City of Alexandria, Virginia
Budget and Fiscal Affairs Advisory Committee

Report on the City Manager's Proposed Budget for Fiscal Year 2017

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MESSAGE FROM THE BFAAC CHAIRMAN

Mayor Silberberg and Members of the Alexandria City Council –

It is my pleasure to present you the FY 2017 Budget and Fiscal Affairs Advisory Committee's (BFAAC) annual report on the City Manager's proposed budget. As the chair of this all-volunteer committee, I am proud of the time and effort our members have dedicated to this report and believe you will find the observations, recommendations, and conclusions helpful as you make final budget decisions.

In this report, you will find BFAAC input in three key areas – Revenue, Operations, and the Capital Improvement Program. The Committee organized itself into subcommittees to address these topics and I would invite you to closely examine each area. For your reference, unless otherwise footnoted, the budget numbers found in this document are sourced from the City Manager's proposed budget.

In Revenue, the committee held extensive discussions on the need for a Revenue Master Plan and the identification of appropriate staff to generate such a plan. There is a recognition among the committee members that the City is in great need of additional revenue in order to meet current and future operational and capital needs and feels a plan outlining the path towards additional revenue will allow Alexandria to realize the necessary revenue growth.

In Operations, compensation of city employees and the funding of and coordination between the Alexandria City Public Schools and the City were the main topics. These are enduring issues for BFAAC and we feel compelled to continue to address them here. A new topic for Operations this year is the impact of current and prior service reductions. The Committee felt it important to address service reductions as part of this report and to begin to understand the impact of budget reductions on the delivery of services to Alexandrians.

In the Capital Improvement Program, the Committee continues to examine the impact of the building of the Potomac Yard Metro station, including the associated impact on the City's conservative debt policy. New CIP discussion areas include the use of infrastructure investment as an economic development tool, the ongoing analysis of the condition of existing city facilities, and CIP coordination with the Alexandria City Public Schools.

I would personally like to thanks all members of the committee for their time and efforts in generating this report. We look forward to a discussion with you on the impact of BFAAC's recommendations and how we may better inform you on your decision-making process.

Best regards,

Dak Hardwick, Chair
Budget and Fiscal Affairs Advisory Committee
City of Alexandria, Virginia

I. SUMMARY OF BFAAC OBSERVATIONS AND RECOMMENDATIONS

This section includes the Budget and Fiscal Affairs Advisory Committee's (BFAAC) observations and recommendations on the City Manager's FY 2017 Proposed Budget, which are also found in the body of this report.

REVENUES AND OUTLOOK

Residential Tax and Fee Burden Issues

- BFAAC recommends the City Manager track the residential tax and fee burden for all Alexandria households, including calculating the impact on households with incomes below the average, and include these metrics in the City Manager's annual proposed budget.

- While BFAAC recognizes it is challenging to identify common metrics for the wide range of businesses in the City, BFAAC strongly encourages Council to identify transparent and accurate measurements (e.g., BPOL categories, own/rent space, revenue/sales size) of the types of businesses the City is hoping to attract to track for use in assessing our competitive advantage.

Current Tax Base Status and Outlook

- To strengthen the City's long-term fiscal stability, BFAAC urges Council to initiate a Revenue Master Planning process designed to create and implement an actionable long-term revenue strategy and roadmap with outcome-based metrics. The Revenue Master Plan development process should begin as soon as practical to align with FY 2018 budget development and adoption milestones.

Economic Development

- The City should continue to emphasize the importance of an economic development strategy which, among other things, provides for the necessary planning, policy guidance, oversight, and measurement of City spending on economic development activities.

- BFAAC encourages Council to undertake policy and administrative actions designed to stimulate business activity in the City. BFAAC recommends that Council direct City staff to work closely with Alexandria's three major economic development organizations to proactively attract and retain businesses. Any new resources provided to one or more of these organizations must be accompanied by requirements to measure and report on the impact funded activities/initiatives have had on increased economic activity in the City.

- Informed by case studies from other jurisdictions in Virginia and the metropolitan DC region, BFAAC encourages Council to direct the City Manager to determine and implement the optimal organization of Alexandria's economic development resources to meet the revenue target established through the Revenue Master Plan process.

City Procurement Standards

- BFAAC recommends Council examine the cost and staff required for full implementation and regular auditing of procurement standards.

- BFAAC observes that meeting the City's procurement goal on a consistent basis can and should be publicized to further Alexandria's economic development objectives.

OPERATING BUDGET

Employee Compensation

- BFAAC applauds the City Manager for his emphasis on maintaining fair, equitable, and competitive employee compensation.

- BFAAC concurs with City staff and recommends the limitation of the use of the Cumulative Earnings Benchmarking Model (CEBM) in conjunction with instituting a broader focus and reliance on its much improved bi-annual benchmarking process.

- BFAAC encourages the Department of Human Resources to use the benchmarking process as a potential pathway to creating more robust forecasting capabilities that can be used to develop a multi-year compensation strategy.

- BFAAC recommends the City continue to provide the needs and means necessary to maintain present levels of consistency and success in future benchmarking efforts.

- BFAAC commends the City and HRD for creating the new General Services Employee Working Group.

Alexandria City Public Schools

- BFAAC urges Council and Board leaders to monitor the impact of growing school enrollment and student need on the City's overall operating budget.

- BFAAC recommends Council require clear reporting from ACPS regarding restricted and non-restricted funding sources.

- BFAAC recommends the Council and ACPS continue to work together to identify budget efficiencies, including promoting shared initiatives and services.

- BFAAC encourages Council and ACPS to work together to identify performance metrices to montitor the return on City investments in the public schools (similar to Results Alexandria), while recognizing ACPS's state and federally mandated reporting burdens.

Review of the Cumulative Impact of Service Reductions

- BFAAC recommends Council assess the cumulative impact of service reductions during the period of FY 2008 to the present, and base decisions on priorities for service restorations or expansions in particular areas of need. Such information can also provide useful data for the strategic planning process.

- BFAAC recommends Council analyze the cumulative impact of budget decisions on City services since the recession began in 2008.

Priorities

- BFAAC appreciates the statement of priorities in the proposed budget and recommends the City Manager provide more detail next year about the criteria used to set those priorities and identify proposed service reductions.

- BFAAC encourages the Manager to provide more detail to justify the priorities identified for a potential one-cent real estate tax increase.

THE PROPOSED CAPITAL IMPROVEMENT PROGRAM

General

- BFAAC recommends the City explore ways to expand restricted city and non-city sources as well as alternative funding mechanisms (e.g., storm water enterprise fund, surtax on state income tax, developer share, equitable fees for all properties). Additional benefits may be realized if a member of the City staff is assigned the responsibility to look across departmental boundaries at several related projects where a specific grant, restricted city or non-city fund source can be applied.

- BFAAC recommends that CIP infrastructure investments in specific areas such as broadband, Potomac Yard Metro, the Waterfront, Eisenhower Valley, Landmark, Beauregard Corridor, as well as transportation/transitway and connectivity projects, continue to have a high priority due to their revenue-generating potential.

- BFAAC recommends the City provide more discussion and detail about the stormwater and combined sewer compliance projects,and their potential impact on the FY2018-2027 CIP budget.

- BFAAC recommends viewing CIP investments as opportunities to communicate and promote the benefits of these projects to the citizens, including the City’s livability and long-term economic health.

- BFAAC suggests the City align its strategic goals with and collaborate on regional initiatives for economic development.

Investment in City Assets – Existing and New

- BFAAC recommends that the City continue to collect data and take an enterprise-wide look at space utilization in an effort to moderate the cost of maintaining and expanding City assets.

- BFAAC encourages the City to promote mixed-use and shared development possibilities with respect to all City assets.

Alexandria City Public Schools

- BFAAC encourages Council and ACPS to reach a clear understanding for how to reconcile the differences between the City and ACPS projections for the CIP and, most importantly, how this can be clearly communicated to citizens.

- BFAAC recommends the Council consider ways to provide more transparency by clearly illustrating the cost of debt service for ACPS capital projects, which is currently carried in the City Budget.

Debt Ratios, Cash Capital, and Debt Service

- In light of the impacts of the borrowing necessary to fund the Potomac Yard Metrorail Project and the change in the methodology for calculating total personal income by the Bureau of Economic Analysis, Council should make appropriate changes to the City's debt management policy.

