*City of Alexandria, Virginia*

MEMORANDUM

DATE: APRIL 14, 2008

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #93: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC) REVIEW OF THE FY 2009 PROPOSED BUDGET

---

The Budget and Fiscal Affairs Advisory Committee (BFAAC) has completed its analysis of the FY 2009 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 16, 2008.

# City of Alexandria Budget & Fiscal Affairs Advisory Committee

# Report on the City Manager's Proposed Budget for FY 2009


Tracy Rickett, Chair
Holly Hemphill, Vice Chair
Jim Butler, Secretary
Dennis Auld
Elliott Branch
Mark Feldheim
Paul Friedman
Margaret Gullen
H. Scott Johnson
Dennis Jones
Laurie MacNamara
Matt Tallmer
Michael Wenk

## Table of Contents

# EXECUTIVE SUMMARY

**The Budget Process**

- **We support the budget process as adopted, including the setting of targets for expenditure growth for both the City and the ACPS.**
- **We support targets that are challenging to achieve and believe the FY 2009 targets set by Council for both the City and ACPS meet this criterion.**
- **We believe that the self-imposed requirement of a super-majority for exceeding the budget targets will enforce budgetary discipline.**

**The Proposed Operating Budget**

- **BFAAC again recommends that data regarding salaries and salary schedules display the various elements of salaries, including step increases; and separately, that reports also combine the various elements of compensation into a single number for more clarity and better comparability.**
- **Continue the regular periodic examination of compensation philosophy and pay schedule structure with the objective of developing and implementing changes leading to a more transparent system and greater emphasis on merit.**
- **The current study of the City Personnel System should be used as a vehicle to reassess personnel practices in every department.**
- **The City should continue analysis of merging City and ACPS health care plans, self-funding, and ways to mitigate potential risk and cost of catastrophic loss through the purchase of catastrophic loss insurance.**
- **The City should review practices in comparable jurisdictions to establish a rational basis for determining the level of employee contribution.**
- **BFAAC believes that the City should attempt to be much more aggressive and proactive in *managing* risk—identifying the potential risks, evaluating and tracking them, and eliminating them.**
- **The City should review and potentially expand employee wellness programs, and advertise them through various media and events.**
- **BFAAC is supportive of pre-employment a screening program for Fire and Police officers who are eligible for benefits under the State's Heart/Lung Presumption to avoid claims for pre-existing conditions.**
- **The City should develop a more detailed multi-year financial forecasting capability.**

- **The forecasting should go out more than five years to incorporate the impact of realizable revenues, program expenses and debt.**
- **We do not support limiting AHOP to those who participated in CY 2007 without further study and appropriate notice. Limiting AHOP participation to 2-3 years may make more sense.**
- **The City should examine the size and efficacy of the targeted residential real estate tax relief programs in light of their costs to the operating budget. Limitations and phase-outs should be instituted where warranted.**
- **Council should consider real estate tax deferral either in lieu of, or in conjunction with, its existing targeted residential real estate tax relief programs.**
- **Grants from the Alexandria Fund for Human Services and from the Commission for the Arts appear to be well administered.**
- **Funding for grants to non-profits should be considered in the context of available funds and other City priorities.**
- **Projects with repeated grants should be examined closely for continuing need and a determination of whether a contractual relationship with the City might be more appropriate.**
- **Grants should be routinely reviewed for overlap/duplication. Applicants might be encouraged to submit collaborative proposals for more efficient use of City funds.**
- **Grant-makers should continue emphasis on a management for results approach, highlighting the need for recipients to set performance benchmarks and measurable outcomes.**
- **Council should give greater weight to the annual maintenance costs as part of the fiscal analysis when purchasing properties.**
- **Council should review programs whereby civic organizations are reimbursed for open space maintenance activities and determine if expansion is warranted.**
- **As the result of a study by ACPS, BFAAC is commenting on the fiscal effects of providing services to students who may have emigrated from Prince William County. BFAAC observes that the fiscal implications extend beyond ACPS. All new City residents use city services, which cost money. As a result, BFAAC urges the Council to study the influx of new residents and budget accordingly.**
- **Council should note that ACPS may need resources to provide legally mandated education to newly enrolled students.**
- **ACPS and City staff should monitor the pupil attendance figures on a monthly basis to determine if the trends outlined above continue, and discuss the issue at ACPS-City budget meetings.**
- **The ACPS Budget Advisory Committee and BFAAC also should work together to monitor the situation, and continue their joint meetings on this and other issues.**

- **The City should require the sponsor of every Special Event to put up a cash bond or equivalent to cover the City costs.**
- **If the actual costs are less than the bond, the balance would be returned to the sponsor; if the costs exceed the bond, the sponsor would be billed accordingly.**
- **The policy outlined above should be applied to every Special Event.**
- **We urge that any policy Council adopts on Special Events be consistent and fair, and applicable across-the-board.**
- **The City Manager and Council should decide requests for exemptions from the policy on a case-by-case basis. Granting an exemption should be the exception.**
- **The City should, in the short term, review the fleet take-home policies of surrounding jurisdictions, most importantly Arlington, in connection with the revision of the Administrative Regulation 7-3 governing take-home vehicles.**
- **The City should apply an MFRI-type approach to the take-home policy set forth in Administrative Regulation 7-3.**
- **The City should consider revising Administrative Regulation 7-3 in a manner largely consistent with the recommendations of the study.**

**The CIP**

- **We commend the City Manager and City Staff on implementing a CIP Prioritization Process and recognize this development as a significant step forward in linking the City's Strategic Plan, the MFRI, and the CIP Budget.**
- **We recommend that Council set targets for CIP, including specific targets for each of the three tiers, in the current "prioritization" process.**
- **We recommend that Council enhance the criteria used to decide the priority order of projects.**
- **We recommend that the City Manager and ACPS work together with a joint goal of developing a process that results in an integrated set of CIP priorities for the City and the Schools**
- **The current CIP Prioritization Process provides a workable structure for the CIP Steering Committee to use in making funding recommendations; we are concerned, however, that the CIP Steering Committee may not have sufficient information in every case to make sound funding recommendations.**
- **We recommend that the CIP Steering Committee, with City Staff assistance, design a business case template, providing owners of proposed projects the means to articulate total lifecycle costs and other key information needed by the CIP Steering Committee to make fully-justified funding recommendations.**

**Revenues and Outlook**

- **We urge City Council to continue to track the percentage of per capita income applied to residential real property tax and to be especially cautious in setting property tax rates that result in tax/personal income ratios above historical ranges.**
- **Any revision to the debt policy guideline on personal income should not be made primarily to justify additional borrowing.**
- **The impact of increasing debt-service payment obligations should be carefully monitored.**
- **Although the City is moving on aspects of an overall economic development strategy, gaps in fulfilling several Work Group recommendations exist. The City should provide increased focus and resources for necessary planning, policy guidance, contracting and measurable performance standards plus regular oversight and control of City spending on economic development activities.**
- **The City should take immediate action to review the nature of the recently announced Assistant City Manager position and hire, appoint or otherwise designate a qualified economic development professional to coordinate economic development planning, policy guidance, and oversight.**
- **In light of current economic conditions and the anticipated FY 2009 real estate tax revenue projections, the commercial add-on tax at a rate to be determined annually will provide the City with a source of transportation-dedicated revenues.**
- **In future years the annual rate should be set in the context of current market and economic conditions and at a rate consistent with the City's efforts to attract and retain its commercial tax base.**
- **It is imperative that the City continue to evaluate and prioritize its long-term transportation needs and be able to demonstrate the positive economic impacts of these initiatives to the affected commercial real estate tax base.**
- **Options to diversify tax revenues should be evaluated annually.**
- **Council should first concentrate on increases to fees and non-residential real estate taxes that can best be borne by non-residents.**
- **In addition to the legislative authority for various taxes and fees, the City Manager's annual Proposed Operating Budget should include as a permanent feature an indication of current and comparable rates in neighboring jurisdictions.**
- **Council should strongly support appropriate General Assembly revenue initiatives that will help restore funding of local and regional transportation needs.**
- **BFAAC encourages the City to expedite the physical assets inventory process as it could lead to added revenue and decreased maintenance costs of assets that are no longer of value to the City.**

- **This inventory would also be the foundation for compiling and tracking assets that might need major renovation or replacement in future years.**
- **BFAAC recommends the expansion of the fee compendium detailing all fees currently collected by City departments for inclusion in future budgets and periodic review and adjustment of fees to optimum levels.**
- **BFAAC urges Council to review each fee periodically to ensure the recapture of associated operating costs.**
- **BFAAC continues to oppose the advance commitment of tax revenues as a budgetary tool; expenditures for specific objectives should be made in the context of annual decisions as part of the budget process.**
- **In the event that Council continues to use dedicated revenues to fund the City's Operating and CIP budgets, the revenues and expenditures for each established set-aside should be transparent and clearly identifiable.**

## I. THE BUDGET PROCESS

There is no more important Council function than the deliberation and adoption of the City's budget. It is incumbent upon Council to wisely steward the City's resources, to balance the needs of the community with the City's ability to fund programs to meet those needs. This year, more than most in the recent past, balancing the needs of the community with the ability to fiscally meet those needs is a challenging one.

