

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 25, 2002

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER *PS*

SUBJECT: BUDGET MEMO #45: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE REVIEW OF THE FY 2003 PROPOSED BUDGET

**ISSUE:** Budget and Fiscal Affairs Advisory Committee (BFAAC) review of the FY 2003 Proposed Budget (Attachment 1).

**RECOMMENDATION:** That City Council receive this report.

**BACKGROUND:** The Budget and Fiscal Affairs Advisory Committee (BFAAC) has completed its analysis of the FY 2003 Proposed Budget for Council's consideration. This is in accordance with the Committee's mission to advise and support City Council by reviewing future revenue and expenditure forecasts and evaluating tax, fee, revenue, and expenditure levels in Alexandria. BFAAC will discuss this report (attached) with City Council at the budget work session on April 29, 2002.

**DISCUSSION:** Staff will be prepared to respond to questions regarding this report at the Monday, April 29 work session.

**ATTACHMENT:** Attachment 1 - Budget and Fiscal Affairs Advisory Committee Review of the FY 2003 Proposed Budget.

**STAFF:** Morgan Routt, Analyst, Office of Management and Budget  
Gene Swearingen, Director, Office of Management and Budget

**City of Alexandria Budget and Fiscal  
Affairs Advisory Committee**

**Report on the City Manager's Proposed  
Budget for Fiscal Year 2003**

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Bruce Johnson, Vice Chair  
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## APPENDIX: AFFORDABLE HOUSING TASK FORCE RECOMMENDATIONS

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## **EXECUTIVE SUMMARY**

BFAAC believes that the fiscal outlook for the City of Alexandria in FY2003 is good, but also wishes to highlight some areas of potential concern that will require continued attention and contingency planning over the coming fiscal year and beyond. Even with the recession and impact of the events of September 11th, revenues, increasingly derived from the real property tax, continue to exceed expectations. The value of the real property tax base rose by 11.2 percent last year, due to a combination of appreciation and new construction. The City Manager has been cautious in estimating the rate of growth for FY2003, with a projected rate of growth in the real property tax base of 5 percent. BFAAC would not be surprised if growth in real property assessments exceeds that level next calendar year.

### **The Proposed Capital Improvement Program**

The City has indeed entered a "bricks and mortar" era of new construction, rehabilitation, restoration and replacement of the City's physical infrastructure. Over the recent years the City has been making substantial investments in the future of Alexandria through an expanded CIP process. The proposed CIP would continue to stay on that course.

BFAAC sees no serious warning signs and thus raises no significant alarms about a proposal to stay on this course. BFAAC believes the proposed CIP budget meets legitimate long term capital project needs financed through a reasonable mix of responsible levels of proposed borrowing (as defined by the City's debt policy guidelines), realistic contributions of cash capital from both past operating budget savings and current revenues, and anticipated state and federal grant funds. The proposed CIP appears affordable. It also is the result of a well-managed process that sets reasonable priorities among competing projects within a realistic schedule.

**BFAAC, however, cautions that the ability of the City to raise \$123.3 million from state and federal government grants, reallocations and other contributions is threatened by the fiscal crisis facing the Commonwealth of Virginia. This situation bears careful watching as a dramatic decline in Commonwealth funding may require a reconsideration of priorities for using limited funds from City sources. Road and transit projects are most likely to be adversely impacted. Significant future needs exist in the transportation area, and the state aid component of the City's revenue picture for certain public transit and road projects is uncertain.**

BFAAC stated at the April 8, 2002 public hearing that it would have no objection to the acceleration of planned borrowing to take advantage of the current favorable interest rate environment, provided that this can be done in accordance with applicable debt policy guidelines and all legal parameters and that suitable projects are ready for funding. We withheld our final opinion on this until City staff had an opportunity to review this idea in conjunction with their financial advisors and make its recommendations. Upon examining the City staff's analysis as contained in Budget Memorandum #10 released on April 8th, we concur with City staff recommendation not to accelerate the City's bond issuance schedule. There are not a sufficient number of projects to utilize increased borrowings in the near term, and the cost

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to the City in interest to be paid on these borrowings would exceed the interest to be earned by the City on the bond fund proceeds.

The City appears to be capable of borrowing additional funds after FY 2005 (beyond the additional \$55 million in new borrowings currently specified in the proposed CIP) as current debt is repaid and the fiscal capacity of the City continues to increase as assessed property values and per capita income increases.

There still is a significant list of unfunded projects “deferred” beyond the current six year time horizon; however, the uncertainty surrounding some items does not appear to be as great as BFAAC has reported in prior years, while other uncertainties remain.

- In particular, the uncertainty surrounding the City’s need to replace and repair various parts of its sewer system has significantly diminished.
- The potential needs for the school system are uncertain. The need for a new elementary school costing an estimated \$20.9 million continues to be assessed. The possibility has been raised of the complete reconstruction of the T.C. Williams High School costing approximately twice as much as the \$29 million already budgeted for major renovations and expansion of that school.

## **The Proposed Operating Budget**

### ***Compensation***

Employee pay comprises approximately 50 percent of the City Manager’s 2003 proposed operating budget; and approximately 70 percent of school’s operating budget. Employee pay with benefits included comprise over 60 percent of the City’s 2003 proposed operating budget and approximately 80 percent of school’s operating budget.

BFAAC has reviewed the proposed 2.5 percent COLA, the proposed changes to the compensation plan, the competitiveness of the rates of pay for Alexandria’s employees, the competitiveness of the pay structure for Alexandria school teachers, employee turnover, and the amount of medical insurance premiums, and BFAAC finds that:

- The 2.5 percent COLA recommended in the FY 2003 proposed operating budget will keep City staff pay on par with neighboring jurisdictions.
- Employee turnover for public safety employees of the City continues to be well below that of neighboring jurisdictions.
- Employee turnover for general employees of the City continues to be well above that of neighboring jurisdictions.
- Adjustments to the City’s pay grade structure will result in a significant overall increase in cost to the City for payroll and benefits, the cost of which is not reflected in the budget.

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- City employees pay a comparatively small amount of medical insurance premiums for the competitive medical benefits they receive.

As a result of that review, we recommend that the City:

- Examine how well the problems being experienced with the current compensation system will be resolved for the long term with implementation of the proposed "longevity step" addition.
- Look closely at the rising cost of health insurance coverage and seek ways to better control this component of the budget, which is increasing at a disproportionate rate. The City should also explore additional coverage options that may be more cost effective for the employee and the City.
- Include in its annual budget presentation a detailed analysis of the eligibility, coverage, current and projected cost of health care coverage.

### ***Schools Operating Budget***

The BFAAC fully supports the City Manager's proposed funding for the schools' operating budget.

In order to educate the estimated 11,313 students who will attend the Alexandria City Public Schools during the 2002-2003 academic year, the Alexandria School Board has approved an operating budget in the amount of \$135,271,504, of which the requested City contribution is \$115,609,919. The City Manager's proposed operating budget fully funds the City's requested contribution in the School Board's approved operating budget.

### ***Public Safety***

The BFAAC fully supports the proposed added expenditures for public safety personnel.

The City Manager's proposed operating budget includes over \$1.2 million in new and continued funding for public safety personnel. The City's growing resident and daytime worker population, the events of September 11, and the incarceration and eventual trials of suspected terrorists in Alexandria have all contributed to the need for the additional personnel.

### ***Affordable Housing***

Affordable housing continues to be a major issue in Alexandria recognized by the City Council. Although attention has been paid to the issue, the proposed budget does not include all the funding that may be eventually needed to address this issue.

The City Manager has estimated that full funding of the recommendations of the Affordable Housing Task Force would require an appropriation of up to \$2,745,000 in FY 2003 and a similar amount in future years. BFAAC has made an effort to determine if the recommendations in the October 2001 Final Report of the Affordable Housing Task Force are reflected in the FY 2003 Budget. BFAAC recommends that the City provide an explicit figure in the budget document

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for each of the programs funded under the Implementation Division of the Housing Department in order to facilitate tracking of appropriations for specific projects.

The Housing Trust Fund balance in the FY 2003 Budget is estimated to be \$7,644,772. This amount reflects an estimated \$6,723,656 carry-over balance from FY 2002. BFAAC recommends that the City explore ways to use some of the Housing Trust Fund to provide opportunities for low- and moderate-income home ownership.

## **Fees**

BFAAC reviewed the proposed changes to the City's development fee structure that will benefit the City's fiscal condition and better align the City's fees with those of neighboring jurisdictions. BFAAC supports the proposals by City staff to increase certain City development fees.

BFAAC supports the intention of City staff to review the reasonableness of other City fees in the coming years. The City should also consider regularizing the process of periodically re-evaluating City fees, including the adoption of a formal policy regarding such fees.

## **Long-Term Projections and Revenues**

In assessing Alexandria's overall fiscal health, one must consider whether the City is well positioned to manage its longer-term fiscal challenges.

In looking at the scenarios through FY 2008 presented in the budget, BFAAC notes that the rates of expenditure growth assumed seem reasonable given the possible future revenues available to the City. The high rates of annual increase in the real property tax that the City currently enjoys are unlikely to be sustained each and every year, but the likely rate of increase in tax revenues should be sufficient to support the forecasted rate of growth in expenditures contained in the scenarios. The revenue projections presented in the budget document incorporate the proposed reduction in the real property tax rate.

The longer-term outlook is more troublesome. Changing City demographics, the Commonwealth's uncertain fiscal outlook, and accumulating specific unfunded budget needs - all of these things will put pressure on the expenditure side of the budget. On the other side of the fiscal equation, the City's ability to raise new revenue may be affected by the dwindling amount of available land for new development and limits on the extent to which residential real property taxes can continue to increase due to rising assessments. Also, as residential real estate has appreciated more rapidly than commercial real estate, residents now bear a greater share of the tax burden, yet residential real property taxes in Alexandria historically have had only a modest relationship with household income. Furthermore, the City is especially vulnerable to economic downturns that affect its real property tax base without greater revenue diversification, given that almost 50 percent of the City's revenue comes from real property taxes.

For these reasons, BFAAC feels the City could become overly reliant on real property taxes and recommends that the City explore ways to diversify revenue sources in an equitable fashion. The City is already working to increase the revenue it receives from development fees and

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sewer connection fees, but it's time to explore other sources, as well, including regional taxing authorities – not only for sales tax, but for income and user taxes.

### **Performance Reporting**

BFAAC notes that the City has made strides toward informing citizens of how their tax dollars are being spent, and how those expenditures are making positive contributions to their quality of life and the City as a whole. City Manager and staff have indicated their support of, and commitment to, implementing Performance Reporting citywide. BFAAC applauds and fully supports these efforts.

The Government Finance Officers Association (GFOA) recently recommended that “program and service performance measures be developed and used as an important component of long term strategic planning and decision making which should be linked to governmental budgeting.” BFAAC encourages the City to heed the advice of GFOA as it continues to develop and implement Performance Reporting.

Officials of jurisdictions that have fully implemented Performance Reporting and integrated it into budget planning and management functions state that such a process is difficult and takes some time to ratchet up. Staff is occupied with other duties during the budget cycle. As a result, BFAAC recommends that staff brief BFAAC on the issue of Performance Reporting during the fall. BFAAC looks forward to working with the City on implementing this important budget and managerial tool.

### **Communicating with the Public**

BFAAC applauds the efforts of the City Manager to conduct resident focus groups to determine the effectiveness of the City's Annual Report. Communicating the importance of fiscal issues and the City's budget priorities is important if we expect residents to participate in the budget process and build consensus as the City strives to achieve its goals and effectively manage its challenges.



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## I. THE PROPOSED CAPITAL IMPROVEMENT PROGRAM

### A. Overview

The City has indeed entered a “bricks and mortar” era of new construction, rehabilitation, restoration and replacement of the City’s physical infrastructure. Over the recent years the City has been making substantial investments in the future of Alexandria through an expanded CIP process. The proposed CIP would continue to stay on that course.

BFAAC sees no serious warning signs and thus raises no significant alarms about a proposal to stay on this course. BFAAC believes the proposed CIP budget meets legitimate long term capital project needs financed through a reasonable mix of responsible levels of proposed borrowing (as defined by the City’s debt policy guidelines), realistic contributions of cash capital from both past operating budget savings and current revenues, and anticipated state and federal grant funds. The proposed CIP appears affordable. It also is the result of a well-managed process that sets reasonable priorities among competing projects within a realistic schedule.

BFAAC, however, cautions that the ability of the City to raise \$123.3 million from state and federal government grants, reallocations and other contributions is threatened by the fiscal crisis facing the Commonwealth of Virginia. This situation bears careful watching as a dramatic decline in Commonwealth funding may require a reconsideration of priorities for using limited funds from City sources. Road and transit projects are most likely to be adversely impacted. Significant future needs exist in the transportation area, and the state aid component of the City’s revenue picture for certain public transit and road projects is uncertain.