- Council should ensure debt service expenditures remain consistent with a conservative debt management policy and be aware that growth in such expenditures will impact funding available for immediate and future needs.

II. REVENUES AND OUTLOOK

The City relies on the following sources of revenue: residential real estate tax, commercial real estate tax, other local taxes, non-tax revenue, and Federal and State revenue. Real estate taxes continue to account for a majority of the City's revenue (58.8 percent). Revenue from commercial taxes remains flat and will not contribute significantly to Alexandria's operating and capital improvement needs. As a result, unless significant policy changes are made, the City's fiscal outlook will worsen. Further cuts to the city's operating budget, as well as residential tax and fee increases, may be required to meet known needs and future priorities.

BFAAC encourages the Council to make raising revenue a top priority, putting special emphasis on expanding the City's commercial tax base. For many years, City leaders have referenced a goal of a "50/50 revenue split," meaning the residential and commercial tax revenue would contribute equally to the City's budget. Achieving a 50/50 split between residential and commercial real estate taxes is a myth, one BFAAC believes clouds the critical discussion of how much revenue the City will require to meet its needs. ***BFAAC urges Council to work with the City Manager and Staff to determine, to the extent possible, how much revenue will be required for operating and capital improvement needs over the next five years and take concrete steps to ensure we make the needed investments in economic development and related activities to achieve this revenue goal.*** By taking this action, Council will put the City firmly on the path toward long-term fiscal stability.

This section looks at the key revenue sources and recommends Council develop a ***Revenue Master Plan,*** a roadmap to the aforementioned revenue goal.

A. Residential Tax and Fee Burden Issues

In 2011, Council requested BFAAC work with City staff to explore the development of new metrics to more fully track the City-imposed financial burdens on residents and businesses. While BFAAC has a better picture now of the residential burden (see Table I below), the commercial burden remains murkey, as we lack the data to assess it.

As shown in Table I, the residential tax and fee burdens continue to rise. In FY 2016, residential taxes and fees are expected to account for 5.4 percent of average household income, increasing to 5.5 percent if the FY 2017 proposed budget is enacted.

BFAAC continues to encourage Council to closely monitor this trend, particularly as additional fees or tax increases are proposed and implemented. BFAAC also recommends these metrics be included in the City Manager's annual budget submission to Council. BFAAC notes the data in Table I examines the tax and fee burden as a percentage of average household income. BFAAC encourages City staff also to track the relative tax and fee burden for households with incomes below the average.

BFAAC recognizes there are challenges to developing similar metrics for the wide range of businesses in the City, but knows this data would be invaluable as the City works to effectively attract and retain businesses. The lack of metrics continues to make it challenging for Council to measure how competitive the City might be when businesses are considering locating in Alexandria. As a starting point, BFAAC strongly encourages Council to begin to identify transparent and accurate measurements (BPOL categories, own/rent space, revenue/sales size etc.) for the types of businesses the City is hoping to attract in the coming years (*i.e.,* Alexandria Economic Development Partnership [AEDP] focus areas: business services, information technology, defense and security industries, legal services, design and engineering services, advertising and public relations, arts, entertainment and recreation, associations, restaurants, hotels, and federal government).

Table I: Tax and Fee Burden as a Percent of Household Income in Alexandria[1]

	FY 2009	FY 2010	FY 2011	FY 2012	FY 2013	FY 2014	FY 2015	FY 2016	Proposed FY 2017
Mean Household Income*	$107,925	$110,671	$112,848	$114,286	$115,642	$116,416	$118,193	$119,997	$121,828
Fees and Taxes									
Real Estate Tax	$ 4,227	$ 4,255	$ 4,380	$ 4,523	$ 4,571	$ 4,815	$ 5,115	$ 5,318	$ 5,489
Personal Property Tax	$ 369	$ 252	$ 288	$ 354	$ 383	$ 456	$ 448	$ 464	$ 482
Trash Removal Fee	$ 301	$ 331	$ 336	$ 336	$ 336	$ 328	$ 337	$ 337	$ 353
Decal Fee	$ 59	$ 51	$ 53	$ 57	$ 55	$ 56	$ 55	$ 55	$ 54
Utility tax on Natural Gas	$ 23	$ 24	$ 23	$ 23	$ 22	$ 23	$ 26	$ 25	$ 25
Utility tax on electricity	$ 32	$ 31	$ 31	$ 30	$ 31	$ 29	$ 36	$ 36	$ 37
Utility tax on water	$ 23	$ 24	$ 27	$ 25	$ 30	$ 26	$ 26	$ 28	$ 31
Communication Sales and Use Tax	$ 149	$ 149	$ 148	$ 144	$ 143	$ 136	$ 134	$ 128	$ 126
Sanitary Sewer Maintanance Fee	$ 40	$ 28	$ 61	$ 54	$ 58	$ 50	$ 56	$ 56	$ 63
Total	$ 5,224	$ 5,145	$ 5,348	$ 5,546	$ 5,629	$ 5,918	$ 6,233	$ 6,446	$ 6,659
Percentage of total household income	4.8%	4.6%	4.7%	4.9%	4.9%	5.1%	5.3%	5.4%	5.5%

*Data from the American Community Survey, published by the Census Bureau (1-year estimates).
FY 2015-2017 assume increase in personal income of 1.53% in based on the compound average growth rate FY09-14.

	FY 2013	FY 2014	FY 2015
	$107,925	$116,416	1.53%

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends the City Manager track the residential tax and fee burden for all Alexandria households, including calculating the impact on households with incomes below the average, and include these metrics in the City Manager's annual proposed budget.**

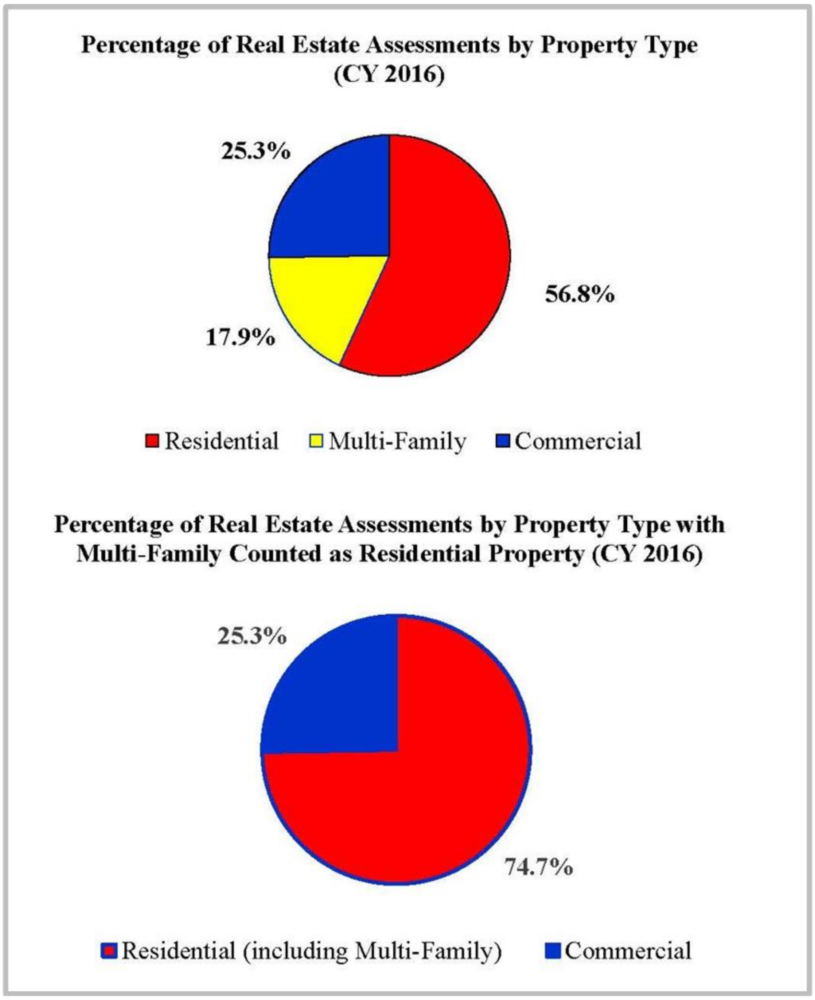
- **While BFAAC recognizes it is challenging to identify common metrics for the wide range of businesses in the City, BFAAC strongly encourages Council to identify transparent and accurate measurements (e.g., BPOL categories, own/rent space, revenue/sales size) of the types of businesses the City is hoping to attract to track for use in assessing our competitive advantage.**

[1] Data in Table I provided by City of Alexandria staff at the request of BFAAC.

