City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 21, 2000

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: BUDGET MEMO # 23: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE REVIEW OF THE FY 2001 PROPOSED BUDGET

ISSUE: Budget and Fiscal Affairs Advisory Committee (BFAAC) review of the FY 2001 Proposed 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 2001 Proposed Budget for Council's consideration. BFAAC will discuss this report with City Council at the budget work session on April 24, 2000.

DISCUSSION: Staff will be prepared to respond to questions regarding this report at the April 24 work session.

ATTACHMENT: Attachment 1 - Budget and Fiscal Affairs Advisory Committee Review of the FY 2001 Proposed Budget.

STAFF: Lori Godwin, Director, Office of Management and Budget
Mark Jinks, Director, Financial & Information Technology Services

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Alexandria Budget and Fiscal Affairs Advisory Committee

Report on the City Manager's Proposed Budget for Fiscal Year 2001

April 21, 2000

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Introduction

The Alexandria Budget and Fiscal Affairs Committee (BFAAC) is pleased to present to City Council its report on the City Manager's proposed budget for fiscal year 2001. As in the past, our report is divided into three sections: an examination of the Capital Improvement Program (CIP), at look at operating expenditures, and an analysis of short- and long-term revenue and expenditure projections.

Our analysis of the CIP notes that the City can afford to increase its capital spending without jeopardizing its superior bond rating. We note that there are still several unfunded but important capital needs, and we urge City Council to maintain budgetary flexibility by continuing to fund capital projects through a combination of bond revenue and cash capital.

The Operating Expenditures section outlines a potential review mechanism that City Council could use to assess program effectiveness and efficiency. It also includes discussion of the operating cost consequences of capital spending, among other issues.

The Projections section focuses on projections of future revenue and expenditures, with an emphasis on promoting budgetary flexibility.

Throughout our report, the connecting theme is one that BFAAC has sounded in the past. Alexandria is enjoying the fruits of a strong economy and sound financial decisions made in the past. We must remember that the time to make tough financial choices is when times are good, not during a time of economic stress. We urge City Council to maintain its fiscal vigilance and to continue its traditional course of fiscal prudence.

CAPITAL IMPROVEMENT PROGRAM

SUMMARY

Last year, in its April report to City Council, BFAAC said that the FY 2001 Capital Improvement Program (CIP) will have to begin addressing some of the unfunded capital needs not addressed in the FY 2000 CIP. Specifically, at that time BFAAC said:

> *The largest capital expense not included in this year's CIP is the potential cost of expanding Alexandria's schools to meet the rising number of 6th through 9th grade students. As detailed elsewhere in our report, there are considerable other potential capital needs that are not included in the City Manager's proposed CIP. We have recommended specifically that next year's CIP include a solution to the school capacity problem. Next year's CIP also will have to begin addressing some of the other unfunded capital needs as well.*

The CIP proposed this year by the City Manager for the City Council's consideration addresses many of those unfunded needs, and we urge the City Council to consider the City Manager's proposed CIP favorably.

BFAAC has the following general observations about the proposed CIP:

- Many pressing needs for capital improvement projects are provided for in the planned CIP.
- The City is in good shape to go to the capital markets for additional borrowing and still keep debt service costs at reasonable levels according to its debt policy guidelines and expect to maintain its double triple A bond rating.
- The City is in good shape to go to the capital markets for additional borrowing and still keep debt service costs at reasonable levels according the City's debt policy guidelines while maintaining its double triple A bond rating.
- Should the City's economic outlook unexpectedly deteriorate, these cash capital contributions (as opposed to the debt service payments) can be redirected to meet other needs.
- There are other capital needs that remain unfunded in the proposed CIP that will have to be addressed eventually. Over $50 million in identified capital project requests (from the Schools and the City) remain unfunded or deferred beyond the proposed five-year plan. Additionally, long-awaited projects now proposed for funding, such as for sewer expansion, repair, and renovation, can have significant, but as yet undetermined costs added to them as they proceed.

- Given the additional potential capital improvement costs facing the City, it is worth looking for additional sources of funding for meeting these needs in future years, such as contributions through the City's newly established development office, sewer tap fees imposed on real estate developers, and other possible ways to pay for increased sewer capacity, renovations, and improvements. The City may need to consider additional borrowing in the FY 2004 to FY 2006 time period as well or additional cash capital contributions if the revenue outlook continues on a high growth path.

- BFAAC concurs in changing the approach for the timing of the City's capital borrowing to a prospective or "up-front permanent" approach from a "reimbursement approach" given that the trend in interest rates is no longer downward.

THE PROPOSED
CAPITAL IMPROVEMENT PROGRAM

Last year, in its April report to City Council, BFAAC said that the FY 2001 Capital Improvement Program (CIP) will have to begin addressing some of the unfunded capital needs not addressed in the FY 2000 CIP. Specifically, at that time BFAAC said:

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BFAAC has the following general observations about the proposed CIP:

Many pressing needs for capital improvement projects are provided for in the planned CIP.

- The proposed CIP addresses the need for additional Alexandria City Public School capacity at the middle school and 9th grade level.

- Alexandria Health Center replacement is an essential project for the city to undertake, but BFAAC notes that there remain several uncertainties concerning the cost estimates.

- Depending on the results of on-going studies on sewer construction, replacement, and renovation, the infusion of $18 million proposed for these purposes in the CIP may be enough to remedy the problems, or it may serve as just a downpayment. Without the results of these studies, the City does not know whether extensive remediation is necessary, nor does it have any reliable cost projections.

Alexandria City Public School Capacity

At our work session with City Council on October 26, 1999, BFAAC was urged to see if, working together with the School Board's Budget Advisory Committee, we could work out a proposal for funding the Alexandria Public School System's capacity to educate 6th through 9th graders. The CIP recommended by the School Board and contained in the

City Manager's proposed CIP (at least through FY 2004) represents the consensus approach to funding 6th through 9th grade capacity needs that has been so adamantly sought by both the Council and the School Board.

As we indicated in our November 30, 1999, memorandum to the Council on this subject, BFAAC believes that the consensus approach outlined in the proposed CIP deserves the City Council's approval.

The CIP proposed by the City Manager will fund expanding the two existing middle schools with the addition of two sixth grade facilities and an expansion of the existing 9th grade center at Minnie Howard. In addition to these capital needs, a wide variety of other school capital projects are funded in the proposed CIP, including air conditioning and heating repair and replacement, renovations to provide accessibility in compliance with the Americans with Disabilities Act, energy conservation measures, and furniture, fixture, and equipment replacement.

There are additional school capacity needs in the out years, 2005 and beyond, that are not yet funded in the proposed CIP. The City Manager's proposed CIP does not fully fund the request made by the School Board in those years—$2.7 million is not funded in FY 2005 and $2.3 million in FY 2006. Most noteworthy of the requests for those years is completion of an expanded kitchen and food court at T.C. Williams High School to allow the possibility of closing the campus so students would be required to stay on campus during lunch. Funding for the kitchen and food court is split between $2 million fully funded in FY 2004 and $1 million in the FY 2005 School Board request. The School Board requested funding for expanding classroom capacity at T.C. Williams in FY 2006 ($4.6 million) to meet the expected enrollment surge at the high school level as the current large number of students work their way through elementary and middle school years.

Replacement of the Alexandria Health Department's St. Asaph St. Facility

With a proposed $8 million, including $2 million for the current FY 2001, phased over three years to replace the Alexandria Health Department's main facility on St. Asaph Street, the City has budgeted resources to address one of its more important unfunded needs of recent years—an item BFAAC has underscored in its past two budget reports.

By all accounts, the 56-year-old facility is grossly inadequate to address the health care needs of Alexandrians, let alone to meet up-to-date health standards. Not only have many of its major systems—electrical, plumbing, HVAC—surpassed useful life-expectancies, but the building is, in the words of a health department official, "too small, too old, too much" to repair, and there is "not enough parking."

Questions regarding whether to repair/replace the building or rebuild the facility at a new site appear to have been settled in favor of rebuild/relocation. At this time, potential sites for the new building have not been officially identified. And once identified, the process will take time to work with citizens, to make zoning changes, and the like. Even so, the funds concentrated in the first two years of the proposed CIP will allow speedy commencement of the project once such necessary actions are completed.

The $8 million proposed in the CIP amounts to a rough estimate for the project, based on $200 per-square-foot construction costs, multiplied by an estimated 40,000 square-foot replacement for the center. Included in the costs are rough estimates—about $20 per square foot—for land acquisition. But, the cost of this project remains uncertain.

- Depending on the building site chosen, the land acquisition costs can vary considerably from $9 to $50 per square foot, according to City staff.

- Another unresolved cost factor is the actual size of the building, as well as the array of services it will house. Should it be, say, 30,000 square feet with certain community services sent off-site? And if the central building, housing mainly core services, is downsized, what be will the cost of additional satellite health centers?