The City’s portion of the proposed CIP funding is projected to decline from \$197.3 million to \$183.6 million – a \$13.7 million or 6.9 percent decrease. Although a small decrease in expenditures is proposed in this year’s proposed CIP compared to last year’s approved CIP over a 6 year period, in each of the 5 years covered by both plans, the proposed plan shows significantly higher level of expenditures.

The following chart shows the approved 6-year Capital Improvement Program (CIP) totals (City-share) in the last 6 approved CIP budgets:

**Approved 6 year CIP Budget  
City Share  
(\$ in millions)**

Years Covered	97-02	98-03	99-04	00-05	01-06	02-07	03-08
City Share	\$106.0	\$123.8	\$137.4	\$118.0	\$156.3	\$197.3	\$183.6

BFAAC stated at the April 8, 2002 public hearing that it would have no objection to the acceleration of planned borrowing to take advantage of the current favorable interest rate

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environment, provided that this can be done in accordance with applicable debt policy guidelines and all legal parameters and that suitable projects are ready for funding. We withheld our final opinion on this until City staff had an opportunity to review this idea in conjunction with their financial advisors and make its recommendations. Upon examining the City staff's analysis as contained in Budget Memorandum #10 released on April 8th, we concur with City staff recommendation not to accelerate the City's bond issuance schedule. There are not a sufficient number of projects to utilize increased borrowings in the near term, and the cost to the City in interest to be paid on these borrowings would exceed the interest to be earned by the City on the bond fund proceeds.

The City appears to be capable of borrowing additional funds after FY 2005 (beyond the additional \$55 million in new borrowings currently specified in the proposed CIP) as current debt is repaid and the fiscal capacity of the City continues to increase as assessed property values and per capita income increases.

There still is a significant list of unfunded projects "deferred" beyond the current six year time horizon; however, the uncertainty surrounding some items does not appear to be as great as BFAAC has reported in prior years, while other uncertainties remain.

- In particular, the uncertainty surrounding the City's need to replace and repair various parts of its sewer system has significantly diminished. The City has made a concerted effort to address four major funding needs for sewers identified in 2000. Three of the needs--expanding capacity in the West End, controlling combined sewer overflow in the East End and controlling contamination at the Oronoco outfall--have been studied and plans have been put in place with funding identified to resolve the problems, for the most part. Substantial uncertainty remains, however, in correcting the infiltration/inflow problems of our sanitary sewers during wet weather. Additional funding has been provided for FY 2003 but this is an ongoing problem with significant additional funding likely to be required in years beyond 2008.
- The potential needs for the school system are uncertain. The need for a new elementary school costing an estimated \$20.9 million continues to be assessed. The possibility has been raised of the complete reconstruction of the T.C. Williams High School costing approximately twice as much as the \$29 million already budgeted for major renovations and expansion of that school. Such a major commitment of resources would have to be preceded by extensive analysis of needs and alternatives on the part of the school community and City staff and Council.

## **B. Specific Findings**

**Although a small decrease in expenditures is proposed in this year's proposed CIP compared to last year's approved CIP over the 6 year period, in each of the 5 years covered by both plans, the proposed plan shows significantly higher level of expenditures.**

This year's proposed CIP would schedule \$183.6 million in expenditures over the six-year period through FY 2008 while last year's approved CIP scheduled \$197.3 million over the six-year period through FY 2007. This is a \$13.7 million and 6.9 percent decrease in proposed

expenditures. However, for every year from FY 2003 to FY 2007 the proposed CIP would increase expenditures over the previous plan from a low of 8.5 percent to as much as 63.5 percent.

**Expenditures in Previously Approved CIP for FY 2001-2006  
Compared to Proposed CIP for FY 2002-2007  
(\$ in millions)**

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
Previous CIP	\$53.5	\$47.7	\$34.5	\$34.1	\$14.8	\$12.6	NA	\$197.3
Proposed CIP	NA	\$54.5	\$43.3	\$37.0	\$24.2	\$13.7	\$10.9	\$183.6
Difference	NA	\$6.8	\$8.8	\$2.9	\$9.4	\$1.1	NA	(\$13.7)
% Change		14.3%	25.5%	8.5%	63.5%	8.7%		(6.9%)

**A 7.5 percent decrease is proposed for the Alexandria City Public Schools.**

The City Manager's Proposed CIP for the schools is \$86.7 million, a \$7.0 million or 7.5 percent decrease. This is one area in which, for a least this year's CIP, spending is leveling off after dramatic increases in the last several years. Once again, as in last year's CIP, the proposed CIP fully funds the School's requested CIP with the exception of the elementary school expansion project. According to the City Manager, the difference is again tied specifically to the "uncertainty of actual future elementary enrollment growth and . . . its effect on the elementary school capacity."

The School Board continues to identify secondary school expansion to meet the demands of a growing student population as the most significant CIP priority. The bulk of the funding for new construction projects is at the secondary level, which, as noted above, is forecasted to face rising enrollment and capacity concerns in the next few years. The projects include: \$13.4 million for renovation and expansion at George Washington Middle School (of which \$12.8 million is in FY 2003); \$4.8 million for additional classroom and related space at Minnie Howard School in FY 2003 and 2004); and \$29.3 million for additions, modernization and renovations to T.C. Williams High School, including HVAC replacement and construction of a central kitchen and food court to replace the existing cafeteria (of which \$8.8 million is in FY 2004, \$12.8 million in FY 2005 and \$7.1 million in FY 2006).

The potential needs for the school system remain uncertain. The need for a new elementary school continues to be assessed (estimated at \$20.9 million in the School Board's request) and the possibility has been raised of more extensive changes in the high school facility plans beyond the \$29.3 million already budgeted for T.C. Williams. The proposal under consideration

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would involve a complete rebuilding of the high school for approximately twice the cost of the currently budgeted \$29 million. Such a major commitment of resources would have to be preceded by extensive analysis of needs and alternatives on the part of the school community and City staff and Council.

**Some pressing storm and sanitary sewer capital improvement needs are funded and much of the uncertainty surrounding the need to repair and replace various parts of the sewer system has greatly diminished.**

Total funding for sewer projects (new funding requests plus unallocated prior year funds) is up 11 percent, from \$33,776,690 to \$37,384,360, compared to last year's six-year plan. Carryover funding, however, primarily from the past two years, allows the City to reduce its new funding for sewer projects for FY 2003-2008 by over \$2 million or 8 percent, compared to last year's plan. Taking into account additional offsetting revenues, remaining City costs are 10 percent less than in the prior six-year period. The chart below shows new funding requests for FY 2003-2008 compared to previous six-year plans.

## Sewer Program New Funding Requests

	2000-2005	2001-2006	2002-2007	2003-2008	1-yr change	% change
<b>San. Sewer Reconst/Ext.</b>						
Construction	440,000	240,000	1,320,000	1,320,000	-	0%
Consultant Fees				600,000	600,000	
Relining	1,200,000	1,200,000	1,200,000	1,200,000	-	0%
Subtotal	1,640,000	1,440,000	2,520,000	3,120,000	600,000	24%
<b>Storm Sewer Reconst/Ext.</b>						
Restoration	1,200,000	1,200,000	1,200,000	1,200,000	-	0%
NPDES Program				450,000	450,000	
Construction	1,260,000	1,160,000	2,791,500	2,038,000	(753,500)	-27%
Subtotal	2,460,000	2,360,000	3,991,500	3,688,000	(303,500)	-8%
<b>Oronoco Outfall</b>						
<b>Rehab/Pollution Abatement</b>						
CSO Mitigation/Testing	750,000	600,000	2,800,000	2,575,000	(225,000)	-8%
<i>Infiltration/Inflow</i>		<b>1,500,000</b>	<b>2,400,000</b>	<b>4,627,000</b>	<b>2,227,000</b>	<b>93%</b>
Environ. Restoration			300,000	300,000	-	0%
Holmes Run Trunk Sewer		9,005,000	7,205,000	5,405,000	(1,800,000)	-25%
Sewer Map Update		1,515,000	1,010,000	404,000	(606,000)	-60%
Royal Street Relief		4,400,000	3,400,000	2,400,000	(1,000,000)	-29%
Subtotal	750,000	17,020,000	17,115,000	15,711,000	(1,404,000)	-8%
<b>Total Cost</b>	<b>4,850,000</b>	<b>21,820,000</b>	<b>26,561,500</b>	<b>24,511,670</b>	<b>(2,049,830)</b>	<b>-8%</b>
Offsetting Revenue			600,000	1,117,670	517,670	86%
<b>Remaining City Costs</b>	<b>4,850,000</b>	<b>21,820,000</b>	<b>25,961,500</b>	<b>23,394,000</b>	<b>(2,567,500)</b>	<b>-10%</b>

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The City has made a concerted effort to address four major sewer funding needs identified in 2000. Three of the needs--expanding capacity in the West End (including the Holmes Run trunk sewer), controlling combined sewer overflow ("CSO") in the East End and controlling contamination at the Oronoco outfall--have been studied and plans put in place, with funding identified, sufficient to resolve the problems for the most part. Thus, it appears to BFAAC that much of the uncertainty surrounding the need to repair and replace various parts of the sewer system has greatly diminished.

Substantial uncertainty remains, however, in correcting the infiltration/inflow problems of our sanitary sewers during wet weather. These problems result in basement backups, Clean Water Act violations and reduced capacity generally, which limits development. Additional funding has been provided in FY 2003, for a total of \$4,627,000 in the FY 2003-2008 period. (See the italicized line in the chart shown above.) The City will use a consultant study to identify and estimate costs of needed repairs in the Four Mile Run area. But these types of repairs are an ongoing problem and the City staff advises that substantial additional funding is likely to be required beyond 2008.

**Significant future needs exist in the transportation area, and the state aid component of the City's revenue picture for certain public transit and road projects is uncertain.**

Not only is state aid critical to meeting current planned transportation projects, the future presents several fiscal challenges in this area. The City's projected share of the Washington Metropolitan Area Transit Authority (WMATA) capital program dedicated to infrastructure renewal totals \$41.7 million over the next 6 years. Of that amount, \$21.5 million of financing is currently not identified in the proposed CIP. The proposed CIP assumes that these funds will become available from some other source than City revenue.

The City's obligation to WMATA for infrastructure renewal for the period FY 2003 to FY 2008 is \$41.7 million. Identified funding sources for meeting this obligation are: (1) City funds--State law requires the City to pay from local funds a minimum of \$950,000 per year under "maintenance of effort" requirements. (2) Northern Virginia Transportation bonds--\$0.7 million. (3) Reallocation Funds--\$13.75 million of state funds will be reallocated from the cancellation of the King Street Underpass project. This leaves \$21.5 million to be identified. The proposed CIP identifies a possible source as the proposed regional sales tax for transportation that still must be approved by the Virginia General Assembly and then by local voters in a referendum. We understand the City's desire to fund this project with the proposed sales tax revenues if authorized by the Commonwealth and the voters; however, contingency plans must be developed to find other revenue sources if this option is not approved.

To accommodate the future expanded DASH bus fleet, it is estimated that an 8.5 to 10 acre area of land is needed. This much land would be sufficient to construct a larger building to facilitate DASH bus maintenance, larger administrative and support space for the employees to support growth in the fleet, employee parking and space for buses to park overnight. The two parcels proposed for purchase total 9.7 acres, with net usable space of 8.7 acres. The design, plans and budget for the new facility have yet to be determined and therefore are not included in this year's CIP. It is estimated that the facility would cost up to \$20 million; however, costs may be less if the facility is constructed in phases based on the growth of the fleet. Funds from the

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Commonwealth will be sought to fund the building project, including the possibility of proceeds from a regional transportation sales tax. The building project is estimated to begin in three to four years.

A decision on an Eisenhower Connector project has not been made by the City Council. The Council has appointed a group to study options, so it was judged premature to include any funding in the proposed CIP at this time. If Council approves a build alternative, a financing plan would need to be developed with state transportation funding being the first, but not the only, source of funding sought.

**A number of capital projects were not recommended for funding by the City Manager.**

Although many capital needs are being addressed, numerous identified capital projects continue to be unfunded. Many of the same projects listed as deferred in the previous CIP budget document are carried forward to the current list of deferred projects. Some of the deferred projects are well documented while some are in the earliest "wish list" stage. Despite this variation, having the list is helpful in that it gives City Council a rough indication of the scope of demand for capital spending that remains outside the budget. Among the more significant projects for which funding has been deferred are:

- Elementary school expansion (discussed above);
- Completion of sewer reconstruction projects (discussed above);
- Construction of a new DASH maintenance facility and DASH fleet expansion (discussed above).
- Expansion or relocation of the Police Department;
- Full funding for renovations and repair of existing fire stations City-wide;
- Recreation center construction projects such as the community center at Cameron Station and a new skate park;
- Construction of a new City visitor center; and
- New voting machines to improve blind and handicapped access.