B. Current Tax Base Status and Outlook

As BFAAC has previously noted, the commercial tax revenue share in CY 2016 is expected to account for 43.2 percent of property tax revenue. When multifamily housing is counted on the residential side, the commercial share is actually 25.3 percent. The imbalance between residential and commercial property tax revenues continues, as the share attributed to commercial taxes remained flat between CY 2015 and 2016.

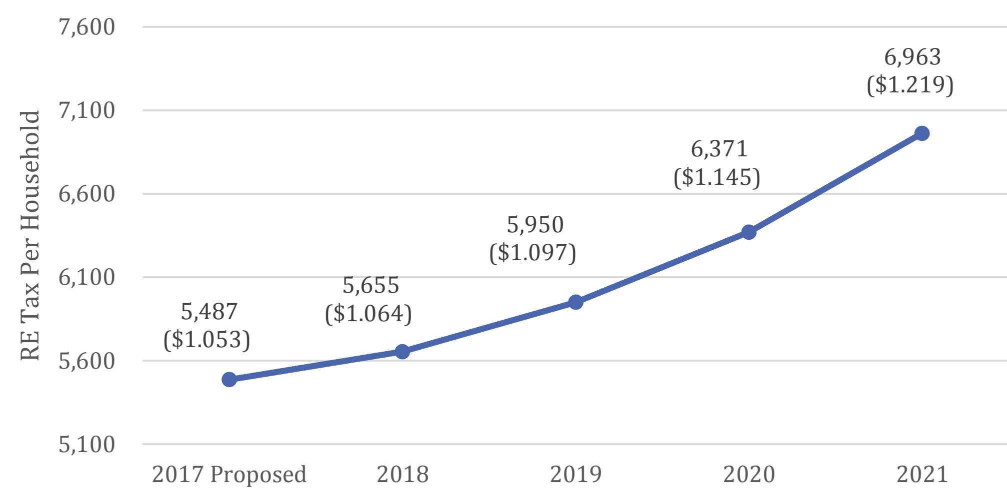
Chart I: Real Estate Assessments by Property Type (CY 2016)



The decline in commercial revenue continues to place a greater burden on residents to fund the City's operations. As illustrated in Chart II below, if the commercial base does not grow, the average resident's property tax bill would need to increase by nearly $1,475 over the next five years just to sustain current City services. [2]

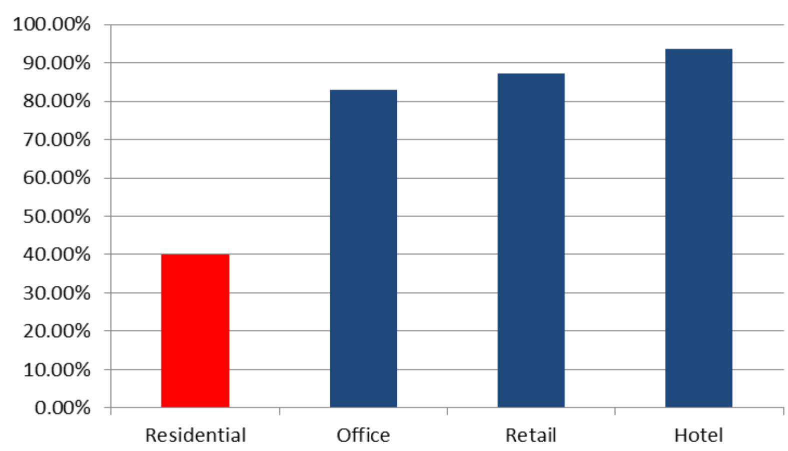
[2] Chart developed by CityStaff at the request of BFAAC.

Chart II: Average Real Estate Tax Per Household Necessary to Sustain Current Policies



As reported in prior years, commercial development generates far more net revenue for the City when you account for the share of operating and capital costs it consumes. (See Chart V below).[3] BFAAC applauds the City's reliance on a robust Fiscal Impact Analysis tool to update the ROI data by land use type in order to better evaluate land use projects in the future.

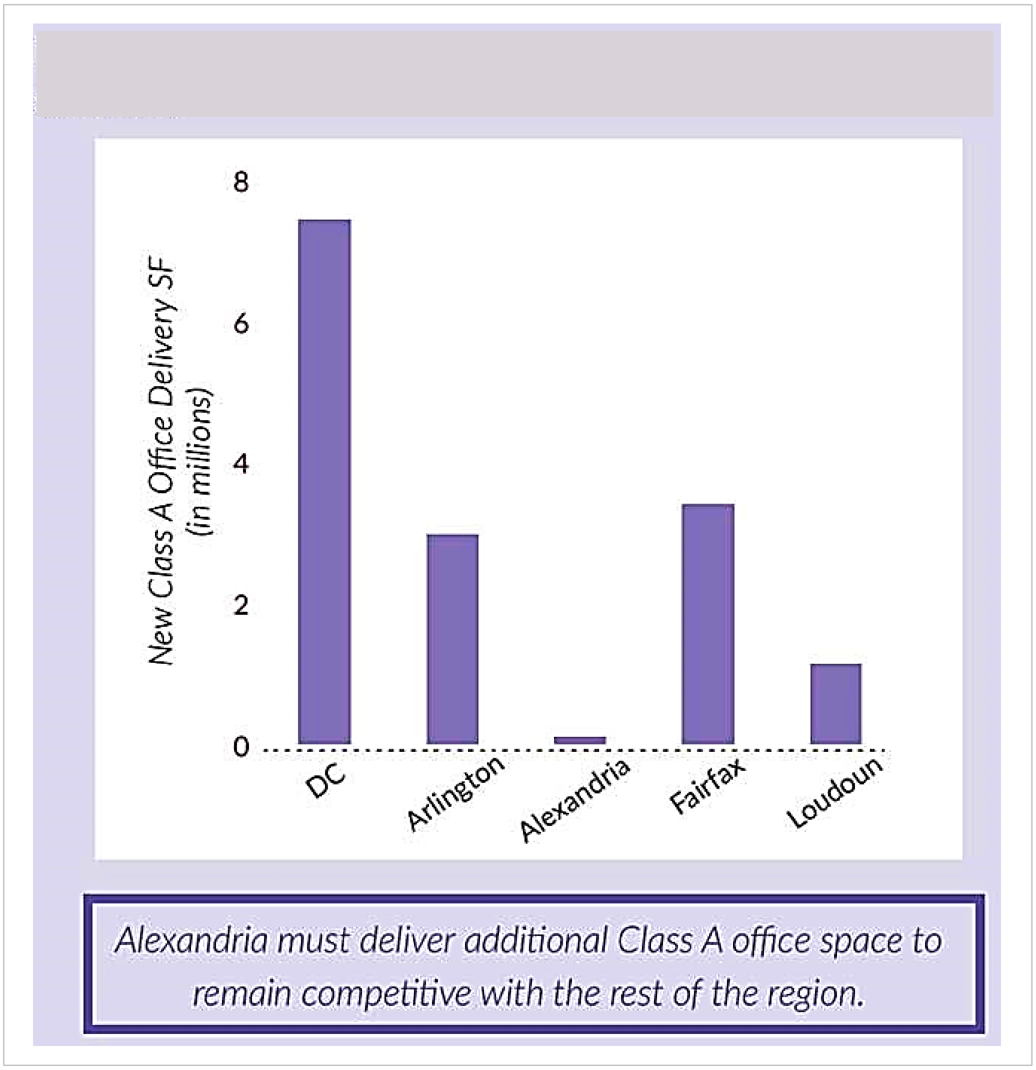
Chart III: Percent of Tax Dollars Generated Net of City And School Operating and Capital Costs by Property Type[1]



[3] BFAAC' Report on the City Manger's Proposed Budget FY 2014, pg. 11. FY 2015, pg. 12.

