

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 17, 1992

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: VOLA LAWSON, CITY MANAGER *Vola Lawson*

SUBJECT: BUDGET MEMO # 23: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE REVIEW OF THE PROPOSED FY 1993 BUDGET

ISSUE: Budget and Fiscal Affairs Advisory Committee (BFAAC) review of the proposed FY 1993 budget (Attachment 1).

RECOMMENDATION: That City Council receive this report.

BACKGROUND: In accordance with the mission of the Budget and Fiscal Affairs Advisory Committee (BFAAC) to advise and support City Council by forecasting future revenue and expenditure requirements and evaluating comparative tax, revenue, and expenditure levels in Alexandria, and following its work session discussion with Council on December 10, 1991, BFAAC has prepared an analysis of the FY 1993 proposed budget for Council's consideration.

DISCUSSION: As the final BFAAC report was received by staff only this morning, staff will present its comments to City Council at the April 20 work session.

ATTACHMENT: Attachment 1 - Budget and Fiscal Affairs Advisory Committee Review of the Proposed FY 1993 Budget

Review of the Proposed FY 1993 Budget

April 1992

Budget and Fiscal Affairs Advisory Committee

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BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE
REVIEW OF THE PROPOSED FY1993 BUDGET

Purpose:

The purpose of this report is to assist City Council in its consideration of the proposed Fiscal Year 1993 budget. This analysis is consistent with the Budget and Fiscal Affairs Advisory Committee's (BFAAC) mission to advise Council by "forecasting future revenue and expenditure requirements" and "evaluating comparative tax, revenue and expenditure levels in Alexandria."

This analysis does not consider the expenditures for the school system, as they are reviewed by the budget review committee of the School Board.

Organization:

This report is organized into four sections, as follows:

Overview - A summary analysis of the economic picture facing Alexandria and the overall expenditure levels contained in the FY1993 budget.

Review of the FY1993 Budget - More detailed analyses of specific issues contained in the budget.

Trend Analysis - A historical look at the budgets of the last three years and a glimpse at what FY 1994 might look like if current revenue and expenditure trends continue.

Conclusion and Recommendations - BFAAC's suggestions as based on the detailed analyses and historical trend analyses presented in the preceding sections.

Section 1 - Overview

The Washington metropolitan area continues to face the worst economic picture it has seen in decades. For the second year in a row, total current revenues available to the City are less than the preceding year.

Fortunately, Alexandria faces this situation in strong financial shape. Because of the prudent and forward-thinking management of the City's fiscal resources over the past several years, the City Manager has proposed an FY 1993 budget that maintains all city

services, funds necessary infrastructure improvements and prepares Alexandria for the future without an increase in the tax rate. In fact, the total tax burden for many Alexandrians in FY 1993 will be below FY 1992 levels (adjusted for inflation). This is possible because of a number of nonrecurring savings and revenue increases: a \$2 million savings in the public safety pension plan, a \$900,000 reduction in debt service, the creation of a trash collection fee (\$3 million), and the \$11 million drawdown in the Fund Balance.

Section 2 - Review of FY 1993 Budget

The proposed budget is a responsible plan for uncertain economic times. The level of General Fund expenditures proposed for FY 1993 are below FY 1992 levels and the number of city and school employees is essentially unchanged from the preceding year.

However, in our review of the budget, BFAAC did identify some areas that might yield possible cost savings for the City:

Capital Projects:

In general, the budget for capital projects is well-structured, with the sum of debt service and cash capital remaining relatively level over the next six years (with both funded from general fund revenues). This certainly contributes to the city's AAA bond rating.

However, we have discovered that there is about \$16 million in the "Capital Projects Fund Balance" in addition to the General Fund Balance. The Capital Projects Fund Balance is largely the result of prior years' funding of capital projects that has not been spent, with some additional contribution from disputed taxes. This balance is completely separate from the General Fund Balance.

This \$16 million represents a cash fund that could be used in a manner similar to the use of the General Fund Balance. Indeed, the FY 1993 budget uses over \$4 million of this money to offset capital project spending (that is how \$7 million in "cash capital" in FY 1993 is able to fund a total capital budget of \$11.3 million.)

There are certain capital projects which may be postponed or cancelled. The following table shows the five projects with the largest amount of unused funds. The scheduling of these projects could be adjusted to "free up" these unused funds, if City Council so desires.

<u>Capital Improvement Project</u>	<u>FY 1993 Budget</u>	<u>Unused Balance</u>
Mt. Vernon Avenue	\$ 750,000	\$3,029,903
Renovate City Buildings	\$2,367,318	\$2,077,203
Sewer Separation	\$1,000,000	\$1,409,992
Street Extensions	\$ 100,000	\$1,036,151
Undergrounding Utilities	\$ 100,000	\$ 350,000
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Total	\$4,417,318	\$7,903,249

It must be noted that rescheduling any capital project does not produce lasting savings, it simply postpones an expense. Therefore, any adjustments here should be considered in light of future revenue projections and other fiscal measures that might produce lasting savings.