BFAAC notes that some significant capital projects on the near-term horizon have not been funded and do not yet appear on the deferred list:

- New high school facilities--The possibility has been raised of the complete reconstruction of the T.C. Williams High School costing approximately twice as much as the \$29 million already budgeted for major renovations and expansion of that school.
- New fire station--Calls have been made for increased City fire services, particularly in the Potomac Yards and Eisenhower areas. While annual funding over the 6-year period has been provided for critical renovations to existing fire stations, nothing has yet been included in the plan for new facilities.
- Windmill Hill Park Redevelopment--Plans have been made, with citizen participation, for redevelopment of Windmill Hill Park. Construction costs are estimated by City staff to be \$3.1 million (\$2.5 million for river basin work; and \$0.6 million for park components). City staff proposes to work this project into the next CIP budget cycle for years 2004-2009.

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**Two new redevelopment projects have been added to the CIP budget that also present some uncertainties.**

Two redevelopment projects appear in the CIP budget for the first time--Samuel Madden Homes and Upper Potomac West. For each of these projects, the budget contemplates City funding of amounts that will get the projects started. BFAAC observes that these are long-term projects that bear watching as they move into later stages when additional City resources might be requested.

- The City is providing initial funding for redevelopment of the Samuel Madden Homes Old Town public housing complex. The budget contemplates a one-time potential infusion of as much as \$1.5 million from the general fund and up to \$2.0 million from the City's Housing Trust Fund. Additional funding for this major project would come from federal and state sources. City staff advises that funding estimates are based on preliminary project figures that are subject to change.
- The budget provides initial funding of \$2 million for land acquisition and other development-related activities in the Upper Potomac West, "Safeway-Datatel" block of Mt. Vernon Avenue. City staff advises that any future funding beyond the initial amount would be determined in negotiations with a redevelopment partner. It is possible that the City might be called on to assist in building or financing construction on the site, but it is too early to tell the kind or amount of assistance that might be required.

**CIP expenditures would be financed by a combination of cash capital contributions from current revenues and the draw down of designated fund balances, additional borrowing and bond interest earnings. The only significant change in financing from the last approved CIP is a reduction of \$13.8 million in the use of proceeds from general obligation bonds:**

The proposed CIP budget funds capital expenditures from a combination of sources. The following table shows how the proposed CIP would be funded:



**Sources of Funding for the Proposed CIP  
(\$ in millions)**

	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	FY 2008	Total
Cash From Fund Balance	\$15.6		--	--	--	--	\$15.6
Bond Interest Earnings	\$0.6	\$0.3	\$0.5	\$0.4	\$0.08	\$0.03	\$1.9
General Fund Appropriations	\$14.0	\$15.0	\$16.5	\$16.8	\$13.6	\$10.9	\$86.8
General Obligation Bonds	\$24.2	\$28.0	\$20.0	\$7.0	--	--	\$79.2
<b>Total</b>	<b>\$54.5</b>	<b>\$43.3</b>	<b>\$37.0</b>	<b>\$24.2</b>	<b>\$13.7</b>	<b>\$10.9</b>	<b>\$183.6</b>

The availability of \$15.6 million from fund balances designated for capital projects is approximately the same as last year's CIP (\$16.7 million). These designations are possible because of surpluses in past operating budgets and expected surpluses in the current operating budget (due to higher than expected revenues and lower than expected spending.)

The CIP estimates \$1.9 million in CIP financing from bond interest earnings as a result of the change two years ago from a "reimbursement" mode of borrowing to a "prospective" mode of borrowing for capital projects. (\$2.0 million in such earnings were estimated in last year's CIP.) Under this prospective method, the timing of borrowing occurs more or less simultaneously with construction activity, but some interest earnings are available to the City from reinvesting the debt proceeds before they are needed for construction.

Over the six-year period covered by the two CIPs cash capital contributions from general fund appropriations are modestly higher increasing from \$82.6 million to \$86.8 million.

The most significant change in financing from last year's approved CIP is that proceeds from general obligation bonds decrease in this year's proposed CIP to \$79.2 million from last year's total of \$93.0 million. This change helps ensure compliance with the City's debt-related financial policy guidelines and provides additional room for potential additional borrowing in future years (see below).

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**BFAAC concurs with City staff recommendation not to accelerate the City's bond issuance schedule.**

BFAAC stated at the April 8, 2002 public hearing that it would have no objection to the acceleration of planned borrowing to take advantage of the current favorable interest rate environment, provided that this can be done in accordance with applicable debt policy guidelines and all legal parameters and that suitable projects are ready for funding. We withheld our final opinion on this until City staff had an opportunity to review this idea in conjunction with their financial advisors and make its recommendations. Upon examining the City staff's analysis as contained in Budget Memorandum #10 released on April 8th, we concur with City staff recommendation not to accelerate the City's bond issuance schedule.

There are not a sufficient number of projects to utilize additional increased borrowings efficiently in the near term. The City issued \$55 million in bonds last summer in anticipation of a number of projects being undertaken in fiscal years 2002 and 2003. To date, none of these funds have been spent.

Accelerating the borrowing of additional funds before fiscal year 2004 would simply cost the City more in interest paid on these borrowings than it would receive in interest earned on the bond fund proceeds. The current rate the City could expect to pay on its borrowings would be 4.6 percent, and the current rate the City would receive under current procedures would be 1.98 percent. City staff calculates that accelerating the fiscal year 2004 and 2005 borrowings of \$48 million by 12 months would cost \$1.25 million over the first year.

Although some interest rates may be increasing, the City's financial advisors do not think that long-term, tax-exempt municipal bond rates will be increasing significantly. They would have to increase by 0.35 percent in order to compensate in the long term for the short term, \$1.25 million cost incurred before the projects were ready to go.

Lastly, the City staff advises, and we concur, that the bond rating agencies should not be approached again until the scope of potential additional capital needs is more certain. This CIP's proposed \$48 million in additional borrowings in FY 2004 and FY 2005 may need to be revised upward given the significant unfunded needs described above. It would not help the City's reputation for sound financial management to approach the bond rating agencies too frequently with changes in our planned borrowing.

**The proposed CIP would keep the City within all of its debt-related policy guidelines designed to ensure maintenance of the City's double triple A bond rating.**

The City's debt-related policy guidelines include several benchmarks against which the magnitude of borrowing can be assessed for its likely impact on the City's fiscal condition. These debt-related policy guidelines were developed with an eye toward maintaining the City's double triple A bond rating. Alexandria's overall debt level and debt service continue to compare very favorably to other cities and counties rated AAA.

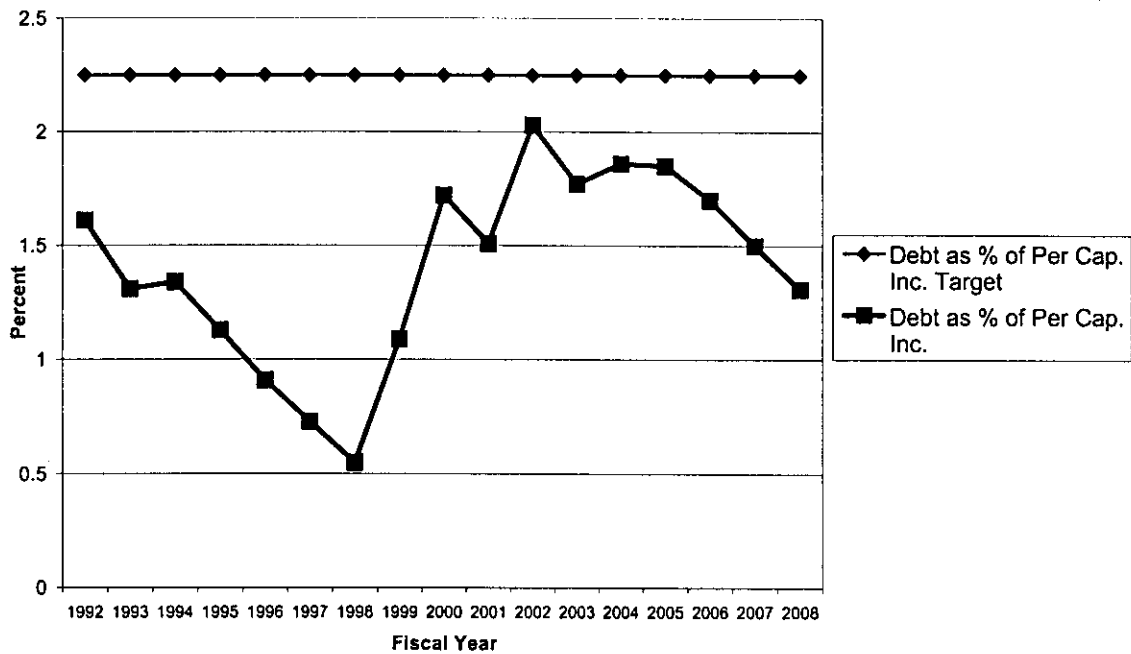
Meeting the debt-related policy guidelines provides several necessary assurances:

1. The City's net borrowing does not exceed our fiscal capacity as measured by the wealth of the City (as measured by fair market real property values) and the income of City residents (as measured by the per capita income of our residents);
2. Debt service costs do not impose too great a burden on our future operating budgets (as measured by debt service as a percentage of total expenditures); and
3. Adequate fund balances are available to cope with unexpected financial problems or emergencies (as measured by fund balances as a percent of total revenues).

To give more of an historical perspective, the following charts show both the past and future performance of the City against these debt policy guidelines from fiscal year 1992 through fiscal year 2008 (estimated).

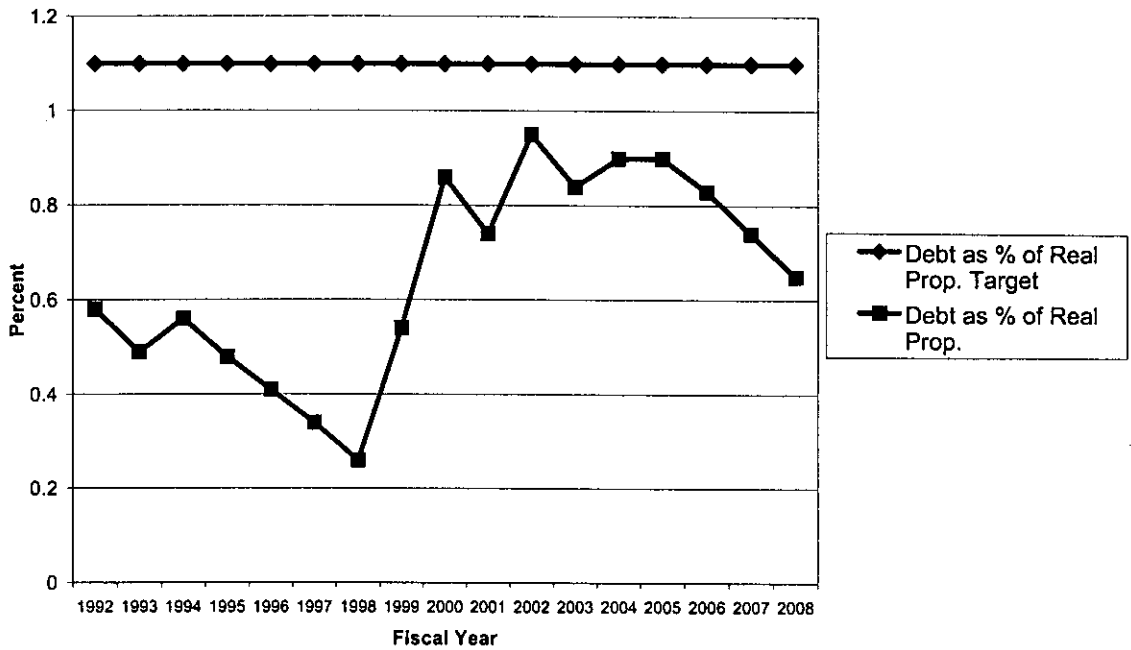
Proposed debt levels are below the 2.25 percent target for debt per capita as a percent of per capita income which means that each Alexandrian's share of the City's general obligation bond debt is no more than 2.25 percent of each Alexandrian's annual average per capita income.