BFAAC need not remind Council that increased business activity would have a significant impact on revenues. A one percent increase in economic development above the baseline forecast when combined with growth from development would reduce the five year financial gap by more than half by FY 2020.[4] To compete with neighboring jurisdictions, the City of Alexandria must increase its Class A office space. (See chart VI below.)[5]

Chart IV: New Class A Office Space Development 2010 - 2015

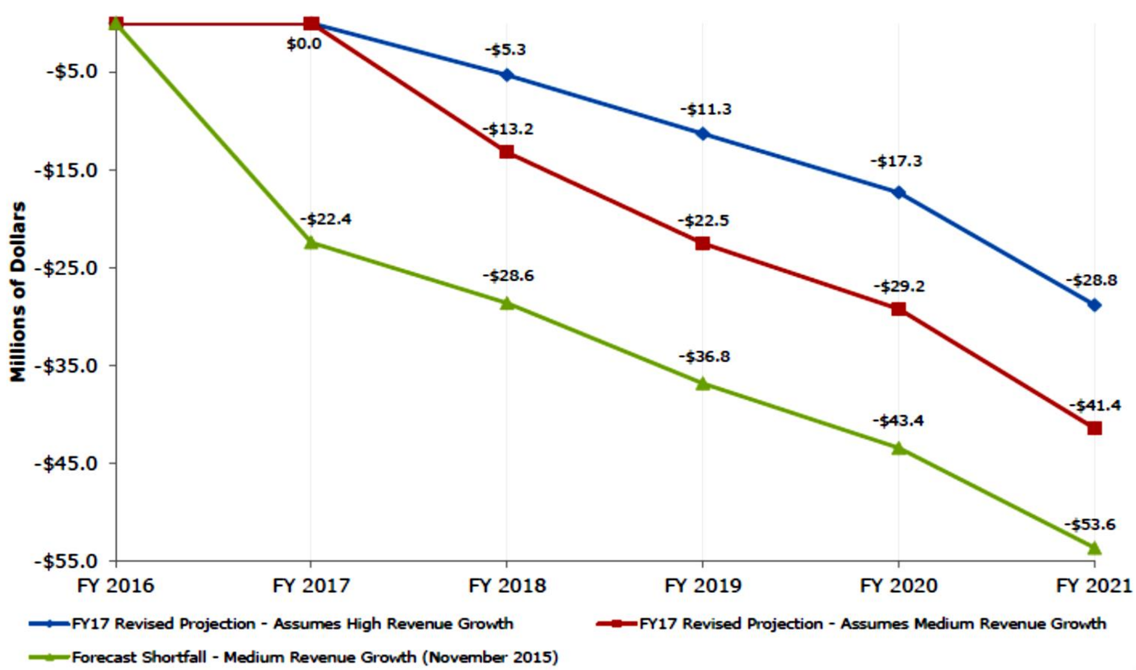


[4] Five Year Financial Plan FY 2016-2010, pg. 5.4.
[5] AEDP's publication: Alexandria, The State of the Market Year End 2015, pg. 3

C. Revenue Master Plan Development

As Chart V makes clear, the time for Council to act is now. Based on today's estimates, the projected revenue gap under a medium-growth revenue scenario (*i.e.*, growth at a rate higher than Alexandria has experienced in recent years) results in a $41 million revenue shortfall by FY 2021.

Chart V: Projected Revenue Gap Under Medium- and High-Growth Revenue Assumptions, FY 2016 – FY 2021



In our FY 2016 Report, BFAAC commended City staff for implementing a five-year financial plan and forecasting model to bolster decision-making. This effort proves particularly critical in understanding the long-term revenue picture and the impact of policy decisions on the City's revenue base. The updated model for FY 2017 reinforces the urgent need to grow the commercial tax base.

Growing the commercial tax base will not be easy. It will not happen quickly and will likely increase costs in the short- to medium-term. Council should collaborate closely with AEDP, Planning and Zoning, and other stakeholders to craft a tactical plan to grow the commercial base under the City's land use plans. Absent clear and sustained action, Council will continue to rely on spending reductions and tax increases to close annual budget gaps. BFAAC recommends a long-term effort to grow the commercial base and reduce the burden on residents to fund the City's operating costs.

Building on our FY 2016 report recommendation, BFAAC urges Council to initiate a Revenue Master Planning process designed to create an actionable, long-term revenue strategy and implementation roadmap with outcome-based metrics. At a minimum, the Plan should address the City's residential/commercial tax base imbalance by quantifying the challenges behind stimulating business activity and estimating the resulting business tax revenue.

Modeled on successful efforts to craft location- and topic-specific master plans in the City, a Revenue Master Plan development process should engage a range of citizen and business stakeholders, as well as key agencies, to address the full range of policy and process changes needed to achieve a well-defined five-year revenue target.

The Revenue Master Plan should align with the focus areas and goals captured in the City's revised Strategic Plan as the strategic planning process unfolds over the next several months. As Council considers how to promote revenue growth and economic development, Council should note that such planning inherently involves the question of what type of city Alexandria should be. For instance, if the community views Alexandria as a bedroom community, the community should ask itself whether it will be willing to tolerate higher property taxes (or lower services). If citizens wish to grow the commercial base, on the other hand, there may be more community support for the cost of promoting real estate and business development in Alexandria. The strategic planning process should address these issues of city self-identity and help inform the Revenue Master Plan.

BFAAC recommends Council initiate the Revenue Master Plan development effort as soon as practical following FY 2017 budget adoption to allow sufficient time for Plan development, including soliciting citizen and business stakeholder input, to align with FY 2018 budget development and adoption milestones. Council should also recognize that not undertaking a structured revenue planning process like the Revenue Master Plan development process described here is, in itself, a policy choice that BFAAC believes will have serious negative consequences for the City's fiscal health.

OBSERVATIONS AND RECOMMENDATIONS

- **To strengthen the City's long-term fiscal stability, BFAAC urges Council to initiate a Revenue Master Planning process designed to create and implement an actionable long-term revenue strategy and roadmap with outcome-based metrics. The Revenue Master Plan development process should begin as soon as practical to align with FY 2018 budget development and adoption milestones.**

D. Economic Development

Council asked BFAAC to review the performance and impact of the City's Economic Development agencies. BFAAC first provided Council with a comprehensive Report on Economic Development Activities in FY 2006 (See Budget Memo 51, April 2005). At that time, BFAAC cited several concerns including, but not limited to, funding requests having increased three-fold between the years of FY 1997 thru FY 2006; heavy financial reliance on City funding for the majority, if not all, of the agencies' budgets; duplication of efforts; lack of sufficient oversight by City Staff; the lack of a clear standard for City support of private business groups; and a overall lack of efficiency of economic development in Alexandria.[6]

[6] BFAAC Report on Economic Development Activities Report April 16, 2005 Budget Memo 51 pg. 247-248.

What follows is a brief summary of mission, performance measures, funding sources and City or Council board representatives for the three major economic development organizations funded in the proposed FY 2017 budget.

AEDP

AEDP's vision is to ensure Alexandria is a vibrant, creative, diverse City where large and small businesses can locate and grow while enhancing the community's quality of life. The goals include: growing the tax base, diversifying the economy, and attracting and retaining businesses. Performance measures include: number of new tenants, jobs created, commercial occupancy rates, retained tenants, new development, real estate values and tax revenue. Included in the proposed FY 2017 budget is funding of $1,688,093, 100 percent of AEDP's budget. AEDP's FY 2016 budget was $1,688,175, $1,592,175 (94 percent) of which came from City funds and $96,000 (5 percent) from bond fees collected through the Industrial Development Authority (IDA), sponsorship dollars for marketing missions, and interest income. A City staff member serves on the board.

AEDP is working to better identify and reach Alexandria's ideal customers. The goal is to utilize research and interviews to identify the types of industries and businesses most likely to consider locating in Alexandria, as well as the criteria businesses use to make location decisions. BFAAC recommends Council and City staff work closely with AEDP to track this project and assess the impact of these tactics on ROI of investment in AEDP.

