City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 6, 2009

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO # 75: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC) REVIEW OF THE FY 2010 PROPOSED BUDGET

The Budget and Fiscal Affairs Advisory Committee (BFAAC) has completed its analysis of the FY 2010 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 6, 2009.

City of Alexandria Budget and Fiscal Affairs Advisory Committee

Report on the City Manager's Proposed Budget for Fiscal Year 2010

Dennis Auld
Elliott Branch
James Butler, Secretary
Mark Feldheim, Vice Chair
Paul Friedman
Margaret Gullen
Holly Hemphill
Dennis Jones
Laurie MacNamara
Tracy Rickett, Chair
Matt Tallmer
Lindsey Vick
Michael Wenk

Table of Contents

EXECUTIVE SUMMARY

The Budget Process

- BFAAC recommends a continued review of the factors used in MFRI and an analysis of the experience to date to continue to improve the process. This review should be supplemented by movement toward combining an enhanced and revised City Council Strategic Plan, based on broad citizen input, and detailed planning by programs and activities, over a longer time horizon, that links the Strategic Plan, performance measures, program evaluation efforts and the annual budget process.

The Operating Budget

- BFAAC commends the City's Manager's willingness to make hard personnel choices, including a salary freeze, and to employ MFRI for the value-added delivery of services.

- BFAAC supports the intent of the Compensation and Classification study now moving toward implementation and looks forward to seeing the results, with implementation as quickly as possible.

- BFAAC supports the concept of performance-based compensation and encourages the City to continue to move toward implementing it.

- BFAAC supports efforts to reduce the emphasis on benefits, as is being proposed this year in relation to new employees. BFAAC also believes in a "total compensation" approach with an appropriate balance between salary and benefits as the means to attract and retain competent employees.

- BFAAC supports and encourages the City to work with departmental managers and the Executive Safety Committee to implement the City's enhanced efforts to improve safety, reduce risk and attempt to lower workers' compensation claims and costs.

- A system should be established to provide for monitoring the status and employment history, if any, of those on full disability retirement.

- In view of recent reports in other jurisdictions of misuse of the disability retirement option afforded public employees, the City should provide a more transparent review of the disability retirement program. BFAAC also recommends that a study be made of the efficacy of the current system for both the City and affected employees.

- The City should further examine the possibility of moving toward a 5-year financial forecasting approach tying the significant positive changes in recent years of budgeting by programs and activities, MRFI, to longer term financial planning.

- As the City intends to "wind down" AHOP, BFAAC believes it needs to make this process more transparent and further recommends that AHOP be reevaluated within 3 years to see if reactivation is needed.

- City staff should continue efforts to prepare maintenance cost estimates when open space acquisition is under consideration.

- We understand that RPCA uses non-City funds to reimburse civic organizations. Nevertheless, BFAAC urges the City to review the relationship, possibly reengineering the process or seeking alternative solutions that would provide for adequate open space maintenance in a constricted budget environment.

- ACPS and City staff should continue to closely monitor student populations throughout the system, paying particular attention to the demographic trends that may impact the school population.

- BFAAC commends the City Manager for taking prompt and necessary action to ensure the City is in compliance with regulations concerning take-home vehicles. In light of the recent changes made by the Police Department with regard to take-home vehicles, BFAAC recommends that the City reevaluate the take-home vehicle limitations set by Administrative Regulation 7-3, to ensure consistency with MFRI and the recommendations set forth in the Matrix study.

- BFAAC commends the Chief of Police for taking prompt and appropriate action consistent with MFRI to address the discrepancy between the Department's take-home vehicle policy and the Matrix study recommendations.

- The City should review the take-home policies of Alexandria's surrounding jurisdictions and consider the provision of take-home vehicles as part of a total compensation package.

The Capital Improvement Program (CIP)

- We recommend that the CIP clearly identify and rank all projects; that there be a list of projects that will clearly be funded and a separate list of projects that may have been considered but did not make the cut.