**Debt as Percent of Per Capita Income**



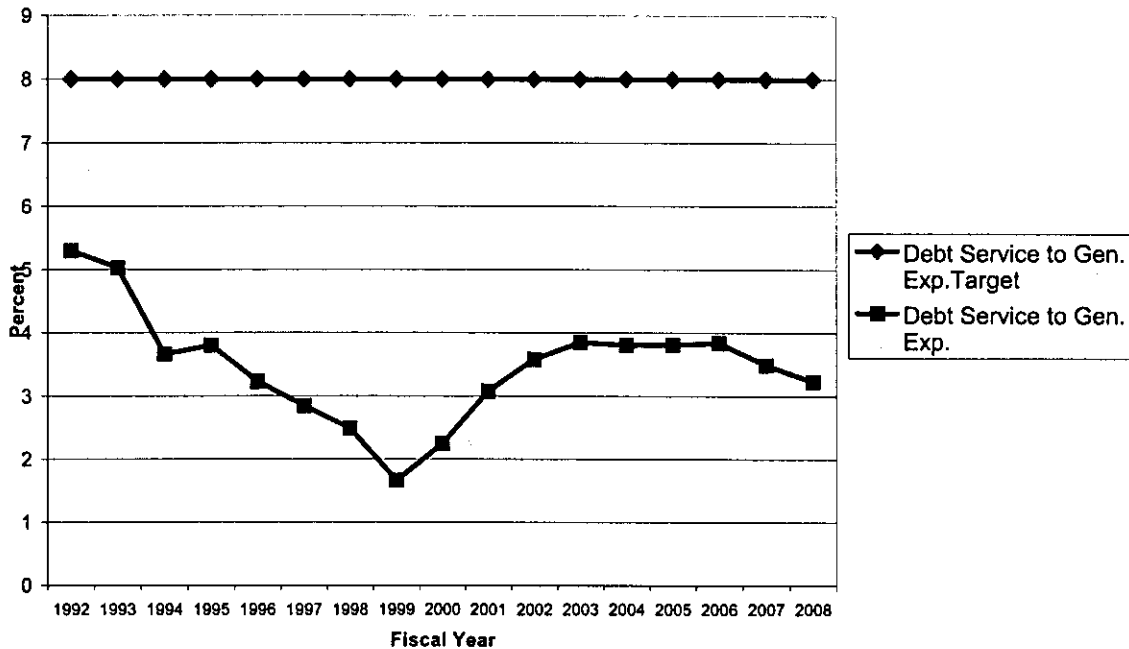
Proposed debt levels also are below the target that total general obligation debt be no more than 1.1 percent of the total fair market real property value in Alexandria.

### Debt as Percent of Assessed Real Property Values



Also, the ratio of debt service costs to general operating expenses is well below the target of 8.0 percent.

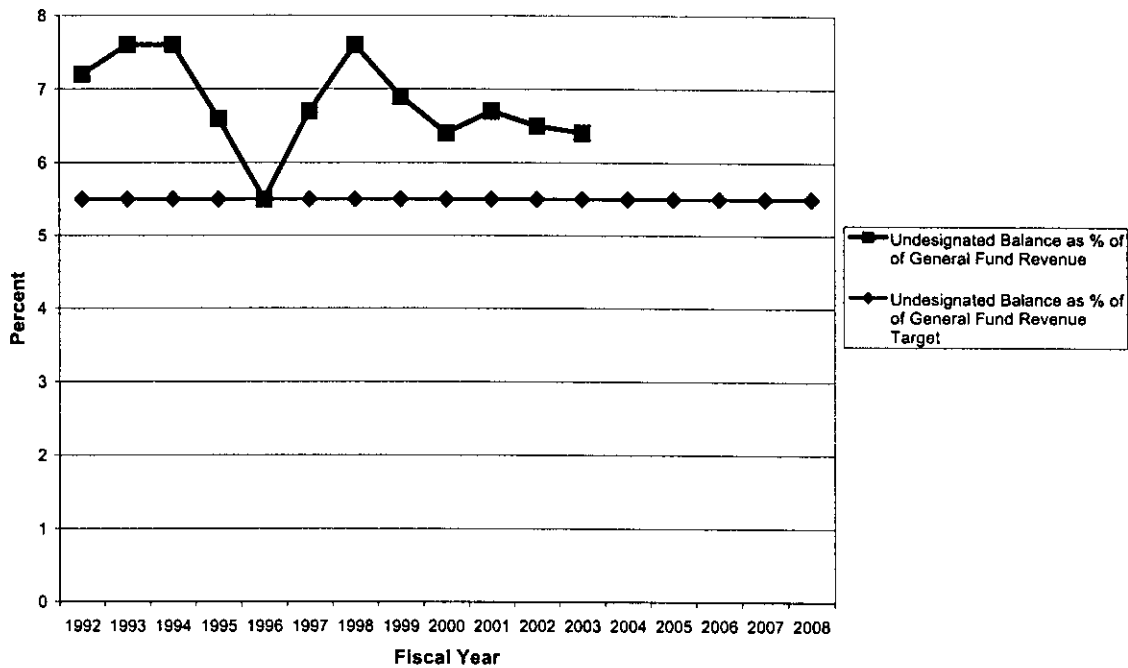
### Debt Service as a Percent of General Operating Expenses



As the three graphs indicate, the City would remain comfortably below the target range on these three benchmarks. Debt per capita rises to 2.03 percent in fiscal year 2002 and declines thereafter to 1.31 percent in fiscal year 2008. Debt as a percent of fair market real property value rises to no more than 0.95 percent in fiscal year 2002 declines to 0.65 percent in fiscal year 2008.

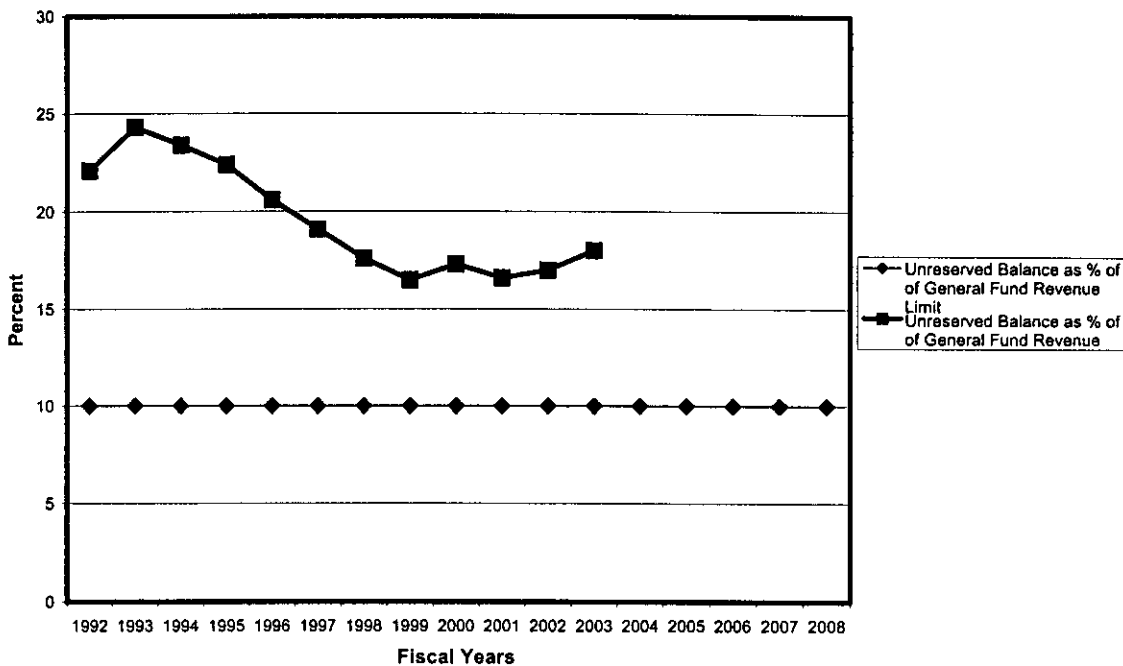
The Debt-Related Policy Guidelines also specify and that the undesignated fund balance remain at least above 4.0 percent and preferably above 5.5 percent of general fund revenues that the unreserved fund balance remain at least equal to 10 percent of the general fund revenues. The graphs below show the current fund balances as a percent of general fund revenues would continue to remain above both the limits and the target percentages specified in the guidelines:

**General Fund Undesignated Balance as % of General Fund Revenues**



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### Unreserved General Fund Balance as % of General Fund Revenues



**The City appears to be capable of borrowing additional funds after FY 2005 (beyond the additional \$55 million in new borrowings currently specified in the proposed CIP) as current debt is repaid and the fiscal capacity of the City continues to increase as assessed property values and per capita income increases.**

As first three of the above graphs indicate, the City appears to have room for additional borrowing in the future. The City will be repaying its existing debt at a steady pace over the coming years and the tax base and personal income should continue to grow. As a consequence, particularly beginning in fiscal year 2006 one can see the limits compared to per capita income and real property tax values would allow significant additional borrowing. Also, debt service costs as a percent of operating expenses remain at a steady level until starting to drop off in fiscal years 2007 and 2008.

The City's cushion of undesignated fund balances appears relatively strong compared to the guidelines. Additional borrowing would not necessarily affect the City's position compared to these indicators.

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## II. THE PROPOSED OPERATING BUDGET

BFAAC focused its review of the proposed FY 2003 operating budget in four key areas - compensation, schools, public safety, and affordable housing.

### A. Compensation

#### *Overview*

Employee pay comprises approximately 50 percent of the City Manager's 2003 proposed operating budget; and approximately 70 percent of school's operating budget. Employee pay with benefits included comprise over 60 percent of the City's 2003 proposed operating budget and approximately 80 percent of school's operating budget.

BFAAC has reviewed the proposed 2.5 percent COLA, the proposed changes to the compensation plan, the competitiveness of the rates of pay for Alexandria's employees, the competitiveness of the pay structure for Alexandria school teachers, employee turnover, and the amount of medical insurance premiums, and BFAAC finds that:

- The 2.5 percent COLA recommended in the FY 2003 proposed operating budget will keep City staff pay on par with neighboring jurisdictions.
- Employee turnover for public safety employees of the City continues to be well below that of neighboring jurisdictions.
- Employee turnover for general employees of the City continues to be well above that of neighboring jurisdictions.
- Adjustments to the City's pay grade structure will result in a significant overall increase in cost to the City for payroll and benefits, the cost of which is not reflected in the budget.
- City employees pay a comparatively small amount of medical insurance premiums for the competitive medical benefits they receive.

As a result of that review, we recommend that the City:

- Examine how well the problems being experienced with the current compensation system will be resolved for the long term with implementation of the proposed "longevity step" addition.
- Look closely at the rising cost of health insurance coverage and seek ways to better control this component of the budget, which is increasing at a disproportionate rate. The City should also explore additional coverage options that may be more cost effective for the employee and the City.
- Include in its annual budget presentation a detailed analysis of the eligibility, coverage, current and projected cost of health care coverage.

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**Specific Findings**

*City Employee and Teacher Compensation*

Information contained in Survey Data from Local Government Personnel Association's 2001/2002 Benchmark Salary Survey indicates that, in general, pay for employees in the City of Alexandria is approximately equal to the neighboring jurisdictions of Arlington County, Fairfax County, Montgomery County, Prince George's County and Prince William County. A representative sampling of the jobs contained in that survey reflect the following:

Survey Size	Type of Job in Survey	Alexandria Pay as % of Neighboring Jurisdictions
39	Administrative, Clerical, Labor/ Trades, Professional, Engineering	98.7%
11	Public Safety	101.9%
13	Executive Management	104.5%
63	Total Survey	100.4%

Arlington County's Teacher Excellence Initiative, FY 2003-2005, contains a comparison of 2002 pay grades for five different levels of education for teachers in Arlington, Falls Church, Fairfax, Loudon, Montgomery, and Prince William. The report illustrates that Alexandria's pay steps for teachers are highly competitive compared to neighboring jurisdictions. Of all of the grades compared, Alexandria's pay grades, when compared to equivalent pay grades in six other jurisdictions, are the highest 63 percent of the time and are the second highest 31 percent of the time.

In addition, the City Manager's Budget Memo #19 contains information from a 3/27/02 *Washington Post* article shows teacher pay rates for a slightly different comparator group -- Alexandria, Arlington, Fairfax County, Loudon and Prince William. Comparison of these data indicate that the bottom salary for teachers with a Bachelor's Degree and no experience is at 98.6 percent of the comparator group for FY 2002 and at 98.6 percent of the comparator group for proposed FY 2003. The data also show that the top salary for experienced teachers with an advanced degree is at 96.2 percent of the comparator group for FY 2002 and at 97.9 percent of the comparator group for proposed FY 2003. With 21 percent of Alexandria's teachers topped out in their pay grade, Alexandria teachers appear to be paid competitively.

However, BFAAC recognizes that none of these data measure Alexandria's practice of moving teachers through the grades and how Alexandria teacher average actual pay compares to the other jurisdictions.

Looking at the relatively small amount of turnover data which is available, the turnover trend for Alexandria over the past few years continues - i.e., for 2001:



Employee Type	Jurisdiction	Alexandria's Relative Turnover
Police	Arlington, Fairfax, Prince Wm Counties	Lower turnover
Fire	Arlington, Fairfax, Prince Wm Counties	Much lower turnover
Sheriff	Arlington and Fairfax Counties	Lower turnover
General	Arlington and Fairfax Counties	Higher turnover

**The City should examine whether the problems being experienced with the current compensation system will be resolved for the long term with implementation of the proposed "longevity step" addition.**

The 2003 budget includes an increase in the cost of the City's compensation plan because 1) the pay grade for a number of jobs in the City are being elevated as a result of a 2001 benchmark pay comparison; and 2) a "longevity step" has been added at the top of each pay grade in order to accommodate long-service and highly-paid employees who have reached /are reaching the top of their pay range.

