

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 16, 1993

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: VOLA LAWSON, CITY MANAGER *Vola Lawson*

SUBJECT: BUDGET MEMO # 22 : BUDGET AND FISCAL AFFAIRS ADVISORY  
COMMITTEE REVIEW OF THE PROPOSED FY 1994 BUDGET

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ISSUE: Budget and Fiscal Affairs Advisory Committee (BFAAC)  
Review of the Proposed FY 1994 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, BFAAC has prepared an analysis of the FY 1994 proposed budget for Council's consideration.

DISCUSSION: As the final BFAAC report was received by staff only this morning, staff will present oral comments to City Council at the April 19 work session.

ATTACHMENT: Attachment 1 - Budget and Fiscal Affairs Advisory  
Committee Review of the Proposed FY 1994 Budget

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# Review of the Proposed FY-1994 Budget

April 1993

Budget and Fiscal Affairs Advisory Committee

Norm Draper, Chair

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Charles Bailey  
Alan Cohan  
Rodger Digilio  
George Ellmore  
Joel Geisner  
Harvey Harrison  
Beverly Hoffmann, Vice Chair  
Ed Kee  
Steve Kenealy  
Brian Moran  
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Staff Assistance  
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Robert Platky, Director, OMB

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**Budget and Fiscal Affairs Advisory Committee**  
**Review of the Manager's Proposed FY-1994 Budget**

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**Purpose:**

The purpose of this review is to assist City Council in its consideration of the proposed Fiscal Year 1994 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.*' The Committee has attempted to look more closely at revenues and expenditures than it has heretofore done. The review covered all aspects of City operations including the schools.

The Committee has conducted its analysis with the assistance and support of Mr. Robert Platky, Director, Office of Management and Budget. BFAAC wishes to take this opportunity to apprise City Council of our appreciation of Mr. Platky's dedication to the efforts of the Committee and to thank him for his support and patience with BFAAC's procedural deliberations and analysis.

**Conclusions and Recommendations:**

The proposed FY-1994 budget includes both strengths and weaknesses. The strengths are highlighted by the ability of City staff to produce a reduction in costs of \$2.0M from FY-1993 levels while services to citizens appear to be maintained. City staff's management of the Capital Improvement Program is another strength. The weaknesses are highlighted by the shortage of revenue to match expenditures, resulting in the proposed 3 cent real property tax increase and use of the Fund Balance as a means of balancing the budget.

Personnel costs continue to be a driving force in the expense side of the budget as salaries and benefits continue to rise. The largest expenditure item, City Schools, remains difficult to control. A number of recommendations in the Management Study of selected City operations have the potential for reducing expenditures if validated and adopted.

BFAAC has developed recommendations which if adopted can reduce expenditures by up to \$4.0M as well as the possibility of generating additional revenue in future years. BFAAC's four recommendations follow:

- 1) Defer the Mt. Vernon Avenue capital improvement project and transfer \$1M from that project's prior year carry forward to the General Fund balance.

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- 2) Review current overtime policies and practices to ensure reasonableness and uniformity throughout City departments and change the hours paid policy to an hours worked policy.
- 3) Limit the general salary adjustment (COLA) to 1.5% thus saving \$2.7M<sup>1</sup>
- 4) Enhance the City's revenue generating base by making City assets more productive with particular emphasis on the five recommendations contained in Section 2 of this report.

## **Organization:**

This review is organized into the following sections:

Overview - A summary analysis of the economic picture facing Alexandria and the Manager's actions to deal with declining revenues and rising expectations. (P.3.)

Revenue - The report of the Revenue Subcommittee of BFAAC, chaired by Beverly Hoffmann. (P.4. and Appendix 1)

Expenditures - The report of the Expenditures Subcommittee of BFAAC, chaired by Rodger Digilio. (P.6, Tables 1-4, Figure 1)

Program Budget Format - A discussion of a method of reviewing City programs from a different perspective based on data presented in a revised program format. (P.17 and Appendix 2)

Historical Perspective - An historical look at the budget for the last three years. (P.18, Table 5)

FY-1995 Outlook - A glimpse of what FY-1995 might look like if current revenue and expenditure trends continue. (P.21, Table 6)

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<sup>1</sup> BFAAC voted on its recommendations and the body of the report. On this particular recommendation Member Cohan voted in the negative and Member Kenealy abstained. Members Cohan and Hoffmann have joined in a dissenting opinion on this recommendation which is attached as Appendix 2.