- We recommend that the CIP Steering Committee require managing departments to provide a cost/benefit justification for each CIP maintenance/improvement project, and use these justifications to rank projects individually rather than by project groups.

- The City should develop a cash capital policy similar to the one it has successfully utilized with respect to debt policy.

- When considering cash capital contributions to the CIP, Council should consider the equities between current and future taxpayers that are inherent in funding the CIP budget.

- The timing as to receipt of stimulus funding by whatever method is uncertain; therefore the Council should not rely on the availability of stimulus funding to make budgetary decisions for the FY 2010–2015 CIP.

- Consistent with state and federal regulation, stimulus funding should first be applied to projects scheduled for FY 2010 and FY 2011; the next priority should be programs funded in the out-years that can be accelerated, thus potentially reducing cash capital and debt loads.

- Any new starts made possible by stimulus funding should be subjected to the rigorous process recommended by BFAAC with respect to project prioritization.

Revenues and Outlook

- The percentage of per capita income that goes to pay the residential real property tax should continue to be monitored and Council should be especially cautious, particularly in the current economic environment, in setting tax rates that that would result in ratios significantly above historic ranges.

- If real estate values continue to fall as projected, this indicator may prove helpful in setting the tax rate in future years inasmuch as it is an indication of the taxpayers' ability to pay.

- BFAAC believes that the established debt policy guidelines have served as an important tool for fiscal discipline. We strongly support efforts to remain within all of the guidelines.

- Any additional borrowing should be analyzed against the debt policy guidelines and with consideration of the effect that increasing debt service payments will have on future operating budgets.

- Borrowing in excess of the targets should be temporary and undertaken only with the most careful deliberation, and only in circumstances where the projects to be funded are essential under the strategic goals and result in significant long-term benefits to the City, or represent the City' commitment to fulfill a prior obligation, (*e.g.*, Metro).

- It is imperative that the City increase its efforts to identify a financially capable developer to proceed expeditiously with the redevelopment of Landmark so that, at such time as redevelopment of Landmark becomes viable, the City has positioned itself well to attract the desired development as a result of the City's adoption of the flexible design guidelines.

- BFAAC commends AEDP, ACVA and SBDC for their progress in the adoption of performance measures, and we urge the City to be proactive in assisting all economic development entities in the establishment of appropriate indicators to assist in the measurement and evaluation of economic development benchmarks.

- BFAAC urges the City to make implementation of the Economic Sustainability Work Group a priority with increased focus and resources for the necessary planning, policy guidance, oversight and control of City spending on economic development activities.

- Implementation of the economic sustainability recommendations requires, as a priority, the assignment of a qualified City employee economic development professional to coordinate economic development planning, policy guidance and oversight

- The City should ensure that regularly scheduled/periodic status reports covering the progress of implementation of the economic sustainability recommendations are produced to provide progress accountability and transparency.

- The City should take immediate steps to identify and prioritize the desired projects that may be undertaken pursuant to the economic stimulus legislation.

- The Commercial Real Estate Add-On Tax remains a viable option to address the City's transportation needs and should be evaluated annually in the context of market conditions.

- In setting the BPOL tax rates, we recommend that the City evaluate the effect of the rate in retaining and attracting commercial activity to expand the tax base.

- An increase in the cigarette tax may be warranted at this time.

- BFAAC recommends that the City Manager's Proposed Annual Budget Document set forth the maximum tax rate permitted by law for each revenue option.

- Council should approve as part of its regular budget adoption the normal recurring grants received by the City.

- The City should continue to explore grant sources to supplement other City tax revenues.

- Recurring grant applications should be submitted to Council in a single monthly docket item.

- The City should formulate a uniform grant application policy whereby agencies must demonstrate to the satisfaction of OMB and the Manager that each grant meets the agency's core mission, as defined by the City's Strategic Plan, and is consistent with the City's implementation of MFRI.

