


# City of Alexandria, Virginia

## MEMORANDUM

DATE: OCTOBER 29, 2019

TO: THE HONORABLE MAYOR AND THE MEMBERS OF THE CITY COUNCIL

FROM: MARK JINKS, CITY MANAGER 

SUBJECT: SUBMISSION OF BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC) FY 2021 MEMO #5 – CITY OF ALEXANDRIA REVENUE CONSIDERATIONS

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During the FY 2020 Budget Development Process, the following question was submitted by Councilman Aguirre as part of the Budget Questions & Answer Process:

*“What are the possibilities of advocating for more local authority in regards to city revenue generation? What are our options in terms of a potential progressive tax, income tax or other revenue generation?”*

As part of the response posted on March 14, 2019, staff recommended that BFAAC prepare a report on potential tax revenue initiatives. Over the last several months, BFAAC developed a memo and approved it at their October 15, 2019 meeting.

The City Council Legislative Subcommittee is currently in the process of finalizing a draft of the City’s 2019/2020 Legislative Priorities. The revenue considerations discussed in this memo may inform the development of the Legislative Priorities for this session, or future sessions of the General Assembly.

### ATTACHMENTS:

1. FY 2020 Budget Question #02
2. BFAAC Memo #05 – City of Alexandria Revenue Considerations

CC: Laura Triggs, Deputy City Manager  
Sarah G. Taylor, Legislative Director  
Chair & Members of Budget and Fiscal Affairs Advisory Committee (BFAAC)

# City of Alexandria, Virginia

## MEMORANDUM

DATE: OCTOBER 15, 2019

TO: THE HONORABLE MAYOR AND THE MEMBERS OF THE CITY COUNCIL

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: MEMO #5 – CITY OF ALEXANDRIA REVENUE CONSIDERATIONS

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In our Report on the City Manager's Proposed Budget for Fiscal Year 2020 we indicated that we would provide a subsequent memo that reflects on the range of possible revenue sources that could result from a changing political climate in Richmond, as well as various other federal, state, non-profit and public-private opportunities. This memo is informed by discussions with City staff, as well as Committee discussions and external research. It is not our intention to present the content of this memo as comprehensive or definitive; our aim is to inform and empower subsequent Council deliberations on this crucial issue.

### **Background:**

Over the last decade, BFAAC has consistently emphasized the importance of developing a strategy to grow and diversify the City's revenue base to maintain pace with projected expenses for the City.<sup>1</sup> Absent a concerted effort to increase revenue, the City Council will be faced with substantial and growing budget gaps over the next five years. BFAAC continues to urge the City Council to develop a long-term revenue plan with actionable strategies and metrics to increase revenue and reduce the threat of annual budget gaps that force the City Council to make annual decisions on taxes and spending to close short-term gaps that may have longer term ramifications. With that in mind, we have worked to develop a thorough—but not necessarily comprehensive—list of revenue sources and strategies for your review and consideration as you enter into your budget planning process this fall.

### **Sources of Revenue**

*Property Taxes:* Revenue from real property represents 61 percent of the total for FY 2020. Property tax revenue changes by either increases in the assessed value or the property tax rate. A change in property tax rate has the most immediate effect on the City's revenue. The FY 2020

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<sup>1</sup> For example, the FY 2013 BFAAC report recommends: "To diversify our commercial base, Council should set a goal for the types of business the City wishes to attract. A strategic plan should be developed that includes the necessary incentives to attract and retain such businesses." City of Alexandria Budget and Fiscal Affairs Advisory Committee, "Report on the City Manager's Proposed Budget for Fiscal Year 2013," available at <https://www.alexandriava.gov/uploadedFiles/budget/info/budget2013/memos/BM27BFAACFY2013Report.pdf>.

property tax rates for Alexandria are below Prince William and Fairfax and higher than Loudoun counties. Arlington has a lower rate for residential and a higher rate for commercial. Of these jurisdictions, Alexandria is the smallest in both land area and population of these jurisdictions yet provides the same level of services as our neighbors.

*User Fees:* In recent years the City has successfully implemented user fees related to storm water and sewer utilities to offset the spending needed for infrastructure improvements. Fees related to services such as recreation facilities, parking meters, ambulance use, refuse collection, etc., can also help offset expenses. Other revenue areas requiring review include taxes for business licenses, food, lodging, vehicle licenses, utility tax, and recordation tax. The City has additionally implemented a system to collect lodging taxes from home-sharing operator Airbnb; and we should explore other opportunities to derive revenue from new “disruptive” technologies, such as car-share companies, businesses that occupy office-sharing facilities, blockchain enterprises, electric vehicle charging, and personal mobility devices like e-scooters and e-bikes. As part of considering revenue opportunities related to new and emerging technologies the City should also perform an assessment of potential revenue *loss* from these technologies, such as electric vehicle use impact on projected gas tax collections. The City has also made effective use of third-party collection resources to maximize fee and tax collection in targeted areas and urges Council to consider expanding this effort, with adequate accommodation for residents’ ability to pay. An example of an expanding effort might include investigating whether all businesses required to have a license do in fact have one.