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**Section 1 - Overview**

The Washington metropolitan area is beginning to show some signs of improvement in the region's economic picture which was the worst it had been in several decades. However, for the third year in a row, total current revenues available to the City (absent the proposed real property tax rate increase) are less than the previous year according to projections. Fortunately, Alexandria is still in a relatively strong fiscal condition because of continuing prudent and forward-looking management of the City's fiscal resources over the past several years. Notwithstanding a decline in real property assessments, the proposed three cent real estate tax increase on Alexandria's largest revenue source, residential property, will increase the tax burden by an average of \$71.00 per single family home. However, factoring in the \$140.00 refuse collection fee initiated last year for single family home owners and the decline in real property assessments actually results in an average \$122.00 increase for these home owners in 1993. The City Manager's budget reduces City agencies (which excludes the schools) by an average of 2.5 percent. A key aspect of this reduction is the proposed withholding of merit in-step increases for City and school employees while including a 3 percent cost-of-living increase for all personnel.

The FY-1994 budget is projected to be balanced by the above actions plus a 6.3 million dollar drawdown on the Undesignated Fund Balance, the third year in a row that this has been proposed. It should be noted that Council adoption of recommendations from a current management study of selected City operations may impact FY-1994 and future City budgets over and above the \$150K savings currently in the Manager's proposed budget.

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**Section 2 - Revenue**

In September 1992, the members of the Revenue Subcommittee began the examination of ways to increase revenue to the City. Because the number of funding options in the City's budget are far fewer than the spending options, the subcommittee had sufficient time to consider both short term and longer range recommendations; this report reflects both.

The subcommittee realizes that all of the topics listed hereafter have been discussed previously by many groups, sometimes with intensity, and certainly with less than total agreement. However, the City's dependency on real estate taxes as the primary source of revenue dictates the wisdom of re-examining any and all topics that might bring new or increased sources of revenue to the City. This is especially true because the City's real estate tax base has declined, and only a modest recovery is expected. The longer range recommendations listed herein are designed to address that gap.

***FY-1994 RECOMMENDATIONS***

- 1) Expedite adoption of a generally acceptable Potomac Yard Small Area Plan.

Discussion:

City currently has no significant alternative Planned Development District to the Carlyle project which is stalled because of the "soft" office market.

- 2) Publicize the City's desire for higher density commercial development of the Eisenhower Avenue corridor.

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Discussion:

Mayor Ticer enunciated this position in her State of the City address in March. The City has spent millions of dollars preparing the Eisenhower Avenue area for higher density commercial development. Current plans for the Clermont Interchange will open up this area, thus facilitating realization of a return on this past investment. Such development will have an obviously positive impact on the tax base plus alleviation of through-traffic during rush hours.

- 3) Continue attracting larger services and retail businesses such as BJ's, Home Depot, and Compu Serve in the West End.
- 4) Facilitate buildout of the Winkler tract in accordance with the adopted Small Area and Master Plans.
- 5) Limit extension of the Torpedo Factory lease to one year during which the net cost to the City be assessed by a working group of concerned artists, City staff, and others.

Discussion:

Issues such as after-5:00 p.m. hours and admissions fees should be dealt with thoughtfully, yet realistically, by all concerned in a collegial working atmosphere; hence our recommendation that a working group be formed.

***LONGER RANGE RECOMMENDATIONS***

- A. Convention Center - Explore joint project with Arlington County.
- B. Continue to promote tourism with public/private funding.
- C. Attract larger business organizations to enhance the corporate backbone of the City.
- D. Recruit large service employers from the metropolitan area.
- E. Seek outside corporate and foundation funding through grants.

Details and discussion of these longer-range recommendations are contained in the appendix, which also deals with potential problems and solutions of each recommendation.

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**Section 3 - Expenditures**

City expenditures have been reduced reflecting the efforts of the City Manager and her staff to "...meet increased program demands and mandates with less revenues..." as stated in her budget message. With the exception of the schools (\$179,912) and the Fire Department (\$17,242) showing small increases, every major operating department of the City has been reduced from the approved FY-1993 budget. This is shown in the following table.

Table 1. General Fund Expenditures.

General Fund Expenditures (In Millions)			
Purpose	Approved- 1993	Proposed- 1994	Percent Reduction
Legislative & Executive	2.7	2.6	4%
Staff Agencies	20.2	19.5	3%
Operating Agencies	92.3	90.7	2%
Courts	17.7	17.6	1%
Education	69.5	69.5	-0-
Infrastructure	20.5	14.7	28%
Non-departmental	6.4	6.3	1%
Sub-total	229.3	220.9	4%
Contingent Reserve	1.3	7.8	N/A
TOTAL	230.6	228.7	1%

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It should be noted that the Contingency Reserve appears to increase but the FY-1994 figure contains funds primarily set aside for a 3 percent cost-of-living allowance for City and school employees, continued funding for at-risk children and supplemental funding for the DOT Paratransit Program. These items will be discussed during Council budget work sessions.

The following sections detail the work of members of the Expenditure Subcommittee on various departmental budgets as well as the Capital Improvement Program budget and a discussion on the issue of compensation.