- Recurring grants that are no longer economically sustainable in future years because of reduced grantor funding, or increased operating costs, should be eliminated unless the accepting agencies are able to absorb additional cost within their own budget.

I. THE BUDGET PROCESS

For several years now, BFAAC has tracked and commented on the City's evolving budget process. We have advocated transparency, greater opportunities for citizen input, use of performance measures and the incorporation of the Managing for Results Initiative (MFRI). We supported the City's transition from an organizational-based budget process to a program and activity-based budget process, which now has been employed for three years. On the whole, we find the evolving budget process superior to that which went before it. MFRI has provided the City with useful tools for making the tough decisions that have resulted from the economic downturn.

However, as we previously recognized in our FY 2008 report, MFRI is evolutionary and therefore its activity measurements need continued scrutiny and recalibration to make it more effective. We understand that meetings, at the direction of the City Manager, are currently being held to address this issue. To refresh this process, the City should continually reevaluate the measures used, and critically analyze data used for budget decisions. BFAAC heartily endorses this step as being critical to the successful evolution of MFRI and its continuing improvement in the budget process.

In previous reports we recommended that budget decisions be made in the context of a long-term strategic plan and be consistent with MFRI. To that end, we understand the City Council will be developing a new Strategic Plan beginning in FY 2010. We recommend that the plan incorporate extensive citizen input as to the services they desire and their relative ranking of those services. Recently, governments have used new forms of public involvement – surveys, focus groups, neighborhood councils, and automated feedback systems (on city web sites), among others – as inputs to decisions about service levels and preferences, community priorities and organizational performance.[1]

Good public participation practices can help governments be more accountable and responsive, and can also improve the public's perception of governmental performance and the value the public receives from the government. Focusing on the service priorities would move the budget process from one of applying cuts and adds to the current services budget, to a process that starts with reviewing those citizens' priorities.[2] With inputs from the multi-year financial analysis combined with economic and demographic factors, the resulting product would be a budget that addresses the citizens' requirements and aligns the resources necessary to do so. It may, in fact, produce a very different set of priorities showing how Alexandria's citizens and businesses believe their tax dollars should be spent.

In some respects OMB is already employing some of these tactics. Decisions based upon MFRI determine resources available to departments based upon their abilities to effectively use those resources. As the City has transitioned to MFRI, so too can it evolve from a current services base upon which budget decisions are made, to a budget based upon what the citizen's priorities are,

[1] www.gfoa.org/downloads/PublicParticipationbudget.pdf, 2009.
[2] www.transformgov.org/assets/0/72/1412/88b0f4af-8cea-4806-89a8-7e1875afc474.doc, 2009.

and what they will cost. The incentive here is to produce the best results at a cost that the citizens are willing to pay.

Although citizen priorities are critical, the City also needs to incorporate demographic and economic factors in developing the long range budgeting plan. The City may well be at the beginning of several years of tremendous economic challenges that will have significant impact upon the ability of the City to deliver the services required and/or desired by its citizens. Evolving demographic factors such as aging, or citizens downsizing residences, or reducing spending, could have impacts on what services our citizens' need, such as a greater dependence not only on mass transit but utilizing various ways of transportation around the City.

These economic and demographic factors could well be magnified by the possibility of policy changes at the federal level (such as health care and the effects of the stimulus package) which could produce significant impacts on the City's budget and operations. These changes must be factored in to planning for some time to come.

Budgeting for results and outcomes links strategic planning, long-range financial planning, performance measures, budgeting and evaluation. It also links resources to objectives at the beginning of the budgetary process, so that the primary focus is on outcomes rather than organizational structure.[3] Budgeting for results and outcomes is consistent with the adoption of MFRI, and takes the City into the next evolution of the budgeting process.