*Economic Development:* The arrival of Amazon HQ2 in Northern Virginia as well as the announcement of the Virginia Tech Innovation Campus in Potomac Yard make it more important than ever to ensure a thriving commercial market sector so as to attract and retain businesses of all sorts, but especially those providing complimentary functions and services in sectors related to both Amazon and Virginia Tech. BFAAC observes that the Alexandria Economic Development Partnership (AEDP)—as a result of leading the recruitment of Virginia Tech to Alexandria and participating in the regional recruitment of Amazon—has significant insight and research in this regard. With additional support and cooperation and a mandate to lead and coordinate efforts among such entities as the Chamber of Commerce and local business associations, AEDP will remain an indispensable resource in providing Council with data-based strategies and policy recommendations to grow commercial development. Our own efforts, along with joint efforts like the recently announced ten-jurisdiction partnership,<sup>2</sup> are a promising path to revenue growth as well as a diverse and sustainable revenue base.

*City-owned Property Assets:* Additional revenue may be derived through better and higher uses of City-owned real estate. BFAAC encourages the City to complete and subsequently utilize the Joint Facilities Masterplan, along with the recently completed (or soon to be completed) inventory and condition assessment of real property. We are hopeful these data will be combined with similar data prepared by Alexandria City Public Schools (ACPS) and lead to efficiencies in procurement, maintenance and space utilization. Further, we encourage Council to have an open

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<sup>2</sup> [https://www.washingtonpost.com/local/northern-virginia-counties-and-cities-form-alliance-to-lure-companies-and-jobs/2019/09/15/d9e800a0-d667-11e9-9610-fb56c5522e1c\\_story.html](https://www.washingtonpost.com/local/northern-virginia-counties-and-cities-form-alliance-to-lure-companies-and-jobs/2019/09/15/d9e800a0-d667-11e9-9610-fb56c5522e1c_story.html)



and fact-based conversation about the best use of such assets as the Torpedo Factory and City Hall.

*State Funding:* If enabled by the State, there are other sources of revenue that can benefit the City. BFAAC encourages the City to pursue all avenues and means to expand State-enabled local options for revenue, and increase reimbursements for state employees, transportation related programs, public safety, education, and health services. State funding for transportation projects can also unburden our need to use cash that could be re-allocated to closing the budget gap or invested in Capital Improvement Projects. We should start with a landscape analysis of our current revenue authority: what is being used, what has been used in the past, and what are the quantifiable effects of that use. We should endeavor to clearly connect a requested revenue authority to its intended funding use. BFAAC suggests the Legislative Agenda should include strategies to find support for and promote increased funding for local needs; with the important caveat that we should be determined to follow through on the execution of any new revenue authority request, and do not gain authority we do not intend to implement.

*Federal Funding:* The City should aggressively pursue grant, loan, and other funding from programs that share important outcomes with the City. For instance, the City should consider leveraging relationships with the Alexandria and Virginia Congressional delegation to advocate for greater infrastructure investment in the City. The City should likewise seek grant funding to supplement its own programs aimed at important outcomes such as opioid addiction reduction, improved academic achievement, crime reduction, and affordable housing. It's worth noting that knowing what federal funding might be available and how to successfully apply for such funding is a specialized area of expertise; the City should assess whether there is adequate internal capacity in this regard, and if not, consider contracting with a federal affairs professional to augment and accelerate this effort.

*Philanthropic Funding:* Foundations and other not-for-profits are increasingly investing in local efforts to address important issues. For example, Lumina Foundation makes grants to cities that attract, retain, and cultivate talent through their Talent Hubs initiative;<sup>3</sup> Bloomberg Philanthropies, the Bill & Melinda Gates Foundation, and the Ballmer Group recently launched a joint effort to help cities increase economic mobility;<sup>4</sup> the Walton Family Foundation invests in cities where conditions support system-wide educational improvement;<sup>5</sup> the Kresge Foundation invests in meaningful improvement in communities to advance opportunity for people with low incomes;<sup>6</sup> and the MacArthur Foundation has done social impact investing in Chicago and other cities.<sup>7</sup> Alexandria should not ignore grantmaking by mission-driven philanthropic foundations as a potential source of revenue. A strategic plan regarding City efforts to increase federal, state, and not-for-profit funding in Alexandria would strengthen collaboration across City departments in the pursuit of these additional investments.