**Human Services (HS)**  
**Mental Health, Mental Retardation and Substance Abuse (MHMRSA)**

The majority of funds for these departments comes from non-General Fund revenues including Federal and State, grants, fees and service contracts: 54% for HS and 63.3% for MHMRSA. The funds are spread over every program area in each organization. Much of the funding comes with specific mandates for use. Consequently, there is very little maneuvering room to make program adjustments, for example, to reprogram funds for other uses than intended. In some instances funding (plus Federal/State regulations require certain staffing levels) is specified for certain staff positions, which means that staffing decisions have to be evaluated carefully to avoid impacting Federally or State funded positions. To illustrate this point, from 1988 to 1993, HS added 29 (17% increase) and MHMRSA 80 (63% increase) positions mostly funded by grants, fees or other non-General Fund revenues. Some reductions have been made as grants expire but, as the numbers indicate, overall staffing continued to increase. Data included in Measures and Indicators in the budget document indicate that caseloads, i.e., the number of individuals receiving services, has continued to increase over the past several years, corresponding to the staffing increases.

The reasons for the sizeable increases in resources requirements in the two departments is the City's propensity to care for citizens in need coupled with Federal and State mandates with related funding to provide specific services. With respect to MHMRSA individual care costs range from approximately \$50.00 to over \$73,000.00. The City is sometimes left with very few discretionary measures in determining who needs how much of which service. Caseloads continue to climb as people learn about and take advantage of these attractive services.

What conclusions can be drawn from the discussion insofar as how to achieve some control over spiralling budgetary requirements related primarily to services to individuals? This embodies a health and welfare situation that, of course, is a national as well as State and local agenda item. At some point the fact that resources are constrained by stringent fiscal conditions must be recognized. Localities have to push for more discretionary action at their

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level and the right to set their priorities for delivery of services based on their cost/benefit analyses of the situation. There is a need to select those individuals with the most critical needs and with the best chance of responding positively to the programs and treatment offered.

### Capital Improvement Program

Prior year carry forward amounts from capital projects that have not spent the amount budgeted in prior years, are significant - about \$11 million of the total \$28.6 million Capital Projects Fund Balance as of June 30, 1992<sup>2</sup>. The prior year carry forward amount alone is 99.6 percent of the proposed FY 1994 Capital Improvements funding, while the total Capital Projects Fund Balance is 260 percent of the FY 1994 Capital Improvements funding.

The FY 1994 Proposed Budget makes limited use of this prior year carry forward. First, some of these funds are used to reduce FY 1994 cash needs by moving \$1.3 million from one group of capital projects<sup>3</sup> to the FY 1994 funding of certain "high priority" capital projects.

Second, prior year carry forward amounts are moved to fund current year capital need in two specific capital improvement projects: \$750,000 Mt. Vernon Avenue Improvements, and \$500,000 for project Miscellaneous Undergrounding of Utilities.

The remaining prior year carry forward amount of about \$17.6 million<sup>4</sup> could be used to offset other FY 1994 capital projects funding or FY 1994 funding in other, non-capital, areas. However, moving these amounts is not a simple administrative activity.

The City Council must make decisions concerning the use of these funds, since the funds arise from prior year approved Capital Project budgets. Given the extremely difficult process of setting priorities and reducing funding of other projects that are much smaller in magnitude,

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<sup>2</sup>Comparable amounts for June 30, 1991 are \$9 million in prior year carry forward and a total capital projects fund balance of \$26.7 million.

<sup>3</sup>These Projects have either been completed, canceled, deferred, or the amount has been revised

<sup>4</sup>\$17.6 million is the amount of prior year carry forward less the \$1.25 million used for current year funding, as described on page 8-21 of the FY 1994 Proposed Budget, top half of the page. It is unclear whether the total prior year carry forward amount of \$18,862,223 is the projected amount as of 6/30/93, or is the actual amount as of 12/30/92. If this amount is the 12/30/92 amount, then it is likely that some funds will be spent before 6/30/93, reducing the prior year carry forward amount.

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relatively non-controversial decisions to shift prior year carry forward amounts into the current year should be appealing.

The Capital Improvement Budget should be examined to ensure that the budgeted amount for each project is clearly tied to specific, tangible projects with clearly planned and scheduled activities, or the amount of prior year carry forward may be increased.

As in last year's report, the five Capital Improvement Projects with the largest amount of prior year carry forward and FY 1994 proposed funding are listed below, with the amount for all Capital Improvement Projects<sup>5</sup>

Table 2. Capital Improvement Projects.