These actions will result in a significant increase to the cost of the payroll, and other pay-related costs the City bears, such as the cost of disability insurance, life insurance, paid leave and retirement contributions, which are not currently reflected in the budget.

Adding a longevity step to the existing pay structure is a major concern and a symptom of a larger problem. We are concerned that this action will not provide a long-term solution and that the situation will continue to be problematic. This change has the potential to limit career progression opportunities for up-and-coming employees, cause pay compression, increase turnover in the lower ranges due to lack of upward mobility, result in a top-heavy workforce through the loss of mid-range professionals.

#### *Employee Health Insurance Benefits*

**The City should look closely at the rising cost of health insurance coverage and seek ways to better control this component of the budget, which is increasing at a disproportionate rate. The City should also explore additional coverage options that may be more cost effective for the employee and the City.**

Currently, the City pays 100 percent of the premium for full-time employees and 50 percent of the premium for part-time employees who are enrolled in Individual and Family Coverage under both Kaiser and Optimum Choice HMO plans.<sup>1</sup> 81 percent of the City's covered employees are enrolled in these 100 percent City paid HMO plans, at a cost to the City of

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<sup>1</sup> Full-time employees are defined as those regularly working at least 40 hours a week. Part-time employees regularly work more than 10 hours per week, but less than 40 hours.

approximately \$7.7 million in FY 2002. The City pays between 83 percent and 87 percent of the premium for the Kaiser and Optimum Choice POS (Point of Service) Plans for Individuals and 79 percent to 88 percent for Family coverage.<sup>2</sup> 19 percent of the City's covered employees are enrolled in these POS plans, at a cost of to the City of approximately \$1.75 million in FY 2002. The City's cost for retiree coverage is fixed at \$170 monthly per retiree regardless of type of coverage. Approximately 97 percent of the City's eligible full-time employees and 37 percent of the City's eligible part-time employees participate in the City's offered health care plans. A chart of the annual cost to the City which excludes retiree premiums for Fiscal Years 1997 to 2002 follows.

**City of Alexandria Employee Health Insurance Premium Costs**

FY 1997	FY 1998	FY 1999	FY 2000	FY 2001	FY 2002
\$6,642,653	\$6,751,469	\$6,892,814	\$6,993,422	\$7,211,874	\$9,139,666*
	2% increase	2% increase	2% increase	3% increase	21% increase

\* Projected based on \$7,616,388 paid year-to-date.

A comparative assessment of the medical benefits offered to employees in the City of Alexandria which was conducted by the City's benefits consultant, Buck Consultants, in April 2002, indicates the following about City medical benefits and their cost, when compared to neighboring jurisdictions:

Benefit	Alexandria Compared to Neighboring Jurisdictions
Medical Benefits	Competitive
Medical Benefits Premiums	Lower
Full-Time Employee Premium Subsidy	Highest
Retiree Premium Subsidy	Higher than average

<sup>2</sup> By contrast, federal employees pay one-third of the average cost of coverage. Since 1999, the federal government calculates its contribution using a "fair share" formula that maintains a consistent contribution regardless of the plan chosen by the employee. Workers who prefer more generous coverage are free to select it, while workers who choose more cost-conscious plans benefit from their lower cost, Economic Report to the President, February 2002.

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**The City should include in its annual budget presentation a detailed analysis of the eligibility, coverage, current and projected cost of health care coverage.**

Currently, the City pays for more of the medical premiums than its neighboring jurisdictions. Excluding retirees, the City pays approximately \$9.32 million in FY 2002 for employee medical insurance premiums; that number will be significantly higher in FY 2003. This is an important and significant component of employee compensation over which the City has limited ability to determine cost. It is also noteworthy that only the Retiree Health Plan offers "Employee + 1" coverage as opposed to the traditional "Family" coverage that applies to 2 or more family members. It seems prudent that the City adopt a competitive stance with regard to premium sharing and optional forms of coverage as long as it continues to be competitive with employee pay.

*Employee Cost of Living Adjustment (COLA)*

**The 2.5 percent COLA recommended in the FY 2003 budget will keep City staff pay on par with neighboring jurisdictions.**

The proposed 2.5 percent COLA is appropriate and is consistent with the most recent Bureau of Labor Statistics Data that is used to calculate the automatic cost-of-living adjustment that is applied to Social Security and Supplemental Security Income (SSI) benefits.<sup>3</sup> Although it is anticipated that consumer price inflation is likely to edge up temporarily, the overall CPI inflation is expected to edge down and eventually flatten out at approximately 2.3 percent from 2003 forward.<sup>4</sup>

**B. Schools Operating Budget**

*Overview*

**The BFAAC fully supports the City Manager's proposed funding for the schools' operating budget.**

In order to educate the estimated 11,313 students who will attend the Alexandria City Public Schools during the 2002-2003 academic year, the Alexandria School Board has approved an operating budget in the amount of \$135,271,504, of which the requested City contribution is \$115,609,919. The City Manager's proposed operating budget fully funds the City's requested contribution in the School Board's approved operating budget.

The City appropriation of \$115,609,919 is an increase of \$8,340,730, or 7.77 percent, as compared to the FY 2002 City appropriation of \$107,269,189. The School Board approved operating budget includes no new major initiatives that will require considerable resources. In fact, it should be noted that, after September 11, the Superintendent independently implemented cost-cutting measures that met the City Manager's request of City departments.

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<sup>3</sup> The Social Security Act specifies a formula for determining the COLA. In general, the COLA is equal to the percentage increase in the Consumer Price Index for Urban Wage Earners and Clerical Workers (CPI-W) from the 3rd quarter of one year to the third quarter of the next. The last automatic adjustment was 2.6%.

<sup>4</sup> Economic Report of the President, February 2002.

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## **Budget Highlights**

### *COLA and Step Increases*

The City appropriation includes a 2.5 percent general salary adjustment (COLA) for school employees, which is identical to the COLA proposed by the City Manager for City employees. The cost attributable to school employees is \$2.5 million. In addition, although funding for step increases for school employees was part of the Superintendent's base budget at a cost of \$2.7 million, on March 28<sup>th</sup>, the School Board amended its approved budget to include funding for a 2.3 percent step increase for teachers who are "topped out" of the step schedule. The amount required to fund that step increase is \$677,239. This amendment would provide teachers at the top of the pay schedule a raise similar to that proposed for City staff by the City Manager.

### *Staffing Levels*

The School Board's budget contains a reduction in staffing levels due to the unexpected decline in enrollment experienced during the 2001-2002 school year. Nearly 300 fewer students are attending than had been forecast. The reduction in elementary instruction staffing levels resulted in a savings of \$1.3 million. The School Board's budget still includes funding for 19.5 additional and reserve teacher positions.

### *Differentiated Resources*

The School Board's budget includes \$1.35 million to continue this program, which provides supplemental funding to those elementary schools that face the greatest educational challenges.

### *Language Arts*

Funds are allocated for elementary replacement texts, K-12 dictionaries, for printing Observing Literacy and writing portfolios. The estimated total cost for language arts is \$678,556.

### *Technology Plan*

The eighth year of this program includes support for on-line SOL assessment in the high school, and support for integrated learning systems implementation at Minnie Howard Ninth Grade Center and T.C. Williams High School. The integrated learning systems will allow students of varying abilities to advance at their own pace. The technology will be incorporated into various math classes. There is also a pilot program at Patrick Henry Elementary School. The estimated cost for the technology plan in FY 2003 is \$3,490,242.

## **C. Public Safety**

### **Overview**

**The BFAAC fully supports the proposed added expenditures for public safety personnel.**

The City Manager's proposed operating budget includes over \$1.2 million in new and continued funding for public safety personnel. The City's growing resident and daytime

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worker population, the events of September 11, and the incarceration and eventual trials of suspected terrorists in Alexandria have all contributed to the need for the additional personnel.

### ***Budget Highlights***

The proposed Police Department Budget provides \$584,000 for nine additional police officer positions. The proposed Police Department Budget also provides \$93,000 to continue funding the three-person Division of Security and Intelligence within the Police Department. This office was initiated after the September 11 attacks. It works closely with federal intelligence and other local law enforcement officials on matters related to national, regional and local security.

The Office of Sheriff's budget provides \$524,000 to fund nine additional positions. These positions are temporary. They are designed to provide security 24 by 7 at the Public Safety Center. The City is working to obtain federal assistance to offset the \$524,000 required for the positions, as well as for other operating expenses incurred by the City for the housing and trials of federal prisoners.

**BFAAC notes that several federal and state grants that are used to fund City services are set to expire during the next two fiscal years. The extent to which some or all of these programs are continued using General Fund revenues will increase budgetary pressures on the City.**

- The VJCCA (Virginia Juvenile Community Crime Control Act) program has been cut from \$30 million to \$14.5 million statewide. This translates into Alexandria's Court Service Unit needing \$351,712 from the General Fund to remain at the level of service before the State program was reduced.
- The community police officer "Universal 2" grant for \$225,000 has expired, in effect, and the three officers funded under this grant were funded by the Police Department's regular appropriations.
- The federal Advanced Generation Interoperability for Law Enforcement (AGILE) grant to Alexandria Police Department is assumed to continue through 2003. It is unclear what will happen for 2004, but, according to the Department, it is very likely the project will be expanded, not reduced or terminated.
- The Law Enforcement Block Grants will end in FY 2004 (on September 30, 2003). If it is not renewed, the department would lose \$145,000 for overtime.
- The Domestic Violence (\$52,000) grant ends in September 2002, but the Department will likely request an extension for six months. The Department also has a renewal grant application pending for \$91,000.

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## D. Affordable Housing

### *Overview*

Affordable housing continues to be a major issue in Alexandria recognized by the City Council. Although attention has been paid to the issue, the proposed budget does not include all the funding that may be eventually needed to address this issue.

The City Manager has estimated that full funding of the recommendations of the Affordable Housing Task Force would require an appropriation of up to \$2,745,000 in FY 2003 and a similar amount in future years. BFAAC has made an effort to determine if the recommendations in the October 2001 Final Report of the Affordable Housing Task Force are reflected in the FY 2003 Budget. BFAAC recommends that the City provide an explicit figure in the budget document for each of the programs funded under the Implementation Division of the Housing Department in order to facilitate tracking of appropriations for specific projects.

The Housing Trust Fund balance in the FY 2003 Budget is estimated to be \$7,644,772. This amount reflects an estimated \$6,723,656 carry-over balance from FY 2002. BFAAC recommends that the City explore ways to use some of the Housing Trust Fund to provide opportunities for low- and moderate-income home ownership.

### *Specific Findings*

#### *Task Force Recommendations*

**BFAAC recommends that the City provide an explicit figure in the budget document for each of the programs funded under the Implementation Division of the Housing Department in order to facilitate tracking of appropriations for specific projects.**

Notwithstanding a \$277,216 increase in the Housing Department budget for FY 2003 (from \$2,800,437 to \$3,077,653), full funding of all the Task Force recommendations is not included in the proposed budget. The proposed budget allocates \$1,033,854 to the Administration and Landlord-Tenant Divisions of the Housing Department. The budget also allocates \$2,043,799 to the Implementation Division, a \$701,201 shortfall compared with what would be required to fully fund the Task Force recommendations, according to the City Manager's estimate.

A table prepared by the Housing Department is attached at the end of this report. The table provides a list of the Task Force recommendations and the budgetary, council, and administrative actions taken by the City on each of the recommendations.

#### *The Housing Trust Fund*

**BFAAC recommends that the City explore ways to use some of the Housing Trust Fund to provide opportunities for low- and moderate-income home ownership.**

Census figures indicate that, counter to the national averages, 60 percent of Alexandria households rent, rather than own, their homes. Diverse strategies are needed to facilitate homeownership by low- and moderate-income families.

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The Housing Trust Fund balance in the FY 2003 Budget is estimated to be \$7,644,772. This amount reflects an estimated \$6,723,656 carry-over balance from FY 2002. For example, the Housing Trust Fund could be used to facilitate below-market interest loans, or limited-equity cooperative housing like the Arlandria-Chirilagua Housing Cooperative. This co-op provides housing for 260 low- to moderate-income families with little cost to the City. In comparison with nearby Presidential Greens, a rental property with a similar population to the co-op where one-bedrooms rent for over \$800, co-op residents pay 50 percent less and own their own homes. This has led to a more stable and organized community and better property maintenance.

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### III. FEES

#### A. Overview

BFAAC reviewed the proposed changes to the City's development fee structure that will benefit the City's fiscal condition and better align the City's fees with those of neighboring jurisdictions. BFAAC supports the proposals by City staff to increase certain City development fees.