RECOMMENDATION

- **BFAAC recommends a continued review of the factors used in MFRI and an analysis of the experience to date to continue to improve the process. This review should be supplemented by movement toward combining an enhanced and revised City Council Strategic Plan, based on broad citizen input, and detailed planning by programs and activities, over a longer time horizon, that links the Strategic Plan, performance measures, program evaluation efforts and the annual budget process.**

[3] www.gfoa.org/downloads/budgetingforresults.pdf, 2009.

II. THE PROPOSED OPERATING BUDGET

A. Compensation

The City of Alexandria is facing its most severe budget challenge in more than 30 years. The City Manager has called for a decrease in spending of 3.3%, or $17.8 million, below the FY 2009 Approved Budget. In order to accomplish these cuts, the Manager has proposed a reduction in force of 121 positions (a net reduction of 91.6 FTEs) and employee pay will be frozen for one year. In addition, benefits for new employees' will be reduced. The net effect of these actions results in a 3.2% reduction in expenditures for total compensation to $243.4 million from $251.6 million.

As was indicated in the FY 2009 BFAAC report, we are eager to see the results of the two compensation studies by the City and outside consultants now underway. We understand that the City Employee Project Advisory Team has worked collaboratively with management and the Watson Wyatt consultants to review the City's Compensation and Classification and pay system processes since January of 2008, and that initial recommendations are now being reviewed. The preliminary report includes a proposed revised Compensation Philosophy, a more detailed example of a competency-based classification system, and several related recommendations. BFAAC is encouraged by the direction these efforts are moving and encourages all participants to develop appropriate market pricing of jobs to achieve the establishment of a system based on pay-for-performance and market forces.

While it is important for all representative groups to be fully vested in the process, and to have all of their concerns addressed, it is BFAAC's hope that the process will not take several years to implement, as is indicated in the report. We all know that the next several years will be difficult economically. As the chief cost driver, employee compensation and productivity will be central to the City's ability to deliver needed services in an increasingly cost effective manner. Implementation of the results as soon as possible will greatly enable the City to achieve that objective.

RECOMMENDATIONS

- **BFAAC commends the City's Manager's willingness to make hard personnel choices, including a salary freeze, and to employ MFRI for the value-added delivery of services.**

- **BFAAC supports the intent of the Compensation and Classification study now moving toward implementation and looks forward to seeing the results, with implementation as quickly as possible.**

- **BFAAC supports the concept of performance-based compensation and encourages the City to continue to move toward implementing it.**

B. Benefits

In prior years' reports, BFAAC has stressed the need for the City to exercise greater cost containment of benefits. BFAAC is pleased that the City has moved in that direction in the current budget proposal. BFAAC has also stated that it wishes the City to shift its position as a leader on benefits compared to nearby regional jurisdictions and move to more emphasis on total compensation. The studies regarding compensation should enable the City to properly address that issue. The recently presented Watson Wyatt comparison reports on benefits reviews – medical, dental, life insurance, paid sick leave, disability, vacation and holiday, defined contribution, post-retirement medical, and post retirement life insurance plans. These reports show Alexandria, in many categories, to be the leading jurisdiction with the four comparator jurisdictions. The Watson Wyatt finding is inconsistent with the City's traditional compensation philosophy of being neither the leader nor the laggard in terms of compensation. We repeat our oft-stated recommendation that total compensation be viewed as the basis for decisions, and that approach, rather than salary alone, be the basis for any and all subsequent benchmark reviews.

A staff committee has yet to react to the report. BFAAC hopes that both the benefits and salary analysis produces an outcome that favors an emphasis on total compensation, and a comparatively reduced reliance on benefits as the main employee attractor and retainer.