Capital Improvement Project	Prior Year Carry forward	FY 1994 Proposed Funding
Sewer Separation	\$3,218,940	\$0
Mt. Vernon Avenue	\$3,049,939	\$0 <sup>6</sup>
Renovate City Buildings	\$2,909,367	\$583,100
Schools	\$1,851,450	\$3,000,000
Queen Street Library	\$1,560,882	\$1,413,118
Total, top five	12,590,578	5,746,218
Total, all Capital Improvement projects	\$18,862,223	\$11,019,390

<sup>5</sup>All amounts are from pages 8-22 and 8-23 of the FY 1994 budget. Again, it is unclear whether the prior year carry forward listed here is the "projected" balance as of 6/30/93 or the actual balance as of 12/30/92.

<sup>6</sup> Three quarters of a million dollars has been moved from prior year carry forwards to current year funding.

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**Alexandria City Public Schools**

During its 1992 deliberations on the City's proposed FY-1993 budget BFAAC noted that its review did not include the City's appropriation to the Alexandria City Public Schools (ACPS). We recognize that the City Schools are not an agency of the City government. We also recognize that the appointed School Board provides for public comment and input in its budget formulation process and has its own Budget Advisory Committee to assist it. Nevertheless, we believe that Council should be aware of the major trends in expenditures and needs that are contained in the School Board's budget. It is not our intent to recommend, support or criticize programmatic elements in the School's budget. We believe that is best done in the channels and by the bodies that are already in existence.

***Management Study***

You have already received the Management Study of the City Schools which you commissioned in the Summer of 1992. The Committee has reviewed the draft audit report in addition to its review of the budget document.

We believe the consultant's report on the need to link Strategic Planning with the budget cycle is a valuable recommendation and we point out that, in fact, the Schools Strategic Planning Task Force and its Budget Advisory Committee have been moving in that direction. In December 1992 the Strategic Planning Task Force met in a retreat and drafted the basic framework of the plan including a vision statement for the next six years. Over the next several months the task force will be seeking community input on the draft. We urge the Task Force to seek this community input aggressively to avoid a repeat of the controversy over the instructional grouping policy. Once the draft is adopted and the year-to-year implementing plans are written and linked to the budget planning process we would expect to see a better marshalling of resources to a common shared vision for the schools.

We agree with the findings of the audit with respect to the number and functionality of senior administrators in the system. At the same time however it is critical to allow those who must lead the Schools in these difficult times to decide staffing issues. You should be aware also that it is not clear what the study proposes beyond the deletion of two Assistant Superintendent positions. To some readers it appears that the two positions are being downgraded to Director level positions and if this is the case the "savings" of \$184,000 would be greatly overstated. A clear statement is required of the total administrative staffing changes the consultants are recommending before any conclusions can be drawn as to savings.



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The consultant's raising of the issue of the School's funding of 100% of the health benefits cost for administrators compared with 57% for teachers for example is a valid one. All school employees should have an equal percentage of their health insurance premiums covered within the current level of funding. In addition to the question raised on the three levels of employer funding it might also be advisable to ask the schools to review the health plan(s) it chooses for its employees. We believe there are savings inherent in a better choice of health plans.

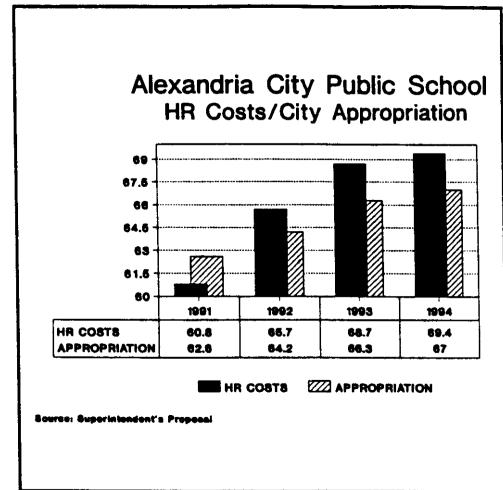
*School Budget Trends*

Over the past three years the single fastest growing expenditure in the schools is the cost of special education services. In 1994 ACPS proposes allocating \$10.5M to provide special services for approximately 1,600 of its children. Much of this funding, however, goes to a small number of these students. BFAAC notes from the 1994 Superintendent's budget document that the system is attempting to control this cost spiral and proposes the establishment of an Alexandria Public Day School to reduce outside tuition cost. This joint effort led by the Alexandria Community Management Policy Team (ACMPT) is a good first step in returning children to the community because of the hoped-for savings in tuition costs and for the better services that are anticipated to be provided. The old adage is still true that needs are infinite and resources are finite. One thing is quite clear: to the extent that resources will remain constrained there are only two courses of action available. Either the system must reduce and/or provide services more efficiently, or, it must control the intake of new clients. Council should continue to encourage and support cost control efforts of ACPS in this area.