Fortunately, two years ago the City adopted a budget process that is conducive to the challenge at hand. The City transitioned from an organizational-based budget process to a program and activity-based budget process, entitled the "Managing for Results Initiative." MFRI introduced the use of performance measures in the budget process. It established the concept of a baseline services budget as an initial discussion point, set alternative targets for General Fund budget growth with options to reach the lower target, and increased transparency throughout the budget process.

Last year, the budget process was amended to include the requirement of a "super-majority" vote (5 of 7 Council votes) to exceed the City or Alexandria City Public Schools (ACPS) budget target, to propose appropriation from the General Fund balance of more than that recommended by the City Manager, or to initiate an "add" of more than $50,000 with less than seven days before a Spring public budget hearing.

In large measure, BFAAC supports the budget process as adopted. We have long advocated greater transparency and more opportunity for community participation. We have previously recommended that budget decisions be made in the context of a long-term strategic plan and based on a current services budget concept. The adopted procedures incorporate all of these features.

We continue to support the setting of targets for expenditure growth for the City General Fund and for ACPS, and we believe that the targets should be set at a challenging level to promote restraint in spending. We also believe credible targets should incorporate all substantial expenditures, including market rate adjustments for employees. In our view, the targets established by Council for the 2009 budget meet these criteria.

We now believe the setting of targets for ACPS should recognize what it has become in reality—budgetary guidance. In each of the past three years, the City has passed a budget resolution that has asked the School Board to "seek not to exceed" the target in its Approved Operating Budget. BFAAC is supportive of such requests. The further requests in the resolutions that the School Board's Operating Budget clearly describe what programs and activities would be funded if the City's contribution exceeds the target, clearly describe what programs and activities could be funded within the target, and explain what the impact will be on those programs if funds above the target are not provided are, however, problematic.

To date, despite repeated requests, that type of information has not been forthcoming from ACPS. At the end of the day, it is still the School Board that is charged with the responsibility for passing a budget that meets the needs of the ACPS. Council, which is responsible for funding the schools at the level it deems appropriate, does not have authority to decide how those funds are spent.

We believe this disconnect may have more to do with the lack of transparency in the ACPS budget document that developed over the last few years that raised legitimate questions in the minds of Council members as to what was actually being funded. This lack of trust, of confidence, is what is at issue.

Ideally, the ACPS budget would be developed in a disciplined and transparent way, one that resembles the City's in presentation and process. BFAAC observes that ACPS is moving in that direction and, to that end, BFAAC has again recommended that the City and ACPS continue to work for greater communication and trust on budget matters—at both the Council/Board level and the staff level, and that ACPS should adopt a similar budget process to that used by the City for greater overall transparency and discipline.

**We have the following observations and recommendations:**

- **We support the budget process as adopted, including the setting of targets for expenditure growth for both the City and the ACPS.**
- **We support targets that are challenging to achieve and believe the FY 2009 targets set by Council for both the City and ACPS meet this criterion.**
- **We believe that the self-imposed requirement of a super-majority for exceeding the budget targets will enforce budgetary discipline.**

## II. THE PROPOSED OPERATING BUDGET

With severe downward pressures on the City's sources of revenue, and the CIP budget at maximum,[1] the FY 2009 Proposed Operating Budget becomes the focal point of FY 2009 Proposed Budget thinking and planning. BFAAC's focus this year necessarily is on decreasing spending. We believe no program should be free from scrutiny.

Because this downward pressure is likely to last for a few years, BFAAC feels strongly that the City should embark on multi-year financial planning as opposed to forecasting, to better position it for effective decision-making regarding policy and operational choices.

In addition to planning, this year's BFAAC report addresses the following cost drivers: Personnel (Compensation and Health Care Benefits), Workers Comp, targeted residential real estate tax relief, grants to non-profits, open space maintenance, the effects of immigration on our schools, special events policy, and fleet management study.

### A. Compensation

The City Manager has stated, and BFAAC agrees, that fair and competitive compensation is essential in effectively managing the City. However, given the economic realities of CY 2008, the City Manager’s baseline recommendation for no Market Rate Adjustment (MRA) for FY 2009 is prudent. If a proposed increase in an item as major as salaries for all personnel were to occur, it should necessitate a corresponding trade off in number of full- or part-time positions or reduction in City services currently offered. Should the Council choose to implement the Alternative Budget, BFAAC urges the Council to revisit the recommendation to provide a 1% MRA to City and School employees.

BFAAC has requested in previous Reports that the City combine the various elements of compensation into a single number for more clarity and better comparability. We continue to request a singular number for analyses such as the comparison to inflation charts shown in the Personnel & Compensation Summary.[2] While these charts are correctly described, they leave out the main component of compensation, the step increase, which can result in an inaccurate understanding to the reader.

BFAAC is also eager to see and review the results of the two compensation studies by the City and outside consultants now underway. These studies examine the City’s compensation policy and practices, reviewing (1) the Personnel Office and functions to see if restructuring is in order, and (2) the compensation philosophy and pay schedules based partly on “step” increases and partly on MRA, possibly suggesting more emphasis on merit in pay schedules.

[1] FY 2009 Proposed CIP Budget, p. 2-22, FY 2009 $40M increasing to approximately $65M in FY 2014.

[2] FY 2009 Proposed Budget, pp. 8-10, 11.

**We have the following observations and recommendations:**

- **BFAAC again recommends that data regarding salaries and salary schedules display the various elements of salaries, including step increases; and separately, that reports also combine the various elements of compensation into a single number for more clarity and better comparability.**
- **Continue the regular periodic examination of compensation philosophy and pay schedule structure with the objective of developing and implementing changes leading to a more transparent system and greater emphasis on merit.**
- **The current study of the City Personnel System should be used as a vehicle to reassess personnel practices in every department.**

## B. Health Care Benefits

Previous year's recommendations for health care cost containment included merging the City and ACPS health care systems, studying self-funding, and plan design. BFAAC recognizes the City's need to increase the employee's share of the health care costs. We also expect that the City will continue to achieve greater control of benefit costs.

Although the employees now contribute a minimum of 10% of the health care premiums, the overall cost of health care insurance still is increasing at an above inflationary rate. The City should review practices in comparable jurisdictions to establish a rational basis for determining the level of employee contribution. BFAAC is still concerned about the management of this cost and encourages the City to press on with our recommendations in previous Budget Reports. BFAAC also supports the City's prior efforts in establishing the Wellness Program, understanding this is an investment with benefits that will take time. BFAAC also applauds the City for including benefits in the Watson Wyatt Compensation Study.

**We have the following observations and recommendations:**

- **The City should continue analysis of merging City and ACPS health care plans, self-funding, and ways to mitigate potential risk and cost of catastrophic loss through the purchase of catastrophic loss insurance.**
- **The City should review practices in comparable jurisdictions to establish a rational basis for determining the level of employee contribution.**

## C. Workers Compensation

At approximately $2 million per year, City-wide workman's compensation claims are a significant portion of the annual budget.[3] As one would expect, the largest percentage of claims (82%) are from the Police, Fire, and Transportation & Environmental Services Departments. There is anecdotal evidence that these costs may be out of the norm. However, the City will not be able to do a full comparison until it has had more time to explore the Public Entity Risk

[3] Budget Memorandum #51, City-Wide Workers' Compensation Costs

Institute's (PERI) database, send Alexandria claims to PERI, and review PERI's recommendations.

While BFAAC commends initiatives within the City to identify and mitigate risks causing claims, it is our belief that the City's risk management function is largely administrative (evaluating and processing claims) and passive in nature. It is our belief that the Risk Management Office should attempt to be much more aggressive and proactive in managing risk—identifying the potential risks, evaluating and tracking them, and eliminating them. Even the City's website description of the Risk Management Office is nothing more than a job description for potential candidates. There does not appear to be a mechanism for employees to report potential safety issues through the Risk Management web site.

BFAAC is supportive of a pre-employment screening for Fire and Police officers who are eligible for benefits under the State's Heart/Lung Presumption to identify at-risk job candidates. Passing on employment of these job candidates would potentially avoid some of the very large claims.