Visit Alexandria

Visit Alexandria's mission is to generate tourism and meetings that increase revenues and promote the City of Alexandria and its assets. Performance is measured by the collection of: hotel, meal and sales tax, hotel occupancy, public return on investment (ROI), press stories in print, web site visits and total visitor spending. Funding proposed for Visit Alexandria in the FY 2017 budget is $3,156,909. The budget for CY 2016 is $3,487,274, $3,187,274 (91 percent) in city funding and $300,000 (9 percent) from memberships, sponsorships, commissions, dues, grants, interest and sales. There is a current council member on the Visit Alexandria Board.

Visit Alexandria commissioned Destination Analysis Inc. to complete an Advertising Effectiveness & ROI Study in 2014. BFAAC recommends Council and City staff continue to track and assess the results of this and future studies to assess the performance of Visit Alexandria.

Alexandria Small Businss Development Center (SBDC)

Alexandria Small Business Development Center's (SBDC) mission is to strengthen small businesses and promote economic growth by providing quality services such as management consulting, educational programs, and access to business resources. Its performance is measured by number of clients, number of training events, hours provided in counseling, and number of attendees. In addition to this requirement, the SBDC collects economic impact data such as: increased sales, increased payroll, jobs created/retained, and new loans/capital investment. The City's Office of Performance and Accountability is proposing to add distinct measures to SBDC in the FY 2017 proposed budget, including the number of businesses in Alexandria (CY), the number of counseling sessions for startup businesses, and the percentage of business licenses renewed year to year. The FY 2017 budget proposes to contribute $295,561 to SBDC, approximately 75 percent of its budget. SBDC's FY 2016 budget is $380,461, $273,221 (72 percent) from City funds, $71,112 (19 percent) in U.S. Small Business Administration funding, and $36,000 (9 percent) from the private sector. The SBDC Board does not include Council or City staff representation. BFAAC recommends Council and City staff continue to track and assess the impact of the performance and ROI of SBDC.

Accountability for Economic Development Funding

BFAAC observes that there is no clearly consistent management or oversight of the economic development function in Virginia and elsewhere, other Virginia jurisdictions have some form of centralized economic development body and most have departments or offices as an integral government function. See the appendix for a comparison of local economic development offices.

As noted earlier, Alexandria faces a major revenue gap that must be addressed to ensure the City's long-term fiscal health. In order to generate the level of revenue expected from a robust Revenue Master Plan, Council should reinforce the importance of economic development to generating revenue on a significant scale. Informed by case studies from other jurisdictions in Virginia and the DC metropolitan region, BFAAC stongly encourages Council to direct the City Manager to determine and implement the optimal organization of Alexandria's economic development resources to meet the revenue target established through the Revenue Master Planning process.

OBSERVATIONS AND RECOMMENDATIONS

- **The City should continue to emphasize the importance of an economic development strategy which, among other things, provides for the necessary planning, policy guidance, oversight, and measurement of City spending on economic development activities.**

- **BFAAC encourages Council to undertake policy and administrative actions designed to stimulate business activity in the City. BFAAC recommends that Council direct City staff to work closely with Alexandria's three major economic development organizations to proactively attract and retain businesses. Any new resources provided to one or more of these organizations must be accompanied by requirements to measure and report on the impact funded activities/initiatives have had on increased economic activity in the City.**

- **Informed by case studies from other jurisdictions in Virginia and the metropolitan DC region, BFAAC encourages Council to direct the City Manager to determine and implement the optimal organization of Alexandria's economic development resources to meet the revenue target established through the Revenue Master Plan process.**

E. City Procurement Standards

The City's procurement policy is an economic development tool that can help our increasingly diverse residential population participate in the local economy and foster small business growth.

After reviewing City procurement policies and in subsequent communications with City staff, BFAAC found the City has a policy under City Code 3-3-111 to facilitate the participation of small businesses and businesses owned by woman and minorities in procurement. According to the Alexandria Purchasing Manual, City purchases between $5,000-30,000 must obtain at least three written quotations from registered vendors, including one small business enterprise owned by a minority or woman-owned or document the attempts made to obtain quotes. The City is currently unable to meet its procurement goal consistently or report on its compliance. BFAAC recommends Council examine the cost and staff required for full implementation and regular auditing of procurement standards.

BFAAC observes that meeting the City's procurement goal on a consistent basis can and should be publicized to further Alexandria's economic development objectives.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends Council examine the cost and staff required for full implementation and regular auditing of procurement standards.**

- **BFAAC observes that meeting the City's procurement goal on a consistent basis can and should be publicized to further Alexandria's economic development objectives.**

III. OPERATING BUDGET

A. Employee Compensation

Employee compensation is one of five priorities in the City Manager's FY 2017 budget message. This illustrates the City's continued commitment to maintaining fair and competitive compensation for City workers. In FY 2017, the City proposes to fund annual merit increases for all eligible employees, provide a 1 percent salary increase to fully offset the final, mandated Virginia Retirement System (VRS) contribution, raise the living wage for the first time since 2008, maintain the current cost sharing model for total health care premiums, increase the firefighter pay scales to at or near mid-range within the region, and provide a one-grade increase for all fire officer classifications. This is a commendable list of proposed actions benefitting employees. BFAAC applauds the City Manager for his emphasis on maintaining fair, equitable, and competitive employee compensation.

Last year, BFAAC noted the importance of maintaining Council's approved Compensation Philosophy requiring the City to maintain compensation competitiveness within the mid-range of comparator jurisdictions in the region. BFAAC believed then, as it does now, that this will continue to result in better recruitment and retention rates as evidenced by what happened after police officer salaries were increased in FY 2016.

BFAAC also believes it is appropriate, given the City's emphasis on employee compensation, to review Human Resources Department (HRD) efforts to use workable and accurate compensation study formulas that ensure market competitiveness and effective decision-making. The Cumulative Earnings Benchmarking Model (CEBM) now used to assess public safety positions is a process BFAAC recommended expanding last year. Staff recommends this be reconsidered this year.[7] CEBM examines the long-term progression of pay of a benchmarked position from entry level to the highest level within the same grade to determine maximum rates of pay during various times in a hypothetical 20-year career period. The data is used to determine how various rates of pay of a studied position will look in the current market over time. This method provides a way to make present-day comparisons with neighboring jurisdictions and act accordingly, as was done with police raises in FY 2016 and increases in firefighter pay scales proposed for FY 2017. However, the market fluctuates so rapidly that CEBM has little analytical value beyond the current moment, nor is it a tool designed to estimate future changes in the compensation market. BFAAC concurs with City staff and recommends we limit use of CEBM – perhaps as a supplemental data point to reference when necessary – in conjunction with instituting a broader focus and reliance on their much improved bi-annual benchmarking process.

Benchmarking is a process used by most comparator jurisdictions to determine how employee pay compares within the region and to achieve market alignment. Unlike when the City's benchmarking process was contracted to outside consultants, today it is completed by City staff, a change that BFAAC

[7] Budget and Fiscal Affairs Advisory Committee review of FY 2016 proposed budget, April 16, 2015, pp. 6-9. (https://www.alexandria.gov/uploadedFiles/budget2016/memos/Budget%20memo%2022.pdf)

notes has dramatically improved the timeliness, accuracy, and reliability of the results. Benchmarking is done every two years for General Schedule (GS) and Public Safety employees. The two-year cycle appears adequate, in part, because the City is capable of reviewing areas of concern and recommending adjustments between cycles. Thirty to 50 percent of job classes representing the highest number of positions or greatest fluctuations are examined each cycle. Key positions or functions within organizations are also examined. Additional classifications may be considered for review. Unlike CEBM, the bi-annual benchmarking process accounts for pay scales in a rapidly fluctuating market. The results are heavily referenced when HRD staff makes recommendations for pay increases. It is a process that HRD continues to improve and a reliable metric they rely on more frequently than in the past. Most importantly, the process and results allow the City to be less reactive, and more proactive, in its decisionmaking.

BFAAC applauds the City's efforts to build a reliable, accurate, and well-reasoned tool to assess and maintain employee compensation levels in accordance with the City's Compensation Philosophy. BFAAC encourages HRD to use the benchmarking process as a potential pathway to creating more robust forecasting capabilities that can be used to develop a multi-year compensation strategy. Given that benchmarking in its present form is a successful and necessary process, it is also one that may become more labor intensive over time. BFAAC recommends the City continue to provide the means necessary to maintain present levels of consistency and success in future benchmarking efforts.