ACPS is a labor intensive operation. Contrary to other efforts to "reinvent government" in the 1990s the prevailing theme in public education is the increase of human resources for more effective program delivery. The ACPS FY-1994 budget adds a substantial number of new staff. Every addition of a new employee is an expensive proposition. People are the most expensive addition to the resource base that any organization makes because they carry with them numerous indirect costs including staff development, the need for supervisory services and the need for larger administrative organizations to deal with larger numbers of employees. For these reasons Council should continue to exercise its 'bully pulpit' role and encourage ACPS to control its people costs and explore different ways to deliver the education program.

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The wage and benefit costs of ACPS employees for 1994 are projected to be greater than the requested City appropriation. Simply put the human resource costs of ACPS outstrip the City's appropriation. Figure 1<sup>7</sup> displays graphically this situation. Over the four year period both the human resource costs and the City appropriation have continued to grow, however, the human resource costs are growing at a faster rate than the appropriation. If, for the sake of example, one assumes that the City appropriation is used solely for human resource costs, then in 1991 there was a \$1.5M 'surplus' in the appropriation and by 1994 the surplus had totally evaporated and, in fact, had become a \$2.5M deficit - a four million dollar swing in three years.



In conclusion BFAAC sees no lessening of the demands that have escalated the City appropriation. On the contrary, the outlook for increased State revenue over the next several years is bleak while the projected enrollment of ACPS increases. Since increased enrollment, especially enrollment of more children with special needs, and the push for more employees in the classroom will continue to require the hiring of new ACPS employees, Council can expect rising pressure to meet ever increasing financial demands.

### Alexandria Police Department

The Alexandria Police Department's (APD) proposed 1994 budget is \$23.7M and represents 8.8% of the City's total expenditures. Similar to other City operating agencies it has budgeted a reduction. The reduction of approximately \$453K or 1.9% is achieved by adopting more stringent overtime regulations which are projected to save \$193K and, the replacement of seven fewer vehicles, a savings of \$190K. Additional savings are forecasted in group medical expenditures, uniforms and wearing apparel, professional services, and rental equipment.

It should be noted that prior year actual expenditures by the APD have fallen far short of the Department's funded budgets. The APD has returned funds to the City the last three years. In 1992 expenditures were \$1.5M less than budgeted.

<sup>7</sup> The 1994 numbers contained in Figure 1 are from the Superintendent's request. After the School Board action on April 12, 1993 the new figures are HR costs of \$69.6M (a \$200K increase) and requested City appropriation of \$67.1M (a \$100K increase).

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***Future Budget Considerations***

Police initiatives such as community policing, bicycle patrols and residential police officers may require expanded funding in the future. In 1992 Alexandria experienced a dramatic decrease in crime. Serious felonies decreased 11.2% and burglaries decreased by 31.4% compared to 1991. Such statistics are welcome news. However, certain neighborhoods in our City continue to be plagued by crime such as the Mt. Vernon corridor. The City and the police should continue to review the results of these initiatives with their possible expansion in mind. Such review has already taken place with the installation of a second residential police officer in the Samuel Madden project in Old Town.

***Management Study***

The management study of the APD recommends a savings of \$636K, half of which is achieved by reducing overtime. The APD spends between \$1.2 and \$1.5M in overtime a year. Overtime is used for such activities as emergency callbacks, special details, special City events, coverage of field operation and support operation shifts during holiday periods, court testimony and shift extensions. The bulk of overtime funds are used by uniform patrol officers conducting community policing and crime details.

The APD overtime budget far exceeds the peer group's in the Management Study. The average overtime cost of the peer agencies was \$453K. Locally, the discrepancy is significant. Fairfax spends \$7.00 per resident in overtime costs compared to Alexandria's \$13.00. Arlington spends approximately half of what Alexandria spends in overtime. Arlington's cost per resident is \$4.00.

How can the APD provide needed services and reduce overtime costs? The study identifies a major opportunity to change current overtime policy. The APD, as most other City departments, currently pays overtime on the basis of hours paid. This practice appears to have lost favor throughout the United States. The Management Study surveyed 16 comparable jurisdictions and only one of the sixteen uses the hours paid approach. The APD should adopt the hours worked approach to overtime calculations.

The study also addressed the hireback practice of the APD. The practice guarantees overtime of 5 hours a pay period. It was originated to pay the officers for the time spent in roll call, apparently time not compensated in their scheduled 9.5 hour shift. The system has changed under Chief Samarra from one of unsupervised to supervised tasks. Rather than an automatic 5 hours, officers are now required to sign up for a specific detail. However, the study poses the question whether there is a critical need for such overtime. The total hireback bill in

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1989-90 was approximately \$800K. Hireback detail comprises 40% of the overtime budget. the City needs to review the benefits of the details served by the hireback policy. There may be some community resistance to their elimination, for instance, patrols are deployed in the King Street area of Old Town. The utility of these patrols require further study.