BFAAC is supportive of wellness programs within the City—not only for health and productivity reasons, but to reduce the incidence of workers compensation claims and absenteeism. The weekly yoga and Weight Watchers classes and free City employee entrance to City recreational facilities provide mutual benefits. Well-designed wellness programs can pay back as much as $6 for every $1 invested, with an average 25% reduction in turnover, disability costs and workers' compensation claims.[4] These pro-grams are nearly useless, however, if the employees do not know about and utilize them. The City should widely advertise and frequently promulgate information on them.

**We have the following observations and recommendations:**

- **BFAAC believes that the City should attempt to be much more aggressive and proactive in *managing* risk—identifying the potential risks, evaluating and tracking them, and eliminating them.**
- **The City should review and potentially expand employee wellness programs, and advertise them through various media and events.**
- **BFAAC is supportive of pre-employment a screening program for Fire and Police officers who are eligible for benefits under the State's Heart/Lung Presumption to avoid claims for pre-existing conditions.**

## D. Financial Forecasting

It has been stated that the City could experience several more years of tight financial resources. In view of this, it is imperative that well developed budgets based on sound decision-making continue to be proposed. A possible change is to increase the validity and length of projected financial fore-casts. A multi-year forecast is a useful fiscal tool as it combines budgetary and financial information with local economic and demographic data. These forecasts provide

[4] Sanchez, Eduardo J., M.D., M.P.H., 2005. Message from Texas Commissioner of State Health Services, Worksite Wellness—Reap the Benefits of Health, http://dshs.state.texas.us/wellness/wwt/shtm.

consistent evaluation criteria that are used to monitor changes in the City's financial condition and demonstrate the impact of decisions among competing priorities. Many cities, from Plano, TX to New York City employ such a multi-year approach. A Managing for Results review should annually examine the flow of anticipated revenues and expenses over a longer horizon than a one budget year period. Comparison of actual to forecast will provide a critical review of "what happened" to better plan for "what will be."

Forecasts of up to 10 years are reasonable and achievable as a projection tool. We suggest that the City adopt a more than five and up to ten year projection for the operating budget. In constructing this capability, the City should utilize the resources of its IT department, realizing that better technology will produce better data, resulting in better decision-making. This process is necessary for ensuring that the City will have sufficient re-sources to fund future programs and services that meet Council goals and priorities.

The City is to be commended for its efforts on projecting future financial scenarios as indicated in the FY 2009 Proposed Budget.[5] However, a much more robust forecasting process is needed. The current exercise displays estimated future expenditures remaining constant while three revenue scenarios are projected from FY 2009 thru FY 2014. The expenditures are projected at overall percentage increases, as are the revenue categories.

This process should evolve to forecasting based upon numbers developed at the line item level within programs, within departments on the expenditure side, and each revenue category. The results should be a combination of what is known, like building permits issued, and best assumptions based on historic information. Only when a better method of forecasting cannot be found should a percentage increase based on inflation be used. An Excel–based computer model starting with the most current actual information and forecasting based on more robust assumptions should be developed.

The assumptions used in the model should be updated on a periodic basis to address the financial implications of current and proposed policies and programs used to develop appropriate strategies to achieve the City's goals. In short, the multi-year process provides critical information and insights that are essential for developing and adopting future operating budgets.

**We have the following observations and recommendations:**

- **The City should develop a more detailed multi-year financial forecasting capability.**
- **The forecasting should go out more than five years to incorporate the impact of realizable revenues, program expenses and debt.**

## E. Targeted Residential Real Estate Tax Relief

The City has offered targeted real estate tax relief for moderate and low-income homeowners since 2005. The program, the Affordable Home Ownership Preservation Grant Program (AHOP), provided an average of $768 to nearly 1,400 grantees for a total of $1.1 million in

[5] FY 2009 Proposed Budget, pp. 10-1, 6

grants in 2007. (See FY 2009 Budget Work Session on Taxes, Fees, and Other Revenues, February 13, 2008, p. 25.)

The City also has a real estate tax relief program for the elderly and disabled, which in 2007 provided an average of $2,936 to over 1,200 applicants, saving recipients about $3.5 million in total. (See FY 2009 Budget Work Session on Taxes, Fees, and Other Revenues, February 13, 2008, p. 26.) Combined, these two efforts serve approximately 2,600 homeowners, about 6% of the Alexandria home-owning population, at a cost to the City of $4.6 million.

In last year's BFAAC report, we noted that in the years in which the City experienced rapid growth in the assessed value of real estate, it continued to increase the income and net worth thresholds for homeowners wishing to participate in the AHOP program. We further observed that the two programs could continue to grow in cost and eventually become unsustainable-able. We called for an evaluation of the programs for efficacy and alignment with the Council's strategic goals.

The City Manager's proposed budget for FY 2009 reduces the income limit for a household to participate in AHOP from $100,000 to $72,000 and makes the program available for the coming year only to those who participated in CY 2007. (FY 2009 Budget Overview, 4-6.) In our view, scaling back AHOP in this year makes sense, where assessments have dropped and City expenditures must be cut for budget reasons. However, we do not support cutting off AHOP to new applicants without further study and appropriate notice. We observe that it might make more sense to limit participation in AHOP to a certain number of years, e.g., 2-3 years. AHOP relief should not become a permanent subsidy.

We have previously pointed out and do so again, that as an alternative to providing annual tax reductions for the targeted populations, the City should consider exercising its authority under the Code of Virginia[6] to defer real estate tax increases until the transfer or sale of the property. This would allow long-time homeowners to be cushioned from tax increases (especially ones that often accompany an overheated local real estate market), while not creating additional cost for other taxpayers. The City has the authority under the Code to craft such a deferral program using whatever criteria it feels important to achieving its strategic goals. While administrative difficulties with deferral have been noted in Budget Memorandum # 47, March 27, 2008, under a deferral program, tax revenues are not permanently lost. Revenues are collected at a later time when homeowner funds may be more readily available. BFAAC notes that deferral is an option in the elderly and disabled program, where it could be particularly appropriate for elderly relief since there would seem to be little justification for permanent taxpayer subsidies that primarily benefit heirs of participants who die with substantial equity in their homes.

**We have the following observations and recommendations:**

- **We do not support limiting AHOP to those who participated in CY 2007 without further study and appropriate notice. Limiting AHOP participation to 2-3 years may make more sense.**

[6] Code of Virginia, Section 58.1-3219.

- **The City should examine the size and efficacy of the targeted residential real estate tax relief programs in light of their costs to the operating budget. Limitations and phase-outs should be instituted where warranted.**
- **Council should consider real estate tax deferral either in lieu of, or in conjunction with, its existing targeted residential real estate tax relief programs.**

## F. City Grants to Non-Profits

The City has granted funds to local non-profit organizations for a number of years. There are two primary sources for City grants: The Alexandria Fund for Human Services administered by the Department of Human Ser-vices and the Alexandria Commission for the Arts.

Alexandria Fund for Human Services—In 1999 the City began awarding human services grants to non-profit organizations based on broad priorities established by Council. In 2005, three City funds—the Children's Fund, the Youth Fund and the Community Partnership Fund—were consolidated under the umbrella name of the Alexandria Fund for Human Services and responsibility for administration of the funds was centralized in the Department of Human Services. The stated goal of the Alexandria Fund for Human Services is to provide for programs for young children, youth, seniors, immigrants, and persons with disabilities through a competitive grant award program to community-based organizations. In years since 2005, a number of improvements have been made to grant-making procedures, including changing the fiscal years of the funds to coincide with the City's fiscal year, developing a unified application process for all three funds and establishing a numerical system for ranking applicants, posting of the grant opportunities and forms on the City web page, and making awards for a two-year period (funds each year are contingent on City Council appropriations). The grant process includes holding a pre-proposal workshop to give potential applicants an opportunity to learn how the process works. Each fund has established priorities and applicants for grants are asked to address these priorities in their applications as well as to describe the specific measurable outcomes to be achieved with the grant money. Criteria for selection of grant recipients are published and citizen review panels meet to review applications and allocate available grant funds. Successful applicants are required to present progress reports and may be required to attend a workshop on developing evaluation plans.

For FY 2008, the City Council approved $2,324,880 for the umbrella fund, composed of $1,037,317 for the Children's Fund, $316,897 for the Youth Fund, and $970,666 for the Community Partnership Fund. These same amounts are requested by the City Manager for FY 2009, for the second year of the grant cycle.