- Finally, the size of some costs will become clear only as architectural plans of a particular building develop. These might include costs associated with OSHA regulations and those associated with designing a building for the efficient provision of services.

The rough nature of the present CIP estimate, coupled with unsettled aspect of these questions, make it difficult to predict if capital costs on this front will be higher or lower. (And, of course, to the extent satellite centers duplicate or increase services, there are questions regarding the additional impact on the operating budget.) Prior to this year, estimates for a replacement center were said to "exceed $6 million"; it is unclear at this point whether the additional $2 million in the City's capital planning will make up for these uncertainties. Additional clarity should be forthcoming as the City Council's Healthy Communities Subcommittee and staff task force complete their work.

Sewer Capacity Expansion, Repair, and Renovation

The City of Alexandria needs to provide funding for the following either in this year's CIP or in future CIPs:

(1) construct additional sanitary sewer capacity in its trunk sewers to support increased development in the Eisenhower Valley;

(2) repair existing sanitary lines (particularly in Rosemont and Del Ray) to prevent the inflow and infiltration of stormwater into the sanitary sewers;

(3) monitor combined sewer overflow (CSO) in Old Town; and

(4) eliminate hazardous waste discharges into the Potomac River at the end of Oronoco Street.

The CIP includes more than $10.5 million to begin addressing these problems, as well as $1.5 million for a needed update to the map of the City's sewer system, $4.4 million for a relief sewer to address combined sewer flooding at Pitt and Gibbon, $.5 million for flood control and nearly $5 million in continued funding for more routine system testing and maintenance. A consultant's report (funded in FY 2000) to pinpoint problems in each sewer service area is due by year's end. Additional consultant studies will evaluate potential environmental problems posed by sewer overflow in Old Town and the Oronoco outfall.

BFAAC believes the City currently is handling the uncertainties of the situation correctly. By first commissioning a detailed study, the City will be able to set its priorities correctly and spend its money on areas in greatest need of repair. The City will have more complete information at the fall retreat.

Because these infrastructure repairs are critical and costly, BFAAC presents to the City Council a more complete explanation of the problems and potential costs in an Appendix to this report.

The City is in good shape to go to the capital markets for additional borrowing and still keep debt service costs at reasonable levels according the City's debt policy guidelines while maintaining its double triple A bond rating.

The City Manager's proposed CIP would borrow an additional $120 million through FY 2003 to fund the recommended projects. This is $40 million more than contained in last year's approved CIP.

BFAAC notes that the projected debt levels are within the debt policy guidelines, as reported in the City Manager's Budget Memo #7 of March 23, 2000. That memorandum contains a graph that shows debt as percentage of fair market real property value at or below the 1.1 percent target range in all years of the CIP. (See figure 1, next page.) In fact it declines from a 1.1 percent peak in FY 2003 to 0.7 percent in FY 2006 in the mid-range and high-growth scenarios. It is also within the guideline in all years under the low growth scenario. Debt per capita also is within the guideline targets through FY 2006 and is at or below the 2.25 percent target of per capita income. (See figure 2, next page.) Under all scenarios, debt service costs would be well below the guideline target of 8 percent of estimated general fund expenditures, rising to no more than 5.1 percent in the low growth scenario in FY 2004.

According to information provided by the City's financial advisor, Davenport & Company LLC, the City's debt ratios on a number of indicators are well below the average of other jurisdictions across the nation that have a triple A bond rating.

Figure 1. Debt per Capita Projections
Compared to Debt Policy Target and Ceiling
FY 2000 - FY 2006

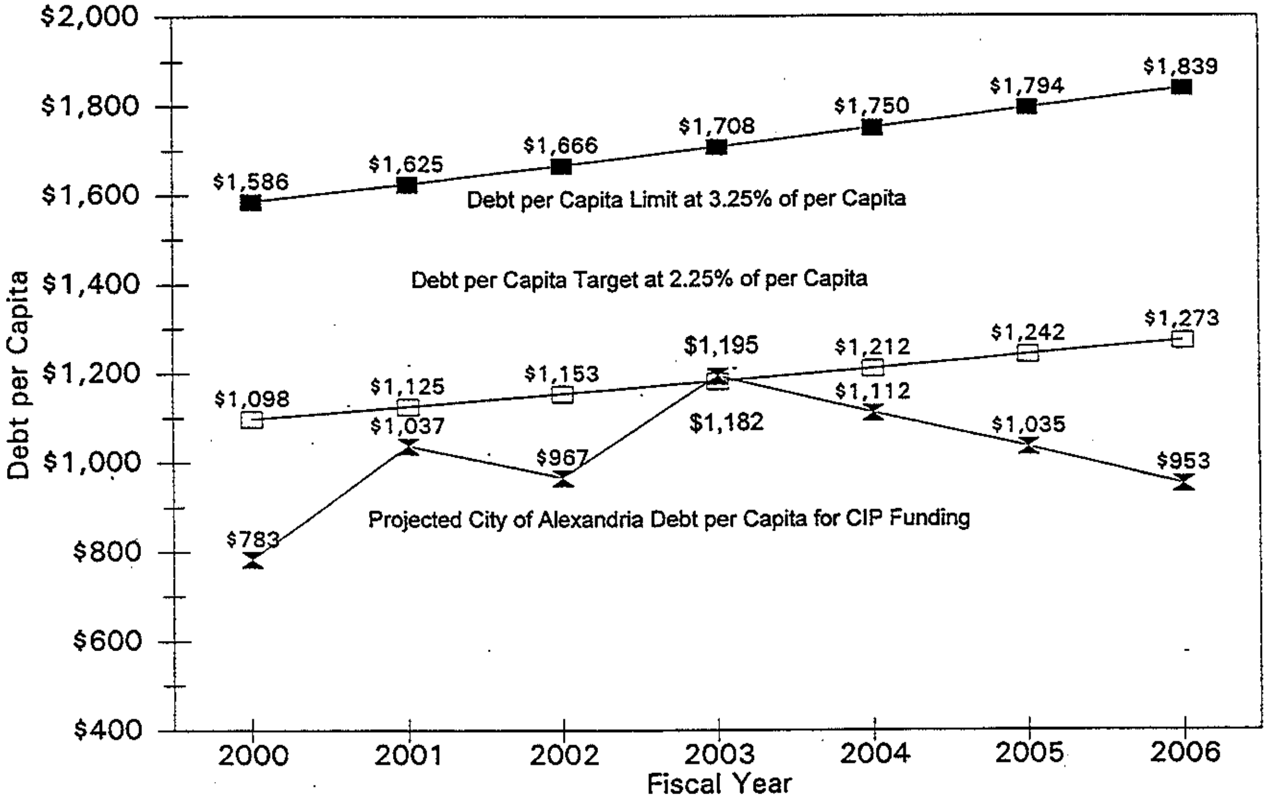
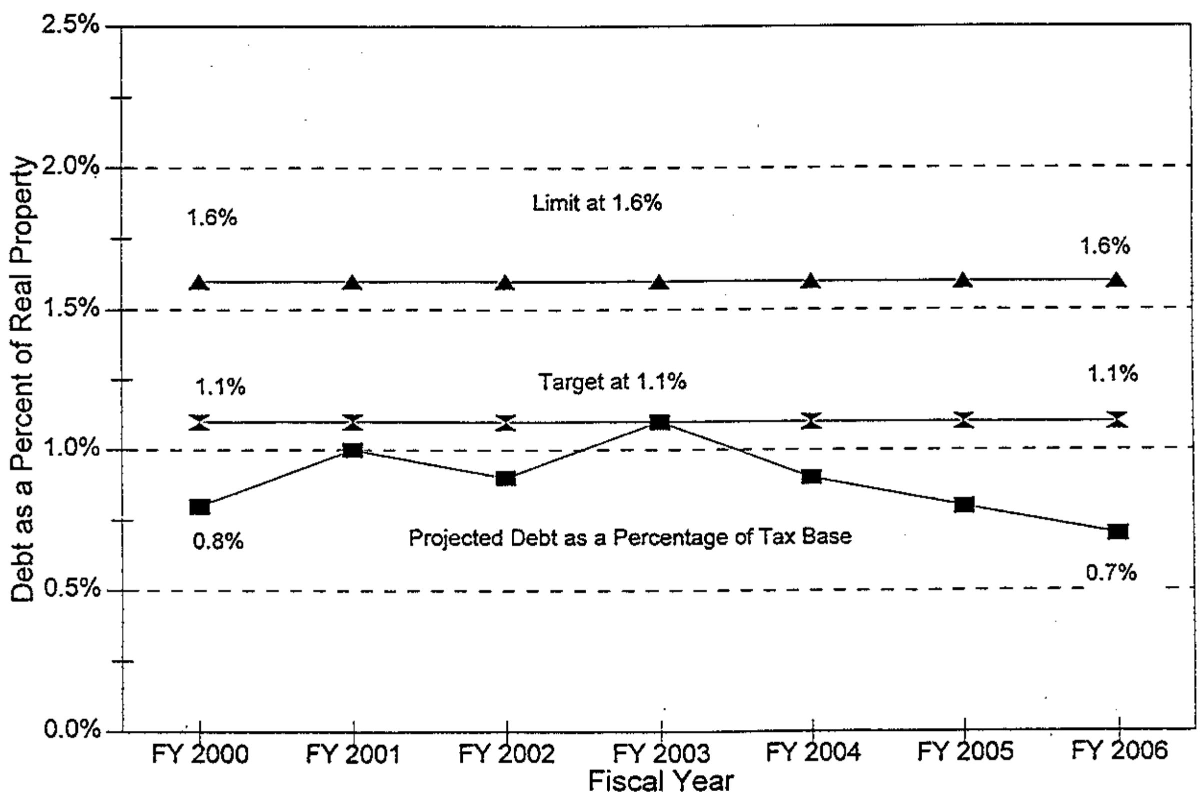