### General Salary Adjustment

The proposed budget contains \$5,562,000 for a 3% general salary adjustment (cost of living adjustment or COLA) for all City and school employees. In addition, \$518K is proposed as a partial offset to increased employee health insurance premiums. The City and the schools will continue to pay both the employee and employer share of supplemental retirement benefits. No merit in-step increases are proposed for FY-1994.

Last year BFAAC highlighted the accelerating trend in City personnel expenditures and pointed out that this trend combined with a stagnant tax base, particularly in the assessed value of real estate, would produce severe pressures for tax increases in the years ahead. That prediction has now come true. The 3 cent tax rate increase applied not only in FY-1994 but also applies to the second half of FY-1993, will raise, over the eighteen month period, about \$4.8M of the approximately \$6.1M needed to fund increased employee salaries and benefits in FY-1994.

The question is how necessary are employee compensation increases of this magnitude? Data provided in the Proposed Budget and in Budget Memo #15<sup>8</sup> show that a City of Alexandria employee doing the same job he/she was hired for 8 years ago in the second half of 1986 would be paid about 67.23% more for his/her work in FY-1994 than in 1986 assuming he/she received steps and COLAs each year. Inflation has increased 29.^% over this period putting the employee salary increase 37.6% ahead of inflation.

The same sources reveal that Alexandria employees fared better than employees in comparable northern Virginia local governments over the 9 year period considering COLAs and merit in-steps. Alexandria employees have had increases that are 7% more than Fairfax County and 13% more than Arlington County assuming the employee received the COLAs and merit in-step each year over the past nine years.

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<sup>8</sup> Proposed FY-1994 Employee General Salary Adjustment and City Contribution to Employee Health Insurance.

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Table 3. COLA and In-Step Comparison

Comparison of COLAs and Merit In-Steps FY-1986 through Proposed FY-1994					
	Alexandria	Arlington	Fairfax	Loudon	Prince William
Aver. COLA	3.03	3.08	2.78	2.22	2.50
Aver. In-Step	4.44	3.00	3.89	4.40	3.61
Aver. Combined	7.47	6.08	6.67	6.62	6.11
Total Over 9 Years	67.23	54.72	60.03	59.58	54.49

BFAAC believes that City Council must look closely at this issue and balance the needs of its employees who have been extraordinarily well taken care of over the last 8 years with the needs of taxpayers. This is particularly true because the proposed FY-1994 tax increase is applied to the last half of FY-1993—a period when the single family homeowner is paying the new refuse collection fee and the condominium homeowner has lost the trash rebate.

If the City provided no general salary adjustment and no merit in-step increases during FY-1994, Alexandria employees would still have the greatest increase among the comparable northern Virginia jurisdictions. Alexandria employees would be 4% ahead of Fairfax County and 9.4% ahead of Arlington County over the 9 year period.

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Table 4. COLA and In-Step Comparison (w/o Alexandria 1994 increase)

Comparison of COLAs and Merit In-Steps FY-1986 through FY-1994 (Without any Alexandria COLA or In-Step in FY-1994)					
	Alexandria	Arlington	Fairfax	Loudon	Prince William
Aver. COLA	2.69	3.08	2.78	2.22	2.50
Aver. In-Step	4.44	3.00	3.89	4.40	3.61
Aver. Combined	7.13	6.08	6.67	6.62	6.11
Total Over 9 Years	64.17	54.72	60.03	59.58	54.49

In conclusion, BFAAC has examined the consultant's draft report on the Analysis of Salary Schedules and Pay Practices and recommends careful study of the issues contained therein. Given the outlook for only modest growth in the tax base, it appears that City Council could be faced with the need to enact a tax increase of 2 to 5 cents each year of the 1990s to continue granting employees annual step increases of even 2.5% plus COLAs of 2 to 3%. Just as the deflation of the 1990s has caused the private sector and federal and state governments to examine their salary practices, so it will force Alexandria to as well. The comfortable assumption that the real estate tax base will increase due to appreciation and new construction to produce necessary revenue is no longer valid.

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**Section - 4 - Program Budget Format**

On October 12, 1992, BFAAC forwarded to the City Council its design for a program format of the FY 1994 budget, which displays a spreadsheet of expense line items against program functions. BFAAC recommended that this format be added to the bound version of the proposed FY 1994 budget to further clarify expenses.

The recommended spreadsheet is displayed as Appendix 2.

The City's fiscal staff reported to BFAAC that it encountered computer trouble in creating the recommended format. Therefore, it did not appear in the bound version of the proposed FY 1994 budget. Staff is currently working with BFAAC to revise and create the program format within the computer capacity of the City's MIS department for publication in the bound copy of the approved FY 1994 budget.