Alexandria Commission for the Arts—The Arts Commission was created in 1984 and functions under the auspices of the Department of Parks, Recreation and Cultural Activities. It is composed of 15 citizen volunteers appointed by the City Council for 3-year terms. Five members represent specific arts disciplines, five represent business related to the arts and five represent the public-at-large. The Commission has published a Code of Ethics and a Conflict of Interest Policy. Members annually sign a conflict of interest statement. All Commission meetings are announced and open to the public. As one of its primary activities, the Commission operates the program to award grants from funds received from the City and private donors. The commission has published its Guide to Funding and Application Forms describing the types of grants available, the general eligibility requirements, and the application process. Staff from the Department of Parks, Recreation and Cultural Activities first reviews all applications for completeness and eligibility, working with applicants as necessary to bring the applications in line with requirements. A Resource Panel, composed of a Commission member and other volunteers with discipline-specific back-grounds, then reviews the eligible applications. The Panels review all applications using a published numerical ranking system and meet with the applicants to gather additional information. Following the meetings, the Panels prepare recommendations for the consideration of the full Commission. Each applicant is asked to identify a measurable goal. The Commission holds a public hearing at which time applicants may testify and following which the Commission determines a proposed level of funding. The Commission requires grant recipients to submit a report before the final 25% of the grant funds are disbursed.

In FY 2008, the City Council approved $214,937 for Arts Commission grants. For FY 2009, the City Manager has requested the same amount.

In BFAAC’s view, grants from the Alexandria Fund for Human Services and from the Commission for the Arts appear to be well administered. The grant-making processes are orderly, transparent, and documented; they provide for community involvement and require measurable outcomes.

**We have the following observations and recommendations:**

- **Grants from the Alexandria Fund for Human Services and from the Commission for the Arts appear to be well administered.**
- **Funding for grants to non-profits should be considered in the context of available funds and other City priorities.**
- **Projects with repeated grants should be examined closely for continuing need and a determination of whether a contractual relationship with the City might be more appropriate.**
- **Grants should be routinely reviewed for overlap/duplication. Applicants might be encouraged to submit collaborative proposals for more efficient use of City funds.**
- **Grant-makers should continue emphasis on a management for results approach, highlighting the need for recipients to set performance benchmarks and measurable outcomes.**

## G. Open Space Maintenance

As mentioned in the Revenues and Outlook section of this report and in several previous years’ reports, BFAAC does not support automatic designations of revenue (i.e., set-asides), outside of the general fund and CIP budget processes, since it runs counter to the transparency and flexibility Council has been striving for. This is particularly true for open space acquisition. Much more than the acquisition cost must be taken into consideration; such as open space maintenance funding requirements. The City Manager's FY 2009 budget requests approximately

$8 million for open space maintenance across several Parks and Recreation budget activities (Park Planning & Development of Open Space; Park Operations & Facility Maintenance; and Natural Resource Management).

A significant portion of the City's existing open space is not adequately maintained. Invasive species such as kudzu, English ivy, and non-native "junk" trees are overtaking, crowding out, and killing even the most mature of trees. If Council chooses to continue the open space set-aside levy, we strongly urge Council to consider the annual maintenance costs as part of the fiscal analysis when purchasing the property (regardless of revenue source—set-aside or not).

Council should review programs whereby civic organizations are reimbursed for open space maintenance activities. The City currently uses a State Litter Control grant to fund civic organizations $15-20k annually to perform this function. It is our belief that these organizations can cost effectively help to perform this function, particularly for the smaller parks.

**We have the following observations and recommendations:**

- **Council should give greater weight to the annual maintenance costs as part of the fiscal analysis when purchasing properties.**
- **Council should review programs whereby civic organizations are reimbursed for open space maintenance activities and determine if expansion is warranted.**

## H. Immigration Effects on ACPS

On October 16, 2007, the Prince William County Board of Supervisors adopted Res. No. 07-894, which allowed the police to question suspected undocumented immigrants, hold them for the Federal government if they are not legal residents, and deny all undocumented immigrants a variety of county services. The original resolution called for the measures outlined above to take effect on January 1, 2008; however, due to litigation, the Board of Supervisors delayed the effective date until March 1, 2008.[7]

On October 9, 2007, six days before the Prince William County Board of Supervisors approved its' resolution, the Alexandria City Council adopted a Resolution on Immigration Issues.[8] That resolution says " … beyond what is required by State and Federal law, the City and its various agencies will neither make inquires about nor report on the citizenship of those who seek the protection of its laws or the use of its services."

Since the end of September 2007, Alexandria City Public Schools (ACPS) enrollment has increased by 237 students, with 124 of those transferring from other schools in Virginia. Between September 2006 and January 2008, the number of students receiving Special Education has risen by 114,[9] and the number of English as a Second Langue (ESL) students has increased

[7] Washington Post, Oct. 18, 2007.

[8] Docket No. 21, Oct. 9, 2007.

[9] Changes in ACPS Enrollment: FY 2007 September to January compared with FY 2008 September to January," ACPS. (Hereafter "Changes in ACPS Enrollment").

by 342.[10] Of the latter figure, slightly more than 40% has occurred since September 2007, largely as a result of new enrollments. This is in contrast to the previous school year, which showed a 1% decline in ESL enrollees.

In November 2007, ACPS began tracking students who are not native speakers of English. Of those students, 48 (or 23%) previously attended school in Prince William County. In comparison, from November 1, 2006 through February 28, 2007, ACPS estimates that only 7 such students (or 4%) moved from Prince William County.[11]

The school's which saw the largest influx of ESL students from Prince William since November 1, 2007 are (in alphabetical order): John Adams - 10 (5%); Patrick Henry – 9 (10%); James Polk – 12 (9%); William Ramsey – 17 (7%); and Francis Hammond - 28 (16%).[12]

BFAAC notes that there were 30 newly enrolled students who received special education services between September 31, 2007 and January 31, 2008. This compares to a decrease of six (6) special education students during the previous year.[13] BFAAC observes that ESL and Special Education programs are among the most expensive services ACPS provides.

ACPS estimates that the costs of educating the additional student population range from a low of $715,000 to a high of $1.351 million.[14] ACPS cautions that the cost estimates could vary, since the higher enrollment figures are a single data point – not necessarily a continuing trend.

ACPS notes that, while the parents or parent or a student may be an undocumented immigrant, it is entirely possible for the student to be a U.S. citizen. That is because of the Constitutional provisions granting citizenship to anyone born in the United States.[15] In addition, BFAAC notes that families of legal immigrants may be leaving nearby jurisdictions because the environment there is no longer welcoming – some may say actually uninviting.

[10] "Total Number of Actual ESL Enrollees: Nov. 1, 2007-Feb. 12, 2008 and Nov. 1, 2006-Feb. 28, 2007," ACPS. (Hereafter "ESL Enrollees").

[11] Id.

[12] Id.

[13] "Changes in ACPS Enrollment, September to January FY 2007 compared to FY 2008, Special Education Only," ACPS. (Hereafter "Special Education Enrollment").

[14] "Estimate of the Costs of Enrollment Growth," ACPS.

[15] U.S. Constitution, Amendment XIV.

**We have the following observations and recommendations:**

- **As the result of a study by ACPS, BFAAC is commenting on the fiscal effects of providing services to students who may have emigrated from Prince William County. BFAAC observes that the fiscal implications extend beyond ACPS. All new City residents use city services, which cost money. As a result, BFAAC urges the Council to study the influx of new residents and budget accordingly.**
- **Council should note that ACPS may need resources to provide legally mandated education to newly enrolled students.**
- **ACPS and City staff should monitor the pupil attendance figures on a monthly basis to determine if the trends outlined above continue, and discuss the issue at ACPS-City budget meetings.**
- **The ACPS Budget Advisory Committee and BFAAC also should work together to monitor the situation, and continue their joint meetings on this and other issues.**

## I. Special Events

Council appointed a City Special Events Committee to advise it on handling requests for Special Events within the City. According to the Committee, total City expenditures for special events in FY 2007 were $682,000. The City was reimbursed $215,000, leaving the net City expenditures at $467,000 for the year.[16]

The Special Events Committee recommended that the City should have an opportunity to re-evaluate each event's financial support status each year, prior to the event's next occurrence, in order to determine in which category the event should be placed: (1) Required to provide full cost recovery for City services from this point forward; (2) Required to provide full cost recovery to the City by the start of the events third year from the date of the category determination; and (3) Granted an exception because of the economic value the event provides to the City.

BFAAC applauds the Special Events Committee for its work, and endorses the majority of its recommendations. We agree that special events should be self-sustaining, meaning the City not bear the cost. As outlined below, BFAAC recommends that the pay-for-your event policy be put into effect as soon as is practicable – and no later than the FY 2010 budget. We also recommend that exceptions be rarely granted.

We urge that any policy Council adopts on Special Events be consistent and fair, and applicable across-the-board, no matter the sponsoring organization or what the special event supports.

All Special Events - be it the Red Cross Waterfront Festival, the Christmas Walk, the St. Patrick's Day Parade, the numerous ethnic festivals, or even a political rally at Market Square - have a cost to the City. Police Officers must be on hand for crowd control and traffic enforcement; Department of Public Works employees for clean up after events; and in some cases paramedics must also attend.