Figure 2. Debt as a Percentage of
Fair Market Real Property Value
Fiscal Year 2001- 2006



The City currently enjoys a booming economy with real estate values rising rapidly and major new development plans approved at Potomac Yards and the Patent and Trademark Office complex. The forecasts for future revenues for the City look strong, but as noted elsewhere in this report, these projections are dependent on continued economic growth and strong real estate assessments. Should that change, so will the City's revenues.

With all these factors considered, the City appears to be well positioned to maintain its double triple A bond rating as it goes to the market over the coming years to borrow an additional $120 million.

The City's financial situation also has improved so that it can provide additional cash capital contributions both from its reserves arising from past and potential future operating surpluses and from current revenues.

The proposed CIP contemplates sizable cash capital contributions. The recommended stream of cash capital contributions is as follows:

2001	2002	2003	2004	2005	2006
$9.8M	$20.8M	$11.9M	$11.9M	$11.9M	$11.9M

The City is proposing to designate an additional $10 million from an expected surplus in its FY 2000 budget for future cash capital contributions to the CIP. The long-range forecast scenarios estimate that $10 million of these designated funds will be drawn down in FY 2002—enabling a one time significant influx of cash contributions in that year. This would diminish the need to use current revenues in FY 2002. Only $10.8 million would be needed in that year, an amount more in line with FY 2000 budgeted and FY 2001 planned cash capital contributions.

Should the City's economic outlook unexpectedly deteriorates, these cash capital contributions (as opposed to the debt service payments) can be redirected to meet other needs.

BFAAC discusses forecast scenarios more completely elsewhere in this report. For purposes of analyzing the affordability of cash capital contributions from current revenues in the future, this report notes that should the more optimistic, high-growth scenario develop or the mid-range scenario materialize, the City should be able to find cash capital contributions from current revenues of the size estimated in the proposed CIP. The City projects surpluses in fiscal years 2004 through 2006 in the mid-range and high-growth forecast scenarios with modest shortfalls forecast only in FY 2002 and FY 2003 under the mid-range growth scenario. Only under the low-growth forecast does the City face shortfalls in all out-years. Given the current economic outlook and future development potential at Potomac Yard and with the PTO, the low-growth scenerio appears unlikely.

<u>There are other capital needs that remain unfunded in the proposed CIP that will have to be addressed eventually. Over $50 million in identified capital project requests (from the Schools and the City) remain unfunded or deferred beyond the proposed five-year plan. Additionally, long-awaited projects now proposed for funding, such as for sewer expansion, repair, and renovation, can have significant, but as yet undetermined costs added to them as they proceed.</u>

Alexandria's exceptional economic situation and sound financial situation based on adherence to its debt policy guidelines have enabled it to bring several important, but previously unfunded or deferred projects fully into the proposed CIP this year. However, the building of a replacement health center, for example, may extend beyond the $8 million presently estimated for it (as discussed above). The costs of expanded sewer capacity in the West End are being assessed by a consultant, as are the costs of repairing the leaky sanitation sewers that are infiltrated by storm water. The costs of controlling overflows in the Old Town combined sewer system and contaminated waste at the Oronoco Street Outfall also are uncertain. Our report's Appendix describes in detail the uncertainties facing the City as it plans to expand, repair, and renovate its sewers.

Other potential projects remain unfunded in the proposed CIP. BFAAC commends City Staff for introducing the list of unfunded/deferred projects in the CIP document this year. This information provides a necessary perspective on the current scope of City needs, which should help as citizens and City Council ponder additional capital projects. This list and available cost estimates should become an ongoing part of the annual CIP. BFAAC wishes to highlight the following unfunded, potential capital projects listed in the CIP, along with some additional information on these and issues not mentioned in the CIP document:

1) Funding for additional school capacity needs in the outyears (FY 2005 and beyond), estimated at roughly $5.0 million if one simply looks at the amounts proposed in the School Board's request for FY 2005 and beyond that are not contained in the proposed CIP. It should be noted that Superintendent Berg noted to the Planning Commission in a memorandum dated March 22, 2000, that temporary classroom trailers ". . . will be required for at least for the next 5–7 years. Based on current demographic analysis, classroom trailers will continue to be used at various elementary schools until the construction projects at the secondary schools are completed in 2006 and funds are available for elementary school construction projects."

2) Funding to correct structural settling at the Public Safety Center, pending a more detailed architectural and engineering assessment of an appropriate solution.

3) Funding to address critical parking needs at the Public Safety Center.

4) Funding to renovate existing fire stations located at 205 Cameron Street and 202 Windsor Avenue in the Del Ray area, which can no longer adequately house the new generations of fire and emergency medical services vehicles.

5) Funding for Phase II renovations of the Market Square Plaza.

6) Funding for a new "West End" community center at Cameron Station ($25,000 remains budgeted in FY 2003 for initial planning). The actual cost for this facility has not been established but Budget Memo No. 6 (March 30, 1999) suggests the cost is in the "millions."

7) Funding to build a new DASH facility although $5 million in non-city funding has been budgeted in the FY 2001–2006 CIP to acquire land for the facility. (Total cost has been estimated at $10 million.)

8) Funding to complete enhancements at the Windmill Hill Park/Old Town Yacht Basin/Pomander Park.

9) Full funding for renovations and extensions envisioned at the Lloyd House facility, estimated at $1 million.

10) Funding to straighten the Monroe Avenue Bridge, estimated at $15 million (State funding is likely, but not yet certain).

11) Funding to expand the Duncan Branch Library to accommodate growth anticipated from Potomac Yard development.

12) Purchase and installation of a comprehensive Human Resource Information System to replace various outdated payroll and personnel computer systems.

13) Numerous requests to enhance City facilities, such as the TES Maintenance facility at $3 million to $4 million.

14) Funding to build a new City visitor's center (though funds currently allocated in CIP may help improve operations out of current facility and nearby offices).

BFAAC also notes that the City will embark on an Open Space Master Planning Process, with the goal of having a master plan for open space ready for Council review by the fall of 2001. Given that how the City chooses to address open space will have an affect on future budgets, BFAAC seeks to be a part of this process as it moves forward. An Open Space Master Plan would affect capital improvement planning as well as property tax revenues to the extent that additional land is removed from potential development.

Given the additional potential capital improvement costs facing the City, it is worth looking for additional sources of funding for meeting these needs in future years, such as contributions through the City's newly established development office, sewer tap fees imposed on real estate developers, as well as other possible ways to pay for increased sewer capacity, renovations and improvements. The City may need to consider additional borrowing in the FY 2004 to FY 2006 time period as well or

additional cash capital contributions if the revenue outlook continues on a high growth path.

Solicit Private Contributions for City Capital Projects

As noted in our 1998 and 1999 budget memos to Council, BFAAC supports expanding opportunities for private donations to City programs including the formation of a City-sponsored capital development office. Private donations may be especially valuable as a way to finance cultural or aesthetic improvements such as open space land acquisition and museum renovation. These undertakings (while desirable) generally take lower priority in the City's CIP than infrastructure projects (such as sanitary sewer repair), however, they are generally more appealing to potential donors looking for marketing or legacy opportunities. The City should seek to ensure, however, that such private donations come from new funding sources rather than diverting donations from Alexandria's nonprofit organizations.

Options for Funding Sewer Expansion, Repair and Renovation Costs

BFAAC offers the following ideas for obtaining additional funds to help cover some of the costs of solving the sewer problems outlined above. The City's various project consultants should be able to offer funding suggestions as well.