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**Section 5 - Historical Perspectives**

In last year's report to City Council, we stated "Alexandria has always managed its resources wisely and well." This is still a valid statement. The City budgets for FY-1992 and FY-1993 were conservative with Council making some difficult tough choices to control expenses.

To illustrate the choices that were made, BFAAC has summarized changes (see Table 3) 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 1991. The following table was prepared in conjunction with City staff using data presented in the approved budgets for FY-1992 and FY-1993 and the proposed budget for FY-1994.

Alexandria's General Fund budget grew by only \$0.6M from \$230.0M to \$230.6M from FY-1992 to FY-1993. The detail shows personnel and non-personnel expenses grew by \$3.3M during that period, but were nearly offset by a \$2.7M reduction in cash capital and debt service. On the revenue side, property taxes declined \$6.7M while other taxes and fees grew by \$5.3M, almost offsetting the property tax decline. Use of the Fund Balance contributed \$2.0M resulting in only a \$0.6M upward change in net revenue during that period.



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Table 5. General Fund Budget - Year-to-Year Changes

General Fund Budget - Year-to-Year Changes			
FY 1992 Budget: \$230.0 Million			
Changes from FY 1992 to FY 1993:			
Expense		Revenue	
Personnel	+ \$2.8M	Property Tax	- \$6.7M
Non-personnel	+ \$0.5M	Other Tax & Fees	+ \$5.3M
Capital Program	- \$2.7M	Fund Balance	+ \$2.0M
Net Change	+ \$0.6M	Net Change	+ \$0.6M
FY 1993 Budget: \$230.6 Million			
Changes from FY 1993 to FY 1994:			
Expense		Revenue	
Personnel	+ \$4.1M	Property Tax	+ \$1.7M
Non-personnel	- \$0.2M	Other Tax & Fees	+ \$0.2M
Capital Program	- \$5.9M	Fund Balance	- \$3.9M <sup>9</sup>
Net Change	- \$2.0M	Net Change	- \$2.0M
FY 1994 Budget: \$228.7			

<sup>9</sup>Approved appropriation from Fund Balance for FY 1993 is \$10,251,950, projected for FY 1994 is \$6,327,058.

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*The FY-1994 Proposed Budget*

The bottom half of Table 5 (page 19) presents the changes in revenue and expense patterns contained in the proposed FY-1994 budget. Although the FY-1994 budget is \$2.0M less than the FY-1993 budget, the table shows how the composition of the budget has changed.

The expense side shows an increase of \$4.1M primarily due to a proposed 3 percent general salary adjustment (without accompanying merit in-step increases) for City and school employees and a small (\$0.2M) increase in non-personnel expenses. Capital programs decline by \$5.9M leaving a net reduction of \$2.0M.

Revenues are up by \$1.9M primarily because of a three cent increase in the property tax rate. Reliance on the real property tax as the primary source of revenue continues to increase as in past years. In FY-1993 the real property tax accounted for 51.5% of total general fund revenues. In FY-1994 it is projected to be 51.7%. Although the proposed Fund Balance drawdown is \$6.3M this is \$3.9M less than the approved (\$10.2M) drawdown for FY-1993.

The change from FY-1993 to FY-1994 indicates the effectiveness of Alexandria's fiscal management policies and practices. The biggest reduction (\$5.9M) is in the capital programs where bond refunding and rapid "pay down" of debt produced valuable savings at the time they were needed most. The management of salary increases, on the other hand, has not resulted in holding down the City's largest expense. Even without in-step increases in FY-1994, City employees will have received increases the last eight years that exceed those in all other comparable Northern Virginia jurisdictions.

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**Section 6 - FY-1995 Outlook**

The patterns set in the past few years provide a glimpse of what the FY-1995 budget might look like if current trends continue. Consider the following extrapolation from the FY-1994 table (Table 5 page 19).

Table 6. Projected Changes FY-1994 to FY-1995

Projected Changes from FY 1994 to FY 1995			
Expense		Revenue	
Personnel	+ \$6.1M	Property Tax	+ \$4.0M
Non-personnel	+ \$0.5M	Other Tax & Fees	+ \$1.0M
Capital Program	+ \$1.9M	Fund Balance	-0-
Net Change	+ \$8.5M	Net Change	+ \$5.0M
FY 1995 Budget Gap: \$3,500,000			

The revenue projections assume an improved economy and a slight rise in property values. On the expense side of the budget, we are assuming that personnel expenses will grow. The growth in capital programs is reflected in the FY-1994 proposed CIP summary. A modest increase can be anticipated in non-personnel expense since these expenses are held in check in FY-1994.

Additional sources of revenue may be realized by sale of City property and initiation of new user fees. If additional revenue is not forthcoming it is possible that the Fund Balance may have to be used again to fill the gap between prospective revenues and expenses. The revenue section of this report suggests some possibilities for Council's consideration.