[16] Memorandum from Kirk Kincannon to James Hartman, Re: Special Events Policy and Procedure, Mar. 18, 2008.

**We have the following observations and recommendations:**

- **The City should require the sponsor of every Special Event to put up a cash bond or equivalent to cover the City costs.**
- **If the actual costs are less than the bond, the balance would be returned to the sponsor; if the costs exceed the bond, the sponsor would be billed accordingly.**
- **The policy outlined above should be applied to every Special Event.**
- **We urge that any policy Council adopts on Special Events be consistent and fair, and applicable across-the-board.**
- **The City Manager and Council should decide requests for exemptions from the policy on a case-by-case basis. Granting an exemption should be the exception.**

## J. Fleet Management Study

On March 6th, 2008 the City Manager forwarded to the Mayor and Council a memorandum entitled "Implementation of the Efficiency and Best Practices Study of Fleet Management." The study was completed by the Matrix Consulting Group and was overseen by the City Manager's Fleet Management Improvement Team (FMIT).

The consultant made 74 recommendations regarding such things as vehicle replacement, maintenance and repair, reducing the size of the fleet, reducing the size of some of the vehicles, revising the City's take-home policy, and enforcing the mileage reimbursement policy for miles traveled outside of the City during commuting. According to the City Manager's memorandum forwarding the Fleet Study to Council, the FMIT has recommended immediate acceptance and implementation of 64 of the recommendations for an immediate net savings of $210,000. The other 10 recommendations are under review. BFAAC commends the City for its willingness to study the issue of fleet management and the potential savings that could be realized in the operating budget.

One area of the study that BFAAC finds particularly noteworthy, especially in this time of tight budgets and possible increases in the real property tax rate, is the fiscal impact to the City of its vehicle take-home policy. According to the fleet study, under Administrative Regulation 7-3, which was last amended in 1991, the regular take-home use of a City vehicle was extended to 58 positions. The study points out that Alexandria currently has 188 take-home vehicles, more than three times the number allowed under City policy as expressed in the original AR 7-3. Unfortunately, the study does not quantify the cost to the taxpayer of the City's departure from the original policy, but it cannot be insubstantial.

In response to the study, the City Manager has issued a revision to Administrative Regulation 7-3 that once again specifies which positions within the City are authorized to the take-home use of a City vehicle. The result of the revised AR 7-3 (City Budget Memorandum #52) is an increase in the authorized number of take-home vehicles from 58 to 195.

BFAAC notes that the revised regulation significantly loosens the criteria applicable to take-home vehicles and also does not adopt the study's recommendations for changes to the regulation that would have linked use of a take-home vehicle to the benefit to the City for that use. In a sense, the study took an MFRI approach to the City fleet and applied a more rigorous justification process, especially as pertains to the police who account for 152 of the 195 authorized positions. As noted in the report, the consultant recommended the following criteria:

- With respect to the Police, the employee must reside within the City of Alexandria and be assigned to Police Patrol.
- With respect to Emergency Response, the employee has primary responsibility for responding to emergency situations which require the immediate response to protect life or property and the employee is called out at least 12 times per quarter on such calls.
- There is an economic benefit to the City--the cost of travel reimbursement would exceed the costs associated with a take home vehicle.
- The employee has primary responsibility for responding to emergency situations which require immediate response to protect life or property and the employee needs a special vehicle and/or carries specialized equipment … in order to perform their work outside of normal working hours.

BFAAC also notes that the revised regulation drops the requirement that operators of take-home vehicles who reside outside the City must reimburse the City for miles traveled outside the City during commuting—a policy that the study notes was never enforced.

Unfortunately, on this particular issue, the study did not include the logically comparable jurisdictions for Alexandria, namely Arlington, Fairfax County, Manassas and other surrounding jurisdictions, so we do not have take-home data from which to draw. However, we find the study's recommendations worthy of further consideration and urge the City Manager to apply an MFRI-type approach to the take-home policy set forth in Administrative Regulation 7-3.

**We have the following observations and recommendations;**

- **The City should, in the short term, review the fleet take-home policies of surrounding jurisdictions, most importantly Arlington, in connection with the revision of the Administrative Regulation 7-3 governing take-home vehicles.**
- **The City should apply an MFRI-type approach to the take-home policy set forth in Administrative Regulation 7-3.**
- **The City should consider revising Administrative Regulation 7-3 in a manner largely consistent with the recommendations of the study.**

# III. CAPITAL IMPROVEMENT PROGRAM

## A. Overview

Last year, BFAAC suggested a new framework for assessing proposed capital projects so that the City Council and the community could better evaluate the need for, and projected benefits of, each project in the CIP. We believed that this framework would allow Council to rank CIP projects in order of priority. The suggested framework consisted of spending targets, linkages between projects and the City's strategic plan, the determination of project benefits through the application of MFRI to capital projects, and "stage-gate" reviews. BFAAC believed that the new framework would make it possible for the Council to make careful and reasoned decisions on which projects to fully fund, scale back, slow down, or eliminate.

BFAAC's recommendations received the support of the City Council and the City staff. Since last spring, an extraordinary amount of staff work has taken place toward their implementation. On December 18th, City staff re-leased a memo entitled "CIP Best Management Practices Workgroup Progress" that described the measures they were working on to implement the new framework. The City Manager's Proposed CIP Budget is, in part, a result of those implementing steps. Target amounts for spending were set, linkages to the City's strategic plan through the application of MFRI to capital projects has begun, and the "stage-gate" review process has been initiated. Although we believe there are additional improvements to be made in the budget process, we commend City staff on an extraordinary effort over the last year. We also find the revised budget document to be clear, well-organized and more user-friendly than past budget documents.

**We have the following observations and recommendation:**

- **We commend the City Manager and City Staff on implementing a CIP Prioritization Process and recognize this development as a significant step forward in linking the City's Strategic Plan, the MFRI, and the CIP Budget.**

## B. CIP Targets

The City Council set targets for FY 2009 and FY 2010 operating budgets. BFAAC commends this effort. BFACC believes that setting budget targets is an essential tool for the City to judge whether it is living within its means. The City Manager has shown that it establishes fiscal discipline. The City Council resolution setting the maximum growth rate at 5% did much to guide the City Manager in proposing an alternative budget with 4.3% growth. We recommend that the practice of setting budget targets be extended to the CIP. Annual targets should consider the amount of funding available for cash capital over the life of the CIP, other long term commitments such as the effect of GASB 45 on the City's long term cash needs, and the maximum amount of available borrowing that is consistent with maintenance of a double AAA bond rating.

The CIP has long-term implications for the use of future revenues. The al-location of future revenues for cash capital and debt services will driven partially by CIP decisions made by this and future Councils. The application of growth targets to the CIP will ensure that today's capital spending decisions are made in a way that is consistent with the City's long-term economic outlook and its philosophy of responsible fiscal stewardship.

Further, we urge City Council to consider setting clear and transparent targets for each of the three tiers in the current CIP prioritization process: Tier I (Essential); Tier II (Very Desirable); Tier III (desirable). The targets should be proposed on an annual basis for each Tier. BFAAC recommends that the City consider setting an overall CIP target with specific targets for each priority tier.

The FY 2008 CIP contained project funding requirements in FY 2009 and FY 2010 for which sources of funding had not been identified. When Council approved the FY 2008 CIP, the funding shortfall was approximately $85 million. We applaud the City Manager's efforts, as reflected in the FY 2009 CIP, to better align funding needs with available resources.

The history of the CIP contains periodic spikes in the rate of capital expenditures. To aid this and future councils in moderating these spikes, we recommend that the City Manager develop a high-level, 20-year forecast of the City's capital project needs. The forecast should be updated to reflect the useful life of capital assets, both on-hand and in-progress; changes in the City's demographics that drive the need to change to type and quantity of services provided to Alexandria's citizens; and the availability of funding, which is a function of tax rates and general economic conditions. The forecast should be updated every three years or when City Council deter-mines that the conditions upon which the forecast is based have changed significantly. BFAAC believes that a long-term forecast will serve as a useful guide to City Council in determining the shape and extent of the annual CIP.

BFAAC notes that the ACPS' budget reflects efforts by the School Board to prioritize its CIP needs. This is an essential step to developing a complete picture of the capital needs that the City CIP must support. BFAAC believes that the City Manager and ACPS should work together with a joint goal of developing a process that results in an integrated set of CIP priorities for the City and the Schools.