1. Increase sewer tap fees. Real estate developers must pay a fee to tap into the City's main sewer line. OMB is currently reviewing all of the City's development fees in comparison with other jurisdictions. However, BFAAC's preliminary inquiries indicate that Alexandria's fees are relatively low. BFAAC recommends that the City move quickly to increase sewer tap fees. The City has already missed out on quite a bit of revenue from development projects already approved, but there is some development still to come. This money, if dedicated to sewer expansion, repair, and rehabilitation would go a long way toward funding these capital needs.

2. Request funds under Virginia's Water Quality Improvement Act. This money, however, is usually reserved for more "glamorous" anti-pollution problems and the City may find it difficult to receive money from this source for sewer repair work.

3. Negotiate with Fairfax County to recoup some of the repair costs. The ASA treatment plant services parts of Fairfax County. Contributing to our sewer upkeep would be much cheaper for them than constructing their own lines.

4. Use funds from the Community Development Block Grant. If sewer problems are on the homeowner's property, in some cases, the repairs are the responsibility of the homeowner. This money could help fund upgrades to low income areas.

5. Continue to look into the Virginia Resources Authority's pooled borrowing options and state revolving fund to see if this source of borrowing is in the City's best interest.

6. Apply for federal resources. There are a number of federal grant programs that can help defray the costs of storm water management. The City could work to obtain grants in coordination with our elected officials.

7. Implement a storm water utility fee program. Several jurisdictions in Virginia now assess these fees; they range from $1.50 per month per residential unit in Prince William County to $4.50 per month per residential unit in Norfolk.

8. Increase Sewer Service Charge. Alexandria residents pay a small fee for the maintenance of sewer lines. The current charge is $.20 per 1,000 gallons of water used (or a minimum of $1.20 per quarter) and appears on the Virginia-American Water Company water bill (currently this money is earmarked for operating expenses only).

9. Introduce special assessments.

Additional Borrowing May Be Possible after FY 2003

As the City continues to pay off old debt and grow economically, its may have the capacity to borrow additional funds after FY 2003 and stay within its debt policy guidelines and maintain its double triple A bond rating. The graphs shown on page 9 (from Budget Memo #7) demonstrate that beginning in FY 2004, the City again appears to have the capacity to consider going again to the capital markets to borrow additional funds for capital projects.

Additional Cash Capital Contributions May Be Possible

The City can increase future cash capital contributions in two ways. The City has already indicated a priority to consider designating any surpluses that occur in annual operating budgets for future cash capital contributions. A large surplus is expected in FY 2000. It is too early to tell about FY 2001, but if real estate values increase at rates higher than those predicted in the proposed budget, surpluses may be a possibility in that year as well.

For future years, the pace of appreciation in existing real properties and the development of new properties will determine whether larger cash capital contributions could be afforded. The City may be able to plan on larger cash capital contributions to the CIP and still balance the annual operating budgets of the future. This approach does not commit the City to actually making these cash capital contributions until later. So if an economic downturn occurs the City still has some flexibility to reduce or postpone planned capital projects and cash capital contributions to balance those budgets.

BFAAC concurs in changing the approach for the timing the City's capital borrowing to a prospective or "up-front permanent" approach from a "reimbursement approach" given that the trend in interest rates is no longer downward.

Two years ago the City Manager proposed a reimbursement mode of issuing debt whereby the City would provide interim financing from its own cash reserves for about 18 months of capital construction projects and then reimburse itself from debt proceeds for those expenditures. At that time BFAAC concurred with that method of timing the issuance of debt as a fiscally and legally prudent way to do business. The reason was that it saved the City some money in a time of declining interest rates by allowing it to borrow at lower rates. In 1998, interest rates on tax exempt borrowing had been declining for 5 years. It also minimized the risk of paying interest on borrowings before they were needed to finance capital construction projects.

This year the City Manager proposes borrowing funds more or less simultaneously with the construction activity through "Up-Front Permanent Financing" or prospective approach. Accordingly, the timing of the next bond issuance of $40 million is proposed to be accelerated to this summer instead of next winter. A third $40 million borrowing is planned for the summer of 2001. This type of timing is more typically used by other jurisdictions. It also can make better sense during a time of increasing interest rates because the borrowing occurs sooner. Tax exempt borrowing interest rates have been increasing since the beginning of 1999.

The Alexandria Chamber of Commerce also has endorsed a change in timing to the City's capital borrowing. The Chamber summarized its findings at a budget hearing in April 1999 before the City Council. The City staff has obtained advice on this issue from its financial advisors, Davenport & Company, LLC. The advisor concluded in an analysis dated November 1999 that:

(1) the long-term rate at which the City borrows is more critical to the City's cost of capital than any reinvestment advantage achieved through interim financing strategies (by using its own funds temporarily under the "reimbursement approach");

(2) the option of securing permanent financing at the beginning of construction (Up-Front Permanent Financing) provides less volatile results than the reimbursement approach;

(3) although the reimbursement approach generates stronger debt ratios in the short term, it creates relatively more risk relative to the City's liquidity position (cash-on-hand to make payments); and

(4) given the City's exceptional debt ratios compared to its "AAA" peer group, the City may improve its liquidity by switching to the Up-Front Permanent Financing approach without a material long-term impact on its debt ratios.

BFAAC concurs with this change in approach for the timing of the City's capital borrowing given that the trend in interest rates is no longer downward. We note, as did City Staff in its December 1999 comments on the Chamber of Commerce recommendation, that the reimbursement method produced positive results for the City when market rates were in a downward trend as they were in late 1998 and early 1999 when the City last went to the capital markets and borrowed at the low point in tax exempt rates. The City should continue to monitor trends in tax exempt borrowing rates to determine which method to use each time it goes to market.

OPERATING EXPENDITURES

BFAAC believes it would be imprudent to consider operating expenditures for FY 2001 without discussing their impact on the FY 2002 and 2003 budgets. With this in mind, BFAAC is concerned that the proposed 8.8% General Fund Budget increase may serve to fuel a budget shortfall in 2002 and 2003. The City's preparedness for challenging times is a major concern to BFAAC.

As a result, BFAAC would like to see the City move forward with establishing a workable service portfolio assessment—"management information"–tool that will help support decisions in bad budget years. During such times, the City currently has three options: 1) reduce services, 2) reduce the cost of services, and 3) raise taxes. BFAAC would like Council to have the ability to make difficult funding decisions based on need, effectiveness, and priority.

BFAAC recommends that the City Council encourage and support continuing efforts to develop a framework that will furnish consistent, useful management information for discrete City services.

In its report to Council last year, BFAAC recommended that a working group be established to design a framework for reviewing City services on an ongoing basis. BFAAC believed at the time that improving management information about individual services would help City officials make more informed decisions about the City's service portfolio. As a result of last year's recommendation, a working group was established. Members included Vice Mayor Euille and Councilman Speck, the City's Finance Director, the City's Budget Director, and two BFAAC members. The working group decided that City staff would develop some new ways of presenting management information in the budget.

We applaud the staff's efforts since that time, which resulted in a new format for presenting measures and indicators in the 2001 budget document and an increase in the number of measures and indicators in several departments. Building on these efforts and the working group's endorsement last summer, BFAAC has continued its analysis of this issue and herein presents additional analysis and a recommendation for improving management information.

Consistent with a national trend among cities and counties, BFAAC believes that the City could benefit greatly from a framework that furnishes consistent and useful management information below the department or program level, one that addresses the need, effectiveness and efficiency of discreet City services. Many jurisdictions across the United States, notably Long Beach, California; Portland, Oregon; New York City; and -- in our own area -- Prince William County, have taken similar steps in recent years to improve management information. Increasingly, cities and counties such as these are requiring their departments to deliver results, not just responsiveness. In his book *Measuring Up, Governing Magazine's* Jonathan Walters writes,

> "...the times increasingly have called for an approach to public administration that, to be direct about it, focuses on deliverables. A growing number of experts argue that an indispensable component of meeting that call for greater accountability is a much more accurate assessment of what outcomes the public is getting for its tax dollars."

Essentially, these jurisdictions have decided to increase their attention on the outcomes that really matter so that:

- Citizens receive the right services
- Services fulfill their intended purposes
- Services are performed efficiently
- Funding levels are commensurate with the benefits realized.

Many jurisdictions have developed frameworks for presenting information that quantify service demand, cost, effectiveness, and efficiency in consistent, easy-to-use summary formats that are employed across the jurisdiction. While most cities and counties that have undertaken such an effort have had great success in measuring operating departments such as police and fire, others have gone further, developing innovative ways to present useful summary information in the human services departments of their local governments. These jurisdictions have found that the information is useful not only in the annual budget process, but during the rest of the year through regular management reporting to the governing board or council. Key benefits others are realizing include:

- Better informed decision making by elected officials from having additional factual information, which supplements the qualitative or anecdotal information typically presented by department managers and citizen users of the service.
- Better measures across all four major quality areas – demand, effectiveness, efficiency and cost -- drive departments to improve operations in a balanced way.
- Increased ability of department heads to justify needed funding increases or to explain the impact of funding decreases on service levels.