RECOMMENDATION

- **BFAAC supports efforts to reduce the emphasis on benefits, as is being proposed this year in relation to new employees. BFAAC also believes in a "total compensation" approach with an appropriate balance between salary and benefits as the means to attract and retain competent employees.**

C. Risk Management, Workers' Compensation and Disability Retirement

In view of recent published reports of abuses of workers' compensation and disability benefits in nearby jurisdictions, BFAAC is reviewing the City's programs involving risk management and two measures relating to work-related absences and disability: 1) amount of medical claims and absence from work due to work-related injuries, and 2) partial or full-disability retirement pay.

Risk Management: In last year's report, BFAAC recommended a more aggressive and proactive approach in managing risk. We have learned that the City has retained a new firm that will handle Workers Comp and liability claims. It will also provide the City with significantly improved information upon which better analysis of risks and trends will occur. In addition to the retention of this firm, the City has embarked on several programs targeting a better understanding and reduction of risk, such as building inspections, creation of a city-wide safety committee, and the establishment of departmental safety staffing.

Absence from Work: The Finance Office states that the major use of workers' compensation for job injuries is minimal, with few employees completely off work due to an at-work injury. Highest usage is for payment of medical expenses, not time off work. In FY 2008, for example, 258 workers compensation claims were filed. Of that number, 210 were medical only, and 48 involved some loss of time from work.

Recently, Budget Memorandum # 45 addressed the workers' compensation issue, including related costs and steps taken. It also makes recommendations for additional actions to monitor such incidents and create a culture of safety within the City workforce.

In February 2009, the new Citywide Executive Safety Committee met with representatives from Risk Management, Fire, Police, Sheriff, Transportation and Environmental Services (T&ES), and Recreation. The purpose of the Committee is to share ideas to reduce on-the-job injuries, to promote and support the work of departmental safety committees, and to improve communication among those departments most at-risk for at-work injuries. BFAAC commends the City for addressing the issues and creating such a committee.

Disability Retirement: The City covers disability retirement under two different plans: the Prudential plan provides disability payments for fire and police employees; others by a plan provided through the Virginia Retirement System.

Public safety employees under the current disability plan and a predecessor plan in force from 1979 through 2003, show the following number of individuals currently receiving benefits:

	Number	**% of Salary**
Total disability, service-related	6	70
Partial disability, service-related	44	66.67
Total disability, non-service-related	0	66.67
Partial disability, non-service-related	21	50

In addition there are 27 retired from a pre-1979 plan, but little data exists for those still collecting benefits or their survivors collecting benefits. The Virginia Retirement System does not provide the same access to data as does Prudential, so information about other City employees was not available on short notice.

City staff involved in accounting for this function report the following information:

- Fire & Police disabilities outnumber all others combined, as is the pattern in most jurisdictions;

- Most disabilities incurred by general service employees are from departments that entail more physical labor in the trade and labor occupations, such as accidents and repetitive use syndromes/injuries in departments such as Parks & Recreation, T&ES, and other functions outside an office setting.

- Employees are allowed to work in less stressful positions or light duty positions while receiving partial disability benefits.

- There is a Cost of Living Adjustment for those on Disability Retirement.

BFAAC does not have data on any individual case, nor what further work history, if any, exists for those collecting full disability benefits. The numbers of individuals on full-time work-related disability seems within reason when compared to the number of covered individuals. The Risk Management Office makes periodic reports to City management and the Council that, in part, provide information about disability retirements.

RECOMMENDATIONS

- **BFAAC supports and encourages the City to work with departmental managers and the Executive Safety Committee to implement the City's enhanced efforts to improve safety, reduce risk and attempt to lower workers' compensation claims and costs.**

- **A system should be established to provide for monitoring the status and employment history, if any, of those on full disability retirement.**

- **In view of recent reports in other jurisdictions of misuse of the disability retirement option afforded public employees, the City should provide a more transparent review of the disability retirement program. BFAAC also recommends that a study be made of the efficacy of the current system for both the City and affected employees.**

D. Financial Forecasting

Last year, BFAAC introduced the concept of the City developing and employing multi-year financial forecasting. With the City facing current and likely long-range effects of the economic crisis, BFAAC strongly supports the adoption of this process. Multi-year financial forecasting can, in effect, bridge the gap between the City's Strategic Plan and MFRI. We suggest taking the priorities as outlined in the Strategic Plan as well as emerging local economic and demographic factors as part of financial forecasts for at least five years forward. This would provide the City with consistent evaluation criteria to monitor changes in the City's financial condition and demonstrate the impact of decisions among competing priorities. It would also insure that resources are available and devoted to addressing the citizens' prioritized needs.