**We have the following recommendation:**

- **We recommend that Council set targets for CIP, including specific targets for each of the three tiers, in the current "prioritization" process.**

## C. Linkage between CIP, the City's Strategic Plan and MFRI

BFAAC strongly supports a CIP prioritization process as the major means for ensuring a strong relationship between the City's Strategic Plan, the MFRI, and planned CIP expenditures. We commend the City Manager and City staff for putting a formal process in place to develop the proposed FY2009 - FY2014 CIP budget. The prioritization process classifies proposed CIP projects into one of four facility or infrastructure categories: recurring infrastructure maintenance; on-going improvement; major "infrastructure reconstruction;" or new projects. In addition, certain ongoing, self-funded, or state/regional projects are designated as "baseline" projects.

Using this taxonomy, the City's CIP Steering Committee groups proposed projects into three tiers (Tier I or "Essential," Tier II or "Very Desirable," Tier III or "Desirable") based on alignment to the City's Strategic Plan and related business considerations. The CIP Steering Committee then ranks projects within facility/infrastructure categories by tier, making funding recommendations by category/tier combination for four target CIP time-frames (FY 2009, FY 2010, FY 2011, and FY 2012–14). The funding recommendations associated with this category/tier ranking became the basis for the proposed FY2009–FY2014 CIP budget.

During the Council work session on the CIP budget, Council members commented on criteria used for meeting requirements of each tier of priority setting process. BFAAC recommends that priority setting process be enhanced, perhaps weighted, using "qualitative" and "quantitative" criteria to determine project priority. Some examples of additional criteria might be the project's ability to: contribute to increased public safety; support a more uniform distribution of assets and services across all City geographic areas; provide opportunities for future consolidation of the location of City assets and services; have a significant impact on City's operating budget especially when fully activated; and, to have a secondary impact in support of other City's strategic goals. (For example, a new sports facility could be designated a major evacuation site in case of manmade emergency or natural disaster.) These criteria should be linked to the elements of the City's strategic plan as tightly as possible.

| Category | FY2009 | FY2010 | FY2011 | FY2012 – FY2014 |
|---|---|---|---|---|
| Baseline Projects | **Funded** | **Funded** | **Funded** | **Funded** |
| Recurring Infrastructure | | | | |
| Tier I | **Funded** | **Funded** | **Funded** | **Funded** |
| Tier II | **Funded** | **Funded** | **Funded** | **Funded** |
| Tier III | **Funded** | Not Funded | **Funded** | **Funded** |
| Major Infrastructure Reconstruction | | | | |
| Tier I | **Funded** | **Funded** | Not Funded | **Funded** |
| Tier II | **Funded** | Not Funded | Not Funded | **Funded** |
| Tier III | Not Funded | Not Funded | Not Funded | **Funded** |
| Ongoing Improvement | | | | |
| Tier I | **Funded** | **Funded** | Not Funded | **Funded** |
| Tier II | **Funded** | Not Funded | Not Funded | **Funded** |
| Tier III | Not Funded | Not Funded | Not Funded | **Funded** |
| New Projects | | | | |
| Tier I | **Funded** | Not Funded | Not Funded | **Funded** |
| Tier II | Not Funded | Not Funded | Not Funded | **Funded** |
| Tier III | Not Funded | Not Funded | Not Funded | **Funded** |

**We have the following recommendations:**

- **We recommend that Council enhance the criteria used to decide the priority order of projects.**
- **We recommend that the City Manager and ACPS work together with a joint goal of developing a process that results in an integrated set of CIP priorities for the City and the Schools.**

## D. Business Case Analysis

BFAAC notes, that on its surface, the current CIP prioritization process is a workable means for ranking CIP projects for funding recommendations. We are concerned however, that the CIP Steering Committee may not have sufficient information about each proposed project to fully carry out its governance responsibilities by using the process as it is currently implemented.

In particular, we recommend that project owners submit a formal business case for each request to the CIP Steering Committee. This business case should be done once for each project, at Phase 2, “Alternative Analysis Approval.” It should include, at a minimum, an analysis of two to four alter-natives depending on the scope and complexity of the requirement; total lifecycle costs and schedule impacts for each alternative; so that potential operating budget impacts can be understood and anticipated; dependencies, if any, on other current or proposed CIP projects; and potential project risks.

To assist City department heads with developing business cases, we recommend that the CIP Steering Committee, with City Staff assistance, design a business case template that can be used by all project owners. The additional information provided by well-crafted business cases will significantly enrich the CIP Steering Committee’s analysis, providing stronger justification for CIP funding recommendations.

**We have the following observations and recommendations:**

- **The current CIP Prioritization Process provides a workable structure for the CIP Steering Committee to use in making funding recommendations; we are concerned, however, that the CIP Steering Committee may not have sufficient information in every case to make sound funding recommendations.**
- **We recommend that the CIP Steering Committee, with City Staff assistance, design a business case template, providing owners of proposed projects the means to articulate total lifecycle costs and other key information needed by the CIP Steering Committee to make fully-justified funding recommendations.**

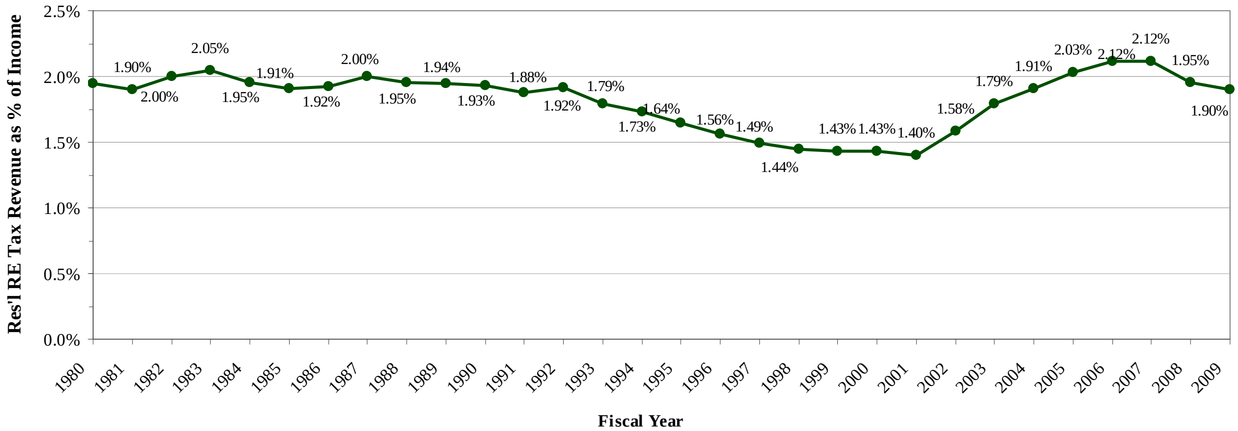
# IV. REVENUES AND OUTLOOK

BFAAC has the following observations and recommendations regarding revenues and the outlook for the future.

## A. Tax Rate Issues

Commencing with BFAAC's report on the FY 2004 budget, we tracked the percentage of per capita income that goes to pay the residential real property tax, including taxes on multi-family apartment units otherwise classified as commercial properties. The data below indicates that Alexandrians historically have paid in the range of 1.40% to 2.12% of personal income for real property taxes. We recommend that the City Council continue to monitor the real property tax burden using these historical ranges.

The updated chart below shows the percentage of per capita income that goes to pay the residential real property tax falling below 2% in 2008 and 2009 (projected). This decline is clearly a reflection of the decrease in real property values and is likely to remain below 2% if there is no increase in the real property tax rate.[17]




**We have the following recommendation:**

- **We urge City Council to continue to track the percentage of per capita income applied to residential real property tax and to be especially cautious in setting property tax rates that result in tax/personal income ratios above historical ranges.**

[17] BFAAC notes that the data in this chart supersedes the graphs in our prior annual reports as well as the chart in the FY 2009 Proposed Operating Budget (page 7-5) because of an OMB change in the calculation methodology. Data in prior years did not reflect either income or population updates. The new data reflects changes from one fiscal year to another and is based only residential assessments.

## B. Debt Policy Guidelines

BFAAC has long advocated that the City's debt policy remain within the established guidelines. While the primary purpose of this policy is to ensure maintenance of our bond ratings, it is also a reflection of our creditworthiness and fiscal discipline.

The marked increase in real property values in recent years was the basis for our prior recommendation that the debt guidelines related to personal income be recalibrated. We note that the City Manager is recommending an upward adjustment to the guideline on per capita debt as a percentage of personal income to resynchronize this guideline with the guideline on debt as a percentage of real property values. (See FY 2009 Budget Overview, 4-16). We continue to support this recalibration to ensure the relevance and usefulness of the guidelines.