BFAAC supports the intention of City staff to review the reasonableness of other City fees in the coming years. The City should also consider regularizing the process of periodically re-evaluating City fees, including the adoption of a formal policy regarding such fees.

#### B. Specific Findings

**BFAAC supports the proposals by City staff to increase certain City development fees - planning and zoning fees, sanitary sewer connection fees and the required developer contribution to the City's Housing Trust Fund. Alexandria tends to have a simpler development fee system with fewer categories than its neighbors, easing both administration and compliance. While many of these fees should be increased, the City should try to preserve its simpler fee system.**

Several years ago, BFAAC raised concerns about such increases because of the danger that they would contribute to an anti-business perception of Alexandria at a time when the City was trying to attract high-quality development to Potomac Yard and the Eisenhower Valley. That danger has been greatly reduced by the major development decisions at these sites and the reality that Alexandria's development fees tend to be much lower than those of neighboring jurisdictions in Northern Virginia. We support recovering, through these fees, more of the costs to the City of the services provided to developers.

An increase in the current 50 cent per gross square foot developer contribution to the City's Housing Trust Fund would also be a cost-effective mechanism for financing the City's affordable housing goals and objectives without forcing them to compete for general revenues with other City priorities.

**BFAAC supports the intention of City staff to review the reasonableness of other City fees in the coming years. The City should also consider regularizing the process of periodically re-evaluating City fees, including the adoption of a formal policy regarding such fees.**

The Best Practices of the Government Finance Officers Association recommend, for example, that "a formal policy regarding charges and fees should be adopted" and that "charges and fees should be reviewed and updated periodically based on factors such as the impact of inflation, other cost increases, the adequacy of the coverage of costs, and current competitive rates". BFAAC would be willing to participate in the development of such a policy should Council desire it to do so.



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## **IV. LONG-TERM PROJECTIONS AND REVENUES**

### **A. Overview**

In assessing Alexandria's overall fiscal health, one must consider whether the City is well positioned to manage its longer-term fiscal challenges.

In looking at the scenarios through FY 2008 presented in the budget, BFAAC notes that the rates of expenditure growth assumed seem reasonable given the possible future revenues available to the City. The high rates of annual increase in the real property tax that the City currently enjoys are unlikely to be sustained each and every year, but the likely rate of increase in tax revenues should be sufficient to support the forecasted rate of growth in expenditures contained in the scenarios. The revenue projections presented in the budget document incorporate the proposed reduction in the real property tax rate.

The longer-term outlook is more troublesome. Changing City demographics, the Commonwealth's uncertain fiscal outlook, and accumulating specific unfunded budget needs – all of these things will put pressure on the expenditure side of the budget. On the other side of the fiscal equation, the City's ability to raise new revenue may be affected by the dwindling amount of available land for new development and limits on the extent to which residential real property taxes can continue to increase due to rising assessments. Also, as residential real estate has appreciated more rapidly than commercial real estate, residents now bear a greater share of the tax burden, yet residential real property taxes in Alexandria historically have had only a modest relationship with household income. Furthermore, the City is especially vulnerable to economic downturns that affect its real property tax base without greater revenue diversification, given that almost 50 percent of the City's revenue comes from real property taxes.

For these reasons, BFAAC feels the City could become overly reliant on real property taxes and recommends that the City explore ways to diversify revenue sources in an equitable fashion. The City is already working to increase the revenue it receives from development fees and sewer connection fees, but it's time to explore other sources, as well, including regional taxing authorities – not only for sales tax, but for income and user taxes.

### **B. Specific Findings**

#### *Five-Year Budget Scenarios*

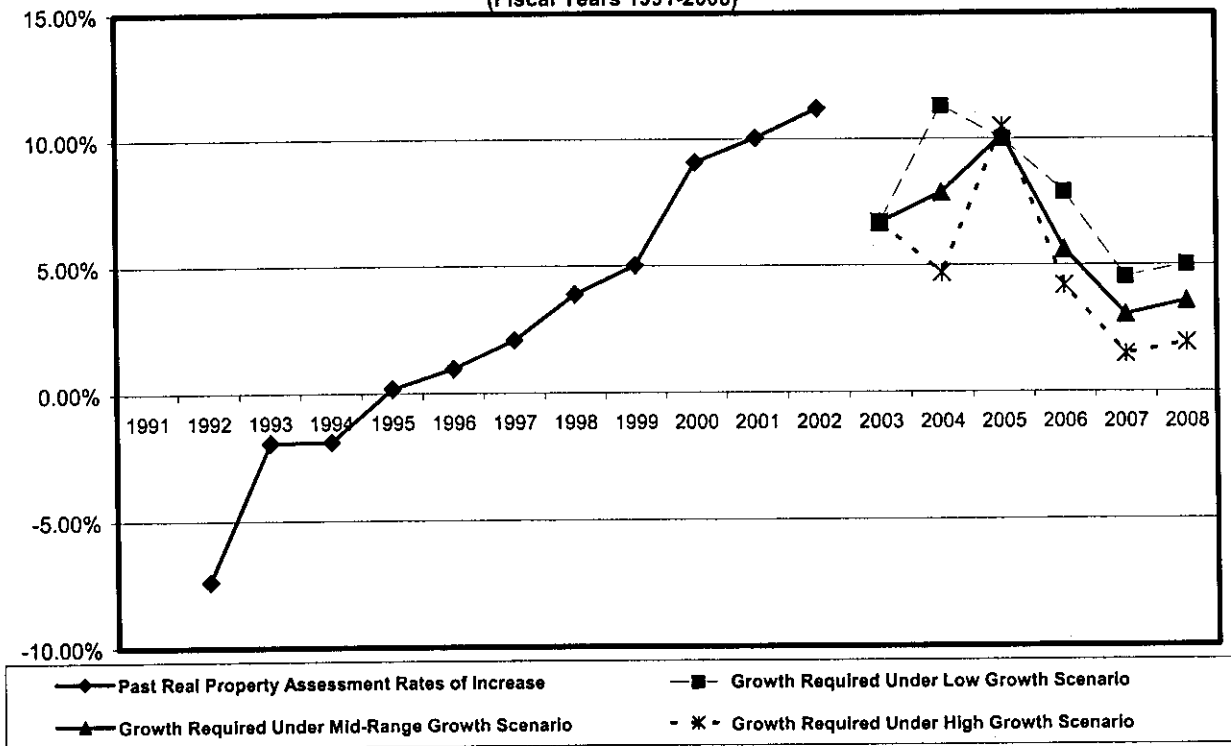
The terrorist attacks of September 11 and the temporary closure of Reagan Washington National Airport exacerbated the mild (regional and national) economic slowdown that was already affecting many City residents and businesses, causing concern over the potential impact on local and state revenue and expenditure estimates.

Nevertheless, Alexandria has remained in strong financial shape, thanks to a healthy residential real estate market, lower-than expected declines in State revenue, conservative forecasting by the City's Office of Management and Budget, and the quick cost-control measures implemented by the City Manager following September 11. Furthermore, all short-term indicators point to the continuation of a healthy real estate market – residential sales are still strong, and the City's

commercial property, especially its hotels, should begin to rebound as tourist and business travel edges back to normal. By the end of April, National Airport should finally be able to begin operating at pre-September 11 levels.

As the chart below shows, the percentage by which Real Property Tax Revenue needs to increase (assuming the proposed 1.09 assessment rate) in order to balance the City budget in each of the next five years under the City's low-, mid- and high-growth forecast scenarios is quite realistic, and consistent with our recent growth curve. Since 1998, real property assessments have grown by annual rates ranging from 5.02 percent to 11.21 percent. In this chart, the needed rates of annual increase range from 5.02 percent to 11.32 percent under the low-growth scenario, 3.58 percent to 10.15 percent under the mid-growth scenario, and 1.94 percent to 4.7 percent under the high-growth scenario.

**Assumptions About Increases in Real Property Tax Assessments to Balance Projected Outyear Forecasts (Fiscal Years 1991-2008)**



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### *Longer-Term Outlook*

The longer term outlook is more troublesome. Over the past five years, the City's General Fund Operating budget has increased by 41 percent from \$266 million (FY98) to \$373.3 million (FY 2003), while the City's share of the six-year CIP has increased by nearly 50 percent from \$123.8 million (FY 1998-2003) to \$183.6 million (FY 2003-2008). And these increases – which have been occurring at more than double (or triple) the rate of inflation – show no sign of letting up due to the (potential) pressures discussed below. Unfortunately, Alexandria's ability to comfortably sustain this kind of growth could be hampered by long-term limits in the City's ability to expand its real property tax base.

#### **Changing Demographics and Long-Range Budget Pressures**

The portrait of Alexandria that is emerging with the release of data from the 2000 Census shows a city with a growing and diverse population. The population growth was 30 percent higher than the rate forecasted by the Council of Governments. Census figures show that this growth was a result of an increase in Hispanics and communities of color. Data on income is only just now being made available from the 2000 Census, but information that already exists points up several issues that may well have an impact on future City budgets, most notably, the growth of the under-18 population living in families at risk of poverty and the continuing crisis in affordable and low-income housing which could be exacerbated by redevelopment.

The majority of the nearly 62,000 occupied households in Alexandria are single-person households or households with more than one person and no children. Only 18.6 percent of Alexandria households include children, which is not only the lowest percentage in the region, but is in the bottom 2 percent of the nation. Despite the strikingly-low number of households with children, the total number of children under age 18 increased for the first time in 40 years. This population is statistically more racially and ethnically diverse than the overall City population yielding a public school system with students from 66 countries and 44 separate native languages. Presuming that this diversity is a trend that will continue for the next several years, there are clear implications for both the City and Alexandria Public School Budgets as the necessity increases for providing bi-lingual services, in a variety of languages, for students and their parents.

A closer look at the City's growing under-18 population shows that 23 percent of the children in this age group live in single female-headed households, an increase of 35 percent over 1990 figures. Predictably the one in four Alexandria children growing up in these households are at a greater risk for poverty. Again, this will undoubtedly have an impact on the City's human services spending in years to come. If the trend continues, there will be increased need for affordable, quality child care; subsidized health services; and affordable housing suitable for families.

The impact of redevelopment, given the scarcity of undeveloped land in Alexandria, could impact these vulnerable families as well. To what extent will redevelopment further impact the issue of affordable and low-income housing? To what extent will redevelopment encourage gentrification, forcing out lower income families for whom most City housing options are

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completely out of reach? What are the consequences of replacing affordable housing with more expensive developments with only a few units set aside for the families displaced by the developments?

The 2000 Census continues to provide a wealth of demographic information. As additional Census information become available, other issues will be raised which will have an impact on Alexandria's fiscal future.

### **Commonwealth's Uncertain Fiscal Outlook**

The State's overall fiscal health is poor. Governor Warner and Virginia Legislature have taken steps to implement budget cuts, many of which directly impact critical state aid for important areas such as transportation, mental health services, education, public safety, human and social services programs and court services. Sweeping budget cuts coupled with a slow economy put the state aid component of the City's revenue picture in serious question.

Alexandria fared relatively well in this year's final Commonwealth budget (the City's projected net loss is only \$700,000). This does not mean, however, that the Commonwealth's future fiscal and budget decisions will not affect Alexandria, particularly since Virginia's financial health is not predicted to immediately improve.

It is also expected that the Virginia Department of Transportation (VDOT), which is currently conducting an extensive review of all its projects and fiscal matters, will announce substantial changes to its six-year road and transit-spending plan. Currently, VDOT is in the process of prioritizing its state, regional and local transportation projects and will announce the results of this review (along with accompanying project cuts) as early as mid-May. Since VDOT must cut nearly one-third of its \$10 billion six-year plan, Alexandria stands to lose a substantial portion of its \$90 million share.

As the Commonwealth attempts to manage its budget and fiscal crisis, BFAAC is also concerned over possible changes to the formula Virginia uses to reimburse localities for personal property tax. Personal property tax represents the City's 2nd largest revenue source, currently 14.5 percent of the City's anticipated FY 2003 revenues. Even a slight short-term reduction could have serious budget and fiscal implications for the City.

### **Unfunded City Budget Needs**

In addition to demographic-based pressures for increased school funding, human services funding and affordable housing stock, Alexandria may need to tackle other expenditure challenges currently not reflected in the City's operating budget or CIP. For example, the City may soon be faced with substantial operating costs to monitor the combined sewer system, escalating health care costs, escalating compensation costs to accommodate long-serving employees, unfunded transportation needs (especially our required commitment to WMATA), and growing capital demands such as a new West End fire station and a larger public safety center. Meanwhile, declining (or uncertain) state revenues could put even greater funding pressures on localities to either close the revenue gap, or cut programs and services.