All of these benefits can accrue to the City in good times as well as bad.

To illustrate the difference such a framework could make in the presentation of management information, BFAAC chose to evaluate one department represented in the 2001 budget document. The department we chose has 8 programs, and 17 discrete services. This department was selected because its budget information is among the best in the budget document. Even so, of the 17 services that the department offers:

- Information on service demand was furnished in the budget document for only 5

- Total net budgeted cost was furnished for only 7
- Service effectiveness measures and indicators were furnished for only 4
- No cost efficiency measures and indicators appear at all

In addition, this information is presented only once a year in the budget document. At other times, City Council members must request such information on an as-needed basis. This "accountability-by-exception" approach requires staff to expend significant amounts of time analyzing specific issues and then compose lengthy memos. BFAAC believes that a process for presenting consistent management information on a more regular basis might reduce the number of memos requested and could possibly reduce the amount of staff work required on the ones that are written.

Given the relatively good economic times the City currently enjoys, BFAAC believes that now is an ideal time to launch a program to develop a framework that breaks department and program budgets down into services and present information for each discreet service in four areas:

- Demand for the service (e.g. number of users or numbers of requests for service),
- Total cost of the service to the City (net of grants, federal and state subsidies),
- Effectiveness measures and indicators, and
- Efficiency measures and indicators.

In addition, as appropriate and practical, trend information also should be provided to enable decision makers to assess year-to-year performance and ask better questions about performance. Once the framework is in place, BFAAC recommends that the information be captured and reported on a regular basis to the City Manager and the City Council. Summary annualized trend information could also be presented in each year's budget and annual report.

Our discussions with the Finance and Budget staff have revealed a common interest in pursuing such an effort in Alexandria. However, neither City staff nor BFAAC believe that this will be an easy task, or one that can be completed quickly. We are reminded of this fact both by the literature we have read on the subject and by observing the challenges that the Youth Policy Commission has faced. There is no doubt that this will be a particularly difficult task in certain areas where outcomes are harder to quantify, such as Mental Health and Human Services, but we are encouraged by the innovations other jurisdictions have made to measure these areas of government. We are also encouraged by the knowledge that most services of City government are more easily measured.

Despite the obvious challenges posed by the more difficult-to-measure functions of City government, BFAAC believes that having a framework that furnishes consistent management information at the service level will serve as an invaluable tool for elected officials, the City Manager, Budget staff, and the City departments themselves.

Recognizing the challenges inherent in such an effort, we recommend that this framework be implemented on a "best efforts" basis over a 2-3 year period with advisory support from BFAAC. BFAAC further recommends that City staff begin the development process in operating departments outside of the human services functions where measuring service demand, cost, effectiveness and efficiency will be much more straight forward.

BFAAC recommends that the City cautiously build new growth into the baseline operating budget, and that it carefully consider the impact that new or expanded services will have on operating budgets for years to come before initiating such programs, particularly in light of the projected shortfalls in the out-years.

The City has limited funding. Rather than reinventing the wheel every time a group identifies a need for a particular program or service, the City might be better served by using a management information framework to determine whether the need could be best met by outside agencies, or if the City merely should shift rather than add new resources.

There are $2.5 million in new and expanded programs proposed in the 2001 budget. As noted in the prior section, the budget contains limited information about these programs in terms of demand, cost, efficiency, effectiveness, and similar programs offered by non-City organizations. This makes it difficult for Council to determine the advisability of allocating funds for these programs.

The funds available to finance these new and expanded programs come from what the City Manager has called "a notable change in the revenue stream available for the City's programs and services." The City has had the good fortune of experiencing the largest percentage increase in total assessed value of real property since 1990 (9.09%, or $1.108 billion) at the same time as it had State and Federal aid to localities increase slightly.

BFAAC notes that a recent report by Delta Associates, a copy of which the City Manager distributed to Council, cautions: "There is growing evidence that [Washington area] real estate markets are approaching the peak of this cycle." The report predicts that vacancies likely will increase during calendar year 2000 and construction volume may be "too much" for the market to absorb. Further, the report notes that capital expenditures for transportation throughout the region "has not kept pace with demand. And if unchecked, this will break the golden egg."

In terms of State and Federal aid, the proposed FY 2001 budget projects an apparent increase of $10.4 million in intergovernmental revenues from the Commonwealth. BFAAC cautions that the "increase" is deceiving. In fact, the revenue is not new, but rather an increase in the City's share of monies under the vehicle property tax relief act; an accounting shift of $4.5 million in street and highway maintenance revenues from one City fund to another; and $197,000 in increased funding for law enforcement.

Further, the former City Manager, in her February 29, 2000, budget message stated that "it is important to note that these revenues are not under the control of the City Manager or City Council. The availability and reliability of these intergovernmental revenues will largely be subject to the fiscal conditions and legislative decisions of the Commonwealth of Virginia in the years ahead." BFAAC thinks the Council should take those words to heart when planning for FY 2001 and for the future.

If Council were to move forward with reopening of the Burke Library, BFAAC urges that they rank this against other initiatives and determine which to fund.

BFAAC recognizes that, while there are no funds in the 2001 budget allocated to reopen the Burke Library facility, a task force currently is considering this option. Because it would be duplicative of the task force's efforts, BFAAC is not undertaking an assessment of this matter at this time. The Committee notes that reopening the Burke Library would require a considerable outlay of funds, which currently are not allocated in the budget. With capital outlay cost estimates ranging from $1.2 million to $2 million and annual operating cost estimates ranging from $404,000 to more than $1 million, reopening the Burke Library would require a major outlay of funds which could be used for other services or capital projects.

BFAAC recommends that City Council take steps to ensure that DASH, over the long term, increases its revenue/operating cost ratio to remain viable, and that Council place this issue on the fall work session agenda.

The proposed budget includes over $7 million in transit operating subsidies, with approximately half that amount ($3.5 million) going to DASH operating expenses. (In addition, the City will be funding $1 million in capital improvements for DASH.) Although the cost of operating DASH is lower per mile than that of WMATA, there is a very disturbing trend in DASH's revenue/operating cost ratio. In FY 1997, the ratio of revenue to operating costs for WMATA was 54 percent. Since that time, the WMATA ratio has gradually increased and is projected to be 63 percent in 2001. At the same time, the ratio for DASH in FY 1997 was 46 percent, and it has fallen every year except FY 2000. In 2001, the ratio is projected to fall below 33 percent. While the regional fare initiative put in place in June 1999 has contributed to this trend by depressing revenues, the downward trend began before the initiative went into effect. BFAAC believes that this trend is alarming, and must be reversed. We strongly recommend that Council place this issue on the fall work session agenda.

BFAAC recommends the City expedite consideration, in conjunction with Arlington County, of alternatives for funding the forecasted shortfall in the operation of its waste-to-energy facility.

The City of Alexandria and Arlington County operate a waste-to-energy facility. The cost of operating this facility is largely fixed. However, the cost per ton of trash processed at the facility exceeds the cost to dispose of trash at large landfills outside the City. The trash collected by the City is disposed at the waste-to-energy facility, but the City cannot require that the trash collected by private contractors be disposed at the waste-to-energy facility. As a result, a number of contract trash haulers took trash out of the City, and the facility was not fully utilized. Consequently, the facility has lowered tipping fees well below fully allocated costs, in order to keep two major haulers at the facility. Lower tipping fees have resulted in additional revenues and adequate quantities of trash being processed at the facility, but with the cost of meeting new federal pollution control mandates, the revenues being generated are inadequate to fund the operation of the plant. Although the facility has been able to draw from reserve funds in the past to continue operations, these funds will soon be depleted and the City will be forced to support the facility's operating costs. The City's share of the shortfall, expected to begin as early as 2004, is currently estimated to be $2 million per year.

Among the possible alternatives are for the City to:

1. Make up its share of the operating shortfall by general appropriation.
2. Manage all trash collection City-wide in order to increase the volume of trash processed at the facility. This could be done either with City crews or by franchising collection to independent contractors. Thereby, the collection of sufficient trash to operate the waste-to-energy facility would be accomplished. In addition, the below-cost tipping fee charged to attract contract haulers would be eliminated as there would be no need for additional sources of trash.
3. Assess all property owners a charge to cover the shortfall.

The operating expense shortfall at the waste-to energy facility is a serious fiscal problem facing the City that needs to be addressed in calendar year 2000.

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Multi-Year Revenue and Expenditure Forecast Scenarios

While the prospects for strong revenue growth look promising in both the short term and the long term, it also appears that expenditures are growing to match this forecast in revenues. Building larger expenditure commitments into the budget based on these forecasts could lead to problems in the future should revenues taper off.