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<sup>3</sup> <https://www.luminafoundation.org/news-and-views/lumina-foundation-designates-17-cities-as-talent-hubs>

<sup>4</sup> <https://www.bloomberg.org/press/releases/bloomberg-philanthropies-bill-melinda-gates-foundation-ballmer-group-announce-ten-u-s-cities-join-new-initiative-increase-economic-mobility/>

<sup>5</sup> <https://www.waltonfamilyfoundation.org/our-impact/k12-education/investing-in-cities>

<sup>6</sup> <https://kresge.org/programs/american-cities-practice>

<sup>7</sup> <https://www.citylab.com/equity/2017/06/the-comeback-investment-in-cities/528963/>

*Congestion Pricing:* The policy of charging vehicle drivers a fee to use high demand roadways during peak times is known as congestion pricing; a number of American cities have recently begun to study and even implement this idea. In addition to generating revenue, the fee has the second order effect of incentivizing drivers to choose alternate modes, routes, or times of travel. Cities experimenting with this policy have seen reductions in traffic, increased public transit usage, and positive environmental effects. New York City is currently exploring congestion pricing<sup>8</sup> and the idea has also been endorsed by former Secretary of Transportation Anthony Foxx.<sup>9</sup> Alexandria should study the feasibility and anticipated revenue of congestion pricing in the Route 1 corridor, as well as options to mitigate the regressive nature of the policy to ensure affordable access for low-income residents needing to utilize the pricing zone during high-use periods.

*Public Private Partnerships:* Following the Joint Task Force recommendation that the City pursue nontraditional solutions for delivering services, the Manager included a new P3 position in his FY2019 budget. While the City has engaged KPMG to assist in defining the objectives and scope of a P3 program and educating staff in alternative delivery project principles, the position has not been filed. BFAAC encourages the City to hire an experienced P3 professional with a background helping both public and private entities maximize asset utilization by consolidating services, sharing facilities management, supporting specialized projects, and re-purposing all or portions of high value properties. While such partnerships can result in some revenue generation, they should primarily be viewed as cost saving or sharing opportunities to free up cash for other priorities. BFAAC also recognizes that the City must enter into relationships carefully to ensure that public interests are protected. The City should review requirements for P3 established by the Commonwealth of Virginia to determine where we are limited and might want to seek necessary changes.

*Payments in Lieu of Taxes (PILOTs):* The City of Alexandria raises about 61% of its revenue from real estate property taxes. Charitable non-profit organizations, of which the City of Alexandria has in abundance in local buildings, are exempt from property taxation in all fifty states. As a result, the amount of tax revenue foregone due to this exemption for the City is likely significant relative to similar municipalities. PILOTs are a way for tax-exempt organizations to compensate local governments for revenue lost due to the exemption. They allow the non-profits to share the cost of the use of public services provided by the municipality. PILOTs were used in at least 18 states in the early 2000s and the use seems to be growing as municipalities look for additional revenue sources. PILOTs as a revenue source are most useful for municipalities with a large share of tax-exempt property. PILOTs are voluntary for the non-profits. The best approach for the City, if it were to implement such a program, would to have multi-year agreement for all tax-exempt organizations within the City limits. The City could also insert PILOT requirements into zoning, permitting, and other regulatory activities. The City could focus on the larger organizations that would have sufficient funding to support the City. BFAAC recommends the City commission a study into the feasibility of using PILOTs.

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<sup>8</sup> <https://www.nytimes.com/2019/03/26/nyregion/what-is-congestion-pricing.html>

<sup>9</sup> <https://medium.com/sharing-the-ride-with-lyft/the-new-frontier-congestion-pricing-in-america-ba99c3721c98>

**Conclusion:**

Our purpose in this memo was to present a (non-exhaustive) list of revenue raising ideas and strategies for the consideration of City Council. We are certainly not unaware of the wide variety of feasibility and implementation challenges of these ideas, nor the political complexities inherent in many of them; up to and including the potential need of a public referendum to build and demonstrate support for the most ambitious of these ideas. Given that, our simple and straightforward recommendations are as follows:

- Pick one or two of the more practical ideas and pursue immediate implementation;
- Pick one or two of the more ambitious ideas and initiate the process of studying and discussing them;
- Support the inclusion of language in this year's legislative package that supports local revenue authority to empower the full range of tools available to us.

## Conclusions

The purpose of this paper was to present a new extension of the law of conservation of energy to the case of a system of particles. We are convinced that a new way of looking at the conservation of energy will lead to a new understanding of the physical world. In fact, it is not enough to say that the law of conservation of energy is valid. It is also necessary to show that the law is valid in all cases. This is what we have done in this paper.

- First, we have shown that the law of conservation of energy is valid in all cases.
- Second, we have shown that the law of conservation of energy is valid in all cases.
- Third, we have shown that the law of conservation of energy is valid in all cases.