At the same time, we would like to register our concern about the growing portion of City expenditures represented by debt service payments. As noted in the City Manager's budget documents (see FY 2009 Budget Overview, 4-18), debt service payments now make up about 6.27% of governmental expenditures, up from 2.25% in 2000. A detailed description of the CIP Impact on the Operating Budget and the Debt Service as a Percent of General Government Expenditures is found at pages 2-22 and 2-25 of the City Manager's Proposed FY 2009 CIP.

**We have the following recommendations:**

- **Any revision to the debt policy guideline on personal income should not be made primarily to justify additional borrowing.**
- **The impact of increasing debt-service payment obligations should be carefully monitored.**

## C. Revenue Diversification

BFAAC remains committed to maintaining a long-term perspective in budget matters. We renew our concern about the dangers of the City's continued heavy reliance on cyclical real property taxes, acutely highlighted by the current declining residential real estate assessments. As we have previously noted, revenue diversification reduces the real estate tax burden on homeowners.

### (1) Economic Development

The City Manager's Proposed FY 2009 operating budget provides $3.2 million for economic development activities. Our FY 2008 BFAAC Report contains an extensive history of the City's economic sustainability initiatives. In recent years we have repeatedly stressed the importance of economic development in maintaining a sustainable and predictable revenue source, noting that revenue diversification reduces the real estate tax burden on homeowners and expands our tax base. While the City continues to make a substantial investment of both time and money in the area of economic development, there is still no comprehensive and coordinated approach with the direct City Manager oversight that we have previously recommended.

BFAAC sees progress in some respects, but is concerned that implementation of certain aspects of the Recommendations of the Mayor's Economic Sustainability Work Group ("Work Group") seems to be in some jeopardy. While the Work Group's recommendation that an Implementation Task Force be formed to monitor follow-up on the report, the successor group has just been formed, and several recommendations in the Work Group's report on "Focus of Economic Development Activities" and "Organization, Vision and Performance of Economic Development Functions" have not been moved very far, and in some cases, appear not to have been addressed at all.

Specifically, progress is evident on several fronts and is to be commended:

- The focus on waterfront development;
- Preparation for tourist impact related to the opening of the Gaylord development across the river;
- A more aggressive and planned approach to ACVA activity including a branding study and new approaches to attract tourists;
- Adoption of the Braddock Road Small Area Plan including more density and commercial activity near the Metro station;
- Study of possible additional Metro stations prior to any intensive development at possible additional sites for stations;
- Progress on the Van Dorn/Landmark Small Area Plan study;
- Proposed changes in SUP procedures and a more customer-friendly approach by code enforcement and planning staff;
- Creation of the follow-up Monitoring Committee to oversee implementation of the Work Group's report of last year (the committee consists of 2 members of the original Work Group, a Chamber representative, and two members of Council, and will meet monthly);
- Advertising of a new Assistant City Manager position to coordinate City Economic Development activities with the staff and with outside groups (however, see below).

Nevertheless, meaningful progress is lacking on other Work Group recommendations:

- Requiring performance measures and performance-based contracts with the economic development and tourism groups, AEDP, SBDC and ACVA, and other City funded organizations;
- Lack of renaming AEDP as recommended, and failure to reconstitute the AEDP board, both in structure and refilling of the board seats;
- Absence of clarity on authority of new Assistant City Manager position responsible for economic development to meaningfully coordinate economic development activities.[18]

**We have the following observations and recommendations:**

- **Although the City is moving on aspects of an overall economic development strategy, gaps in fulfilling several Work Group recommendations exist. The City should provide increased focus and resources for necessary planning, policy**

[18] We are advised that an Assistant City Manger position was recently advertised but the described duties do not replicate the extent or detail of the recommendations. Although AEDP has since hired a President and CEO, the recommended reconstitution of the board and the study of the organization's mission and functions have not been completed.

**guidance, contracting and measurable performance standards plus regular oversight and control of City spending on economic development activities.**

- **The City should take immediate action to review the nature of the recently announced Assistant City Manager position and hire, appoint or otherwise designate a qualified economic development professional to coordinate economic development planning, policy guidance, and oversight.**

### (2) Commercial Real Property Tax Rate

Following passage of HB 3202 during the General Assembly's 2007 legislative session which enabled Alexandria to adopt an add-on real estate tax for commercial property to fund the City's transportation initiatives, Council formed an ad hoc study committee to review the options and to make recommendations as to whether or not to adopt the tax and, if so, at what rate.[19] The Ad Hoc Commercial Real Estate Tax Option Study Committee concluded that there were a number of vital transportation projects awaiting funding and that the estimated capital funding for some of these projects over the next few decades was estimated to be $687.7 million to $978.7 million for Alexandria alone. Recognizing the impact on small retailers, the Committee recommended setting the add-on rate at no less than $.02 and no more than $.04 for FY 2009, that the rate be reviewed annually in the context of existing market and economic conditions, and that small retailers be afforded special tax relief if a rate in excess of $.02 is adopted by Council.[20] At its March 15, 2008 meeting, the Council adopted a rate not to exceed $.02 for FY 2009.

In our FY 2008 Report on the City Manager's Proposed Budget, BFAAC noted that the add-on option afforded Alexandria an opportunity worthy of consideration and that the City should continue to analyze its transportation needs and allocate the anticipated revenues to future transportation-associated operating and CIP budget projections. We endorse the Ad Hoc Committee's analysis.

**We have the following observations and recommendations:**

- **In light of current economic conditions and the anticipated FY 2009 real estate tax revenue projections, the commercial add-on tax at a rate to be determined annually will provide the City with a source of transportation-dedicated revenues.**
- **In future years the annual rate should be set in the context of current market and economic conditions and at a rate consistent with the City's efforts to attract and retain its commercial tax base.**
- **It is imperative that the City continue to evaluate and prioritize its long-term transportation needs and be able to demonstrate the positive economic impacts of these initiatives to the affected commercial real estate tax base.**

---

[19] Resolution No. 2259-November, 27, 2007.

[20] As enacted, HB 3202 affords Alexandria an opportunity to adopt an add-on rate not to exceed $.25; Arlington and Fairfax Counties are expected to adopt an add-on rate in the area of $.12.

### (3) Northern Virginia Transportation Authority Revenues

As a result of the February 29, 2008 Virginia Supreme Court ruling that struck down the Northern Virginia and Hampton Roads Transportation Authorities' power to impose taxes, Alexandria has lost the capability to fund a number of needed transportation initiatives. Alexandria's FY 2009 share of the anticipated $281.2 million NVTA funds was estimated at $16.2 million of which Alexandria was expecting $2.2 million in FY 2008 and $6.5 million in FY 2009.[21] This has resulted in a $5.8 million shortfall to the proposed FY 2009 CIP and a loss of $.2 million for FY 2008 and $1.7 million in FY 2009 for transportation-related operating expenses. In addition to these losses, Alexandria was relying upon a significant share of the NVTA 60 percent revenues to fund its annual WMATA share ($8.5 million) and three additional FY 2009-FY 2010 projects.[22] The City is also expected to lose $3 million annually in VDOT funds, in part, as a result of the repeal of the Abusive Driver Fee. The loss of these anticipated revenues is expected to have immediate and long-term implications inasmuch as it now appears that transportation funding legislation is dependent upon a General Assembly compromise plan and a special session that will extend beyond the City's May 5, 2009 budget adoption.[23] The City Manager has identified four areas of consideration to address the adverse impact of the loss of NVTA revenues, if not restored through a plan adopted by the General Assembly, all of which have immediate and long-term implications:[24]

**Forgo Transportation Projects**. As noted by the City Manager in his March 6, 2008 Memorandum to Council, deferral or cancellation of some of these projects may not be possible because procurement and financial commitments have already been undertaken. Additionally, BFAAC observes that postponement of many CIP items carries with it the likelihood of increased costs in future years.

**Reduce Expenditures.** The City Manager has also indicated that expenditure reductions beyond those already identified to maintain current service levels at a 2.9 percent rate of growth would adversely affect the operating and CIP budgets. Furthermore, the additional transportation-related expenditures could not be funded under the proposed budget.

**Increase Debt**. Although increasing debt can be accommodated within the adopted debt policy guidelines, the impact on future operating budgets needs to be evaluated.

**Raise Taxes.** The City Manager has identified 9 tax alternatives that would afford the City the option to raise revenues through increased taxes.[25] Although the City Manager's Proposed FY 2009 Operating Budget describes the individual taxes and the legislative authority therefor, it

---

[21] Under the NVTA formula, NVA localities, including Alexandria, were allocated 40 percent of the funds with the remaining 60 percent managed by NVTA for mutually beneficial regional projects. City Manager Memorandum-March 6, 2008.

[22] Crystal City/Potomac Yard BRT ($8.5 million); King Street Metro Parking Reconfiguration ($840,000); and Holmes Run Pedestrian/Bicycle/Tunnel improvements ($560,000).