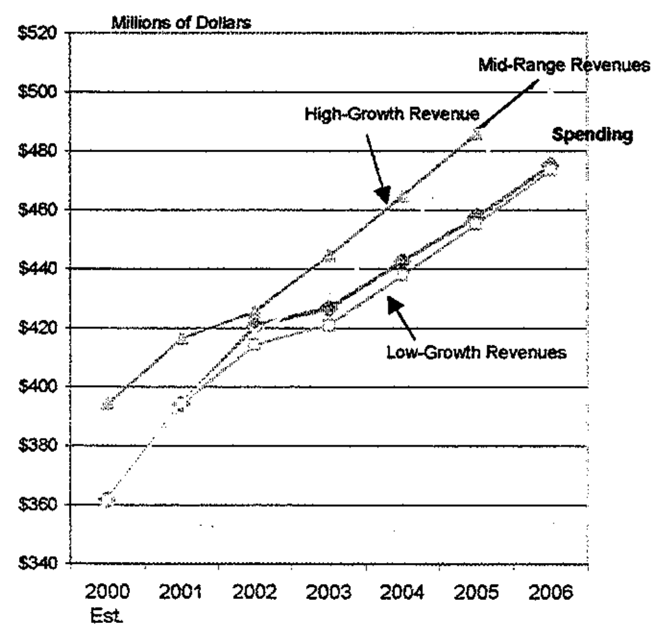
In 1999, forecasts of the City's long-term fiscal health showed that Alexandria could enjoy long-term structural surpluses if tax revenue continues to grow at a reasonable rate and spending growth is managed at prudent levels. This year's long-term forecast shows even more dramatic improvement, especially for tax revenues. However, it also appears that forecast expenditures, under current policy assumptions, are rising to meet these more optimistic revenue projections. This trend should be viewed with concern. If larger spending commitments are built into the budget that cannot be reversed, and revenue growth falls off, the City would face substantial budget shortfalls and the prospect of making difficult spending cuts.

<u>The Forecast</u>

City staff conducted three different forecast scenarios of the budget outlook for fiscal years 2001 to 2006. In each of these scenarios, spending is held constant at current policy levels, but revenues change based upon different sets of assumptions. Chart 1 displays these three revenue scenarios compared to the spending outlook.

Chart 1

This Year's Forecast Shows Short-Term and Long-Term Fiscal Health



Even the lowest of these estimates is an improvement upon last year's forecast. For example, the low-growth scenario shown in Chart 1 projects the worst-case effects of modest real property tax growth producing short-term deficits. But, this "worst-case" scenario actually assumes average revenue growth of 4.5 percent, higher than the 4.0 percent average growth assumed in last year's <u>mid-range</u> forecast.

If the economy continues to grow in FY 2001 at roughly the same rate as FY 2000, then the forecast conducted for next year's budget will likely project all scenarios above surplus.

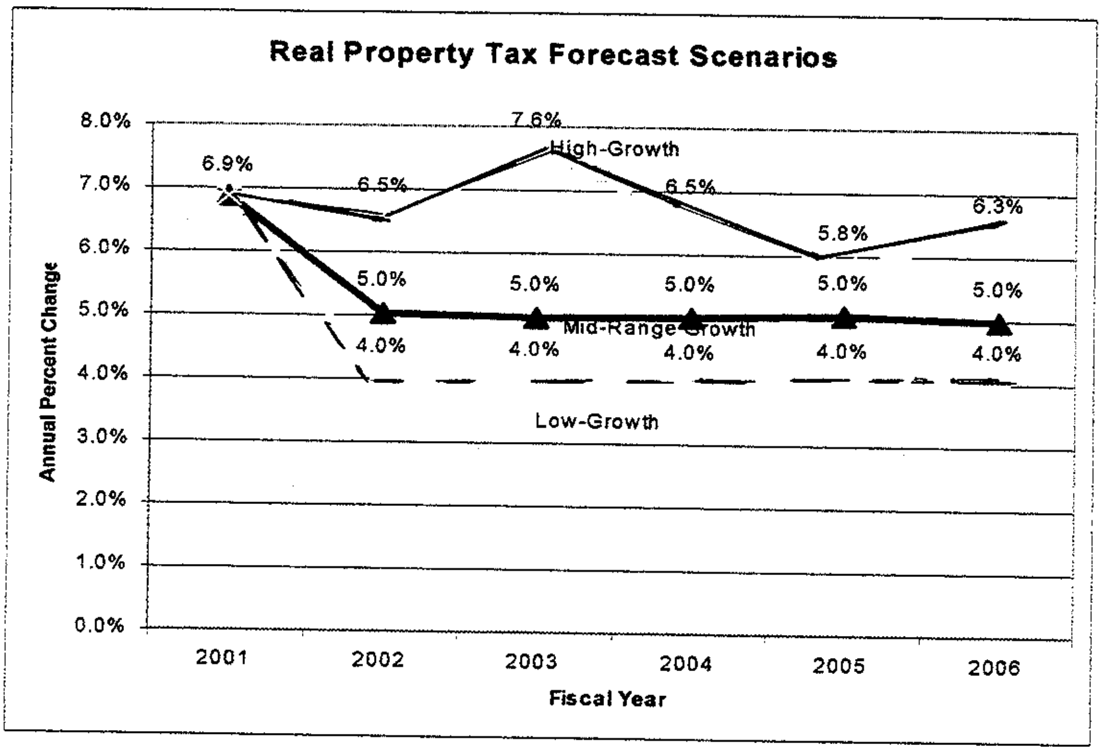
Chart 2 compares last year's mid-range forecast for total expenditures and for general revenues to this year's forecast. The chart shows that while general revenues are clearly up over last year's projection, so too does it show that expenditures are growing to

Forecast Assumptions

Spending Assumptions: Staffing levels are held constant at FY 2001 levels through 2006. For both city and school personnel, a 4.1 percent pay increase is assumed in 2002 and beyond. Non-personnel expenditures are assumed to increase by 2.0 percent in years 2002 and beyond, except for transit subsidies.

Revenue Assumptions: All assumptions assume (1) no change in taxing authority, and (2) continuation of current property tax and other tax rates. The biggest differences in each of the scenarios is the assumption of what will happen to the property tax base and the appreciation of existing properties.

- **Low-Growth Assumption:** The City's real property tax base will experience modest growth through 2006 (averaging 4 percent per year). This reflects new growth in the pipeline, but assumes limited appreciation of existing properties.
- **Mid-Range Growth Assumption:** The real property tax base will experience growth averaging 5 percent per year due primarily to new residential and commercial construction and the existing tax base will appreciate moderately each year.
- **High-Growth Assumption:** The real property tax base will experience growth – averaging 6.5 percent per year. This assumes a 5 percent per year expansion in in the real property base – plus the consultant's projected real property tax revenues from the Potomac Yard and from the Patent and Trademark Office.



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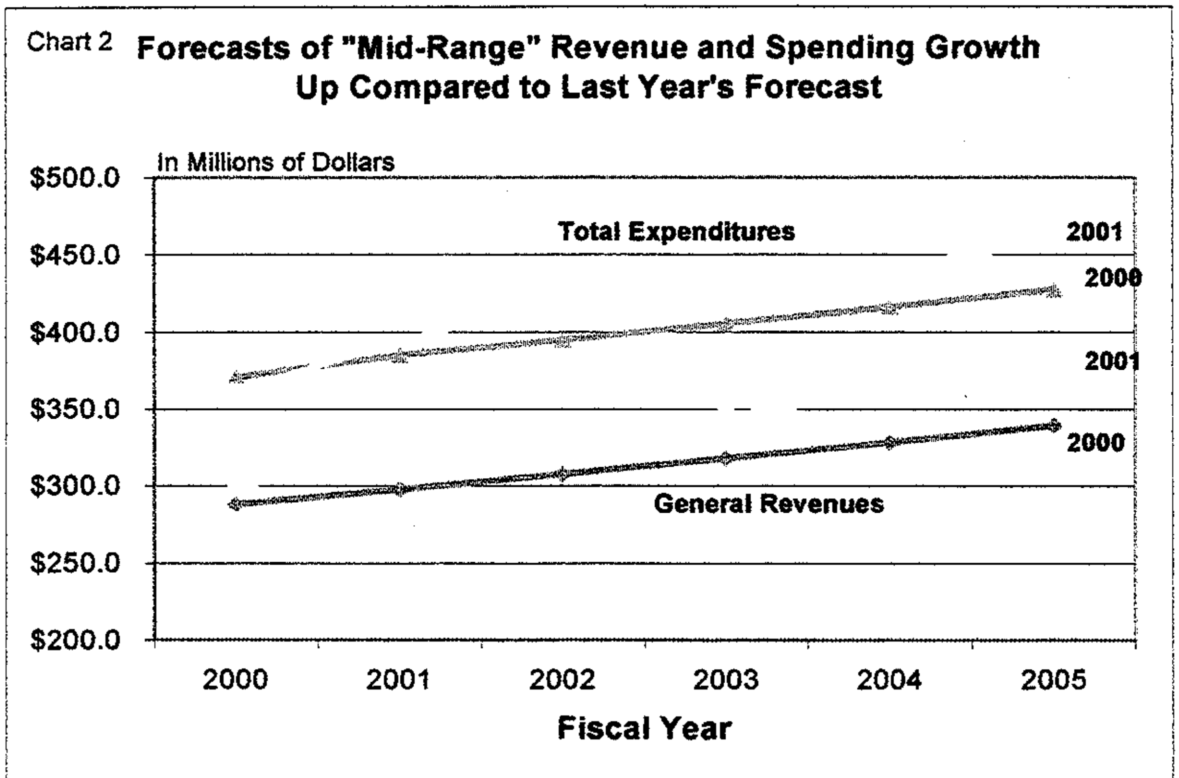


