
Real Estate	\$100/AV	83.0 cents	84.5 cents
Personal Property & Tax Relief %	\$100/AV	\$4.75 / 69%	\$4.75 /69%
Refuse and Leaf Collection Disposal	Household	\$264	\$301

Average Residential Home Assessed Value	\$498,670
Average Residential Tax Bill CY'07	\$4,221
Average Residential Tax Bill CY'08 (Approved 84.5 cent rate)	\$4,214

The value of each one-cent on the real property tax rate is approximately \$3.5 million for FY 2009.

Median Assessed Value of Homes and Condominiums CY 2008

<u>Assessed Value</u>	<u>Units</u>	<u>Total Value</u>	<u>Median</u>
Less than \$100,000	10	\$717,432	\$79,687
\$100,000-\$249,999	6,084	\$1,277,875,456	\$217,300
\$250,000-\$499,999	18,523	\$6,727,176,684	\$355,000
\$500,000-\$749,999	9,695	\$5,871,334,457	\$597,700
\$750,000-\$999,999	3,637	\$3,106,065,963	\$844,500
\$1,000,000-\$1,999,999	1,689	\$2,164,826,659	\$1,204,500
\$2,000,000 and over	220	\$583,513,634	\$2,410,800

Source: Department of Real Estate Assessments

FY 2009 BUDGET CALENDAR

City Council held two public hearings and eleven public work sessions to review the budget in depth.

Reference copies of the budget, work session presentations and information/budget memoranda to City Council are available online at alexandriava.gov/budget. Copies of the budget document are also available at all Alexandria City public libraries.