[23] Prior to the close of the General Assembly's Regular Session, a Senate negotiating team proposed increases in the sales tax, grantors' tax, and hotel occupancy tax to raise state revenues for transportation; the House negotiating team responded negatively to any statewide transportation taxes preferring to have localities adopt any transportation replacement taxes. Bernard Caton Memorandum-March 10, 2008.

[24] City Manager Memorandum-March 6, 2008.

[25] Budget Memorandum#25-March 10, 2008.

would provide an additional measure of transparency (and be helpful in our annual review) if there were an indication of the rates imposed in neighboring jurisdictions.

BFAAC has long advocated that the City make every attempt to ease the burden on the residential taxpayer and to look to revenue sources beyond the real property tax base. We commend the City Manager's initiative in reviewing options to increase the personal (vehicle and business) property taxes, utility (residential and commercial) taxes, business license taxes, cigarette taxes, transient lodging and meals tax, and admissions tax. These options should be evaluated annually.

In addition to the options identified by the City Manager, other proposals to address regional transportation needs may be considered by the General Assembly in the upcoming Special Session. A Senate proposal to fund the NVTA through a number of State-imposed regional taxes as well as statewide taxes has been vetted in the Senate. A House proposal would be to authorize localities to impose the same taxes previously imposed by the NVTA and to fund the NVTA through a number of State taxes.[26] Council may also want to re-examine the merits of advocating General Assembly action in re-introducing the regional sales tax for transportation purposes in Northern Virginia.[27] While this measure was rejected in a Northern Virginia referendum in 2002, the City's, as well as the region's transportation needs have increased significantly. In a June 15, 2002 report to Council on the proposal, BFAAC observed that the initiative was a preferable alternative to meeting Alexandria's future transportation needs.

**We have the following recommendations:**

- **Options to diversify tax revenues should be evaluated annually.**
- **Council should first concentrate on increases to fees and non-residential real estate taxes that can best be borne by non-residents.**
- **In addition to the legislative authority for various taxes and fees, the City Manager's annual Proposed Operating Budget should include as a permanent feature an indication of current and comparable rates in neighboring jurisdictions.**
- **Council should strongly support appropriate General Assembly revenue initiatives that will help restore funding of local and regional transportation needs.**

### (4) Physical Assets Inventory

One of the findings of the Mayor's Economic Sustainability Work Group noted that the City lacked an asset inventory and long range plan for the sale of City-owned properties with development potential.[28]

BFAAC has been advised that the City is currently developing an RFP to contract for a physical asset inventory. According to OMB staff, the purpose of such an inventory would be to identify

[26] Budget Memorandum#32-March 17, 2008

[27] The area included Arlington, Fairfax, Loudon and Prince William Counties, and the cities of Alexandria, Fairfax, Falls Church, Manassas and Manassas Park at an add-on rate of $.05

[28] Recommendations of the Mayor's Economic Sustainability Group, October 27, 2007.

and list all City facilities and properties and assess whether any might be candidates for sale depending on City use or potential use, condition and potential value at sale.

**We have the following recommendations:**

- **BFAAC encourages the City to expedite the physical assets inventory process as it could lead to added revenue and decreased maintenance costs of assets that are no longer of value to the City.**
- **This inventory would also be the foundation for compiling and tracking assets that might need major renovation or replacement in future years.**

### (5) Fees

The City has begun a review of some of its fee for service structures. BFAAC has long advocated periodic review of fees and comparisons with neighboring jurisdictions to help assure a best effort to recapture related operating costs. We generally support the fee increases proposed by the City Manager, including increases in the refuse user fee, parking meter rates and ambulance fees. Having previously observed that the City lacked a comprehensive listing of the fees as well as any regular scheduled fee review and adjustment, we are pleased to note that an Online Fee Compendium has been rolled out. It is a "work in progress" but a good effort that will be useful in future budgeting and planning.[29]

**We have the following observations and recommendations:**

- **BFAAC recommends the expansion of the fee compendium detailing all fees currently collected by City departments for inclusion in future budgets and periodic review and adjustment of fees to optimum levels.**
- **BFAAC urges Council to review each fee periodically to ensure the recapture of associated operating costs.**

## D. Dedicated Revenue Sources

Despite some reservations, in our FY 2004 Report on the City Manager's Proposed Budget, BFAAC acknowledged the challenges in trying to achieve the City's goal of maintaining 7.5 acres of open space for every 1000 Alexandria residents, and endorsed a one cent set-aside from the real property tax rates.[30] We recognized that the planned acquisition of 100 acres by 2012 posed significant funding issues, but observed the potential precedent for other program funding through set-asides, and the fact that the proposal's non-binding character might not be well understood by the public.[31]

---

[29] Budget Memorandum#61-April 4, 2008

[30] FY 2007 the set-aside rate was revised to one percent of real estate tax revenues.

[31] In prior years, e.g., FY 2001-FY 2003, seed money for funding open space purchases was part of the annual CIP in the proposed Parks and Recreation budget.

In FY 2006 the City Manager proposed, and Council adopted, an additional set-aside of one cent for dedication to the affordable housing initiatives.[32] At the time of the adoption of the initial set-aside, we repeated our reservations and recommended that the set-aside remain operative for period of 3-5 years and then automatically terminate (sunset) unless explicitly renewed by Council.

In our FY 2007 report, we called for an annual review of the set-asides in the context of other needs and priorities and clearly expressed our concerns about such a budgetary device. The chart below summarizes the revenues derived from the set-asides to date:

| Set-Aside Revenues and Rates | | | | |
|---|---|---|---|---|
| | Open Space | Rate | Affordable Housing | Rate |
| FY 2004 | $2.905 M | $0.01 | n/a | $0.01 |
| FY 2005 | 2.296 M | $0.01 | n/a | 0.01 |
| FY 2006 | 2.760 M | 1% | $2.76 M | 0.01 |
| FY 2007 | 2.658 M | 1% | 3.288 M | 0.01 |
| FY 2008 | 2.719 M | 1% | 3.356 M | 0.01 |
| FY 2009 | 2.868 M | 1% | 3.485 M (projected) | 0.01 |
| Totals | $16.210 M | | $ 13.09 M | |

The chart below summarizes the expenditures from the set-asides to date:

| Set-Aside Expenditures[33] | | | | |
|---|---|---|---|---|
| | Open Space | Debt Service ($K) | Affordable Housing | Debt Service |
| FY 2004 | 0 | 0 | n/a | n/a |
| FY 2005 | $.754 M | $249 | n/a | n/a |
| FY 2006 | 3.85 M | $889 | $2.76 M | 0 |
| FY 2007 | 5.10 M | $864 | 3.28 M | 1.635 M |
| FY 2008 | TBD | $844 | 2.071 M (pending) | 1.56 M |
| FY 2009 | TBD | $829 | 1.97 (budgeted) | 1.519 M |
| Totals | $9.7 M+ | $ 3.68 M | $10.08 M + | $4.71 M |

In reviewing the FY 2004-2009 Operating and CIP budgets we noted that the dedicated revenues and expenses associated with open space acquisition were transparent and readily identifiable and while the dedicated revenues for affordable housing initiatives were also transparent and

[32] In prior reports BFAAC had indicated that these funds were deposited in the Affordable Housing Trust Fund. In preparing this year's report we learned that while the revenues are ear-marked for affordable housing initiatives, they are part of the Office of Housing's operating funds and transferred as needed.

[33] The set-aside expenditures for open space acquisition were clearly identifiable in the annual budget documents; the affordable housing expenditures were not and required OMB staff assistance to find.

readily identifiable, the expenditures were not clear in the budget document (although relevant information is contained in Budget Memorandum #80, April 9, 2008).

Notwithstanding the success of the set-asides in raising revenues for these programs, BFAAC renews its concern that this method of funding programs creates a troublesome precedent that regardless of its non-binding nature, appears as an irrevocable dedication of revenue to a particular program. While it may be a reflection of Council's stated policy or intent, it is a misleading budget concept in that it purports to segregate funds for a stated purpose, but can be overridden at any time.

Moreover, in challenging budget years such as this one with increasing costs to maintain current levels of service and limited growth of anticipated revenues, competing needs must be reviewed and evaluated on their individual merits. In our FY 2008 annual report, we observed that automatic designations are not consistent with the transparency and flexibility that Council advocates in the budget process.

**We have the following recommendations:**

- **BFAAC continues to oppose the advance commitment of tax revenues as a budgetary tool; expenditures for specific objectives should be made in the context of annual decisions as part of the budget process.**
- **In the event that Council continues to use dedicated revenues to fund the City's Operating and CIP budgets, the revenues and expenditures for each established set-aside should be transparent and clearly identifiable.**