The addition of multi-year financial forecasting combined with budgeting for results and outcomes will address the citizens' priority list of services, and the long-range ability of the City to fund those services. This approach then can guide OMB as to what level of funding is needed in the departments to effectively provide those prioritized services. Instituting multi-year financial planning significantly aids the City in determining what the future will look like in relation to the resources needed to support the services. It will also aid the City in determining what policies should be established and pursued.

The Government Finance Officers Association (GFOA), a supporter and advocator of this approach to budgeting, surveyed municipalities that incorporate multi-year financial planning and found that such an approach:

- Reduces staff time devoted to budget development
- Improves long-range and strategic planning
- Encourages a more policy-oriented budget process
- Strengthens performance management
- Reduces costs associated with printing an annual budget document.[4]

One model gaining acceptance is a five-year plan which involves two- and three- year components. Five years are projected on a program and activity basis, with the first two years balanced. Revenues for the remaining three years are still prepared at the line item level; however, a city can summarize projected expenses at the personnel, operating and capital level. The city does not attempt to balance these three future years. Staff can then formulate action plans to identify future gaps in revenues and expenses in the final three years of the budget. Staff can also identify any specific revenue or expense options necessary to close the gaps.

The most important part of multi-year financial planning/budgeting is that a city is addressing long term problems in the present, years before they occur. This gives a city adequate time to prepare for problems and refine decisions to ease financial pressures. A city no longer considers long-range decisions in the scope of a single year. Instead, a city deals with problems proactively rather than reactively. Therefore, long-range financial pressures no longer catch city administrations off guard. Forecasting of major revenue and expense items allows a city to predict the impacts (both short and long term) of current and proposed policies. The ability to predict impacts allows it to plan for those events

The long range budget/forecast additionally offers the opportunity for more citizen comment and dialogue on what the community wants to accomplish with its financial resources, a significant goal of a community oriented government.

RECOMMENDATION

- **The City should further examine the possibility of moving toward a 5-year financial forecasting approach tying the significant positive changes in recent years of budgeting by programs and activities, MRFI, to longer term financial planning.**

[4] www.allbusiness.com/accounting/budget/236463-1.html, 2009.

E. Targeted Residential Real Estate Tax Relief

The City has offered need-based residential real estate tax relief to seniors and disabled persons since 1963 (the Elderly and Disabled Tax Relief Program) and to low and moderate income homeowners since 2004 (the Affordable Home Ownership Preservation Grant Program or AHOP). Both programs grew significantly in 2004-2007, years of marked increases in real estate assessments. BFAAC observed in our report on the FY 2008 budget that these programs could continue to grow in cost and eventually become unsustainable; we called for an evaluation of the programs for efficacy and alignment with the Council's strategic goals. Last year, the City decided to curtail the AHOP program by lowering the income eligibility threshold and by closing the program to new participants, based on the fact that home assessments had dropped and on certain assumptions about a declining target population.[5] The AHOP program accordingly will wind down in the next few years. For FY 2010, $300,000 is set aside in the budget for AHOP, and the City plans to discontinue the program in FY 2011. The tax relief program for the elderly and disabled will be continued for FY 2010 at approximately the same level as recent years, with $3.4 million set aside in the budget.