Since 1997, Alexandria has grown increasingly reliant on taxes resulting from soaring real property assessments as a way to balance its General Fund budget. Overall, real property

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assessments have increased by 45.9 percent from \$11.1 billion (in CY 1997) to \$16.2 billion (in CY 2002). The resulting tax revenues have increased by 43 percent (from \$124 million to \$177.9 million), accounting for over 50 percent of the increase in the General Fund operating budget. Furthermore, most of this increase results from appreciation in the residential real estate market (as opposed to commercial market).

Real property tax revenues now represent 49 percent of the City's revenue base, compared to 45 percent in FY 1998. This increasing dependence is troubling for several reasons, as BFAAC previously highlighted in its 1999 Real Property Revenue Report:

1. Appreciation of existing property will not keep pace with growing expenditure commitments. And the dwindling amount of available open space means the City will soon be less able to rely on new construction to grow its tax base and will have to consider more carefully the revenue and expenditure implications of its development decisions.
2. Residential real estate has been appreciating more rapidly than commercial, so residents now bear a greater share of the tax burden, yet real property taxes in Alexandria historically have had only a modest relationship with household income.
3. Without greater revenue diversification, the City is especially vulnerable to any economic downturns that affect its housing market.

#### **Dwindling Amount of Undeveloped Land**

Appreciation of existing property will not keep pace with growing expenditure commitments. And the dwindling amount of available open space means the City will soon be less able to rely on new construction to grow its tax base and will have to consider more carefully the revenue and expenditure implications of its development decisions.

Since 1991, the value of existing properties has either declined (CY 1992 through CY 1995), or increased slowly, but seldom by enough to keep pace with growing expenditures. Even with new development and construction, Alexandria has had to increase its tax rate twice, from \$1.045 in 1992 to \$1.11 in 1998.

Since 1991, the value of new development and construction has ranged from a high of \$507 million (CY 2000) to a low of \$32.6 million (CY 1994). Furthermore, until FY 2000, increases to the City's tax base had resulted primarily from this new construction. Unfortunately, Alexandria has very little open land not yet committed to development projects which limits the City's ability to continue to rely on new construction as a significant source of increased assessed real property value. The City must therefore carefully plan the development of its remaining land, as well as the redevelopment of older (or low-density) properties in a way that balances residential, neighborhood and commercial interests. Land use decisions should be balanced, and based on the interests of the property owners and residents in the affected neighborhood and the social and economic benefits to the City as a whole. Achieving a balance between appropriate commercial development and neighborhood plans will only strengthen Alexandria's position as a desirable, livable city that is well positioned to manage its finances and neighborhood quality of life. Several opportunities exist for the City to assess development and redevelopment priorities to best achieve this balance and strengthen the City's tax base.

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The economics of property ownership are quite complex, and, as the City becomes more completely built out, it may have to look more carefully at its revenue base as compared to its expenditure choices (currently, the City takes pride on being “service rich”) and decide whether there needs to be a different trade-off, and then prepare residents accordingly. As the City seeks to balance the revenue-generating potential of commercial development with other quality of life considerations, BFAAC wishes to highlight the following land use issues and long-term budget consideration:

1. **“Plan for Planning”** – The Plan provides the City a unique opportunity to build consensus and carefully review important long-term land use priorities, particularly in-fill redevelopment. This will require a development review process that compliments the City’s goals and encourages better coordination. City Council, the Planning Commission, neighborhood associations and residents have a responsibility to develop, and ultimately support, a plan that recognizes the need for development standards, a coordinated development review process and zoning and land uses that are realistically achievable and economically viable for the City.
2. **Transportation & Environmental Services (T&ES) and Planning Department Resources** – BFAAC encourages the City Manager and City Council to monitor the needs of the T&ES and Planning Department staffs. The T&ES and Planning Departments must have appropriate staff to plan, execute and monitor comprehensive development/redevelopment plans and infrastructure improvements.

### **Increasing Property Tax Burden on Alexandria Residents**

Residential real estate has been appreciating more rapidly than commercial, so residents now bear a greater share of the tax burden, yet real property taxes in Alexandria historically have had only a modest relationship with household income.

Over the past 10 years, most of Alexandria’s real property appreciation has come from single-family properties (and, more recently, from condominiums and commercial rentals), while office and retail property values have shown a more mixed history. In fact, during these years, the City’s real property tax base has swung from 54 percent commercial to 55 percent residential (67 percent if you include the value of commercial rental properties with the residential assessments). BFAAC makes this inclusion under the assumption that most landlords pass along rising property taxes to their tenants in the form of higher rents.

There are several reasons for this shift. (1) Alexandria’s residential real estate market has remained strong due to continued low mortgage interest rates, as well as the City’s favorable location within the Beltway. Strong home sales, and a tight condo and rental market, translate into large increases in residential and rental property assessments – some of the largest increases since the late 1980s. (2) At the same time, Alexandria’s commercial real estate market has been more affected by downturns in the region’s overall business climate. Increased office vacancy rates, lower hotel occupancy rates, and lower retail sales translate into smaller increases in commercial property assessments.

This shift becomes a concern since the burden of real property taxes in Alexandria has only a modest relationship with household income. If it held that higher income families lived in the

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most expensive houses, paid the greatest real property taxes, and used the fewest public services, then property tax could be considered a more progressive tax. Unfortunately, 1990 census data (provided by the Alexandria's Department of Planning and Zoning) shows there was not necessarily a correlation between household income and real estate value. For example, 17 percent of homeowners with homes valued over \$300,000 had household incomes under \$50,000; whereas 23 percent of homeowners with homes valued under \$100,000 had incomes over \$50,000. Looked at another way, 25 percent of homeowners with incomes under \$25,000 lived in homes worth over \$200,000; whereas 22 percent of homeowners with incomes over \$100,000 lived in homes worth less than \$200,000. BFAAC recognizes that the City has boosted its property tax relief efforts, however, we recommend the City repeat this analysis as soon as income data from the 2000 Census becomes available.

Also, if residents start to feel the size of their tax bill outweighs the value of the public services they receive (schools, parks, transportation, police and fire protection, etc.), they might consider moving to neighboring jurisdictions with better balance. Our residential real estate then becomes less desirable – demand falls, prices fall, and lower assessments soon follow.

### **Vulnerability to Economic Downturns**

Without greater revenue diversification, the City is especially vulnerable to any economic downturns that affect its housing market.

Like the rest of Northern Virginia, Alexandria has grown ever more reliant on residential real property to fund increases in its general operating budget making the City (and the rest of Northern Virginia) especially vulnerable to economic downturns that affect the region's housing market. While housing assessments have in fact increased dramatically since 1997, Alexandria should not become complacent that this growth will continue indefinitely. Instead, the City should begin looking for ways to control expenditures and diversify its revenue stream.

In CY 2002, the City's property tax base grew by \$1.64 billion or 11.21 percent over CY 2001, with residential property representing 98 percent of this growth. In CY 2001, the City's property tax base grew by \$1.4 billion or 10.06 percent over CY 2000, with residential property representing 75 percent of this growth. But history tells us these rates of increases won't continue – as recently as 1992 through 1997, residential property assessments either declined, or experienced almost no growth. While City can still control its revenue stream by raising (or lowering) the real property tax rate, it must do so with an eye to other nearby jurisdictions and issues of equity.

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### **Northern Virginia Sales Tax Referendum**

The General Assembly's passage of the Northern Virginia Sales Tax Referendum (which will let Northern Virginians vote on whether to raise their sales tax to finance transportation projects) was not only historic, but could assist the City with its transportation spending needs. If the Referendum passes on the November 5th ballot, the 0.5-cent transportation-only (regional) sales tax increase will leverage billions of dollars over the next 20 years for regional highway and mass transit projects.

Such funds could clearly help fund highway improvements along the Route 1 corridor, a new metro station at Potomac Yard, traffic calming projects, and traffic management improvements to expedite traffic flows on major arterials throughout and surrounding the City. BFAAC notes that new regional funds might also help the City and surrounding jurisdictions with (anticipated) costly capital improvements to Metro. For example, the \$2.8 billion list of road, rail and bus projects (that was released by the Governor's office) includes \$75 million for Route 1 Transit Improvements (in Alexandria and Arlington), \$25 million for Eisenhower Valley Highway and Transit Improvements, \$25 million for Alexandria Transit Capital and Facilities, and \$250 million for I395/I95 Improvements and Transit Improvements.

Although such a regional sales tax might assist the City with some spending needs, it would also increase the tax burden on Alexandria residents and possibly reduce their tolerance for City taxes and fees. This points out that the entire mix of tax revenues available to finance the needs of cities needs to be examined in a holistic manner.

### **C. Conclusion**

For better control of its own revenue situation, BFAAC recommends that Alexandria begin to explore ways to bring greater diversity and equity to its revenue stream. As noted previously, the City is already working to increase the revenue it receives from development fees and sewer connection fees, but perhaps it's time to explore other sources, as well, including regional taxing authorities – not only for sales tax, but for income and user taxes.



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## **V. PERFORMANCE REPORTING**

### **A. Overview**

BFAAC notes that the City has made strides toward informing citizens of how their tax dollars are being spent, and how those expenditures are making positive contributions to their quality of life and the City as a whole. City Manager and staff have indicated their support of, and commitment to, implementing Performance Reporting citywide. BFAAC applauds and fully supports these efforts.

The Government Finance Officers Association (GFOA) recently recommended that “program and service performance measures be developed and used as an important component of long term strategic planning and decision making which should be linked to governmental budgeting.” BFAAC encourages the City to heed the advice of GFOA as it continues to develop and implement Performance Reporting.

Officials of jurisdictions that have fully implemented Performance Reporting and integrated it into budget planning and management functions state that such a process is difficult and takes some time to ratchet up. Staff is occupied with other duties during the budget cycle. As a result, BFAAC recommends that staff brief BFAAC on the issue of Performance Reporting during the fall. BFAAC looks forward to working with the City on implementing this important budget and managerial tool.

### **B. Specific Findings**

Performance Reporting is a way for Council, staff and –most importantly– the citizens to see whether they are getting a bang for their buck. In its simplest format, agencies provide quarterly measures, standards and indicators to staff (i.e., the number of students graduating at grade-level; how many baseball diamonds or soccer fields are in playable condition; crime rate and arrests, etc.). Those statistics are then used to show citizens the effectiveness and level of services they receive. In Alexandria, it should allow the city to demonstrate to taxpayers and voters that Alexandria is a well-run, efficient municipality that provides quality service. More complex Performance Reporting – which involve multiple measures, standards and indicators; explanatory information; demographic disaggregation; and multiple layers of detail – are used to help in the planning and budget processes.

In addition to assisting staff with budget planning and implementation, Performance Reporting helps with such so-called “good government” initiatives as greater transparency, open communications with citizens, and more debate about spending, services and the direction of government. A recent study of Performance Reporting by the New York City equivalent of BFAAC noted:

Public demand for better information about results is merely the front piece of a demand for transparency and accountability from government. Good government suggests that programs produced with public funds that are expected to produce particular outcomes must track those outcomes and allow public employees, elected

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officials and the public to use that information to debate and improve the way city services are provided.

In short: Performance Reporting is a win-win-win situation because it benefits Council, staff, and citizens. It allows Council to have more knowledge based on precise information for planning and resource allocation which is based in what citizen's value. Performance Reporting assists agency staff in the budget planning process by helping to "justify" new expenditure requests; it assists the City Manager in deciding between equally compelling and needed programs; it supports continuity as Council and senior agency staff members change; and it facilitates City staff's response to Council Members, citizens and advocacy groups who request program and budget information. It helps citizens understand and support the City and its budgetary decisions because they define what outcomes they want to receive for their tax dollars.

### *STEADY PROGRESS IN PERFORMANCE REPORTING*

The recommendation of including more measures, standards and indicators to assist in the budget review process is not new to this BFAAC Budget Review. In fact, BFAAC's involvement with the issue began more than five years ago, when BFAAC first examined the issue of measures and indicators in the budget. For the past five budget reviews, BFAAC has directly addressed Performance Reporting.<sup>5</sup>

**BFAAC notes that the City has made strides toward informing citizens of how their tax dollars are being spent, and how those expenditures are making positive contributions to their quality of life and the City as a whole.**

BFAAC notes that the City has made steady progress in its use of Performance Reporting since the topic first arose during the FY 1999 review process. For example: the city has increased its use of measures, standards and indicators in the proposed budgets over the past three years; the Youth Policy Commission made excellent use of Performance Reporting in its report on youth services; the late Lori Godwin worked with BFAAC and other interest groups in an effort to improve the presentation of the proposed budget, including better use of Performance Reporting; Council and staff have indicated in their annual meetings with BFAAC an interest in, and stated a willingness to make better use of, Performance Reporting. City Manager and staff have indicated their support of, and commitment to, implementing Performance Reporting citywide. BFAAC applauds and fully supports these efforts.

### *OTHER JURISDICTIONS AND PERFORMANCE REPORTING*

Performance Reporting is fast becoming the tool jurisdictions use to manage their resources, as it helps with such "good government" initiatives as greater transparency; open communications with citizens; and more debate about spending, services and the direction of government.