Public Works:

There is some question about the vehicle replacement policy followed by the City. The policy appears well-developed and in the best interest of the City. However, there appears to be an opportunity to rethink the existing replacement policy in light of actual vehicle usage levels and maintenance costs. If some vehicles can be retained for a longer period without extraordinary maintenance costs, savings could be realized.

Community Development, Health and Welfare, and Parks, Recreation and Cultural Affairs:

We recognize serious management efforts underway to stretch dollars, services and staff to meet a recession-driven growing need for the services of the Human Services and Health Departments. In general, the published budgets appear sustainable and well-conceived; a more detailed review would determine if priorities might be reconsidered or services changed, which may generate savings or higher productivity. We found, however, that greater access to evaluation expertise would strengthen the hand of Department Heads to leverage their resources more effectively, trimming some programs while improving them.

In short, we did not find "fat in the budget" for these program areas. Yet we are interested (subject to Council approval) in reviewing the program areas in greater detail to determine if alternative priorities or methods might yield overall budget savings while retaining high quality delivery of services to Alexandria citizens. This is not meant to delay Council decisions on the FY 1993 budget but to look at areas that might impact future years' reviews.

Section 3 - Trend Analysis

Alexandria has always managed its resources wisely and well. But the City budgets for the most recent two years -- FY 1992 and FY1993 -- have been increasingly conservative. In these two years, City Council has had to make tough choices to control expenses.

To illustrate the choices that were made, BFAAC has summarized changes in the revenue and expense sides of the budget into three broad categories showing how the City's sources of revenue and its spending patterns have changed since 1990. The following table was prepared in conjunction with City staff using data presented in the approved budgets for FY 1991 and FY 1992 and the proposed budget for FY 1993:

General Fund Budget - Year-to-Year Changes

FY 1991 Budget: \$222.7 Million

Changes from FY1991 to FY1992:

Expense		Revenue	
Personnel	+ \$11.2M	Property Tax	+ \$3.8M
Non-personnel	+ \$ 0.9M	Other Tax&Fees	- \$4.0M
Capital Progrm	- \$ 4.7M	Fund Balance	+ \$7.6M
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Net Change	+ \$ 7.4M	Net Change	+ \$7.4M

FY 1992 Budget: \$230.1 Million

Changes from FY1992 to FY1993:

Expense		Revenue	
Personnel	+ \$2.7M	Property Tax	- \$6.7M
Non-personnel	- \$ 0.5M	Other Tax&Fees	+ \$3.5M
Capital Progrm	- \$ 2.4M	Fund Balance	+ \$3.0M*
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Net Change	- \$ 0.2M	Net Change	- \$0.2M

FY 1993 Budget: \$229.9 Million

* Note: This table shows the amount of change in revenue or expense from the previous year. Therefore, the "+ \$3M" in Fund Balance represents \$3 million above the \$7.6 million used FY 1992 and the \$0.7 million in FY 1991, or a total use of Fund Balance of \$11.3 million in FY 1993.

A Historical Perspective -- The FY 1992 Budget:

As the table shows, Alexandria's General Fund budget grew by \$7.4 million from FY 1991 to FY 1992 -- from \$222.7 million to \$230.1 million. The detail shows that personnel expenses grew by \$11.2 million during that period, but were offset by a \$4.7 million reduction in capital projects and debt service. Also between FY 1991 and FY 1992, note that local revenues remained essentially flat (property tax was up \$3.8 million, but other local taxes and fees were down \$4 million), while use of the Fund Balance contributed \$7.6 million in additional revenue during that period.

The FY 1993 Proposed Budget:

The bottom half of the table presents the changes in revenue and expense pattern contained in the proposed FY 1993 budget. Although the FY 1993 budget is \$200,000 less than the FY 1992 budget, the table shows how the composition of the budget has changed.

On the revenue side, property tax revenues are down almost \$7 million from the previous year; local fees are up \$3.5 million due largely to the establishment of the trash collection fee. The fund balance will be utilized for an additional \$3 million over the amount used in FY 1992, a total drawdown of \$11.3 million in FY 1993.

The expense side of the picture illustrates the effectiveness of Alexandria's fiscal management. The biggest reduction is in the Capital Program (\$2.4 million), where the recent refunding and rapid "pay down" of debt produced valuable savings right when they are needed most. The half million dollar reduction in non-personnel expenses is further testimony to tight fiscal controls. The increase in personnel expenses is a fraction of what it has been in previous years because of a rigorous "vacant position" policy and a \$2 million savings in the Public Safety Pension plan.