Last year, the City reported to BFAAC that it intended to establish General Service (GS) employee working groups to improve communication and collaboration about issues important to civilian employees, including compensation. The General Schedule Employee Working Group (GSEWG) is a new group, membership of which includes employees from departments across the City. Working with HRD, the GSEWG receives information and assignments from the City Manager. It also identifies topics for discussion, including compensation, based on feedback from colleagues. Despite the fact that only three meetings have been held, representatives from the Alexandria Government Employees Association (AGEA) are cautiously optimistic about the positive potential the GSEWG represents. Their optimism seems to be fueled by the belief that the City Manager encourages open dialogue, and appears to have a genuine desire to improve communication between City Hall and City employees. Unfortunately, they still harbor long-standing concerns about the City's reactive nature towards addressing employee compensation issues, particularly for GS workers. This lingering, but important, belief is one that can hopefully be addressed with the new collaborative group.

HRD also uses HR liaisons within each department. Membership in this group is a mix of administrative and HR professionals who partner with HRD to address needs within departments. Every department has at least one liaison, wits larger departments typically having more. BFAAC commends the City and HRD for creating the new GSEWG Working Group. This action is another step forward towards enhancing communication and collaboration between HRD and the civilian workforce.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC applauds the City Manager for his emphasis on maintaining fair, equitable, and competitive employee compensation.**

- **BFAAC concurs with City staff and recommends the limitation of the use of the Cumulative Earnings Benchmarking Model (CEBM) in conjunction with instituting a broader focus and reliance on its much improved bi-annual benchmarking process.**

- **BFAAC encourages the Department of Human Resources to use the benchmarking process as a potential pathway to creating more robust forecasting capabilities that can be used to develop a multi-year compensation strategy.**

- **BFAAC recommends the City continue to provide the needs and means necessary to maintain present levels of consistency and success in future benchmarking efforts.**

- **BFAAC commends the City and HRD for creating the new General Services Employee Working Group.**

B. Alexandria City Public Schools

Over the last decade, growing student enrollment has led to significant increases in the overall cost of educating children in the Alexandria City Public Schools. The Long Range Educational Plan created by both the city and schools indicates that enrollment and costs will increase through 2030.

Beyond higher enrollment figures, there are a number of factors that influence the growing need for local funding to finance public education. The chart below outlines some of the key indicators within a regional context. The Local Composite Index (LCI) is the state calculation measuring each local jurisdiction's ability to pay for public education based on property value, gross income and retail sales tax (Budgets and Grants Division, 2014).[8] Because Alexandria has a higher per capita income than other local jurisdictions, the City is expected to carry more of the cost for educating children from kindergarten through high school. Thus, state funding accounts for 15 percent of the ACPS budget, while Fairfax County and Loudon County receive 22 and 30 percent, respectively. Also, because of the relatively high wealth of the general population, ACPS may receive fewer grant awards based on local need. This may be reflected in the lack of diversity in funding for Alexandria schools compared to other jurisdictions. The "Key Indicator Comparison," shown below in Table II, compares the LCI and other key budget indicators in comparison to local jurisdictions.

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[8]Ibid. Additional information and raw data is available through the Virginia Department of Education, Budgets & Grant Management, Composite Index of Local Ability to Pay. Available for download at http://www.doe.virginia.gov/school_finance/budget/compositeindex_local_abilitypay/index.shtml

Table II: Key Indicator Comparison

INDICATOR	ACPS	ARLINGTON COUNTY	FAIRFAX COUNTY	LOUDON COUNTY	PRINCE WILLIAM COUNTY
2014-2016 Local Composite Index	0.8000	0.8000	0.6807	0.5618	0.3822
State Funding as % of Total School Operating Revenue	15.0%	13.0%	22.9%	30.1%	48.1%
State Funding Per Student: Basic Aid (Tier I) Only	$2,238	$2,180	$2,976	$3,668	$4,564
City / County Funding as % of Total School Operating Revenue	80.4%	82.8%	71.2%	66.6%	45.6%
City / County Funding Per Student (excl. debt service)	$13,483	$15,202	$9,680	$8,492	$4,929
% of City / County General Fund Allotted to School Division (excl. debt service)	30.6%	35.0%	47.8%	51.9%	42.3%
% of City / County General Fund Allotted to School Division (incl. debt service)	34.6%	38.9%	52.7%	62.0%	49.4%

The Local Composite Index represents the municipality's ability to provide financial support to its school division. LCI range from 0.1756 to 0.8000, with an average of 0.3968. Source: Virginia Department of Education

Despite having less state support, ACPS funding absorbs a smaller percentage of the City's general fund budget than other local school divisions. Characteristics of school divisions, though. differ within the local region. For instance, outlying areas have higher public school populations, while Alexandria has the largest percentage in the area of students eligible for free and reduced priced meals or requiring additional language services. The bottom line is that other jurisdictions dedicate a larger percentage of their budgets to schools than Alexandria, whether debt service is included or not.

Within this budget constrained environment, it will be more important than ever for Council and the School Board to monitor the impact of growing school enrollment and student needs on the City's overall operating budget. Of particular concern, the City is experiencing state spending reductions at a time of growing education costs.

As the City Council embarks on its Strategic Planning process, BFAAC encourages Council and ACPS to work together to improve alignment and prioritize activities to achieve budget efficiencies and shared outcomes. The City Council and the School Board face the challenge of meeting joint City-school education goals within a budget-constrained environment. In recent years, the City and school leaders have put substantial effort into longer term planning through the Youth Master Plan, Early Care and Learning Work Group, and other initiatives that can all be aligned under the City of Alexandria Strategic Plan.

Once the City adopts the budget and transfers funds to ACPS, the School Board governs ACPS spending. This authority includes decisions about the proper and most efficient use of resources. It is reasonable to expect ACPS leaders to work with Council to determine appropriate performance metrics with whih to gauge results of City investments in Alexandria's public schools. BFAAC encourages Council and ACPS to work together to identify performance metrics to montitor the return on City investments in the public schools (similar to Results Alexandria), while recognizing ACPS's burden to meet state and federally mandated reporting burdens.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC urges Council and Board leaders to monitor the impact of growing school enrollment and student need on the City's overall operating budget.**

- **BFAAC recommends Council require clear reporting from ACPS regarding restricted and non-restricted funding sources.**

- **BFAAC recommends the Council and ACPS continue to work together to identify budget efficiencies, including promoting shared initiatives and services.**

- **BFAAC encourages Council and ACPS to work together to identify performance metrices to montitor the return on City investments in the public schools (similar to Results Alexandria), while recognizing ACPS's state and federally mandated reporting burdens.**

C. Review of the Cumulative Impact of Service Reductions

From the beginning of the recession in 2008 and continuing today, the City has faced major fiscal challenges as a result of reduced economic activity, decreased federal spending, and pressures on the real estate market. As a result, service cuts and tax increases were essential to maintaining a balanced budget. During that period, more than 100 positions were eliminated from the City staff, some as a result of implementing efficiencies but others leading to a real reduction in service. Some of these reductions have been very visible to citizens, including hours and days libraries are open, while others are not as visible.

The City Manager and Council review service changes each year, and in some cases services that were reduced in one year were restored in later budgets. But there has been no analysis of cumulative reductions in services and their impact on the citizens, including the service areas which have experienced the most significant reductions. This information would be useful as Council sets future priorities through the budget and strategic planning process.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends Council assess the cumulative impact of service reductions during the period of FY 2008 to the present, and base decisions on priorities for service restorations or expansions in particular areas of need. Such information can also provide useful data for the strategic planning process.**

- **BFAAC recommends Council analyze the cumulative impact of budget decisions on City services since the recession began in 2008.**

D. Priorities

Facing another year of stagnant revenue growth and increasing demands for City services, BFAAC recognizes the City Manager was forced to make difficult decisions in the proposed FY 2017 budget. BFAAC commends the City Manager for continuing to engage the public in the budget process, including holding four public meetings to solicit input on City budget priorities.