match the growth in revenues. Indeed, last year's forecast projected that general revenues would average 3.3 percent growth between FY 2000 and FY 2005, and that total expenditures would grow by an average of 2.9 percent. This year, however, revenues are projected to grow on average by 4.6 percent between FY 2002 and FY 2005, but expenditures are expected to grow by an average of 4.8 percent.

The driving force behind the boost in revenue growth is, of course, the surging economy. But there are two significant causes for the higher forecast of expenditures: (1) higher pay adjustments for city personnel; and, (2) the higher debt service and cash capital costs of this year's CIP.

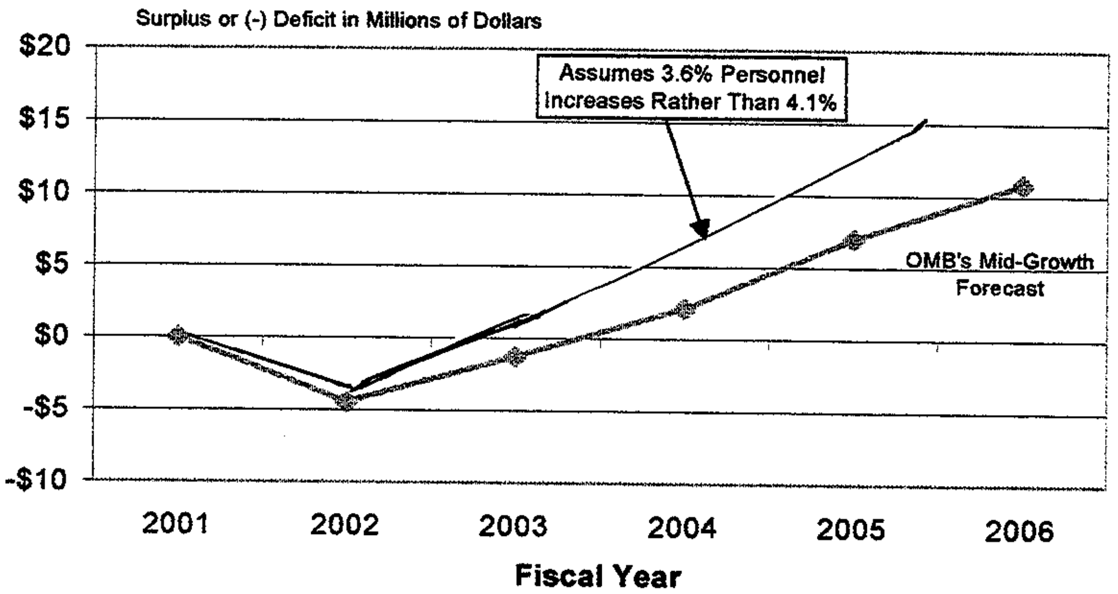
Rising personnel costs. In last year's forecast, personnel costs were assumed to grow by 4.6 percent in FY 2001, and increase at a 3.5 percent rate in the years beyond that. This year, however, personnel costs are assumed to grow by 4.1 percent from FY 2002 through FY 2006. This assumption alone increased the cumulative projections of expenditure growth by more than $21 million over the five year period.

It is instructive to look at these personnel cost assumptions in isolation to see their impact on the budget forecast. Chart 3, below, recalculates the "mid-range" budget forecast with a lower rate of personnel cost growth. This scenario holds the growth of revenues constant, but lowers the personnel cost growth to 3.6 percent average growth, rather than the 4.1 percent average growth assumed by OMB. This 0.5 percentage point change in the assumption makes a huge difference in the long term picture of the budget.

As Chart 3 shows, a 0.5 percent lower average growth in personnel costs

Chart 3

Changing the Assumptions: Assuming 0.5% Lower Personnel Costs Boosts Long-Term Surpluses by $21.7 Million



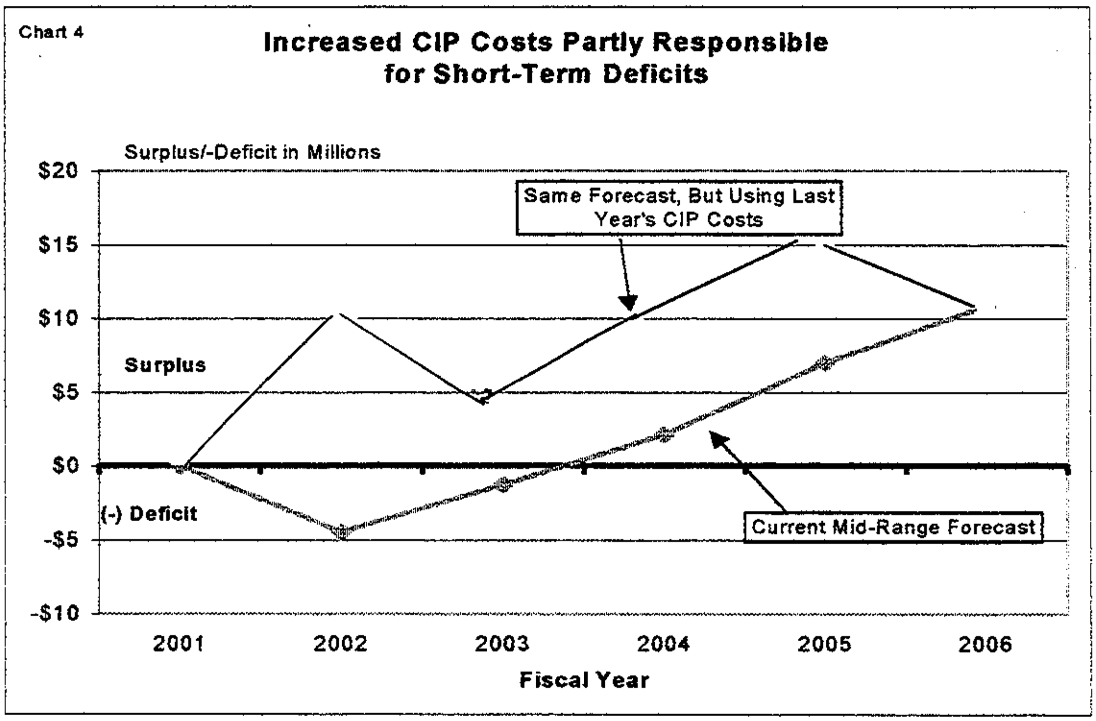
improves the cumulative long-term surplus forecast by nearly $22 million between FY 2001 and FY 2006. Indeed, lowering the personnel growth assumption to 3.1 percent (still above the inflation rate) improves the surplus forecast by roughly $43 million over the five year period. This formulation suggests a rule of thumb: every 0.1 percentage point reduction in the assumed rate of personnel cost growth improves the surplus forecast by roughly $4.4 million over the next five years.

Increased CIP Costs Partly Responsible for Rising Expenditures

The higher costs of this year's Capital Improvement Program -- increased debt service and larger cash capital contributions -- have had the largest impact on the growth of overall spending. These effects can be seen in the table below which compares the overlapping years of this year's and last year's CIP costs (the combination of debt service and cash capital contributions). Last year, these costs totaled $105.5 million between FY 2001 and FY 2005. This year, these same costs total $144.1 million, an increase of nearly $39 million over the period.

$Millions	2001	2002	2003	2004	2005	Total
Last Year's CIP Costs	$21.1	$21.1	$21.1	$21.1	$21.1	$105.5
This Year's CIP Costs	$21.7	$35.9	$28.0	$29.8	$28.8	$144.1
Difference	+$0.6	+$14.8	+$6.9	+$8.7	+$7.7	+$38.6

To fully gauge the impact of these new costs on the budget forecast, it is instructive to look at this year's projects, but substituting last year's figures. Chart 4 displays the impact of these new CIP costs on the mid-range budget forecast. The bottom line on the chart is the current mid-range forecast. The top line is the same forecast except that it assumes last year's CIP figures instead of the higher ones budgeted for this year. It's clear that without these higher CIP costs, the budget would enjoy significant surpluses well into the future.