What the FY 1994 Budget Might Look Like:**

It is impossible to totally predict the future, but the pattern set in the past two years does provide a glimpse of what the FY 1994 budget might look like if the current trends continue. Consider the following extrapolation of the above table:

FY 1993 Budget: \$229.9 Million

Projected Changes from FY1993 to FY1994:

Expense		Revenue	
Personnel	+ \$ 5.0M	Property Tax	+ \$0.0M
Non-personnel	+ \$ 0.0M	Other Tax&Fees	+ \$0.0M
Capital Progrm	+ \$ 0.3M	Fund Balance	+ \$5.3M
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Net Change	+ \$ 5.3M	Net Change	+ \$5.3M

FY 1994 Budget: \$235.2 Million

The revenue projections assume that the economy improves slightly and that the decline in real property values is halted - or at the very least, that the tax rate is increased to compensate for any decline in assessed values.

On the expense side of the budget, we are assuming that the City continues with its tight control on non-personnel expenses and the capital program continue as set forth in the 6-Year Capital Improvement Plan. The \$5 million growth in personnel expenses is due solely to merit in-step increases and assumes that no cost-of-living increases are granted.

The startling conclusion of this analysis is the continued reliance on the Fund Balance as a source of revenue for city operations. Even under what some might consider to be optimistic assumptions about property tax revenues, an additional \$5.3 million over the FY 1993 level of \$11.3 million may be required from the Fund Balance. This projected "draw down" of \$16.6 million could completely eliminate the City's Fund Balance.

Certainly, additional sources of revenues might appear between now and FY 1994. The sale of City property could provide significant amounts of revenue. The institution of user fees, in addition to the trash collection fee, could also provide additional revenue. But all of these are "one time" sources of revenue that will not continually grow as City expenses mount. Clearly what is needed are structural changes in city operations so that expenses remain commensurate with available revenues.

Some suggestions for these structural changes are presented in the final section of this report.

*** Note:** Two of the at-large members of the eleven members of BFAAC present voted to reject in toto the discussion of personnel versus non-personnel expenditures presented in this section.

Section 4 - Conclusions and Recommendations

The FY 1993 budget, with its no tax increase, no service reductions, no staff cuts and no new programs, is a prudent plan in light of the current economic climate facing Alexandria. The savings in debt service, in non-personnel exspenses, in the pension program, the additional revenues due to the environmentally-sound trash collection fee and the use of the fund balance have made it possible to maintain city services without a tax increase. However, many of these are one-time actions that may not be duplicated in the next budget.

With this in mind, BFAAC suggests the following actions to produce structural changes in the City budget:

Long-Term Suggestions (Affecting the FY 1994 and later budgets):

- Revise the pay schedules for city and school employees so that total personnel expenses do not grow faster than available revenues. Alexandria has acquired a talented and dedicated workforce and should strive to retain it. However, as the largest component of the City budget, it should not routinely grow at a faster annual rate than general property tax revenues. The current economic climate necessitates a review of the pay schedules to reflect new realities while still keeping the City competitive in the recruitment and retention of a quality workforce.
- A careful reading of the City budget indicates that many of the ingredients of a strategic plan are present, yet the City has not actually developed a strategic plan. With future resources appearing to be diminishing, it is essential that clear priorities and strategies animate the devlopment of future budgets and that such priorities and strategies be woven together as part of the vision, mission and values that the City of Alexandria believes to be important.

With the City Council on the verge of adopting a new master Plan, it may be opportune for the Council to consider wedding the Master Plan and other resource planning efforts to a City of Alexandria Strategic Plan.

Whether it is called re-inventing, re-designing or re-arranging government, the point is that a strategic plan tends to add focus to re-thinking how city government does what it does in a better way to position itself to serve the community better. A City of Alexandria Strategic Plan may better enable all citizens to understand how their dollars are being used and how budget priorties are being guided by the vision and values of the City.

- Carefully examine the potential to shift city-provided internal and external services to outside contractors. Examples are printing, typesetting, vehicle maintenance and trash collection.
- Review vehicle replacement policies (length of use) in light of current use levels, vehicle longevity, maintenance costs and the potential for outside service contracts.
- The City's Office of Management and Budget should continue to refine performance measures and enhance its capability to assist Departments in program evaluation through training of their staff.
- The City should consider reassignments of staff resources so that fraud detection activities in the Food Stamp program can be resumed as soon as possible.
- BFAAC should reorganize how it conducts its annual review of the budget to allow more time for review below broad program areas.

Alexandria has weathered the current recession so well because it acted with a policy of foresight and caution throughout the 1980s. These recommendations are offered in the same spirit. That is, to best prepare Alexandria for the future.