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<sup>5</sup> See, for example, Budget Memo #19, April 24, 1998 (recommended use of Performance Reporting as a means of establishing budget priorities); Budget Memo #22, April 24, 1999 (recommended establishment of a Working Group for reviewing ongoing services using Performance Reporting); Budget Memo #23, April 21, 2000 (recommended Council encouragement and support for Performance Reporting); and Budget Memo #17, April 20, 2001 (reiterated BFAAC support for Performance Reporting).

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**Officials of jurisdictions that have fully implemented Performance Reporting and integrated it into budget planning and management functions state that such a process is difficult and takes some time to ratchet up.**

A specific example of how one program's budget is presented using performance reporting can be found in Arlington County's 2003 budget. The Urban Operations Initiative Program budget presents, for example, the number of hours per week spent servicing litter cans and the percentage of time they have been serviced within 24 hours; and the number of hours per week spent sweeping streets and the percent of time they have been swept to established standards. Somewhat recently, Arlington County hired a Performance Measurement Coordinator to implement County-wide performance reporting.

Fairfax County adopted management indicators County-wide 5 years ago and this has become a critical management tool for all their agencies. Fairfax County's *Performance Measurement Matters* newsletter quoted Michael Campbell, *Building Results*, "...we greatly reduce the risk of failure if we chart our course in advance, take our bearings and measure our progress frequently, and make timely corrections when we blow off course. The better the navigational performance measurement system, the more likely we are to succeed in our mission."

#### **GFOA AND PERFORMANCE REPORTING**

The Government Finance Officers Association (GFOA) recently recommended that "program and service performance measures be developed and used as an important component of long term strategic planning and decision making which should be linked to governmental budgeting."

GFOA further stated that performance measures should:

- be based on program goals and objectives that tie to a statement of program mission or purpose; measure program outcomes;
- provide for resource allocation comparisons over time;
- measure efficiency and effectiveness for continuous improvement;
- be verifiable, understandable, and timely; be consistent throughout the strategic plan, budget, accounting and reporting systems and to the extent practical, be consistent over time;
- be reported internally and externally; be monitored and used in managerial decision-making processes;
- be limited to a number and degree of complexity that can provide an efficient and meaningful way to assess the effectiveness and efficiency of key programs; and
- be designed in such a way to motivate staff at all levels to contribute toward organizational improvement.

**BFAAC encourages the City to heed the advice of GFOA as it continues to develop and implement Performance Reporting.**

GFOA encourages all governments to utilize performance measures as an integral part of the budget process. Over time, performance measures should be used to report on the outputs and

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outcomes of each program and should be related to the mission, goals and objectives of each department.

Of particular interest to the City and staff, GFOA stated that:

Governments in the early stages of incorporating performance measures into their budget process should strive to: develop a mission statement for government and its service delivery units by evaluating the needs of the community; develop its service delivery units in terms of programs; identify goals, short- and long-term, that contribute to the attainment of the mission; identify program goals and objectives that are specific in timeframe and measurable to accomplish goals; identify and track performance measures for a manageable number of services within programs; identify program inputs in the budgeting process that address the amount of resources allocated to each program; identify program outputs in the budgeting process that addresses the amount of service units produced; identify program efficiencies in the budgeting process that addresses the cost of providing a unit of service; identify the program outcomes in the budgeting process that addresses the extent to which the goals of the program have been accomplished; take steps to ensure that the entire organization is receptive to evaluation of performance; integrate performance measurements into the budget that at a minimum contains by program the goals and input, output, efficiency and outcome measures; and calculate costs and document changes that occur as a direct result of the performance management program in order to review the effectiveness of the performance management program.

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**APPENDIX: AFFORDABLE HOUSING TASK FORCE RECOMMENDATIONS**

**City Council Action on Affordable Housing Task Force Recommendations  
and Related Budgetary and Administrative Action**

RECOMMENDATION	BUDGETARY ACTION	OTHER COUNCIL ACTION	ADMINISTRATIVE ACTION
<b>Housing Production Subcommittee Recommendations: <i>Housing Production Tools</i></b>			
1. Facilitate the development of affordable multi-family rental housing through acquisition and rehabilitation of existing multi-family rental housing (defined as property with four or more residential units)	No funding required	Approved recommendation	Staff is implementing through increased coordination between Department of Planning and Zoning (P&Z) and Office of Housing.
2. Make direct grants or loans to non-profit or for-profit developers to secure a commitment of affordable rents in new or existing housing	Approved \$1 million housing development fund for FY02: 1. \$400,000 from Housing Trust Fund 2. \$300,000 from FY02 General Funds 3. \$300,000 in FY02 HOME monies and matching funds  Similar amounts proposed for FY03	Approved recommendation	Staff is currently evaluating a funding request from Wesley Housing Development Corporation.
3. Encourage developers of new rental housing to use an amount equivalent to their formula Housing Trust Fund contribution to provide affordable units on site.	No funding required	Approved development of Northampton Place, a luxury rental development which includes the City's first rental Affordable Housing Plan	Staff is now encouraging rental developers to include affordable housing on site in new residential developments.
4. Provide funding to non-profit developers and/or partnerships for feasibility analyses and pre-development costs.	Approved set-aside of \$1 million in FY02 for creation of housing development fund	Approved recommendation	Staff is currently evaluating a funding request from Wesley Housing Development Corporation
5. Allow flexibility in the design, location and layout of affordable set-aside units in new developments	No funding required	Approved the concept of allowing flexibility in the design, location, and layout of affordable units, with the understanding that this may result in affordable unit designs that differ from, but are architecturally compatible with, the market rate units. Standards for the affordable units would be determined on a case-by-case basis and spelled out in the Special Use Permit or site plan conditions for specific developments.	To be implemented by P&Z staff during the planning review process for new projects.

RECOMMENDATION	BUDGETARY ACTION	OTHER COUNCIL ACTION	ADMINISTRATIVE ACTION
6. Support the development of affordable sales housing.	Approved set-aside of \$1 million in FY02 for creation of housing development fund	Approved recommendation. Subsequent actions: (1) On 11/13/2001, approved request from Habitat for Humanity of Northern VA for \$85,000 in Housing Trust Fund monies to acquire a unit for rehabilitation; and (2) approved Development Special Use Permit for The Preston Townhomes and Condominiums, a sales project to include six affordable set-aside units.	Staff is working with developers of new projects on a case-by-case basis.
7. Conduct further study of the adequacy and appropriateness of Alexandria's \$0.50-per-square-foot formula for developers' voluntary contributions to the City's Housing Trust Fund.	Change in contribution amount to be addressed in the context of the FY03 budget.	N/A	Staff has initiated discussions with the business community; an increased contribution of \$1 per square foot is discussed in Budget Memo #8.
8. Establish an infrastructure fund to offset a developer's costs for improvements such as undergrounding, landscaping, bricking, etc., for projects that provide affordable housing.	Approved set-aside of \$1 million in FY02 for creation of housing development fund	Approved the recommendation	Staff will evaluate use of the infrastructure fund on a case-by-case basis and will submit recommendations to Council for approval.
9. Monitor the reported federal initiative to create a tax credit program for sales housing units, and encourage the use of such a program if and when it becomes available	No funding required	No Council action required	Staff continues to monitor federal legislation. As of 4/15/02, Senate Bill 1081, the "Low to Moderate Income Home Ownership Tax Credit Act," is being considered by the Senate Finance Committee.
<b>Housing Production Subcommittee Recommendations: Zoning Tools</b>			
1. Evaluate the development and implementation of Overlay Zones.	No funding required	Approved Task Force report calling for incorporating the evaluation of these tools into long-range land use and planning efforts.	Staff has incorporated recommendations into long-range land use and planning efforts.
2. Evaluate the development and implementation of Performance Zones			
3. Evaluate the development and implementation of a program of Transfer of Development rights.			

RECOMMENDATION	BUDGETARY ACTION	OTHER COUNCIL ACTION	ADMINISTRATIVE ACTION
<b>Housing Assistance Subcommittee Recommendations</b>			
1. Increase the maximum assistance limit under the City's Homeownership Assistance Program (HAP) from \$25,000 to \$35,000.	FY03 budget includes higher assistance level implemented in FY02.	Approved increase of HAP limit from \$25,000 to \$35,000; also increased assistance limit in the Moderate Income Homeownership Program (MIHP) from \$15,000 to \$20,000.	Staff has implemented approved changes.
2. Review the operation of the Rent Relief Program for senior citizens and persons with disabilities in FY 2001 and develop recommendations for improvement for consideration in the fall of 2001.	Proposed FY03 budget is \$252,500, including carryover of \$62,500 in unspent FY02 funds, as discussed in Council-approved docket item.	Approved: 1. Increase in maximum annual income limits from \$18,000 to \$25,600 2. Change in maximum annual benefit level from \$1,500 to sliding scale of \$1,200 to \$2,400 3. Payments to be provided monthly, rather than once per year 4. Enrollment to be open year-round, rather than once per year	Staff is implementing approved changes.
3. Consider the development of a City rental assistance program to assist households not currently being served by other rental assistance programs.	No funding action recommended	Report approved, but no funding action recommended to Council for FY02 or FY03.	None at this time.
4. Support ARHA request for additional Section 8 assistance when such assistance is to be targeted for specific purposes	No funding required	No action recommended to Council at this time because Section 8 assistance currently is underutilized in Alexandria.	None at this time.
5. Change the City-funded portion of the Homeless Intervention Program (HIP), and seek state approval for a change in the state-funded program, to allow repeat assistance after five years, rather than the current rule of once in a lifetime.	No additional funding proposed	No action necessary	Consistent with state action prior to transmission of Task Force report to Council, staff implemented a policy allowing repeat assistance after three years.
6. Maintain a minimum Housing Trust Fund balance to ensure a minimum funding stream for the Moderate Income Homeownership Program and other activities	N/A	Approved a goal of maintaining a minimum Housing Trust Fund balance of \$1.5 million, exclusive of set-asides.	None at this time.



RECOMMENDATION	BUDGETARY ACTION	OTHER COUNCIL ACTION	ADMINISTRATIVE ACTION
7. Explore, in conjunction with community groups and banking institutions, the development of Individual Development Accounts (IDAs) for low- and moderate-income households to encourage savings and asset development	No funding required at this time	No Council action required at this time	Staff had been working on an IDA initiative with the Human Services Committee of the United Way of Alexandria; however, the United Way has decided not to pursue the issue at this time, given that there are other organizations in the community that offer IDAs.
8. Provide homeownership assistance to move-up buyers, as an incentive for them to remain in the City of Alexandria, by allowing a one-time rollover of City homeownership assistance loans for loan recipients who sell the home the City assisted them to buy.	No additional funding recommended	Approved	Staff to implement recommendation as requested by HAP and MIHP participants.
9. On behalf of buyers in the City's homeownership programs, pay \$1,000 of the real estate commission in order to reduce the seller's cost and provide an incentive to sell to a City-assisted buyer.	Approved \$50,000 from Housing Trust Fund	Approved	Staff to implement recommendation as needed.
10. Include in the City's homeownership counseling program a discussion of the merits of all types of sales housing, including condominiums, in an effort to attract buyers to the most affordable segment of Alexandria's sales housing stock.	No funding required	No Council action required	Implemented through the City's Homeownership Counseling Program.
11. Support and encourage the involvement of existing Community Development Corporations, and/or the development of a new such corporation, in order to facilitate the provision of affordable housing in Alexandria.	No funding needs identified	Approved docket item which stated that the City's focus will be on non-profit developers in the immediate future.	Staff is currently working with one non-profit developer on a pending project and will implement outreach to others active in Northern Virginia.

### Other Housing Actions

ISSUE	BUDGETARY ACTION	OTHER COUNCIL ACTION	ADMINISTRATIVE ACTION
<p>Other FY02 actions in support of affordable housing opportunities</p>	<p>1. Allocated \$50,000 in Housing Trust Fund monies to establish a matching fund as part of the EAH program to serve EAH-eligible employees who are ineligible for HAP and MIHP assistance for reasons other than income.</p> <p>2. Allocated \$11,500 in Housing Trust Fund monies to provide homeownership counseling in connection with the EAH program.</p>	<p>1. Approved submission of an application to Virginia Housing Development Authority's (VHDA's) Sponsoring Partnerships and Revitalizing Communities (SPARC) for \$2,936,000 to provide first trust homeownership financing for a minimum of 20 participants in the City's EAH initiatives and to income-eligible government and school employees.</p> <p>2. For SPARC target groups, waived HAP/MIHP six-month requirement for living or working in Alexandria.</p>	<p>Grant application was submitted and approved by VHDA; staff are working on an EAH pilot program with the Alexandria Chamber of Commerce and Fannie Mae's Northern Virginia Partnership Office. SPARC program has begun; target groups include EAH participants, public and private school employees, and local, state, and federal government employees.</p>