BFAAC also applauds the Manager for making the budget more transparent, including providing a detailed summary of the proposed major policy and service changes. While some of this information was included in prior budget proposals, it was not easily accessible. BFAAC encourages the Manager to go a step further and provide more detail about the criteria used to set priorities and identify proposed service reductions. Similarly, BFAAC encourages the Manager to provide more information to justify the proposed options for a potential one-cent real estate tax increase.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC appreciates the statement of priorities in the proposed budget and recommends the City Manager provide more detail next year about the criteria used to set those priorities and identify proposed service reductions.**

- **BFAAC encourages the Manager to provide more detail to justify the priorities identified for a potential one-cent real estate tax increase.**

IV. THE PROPOSED CAPITAL IMPROVEMENT PROGRAM

A. General

BFAAC applauds the City for continuing to improve the clarity and detail in the budget proposal. In addition to the Operating Budget, the proposed budget includes a Capital Improvement Plan (CIP) Budget. Over the next 10 years, the CIP is projected to total $1.583 billion, more than 70 percent of which will require borrowing to fund.

Funding sources for the CIP are identified in the budget, and BFAAC applauds the City Manger for working to identify non-general fund sources for CIP projects. For example, the Potomac Yard Metrorail and other proposed transportation projects have employed State, Federal, and Developer Restricted City and Non-City funds to reduce the need for greater debt. Using this approach, the Potomac Yard Metrorail project is expected to generate sufficient revenue to repay its debt over time. Council should use this project as a model for other projects in the CIP by expanding the pool of Restricted City and Non-City Funds available for projects. BFAAC encourages Council to look for alternative funding sources and mechanisms that other jurisdictions use to fund major CIP programs apart from additional real estate taxes (*e.g.,* storm water enterprise fund, surtax on state income tax, developer share, and equitable fees for all properties).

There may also be opportunities for the City to pursue Public Private Partnerships (PPP), private sector participation through gifts or grants, non-profit grants, "lifestyle" grants, or targeted federal grants. Today, the City identifies such opportunities at the department level rather than looking for funding across all departments and projects. The current approach may reduce the opportunity to consider Non-City funds that encompass more than one project or projects in several departments. The City should consider assigning a member of the City staff the responsibility to look across departmental boundaries at Restricted City and Non-City Fund sources that may be accessed for several related CIP projects.

The proposed FY 2017-FY 2026 CIP represents a 1.03 percent increase from the approved FY 2016-2026 Plan. For a number of years, Council failed to provide adequate funding for CIP and the City now has a number of critical needs, including maintaining and expanding educational facilities, infrastructure, and refurbishment of City assets. These projects cannot be funded all at once, rather they must be spread out over the next 10-20 years. In addition, the impacts of several major CIP projects, including the combined sewer and stormwater compliance programs, remain unknown, though these projects are sure to have a signficiant impact on the budget and future borrowing. In the future, BFAAC encourages the City Manager to include more information in the budget about these significant projects, including current best estimates (high and low), timeframes for implementation, and the possible need for incurring debt, even if the debt will be paid through increases in user fees.

The budget outlines the process for assembling the CIP together with the guidelines used to rank and select projects. One of the guidelines is to align projects with the City's Strategic Plan. While Goal Number One of the Strategic Plan[9] is to promote economic development, BFAAC posits the City may

[9] *2005-2015 Strategic Plan (*City of Alexandria, Virginia, Mayor and City Council).

be missing opportunities to consider how a proposed project may more fully generate local spending and become a vehicle for promoting economic growth.

Clearly, infrastructure and transportation projects that leverage economic development must continue to have a high priority in the CIP and should be used as an opportunity to communicate to the public that they are linked to an improved lifestyle for its citizens and the economic stability of the City in the future. Public projects should be advertised and publicized as creating a high quality lifestyle and superior infrastructure, both major factors for retaining and attracting quality businesses. For example, a monthly summary and update on the status and progress of <u>all</u> capital projects would be an opportunity to communicate the City's commitment to capital improvements. Other types of communication could include more creative and informative construction signage and tours of major capital projects.

Given the demands of the CIP over the next 10 years, economic development must become part of the City's culture and viewed as an investment paying dividends to its citizens. Without additional revenue, funding the CIP and other City services will be an increasing challenge. The City is in the process of re-examining the strategic direction and priorities for the coming years and BFAAC is hopeful it will seize the opportunity to strengthen the focus on economic development. Including economic development as a priority in the strategic plan is not enough – the Council and City staff must make it a daily priority.

The City's Strategic Plan and CIP projects can also be linked to initiatives such as the "The Roadmap for the Washington Region's Future Economy," prepared by the George Mason University Center for Regional Analysis.[10] That document puts facts about the region's economy together with a convincing argument to coalesce behind common goals. It further states, "[T]o resolve the challenges that constrain the growth of business in the region, the region will need to design and initiate collaborative arrangements, it will need to learn and trust its neighboring jurisdictions and historically competitive organizations, and it will need to identify new channels of leadership and action to the benefit of the entire region."[11]

<u>OBSERVATIONS AND RECOMMENDATIONS</u>

- **BFAAC recommends the City explore ways to expand restricted city and non-city sources as well as alternative funding mechanisms (e.g., storm water enterprise fund, surtax on state income tax, developer share, equitable fees for all properties). Additional benefits may be realized if a member of the City staff is assigned the responsibility to look across departmental boundaries at several related projects where a specific grant, restricted city or non-city fund source can be applied.**

- **BFAAC recommends that CIP infrastructure investments in specific areas such as broadband, Potomac Yard Metro, the Waterfront, Eisenhower Valley, Landmark, Beauregard Corridor,**

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[10] The Roadmap for the Washington Region's Future Economy, December 2015, (George Mason University Center for Regional Analysis), pg. 2-3.
[11] Ibid.

as well as transportation/transitway and connectivity projects, continue to have a high priority due to their revenue-generating potential.

- **BFAAC recommends the City provide more discussion and detail about the stormwater and combined sewer compliance projects,and their potential impact on the FY2018-2027 CIP budget.**

- **BFAAC recommends viewing CIP investments as opportunities to communicate and promote the benefits of these projects to the citizens, including the City's livability and long-term economic health.**

- **BFAAC suggests the City align its strategic goals with and collaborate on regional initiatives for economic development.**

B. Investment in City Assets – Existing and New

The proposed FY 2017-2026 CIP is consistent with capital plans from recent years, focusing on three primary categories: asset maintenance, renovations of existing assets, and new facilities.

The FY 2016-2025 CIP included a numerically ranked list of projects. The current CIP outlines a change in the way projects are reviewed and selected. First, a Peer Technical Review Committee met to review projects submitted by City departments, who in turn reported their recommendations to their respective department representative on a CIP Steering Committee. The Steering Committee prioritized and recommended funding levels to the City Manager.

The Peer Technical Review level is where "areas of synergy" are to be examined. There is minimal explanation in the CIP, however, about exactly which projects have such a synergistic relationship or how investments are being optimized. BFAAC encourages the City to expand its efforts to pinpoint projects that not only can address the needs identified by departments, but also possibly share in meeting strategic goals, such as economic development, education, public safety, and affordable housing. Currently the community engagement process is organized around the three "Focus Areas." Because CIP projects may fall within all three areas, BFAAC recommends opportunities for citizen input and comment on the total CIP.

BFAAC notes the City's physical assets have deteriorated faster than they can be repaired or maintenaned. In order for the City to coordinate services and resources more efficiently, it should continue rating the condition of City assets. In addition to the long-term savings realized by making its assets more efficient and less costly to maintain in acceptable condition, this enterprise-wide assessment can assist in the more efficient allocation of space. A further benefit of this data will be to better identify opportunities for shared services or multi-use facility development. For example, at the March 9, 2016 Joint City/ACPS work session, there was discussion about the proposal included in the ACPS budget to relocate several Pre-K classes into one particular facility which would create more space for students. This approach could be expanded to consider a broad and comprehensive view of all assets, to include the City and ACPS. One benefit from having a detailed facility inventory is that it can facilitate evaluating opportunities for existing or future City assets to share space with ACPS assets, something that BFAAC has recommended in the past.