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**APPENDIX 1.**

**BFAAC Revenue Subcommittee**  
**April 1993**

In Alexandria, people feel strongly about the way City revenue is generated. Hence, this appendix indicates the subcommittee's consideration of not only revenue recommendations but also associated potential problems and solutions. Alexandria, like the nation, faces the necessity to entertain open-minded compromise and sacrifice in the interest of achieving long term stability and a new toehold for revenue-producing growth. In that spirit, the entire Budget and Fiscal Affairs Advisory Committee engaged in nine months of aspiration-based thinking exercises prior to beginning its review of the FY 1994 budget. BFAAC found that approach to be very useful and would not be disappointed if others followed suit.

**Recommendation A:**      **Attract Convention Center to Potomac Yard or Eisenhower Valley. Center should be able to accommodate large and small groups.**

- explore joint facility with Arlington County
- actively cultivate associations and nonprofits to bring their meetings here
- intensify efforts of Alexandria Convention and Visitor's Bureau and Economic Development Program
- make available fleet of trolleys from Metro stops to key parts of Alexandria, as is done by Richmond, Virginia Beach, and Crystal City
- Revenue Lines Impacted:
  - rooms tax
  - meals tax
  - sales tax
  - gross receipts tax
  - parking meter revenue
  - public transportation revenue

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- Potential problem:
  - traffic congestion
- Potential solutions:
  - on-site parking
  - trolleys

**Recommendation B: Promote tourism**

- Attract a national and international set of tourists who will arrive on public transportation and utilize local hotels, restaurants, stores, etc. Use public/private money to promote tourism among those within driving distance.
- Revenue lines impacted:
  - rooms tax
  - meals tax
  - sales tax
  - gross receipts tax
  - parking meter revenue
  - public transportation revenue

Note: Establish public/private tourism seed fund to leverage city money with matching funds.

- Potential problem:
  - increased car traffic
- Potential solutions:
  - park tour buses in satellite lots
  - build parking pavilions
  - build convention center with substantial parking
- Potential problem:
  - increased people traffic
- Potential solutions:
  - trolley system (model program - Crystal City)
- Potential problem:
  - increased costs of police

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- Potential solutions:
  - pay from increased revenues
- Potential problem:
  - rowdiness
- Potential solutions:
  - create committee of concerned citizens and business people to recommend a control program which balances the interests
  - better utilize police resources at key times

**Recommendation C:**      **Recruit Larger Business Organizations to Enhance Corporate Backbone of City in Accordance with Issue 4, Item 2 of the 1992 Manager's Report. Enlist Leadership of City.**

- Establish active program to recruit clean businesses to Alexandria
- Re-establish Mayor's luncheons as recruitment technique

**Recommendation D:**      **Recruit large service employers from the District of Columbia and the remainder of the metropolitan area**

**Recommendation E:**      **Encourage the City's grantswriting staff to seek foundation and corporate funding from outside Alexandria to establish model programs in arenas where the City would like to demonstrate leadership concepts.**

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**Appendix 2.**

Recommended Functional Budget Format						
	Exec. Admin.	City Admin.	Courts	City Programs	Education	Total
STAFF						
Salaries						
Benefits						
Contract Support						
Consults						
Facilities						
Equipment						
Supplies: Office						
Supplies: Field						
Training						
Telephone & Communication						
Travel & Transportation						
Postage & Courier						
Printing: Internal						
Printing: Reports						
Insurance						
Misc.						
TOTAL						

Appendix 3.

MINORITY REPORT  
TO  
BFAAC REVIEW OF FY 1994 PROPOSED BUDGET

Subject: Treatment of COLA

Alan L. Cohan  
Beverly R. Hoffmann

April 1993

In the FY 1993 approved budget, the City staff absorbed the elimination of the annual Cost of Living Adjustment (COLA).

The Manager's proposed FY 1994 budget eliminates a pay increase for City employees once again - this time the merit increase.

In the attached report, BFAAC recommends a 50% decrease in the Manager's proposed COLA of 3.0% for FY 1994, on top of the elimination of the merit pay increase for FY 1994.

We, the undersigned disagree with BFAAC's recommendation of a 50% decrease in the 1994 COLA. We believe that to maintain a high quality of city services, it is necessary to have a fairly compensated work force. The loss of 50% of their COLA - in addition to the loss of other pay raises in FY 1993 and FY 1994 - would be unfair, in our judgement. In the absence of fair compensation, the City will lose its ability to recruit and retain outstanding civil servants and to restore and maintain a reasonable morale level among them.

The attached BFAAC report contains an agenda for increasing the revenue base to the City, both short and long term. If the Council actively pursues that agenda, there should be no need to ask the City's staff to bear additional sacrifices.

Alan L. Cohan and Beverly R. Hoffmann