Conclusion

While the prospects for strong revenue growth looks promising in both the short-term and the long-term, it also appears that expenditures are growing to match this *forecast* in revenues. Building larger expenditure commitments into the budget based upon these forecasts could lead to problems in the future should revenues taper off. Even one-time boosts in operating expenditures can build-in expectations of higher spending among constituent groups and agencies, making it more difficult to pull back the spending reins when revenues decline.

BFAAC recognizes that the City Manager's proposed budget in fact has used some of the extra revenue generated by a strong economy to provide additional cash capital contributions for an expanded CIP. As noted elsewhere in our report to Council on the

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CIP, if an economic downturn occurs, the City still has some flexibility to reduce or postpone future capital projects and cash capital contributions. Increases in recurring operating expenditures are more difficult to reverse.

Appendix

BACKGROUND INFORMATION ON THE CITY'S SEWER COLLECTION SYSTEM

The City owns the collection system that brings sewage from property owners to the processing system. It is responsible for the construction and maintenance of perhaps 200 miles of sanitary sewers, 137 miles of storm sewers and 6.2 miles of combined sanitary-storm sewers.

The Alexandria Sanitation Authority (ASA) operates the City's sewage treatment and disposal system. In addition to the wastewater treatment plant, ASA is responsible for the connections that transport raw sewage from the City's collection system to the treatment plant. ASA is an independent body; it hires its own staff, establishes its own budget and adopts its own schedule of rate fees. The City has no say over these decisions (or charges in our water bills). To meet increasingly stringent water quality improvement standards, ASA has begun a $283 million upgrade of its treatment plant. In consultation with the City, this upgrade will not expand plant capacity; the plant currently has sufficient capacity, assuming we solve the "wet weather" problems discussed below.

When sewer repair is needed, the location of the problem determines who pays. In general, the City is responsible for the main sewer lines, i.e., those in the public right-of-way (from street curb to curb); property owners are responsible for the area from the street curb to the back of their property line; and ASA is responsible for the intercepting lines that bring sewage to the treatment plant.

Four Major Needs Facing Alexandria's Sewer Collection System

1. Expand Sanitation Sewer Capacity in the West End

The City has sanitary sewer capacity problems due to the pace and type of West End development; there has been more residential development in the Eisenhower Valley (and Holmes Run trunk sewer shed generally) than expected and residential development places a larger burden on the sewer system than commercial development.

The consultant's study of this issue should be completed by May 2000. It will provide estimates of actual capacity needs and a plan for increasing capacity (for example, by constructing new sewer mains and/or increasing capacity of the Holmes Run Trunk sewer line). Based on preliminary estimates, the CIP currently includes $9 million for this project, spread evenly over five years. OMB emphasizes that the exact cost and timing will be refined after staff analysis of the consultant's report.

2. Repair Leaky Sanitation Sewers

Throughout the City, there is considerable infiltration of storm water into the sanitary sewer system during large storms (periods of "wet weather"). The problem is most severe in older areas, especially Del Ray, Rosemont, and Four Mile Run. Sanitation sewers were not designed to carry storm water. When you get these high levels of inflow and infiltration, the ASA treatment plant cannot handle all the water, so untreated (or lightly treated) water overflows into Hunting Creek and eventually the Potomac.

Previous consultant studies already have measured flow in the sanitary sewer pipes to see how it changes during wet weather. In the Four Mile Run Interceptor area, the measured wet weather peak is 10 times the dry weather flow (whereas it should be only 2-4 times the dry weather flow); in the Commonwealth Interceptor area, the measured wet weather peak is 6-8 times the dry weather flow.

Clearly, wet weather storm water is getting into the sanitary system and every time there is an overflow, the City must report it to the Virginia Department of Environmental Quality (VDEQ). The City must solve this infiltration problem to reduce these overflow events.

There are myriad reasons for this wet-weather infiltration, for example: faulty connections between home and main sanitary sewer lines; downspouts that deposit water directly into the sanitation system rather than into the streets; leaky manhole covers; and cracked clay pipes that need relining or replacing. (Today, sewers are constructed of sturdier materials that result in fewer of these infiltration problems).

Consultants should have the inflow and infiltration problem studied by the summer. Eight monitors are now installed in the City at controlling points to measure the flow through the sanitary sewers during both dry and wet weather. Inspectors are using TV and visual inspections to identify problems. It is possible the City will need to conduct a limited amount of smoke testing as well. In a trouble-free system, after smoke is injected into the pipes, it should not be seen, except perhaps around manhole covers. If it is visible, you have pinpointed a faulty house or downspout connection. This type of smoke is not dangerous, however, "smoking" must involve some public education so people won't be concerned if they see smoke in or around their homes.

Finally, the consultants will develop a plan of action that establishes remediation priorities, and evaluates funding options. The CIP currently includes $1.44 million spread evenly over six years for ongoing sewer construction and relining projects. It also includes a new infusion of $1.5 million spread evenly over six years to begin implementation of the consultant's action plan. OMB notes that the exact cost and timing will be refined after staff analysis of the consultant's report.

3. Control Combined Sewer Overflow (CSO) Problems in the East End

Most newer urban areas are served by separate storm-sewer and sanitary-sewer conveyance systems. Like other older cities, however, Old Town (about 560 acres) is served by a Combined Sewer System (CSS). In the CSS conveyance system, both sanitary and storm water (during wet weather) are conveyed through one system of pipes (or sewers). When wet weather is excessive, the CSS overflows as combined sewer overflows through 3 combined sewer overflow points. Two discharge to the Potomac (Royal and Pendleton) and the third at Hooff's Run. This method used to be considered good and efficient engineering. Since then, Alexandria has installed a sewage treatment system to prevent this kind of pollution and in all dry weather, the CSS operates efficiently. Unfortunately, during periods of heavy rainfall, there can be overflow (known as Combined Sewer Overflow, or CSO) and some of the combined waste water/storm water discharges directly into the Potomac at Hooff's Run without treatment.

In 1987, the Clean Water Act was amended to target pollution sources including CSOs. The EPA and VDEQ, however, allow cities to avoid the costly expense of separating sewer lines provided they can prove they are not violating water quality standards and are meeting EPA's "Nine Best Management Minimum Controls," as in the case of the City of Alexandria. Accordingly, the City was granted a CSO permit in April 1995. The City operates its CSS system in accordance with the permit requirements.

Implementation of this plan may involve several major infrastructure improvements, or it may simply require additional holding tanks and improved treatment at discharge points. For example, overflow points at Pendleton and Royal Streets may require simple collection racks to control "floatable materials."

In this year's CIP, the City has budgeted $4.4 million for the construction of a relief sewer to alleviate combined sewer flooding at the intersection of Pitt and Gibbon streets (the Royal Street Relief Sewer). In addition, there is an ongoing need to conduct extensive CSO monitoring to demonstrate compliance with EPA's water quality requirements. VDEQ issued the City's initial CSS permit in April 1995; the permit is up for renewal in April 2000 and the City has already submitted its application for renewal. The CIP currently includes $600,000 spread evenly over six years for ongoing and required testing and evaluation measures.

Most likely, additional infrastructure requirements will be minimal to remain in compliance with EPA. Staff note that the expense to separate these sewer lines completely would be in excess of $100 million.

4. Control Potential Contaminated Waste Problems at Oronoco Outfall

Despite various intervention measures, there continues to be a contamination problem—the discharge of coal tar at the Oronoco Street sewer outfall. Storm water that is discharged from this sewer has an oily sheen that is believed to have originated from the site of a coal gasification plant once located at Lee and Oronoco Streets until its closing in 1946.

As per a November 1, 1999 memo from the City Manager to City Council, the EPA and the United States Coast Guard have advised the City to take more aggressive efforts to stop the discharge into the river. While some action has been taken since the leakage was first noticed 25 years ago, these previous efforts have mitigated, but not eliminated the problem.

An environmental consultant is now studying the contamination problem and has helped the City become a participant in the Virginia Voluntary Remediation Program. This program lets willing owners of contaminated land clean up their sites under minimal government oversight in exchange for state approval of the clean up. After completion of an agreed upon a work plan and remediation, the state will issue a certificate of satisfactory completion that denotes elimination of risk and provides assurance of no further regulatory action against the City at this site.

The CIP currently includes $1 million spread evenly over five years to address Oronoco Outfall contamination problems. The November 1 memorandum, however, noted that the total cost of the remediation is not yet known—and the site might require long-term remediation that could have serious fiscal implications.