BFAAC recognizes ACPS is working to improve its budget process and applauds the City and ACPS for making progress regarding shared services to maximize CIP investments. The City also included funding for a Municipal Facilities Master Plan; we are hopeful this plan will look strategically at all assets and provide recommendations to vastly increase the efficacy of capital programs for City assets. When assessing the need for major facility capital improvements (City or ACPS) in the future, the City should strongly consider the potential for multi-use facilities.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends that the City continue to collect data and take an enterprise-wide look at space utilization in an effort to moderate the cost of maintaining and expanding City assets.**

- **BFAAC encourages the City to promote mixed-use and shared development possibilities with respect to all City assets.**

C. Alexandria City Public Schools

In past reports, BFAAC has recommended the City explore shared services and shared resources with other governmental agencies, including the ACPS. In 2012, the City and ACPS assembled a long range planning committee comprising community members, ACPS School Board members, and City Council members to focus on facilities planning and student population growth over the next 10 years. Shared services and resources, as well as other historically unexplored avenues, will need to be more strongly considered if we are going to reconcile the projected gap between ACPS's and the City's CIP projections. Today, that gap is projected to grow from $68 million over the next 5 years to $25 million over the next 10 years.

BFAAC observes that despite recent progress, additional efforts are needed to reconcile this gap. Further, there is no direct correlation between the prospectus of capital projects included in the ACPS proposal to Council and the actual projects that the ACPS School Board may eventually adopt. This, together with the gap between the ACPS and City CIPs, cause confusing among citizens. It highlights the urgent need for the City and ACPS to reach a clear understanding of how these apparent contradictions can be resolved and, most importantly, how to communicate this to the citizens.

In addition to closing the gap and ensuring ACPS and the City are working from shared budget numbers, more transparency is needed in the total amount of City funding that supports the schools. The ACPS CIP represents a significant portion of the City's borrowing. Debt service on ACPS bonds is currently carried in the City's Budget rather that the ACPS Budget. BFAAC applauds the manager for including a chart in the FY 2017 budget to show the portion of total debt service that is carried on behalf of the schools. For 2017, debt service for the schools represents about 4.1 percent of the City's operating budget, though it is important to note that the ACPS debt service is 41 percent of the City's total debt service. BFAAC supports efforts to make the budget even more transparent and clearly illustrate the funding provided for schools, including the cost of debt service for ACPS capital projects.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages Council and ACPS to reach a clear understanding for how to reconcile the differences between the City and ACPS projections for the CIP and, most importantly, how this can be clearly communicated to citizens.**

- **BFAAC recommends the Council consider ways to provide more transparency by clearly illustrating the cost of debt service for ACPS capital projects, which is currently carried in the City Budget.**

D. Debt Ratios, Cash Capital and Debt Service

The FY 2017 Budget assumes the City will borrow $974 million over the next 10 years to meet its current and long-term needs. The budget assumes $69.1 million in debt service payments.

BFAAC applauds Council for maintaining a conservative debt management policy. The target for debt as a percentage of the City's fair market real estate value is no greater than 1.1 percent; the limit is 1.6 percent. The proposed level of debt as a percentage of the City's fair market real estate value in this budget is 1.37 percent, above the target but below the limit.
The City's debt management policy also sets a target for debt as a percentage of total personal income at no greater than 3.2 percent; the limit is 4.5 percent. Because of revisions to the Bureau of Economic Analysis' calculation of total personal income, the City's total personal income fell and so its debt as a percentage of total personal income rose beyond the City Council-imposed limit, something Council will eventually have to address.

The target for debt service as a percentage of general government expenditures is 8 percent with a limit of 10 percent. The budget proposes debt service that's 7.78 percent of general government expenditures, well below both the limit of 10 percent and the target of 8 percent. However, the City's proposed budget projects that debt service expenditures will grow from more than $69 million in FY 2017 to more than $90 million in FY 2021.

There is an expected spike in borrowing due to the financing of the Potomac Yard Metro. According to the City's FY 2015 Annual Financial Report, "The City's financing of the [Potomac Yard] Metrorail station will require City Council to revise its current debt policy guideline targets and limits to address the bonds used to finance the project, in that the amount of debt that may be issued for this project would exceed the City's current debt targets and debt ceilings." [12]

The budget, though acknowledging the increased borrowing required for the Potomac Yard Metrorail station, suggests the borrowing will not impact the City's bond ratings. According to the budget, "[T]he amount of debt [reflected in the budget] is consistent with debt ratios that support the City's hard-earned

[12] See City of Alexandria, Virginia Comprehensive Annual Financial Report, Note 8 at 77 (https://www.alexandriava.gov/uploadedFiles/finance/info/CAFR%202015.pdf).

AAA/Aaa bond ratings. Additional borrowing will impact the annual operating budget through increased debt service payments."

BFAAC concurs with the assessment that the amount of debt and debt service proposed in the budget generally adheres to the City's conservative debt management policy.
BFAAC notes, however, that the City's debt policy will need to be updated to deal with two issues: (1) Revision to the methodology for calculating total personal income by the Bureau of Economic Analysis, without any action on the part of the City, will put the City above its self-imposed target and limit for debt as a percentage of total personal income; and (2) the City's Comprehensive Annual Financial Report notes the City will need to revise its debt management policy as a result of financing required for the Potomac Yard Metrorail project.

OBSERVATIONS AND RECOMMENDATIONS

- **In light of the impacts of the borrowing necessary to fund the Potomac Yard Metrorail Project and the change in the methodology for calculating total personal income by the Bureau of Economic Analysis, Council should make appropriate changes to the City's debt management policy.**

- **Council should ensure debt service expenditures remain consistent with a conservative debt management policy and be aware that growth in such expenditures will impact funding available for immediate and future needs.**

Comparison of Local Economic Development Offices

Locality	Structure	FT Staff	FY2015 Budget	Population	Size (sq miles)	Employment	Commercial SF	Other Notes	Ratio of EDO Spending to Commercial SF	% of Budget on EDO
VIRGINIA										
Arlington County	**County Department; 25-member advisory Economic Development Commission**	64	$11,109,631 $4,846,000 for ED	220,785	26	165,044	49,656,055	staff and budget includes Convention & Visitors Service; Cultural Affairs, Business Investment Group, and Real Estate Development Group; 29 ED FTEs	$0.10	0.33%
Fairfax County	Independent Authority chartered by the Commonwealth of VA, report to 7-member Commission	35	$7,336,000	1,117,918	391	586,818	197,217,657	budget includes 7 overseas offices and 2 U.S. offices in Boston and Los Angeles	$0.04	0.20%
Fauquier County	**County Department**	4	$507,000	66,596	647	21,213	5,800,269	Includes business & tourism	$0.09	0.18%
Loudoun County	**County Department**	18	$2,802,000	337,766	516	146,358	60,701,060		$0.05	0.23%
Prince William County	**County Department, reports directly to County Executive**	13	$2,500,000	429,346	336	116,645	44,382,467		$0.06	0.12%
MARYLAND										
Montgomery County	**County Department**	33	$13,506,000	1,004,242	491	451,869	138,457,922	Includes Workforce Investment Services	$0.10	0.27%
Prince George's County	Independent Economic Development Corporation (501c3)	20+	$8,359,000	881,876	483	299,713	125,606,235	Budget from 2012 990, staff from Salesforce's data.com	$0.07	0.29%
Baltimore Development Corporation	Public/Private organization (501c3)	44	$6,564,000	622,104	81	331,204	N/A	Included neighborhood development, small business, incubator; 25 ED FTEs; also received $1.4M in other funds in FY2012	N/A	0.26%
WASHINGTON, D.C.										
	Public/Private Partnership (501c3) that reports to large board	12	$4,713,000	633,167	61	724,270	185,960,893	Budget comes from private sources (24%) and the Office of the Deputy Mayor for Planning and Economic Development and other DC gov't departments; total budget for DMPED is $43M	$0.03	0.04%
City of Alexandria	Public/Private Organization, reports to an 11-member Board	6	$1,463,000	146,690	15	95,203	33,341,317	Does not include tourism, small business development center or area business partnership funding	$0.04	0.23%
City of Alexandria	Public/Private Organization, reports to an 11-member Board	8	$1,743,000	146,690	15	95,203	33,341,317	Totals with SBDC	$0.05	0.28%

NOTES:

Employment Source	Quarterly Census Employment & Wages Annual 2013
Population Source	American Community Survey 3-year estimates 2011-2013
Commercial SF (includes office, industrial, flex, and retail)	CoStar 12/3/14

prepared December 2014