We take no position on the decision to phase out the AHOP program in circumstances of the current economic downturn where assessments have continued to drop and City expenditures must be cut for budget reasons. However, we think that the City's decision with respect to AHOP should be more transparent to the community and notice clearly given that the program will gradually come to a close. We also recommend that a fresh assessment be made in 1-3 years whether there is a need to reactivate the program.

RECOMMENDATION

- **As the City intends to "wind down" AHOP, BFAAC believes it needs to make this process more transparent and further recommends that AHOP be reevaluated within 3 years to see if reactivation is needed.**

F. Open Space Maintenance

The City recognizes the enhancement of open space as a vital element of its vision for a beautiful city, as evidenced by its strategic goal to respect, protect and enhance the natural environment. Specifically, the Strategic Plan identifies several objectives of this goal, including increasing the amount of open space acreage per resident and protecting and expanding the City's overall tree coverage. However, the Plan also noted inadequate maintenance of the City's open space and specifically, the health of City trees – key components of the City's goal to respect, protect and enhance the environment.

Appreciating the expected economic challenges ahead, BFAAC urged Council to give greater weight to the annual costs of maintaining open space in its fiscal analysis when purchasing properties. We are pleased with the City's response that cost estimates are prepared in the consideration of open space acquisitions and we appreciate the efforts staff put forth to improve

[5] Budget Memorandum #34, Six-Year Summary of Real Estate Tax Relief Programs Offered by the City of Alexandria, March 14, 2008.

the quality and accuracy of budget impact estimates. Continuing to improve this budget analysis will facilitate a transition to long-term financial forecasting.

BFAAC has previously supported exploration of more cost-effective methods of maintaining open space. Currently, the City administers a program that reimburses civic organizations for maintaining open space, but has indicated that complete funding of this reimbursement program will be unlikely given the current fiscal situation. Given that the Department of Recreation, Parks and Cultural Activities has lowered standards concerning maintenance schedules from 100% on-time completion in FY 2009 (up from 92% in FY 2008) to only a proposed 85% on time completion, BFAAC again asks that the City review the plans of civic organizations to perform open space maintenance functions and determine if more cost-effective methods exist that would require reengineering, not expansion, of the existing program. An alternative could be transitioning to a volunteer-based program, similar to Arlington County's invasive plant removal program, which has proposed a significant volunteer-to-staff ratio increase for FY 2010.

RECOMMENDATIONS

- **City staff should continue efforts to prepare maintenance cost estimates when open space acquisition is under consideration.**

- **We understand that RPCA uses non-City funds to reimburse civic organizations. Nevertheless, BFAAC urges the City to review the relationship, possibly reengineering the process or seeking alternative solutions that would provide for adequate open space maintenance in a constricted budget environment.**

G. ACPS

In our report on the Proposed FY 2009 Budget, we commented that the Alexandria City Public School System (ACPS) was seeing the fiscal effects of providing services to students who may have emigrated from Prince William County. We urged ACPS and City staff to monitor the pupil attendance figures on a monthly basis, and discuss the issue at ACPS/City budget meetings.

BFAAC is pleased to note that the ACPS tracks pupil population data on a monthly basis, and provides those reports to City Staff, and has posted the information on its web site.

Should the economy not rebound by the middle of 2010, as Federal Reserve Chairman Bernanke has stated it might, BFAAC believes that ACPS likely will see a further increase in student population – although it is impossible to predict how many children will enter the system. It is likewise impossible to estimate the increased costs to ACPS in the 2011 Fiscal Year. BFAAC recommends that ACPS closely monitor the situation. We also suggest that the City Manager and Council plan for and anticipate that ACPS may require additional funding in the FY 2011 budget.

Above and beyond the potential population increases outlined above, we are advised that ACPS anticipates nearly 1,400 new students by FY 2015, due to changing City demographics. ACPS has been working with Planning & Zoning staff, as well as with the Census Bureau, to refine its method of predicting future population trends.

BFAAC recommends that ACPS closely monitor the situation. Through judicious use of available funding, ACPS has been able to manage the combination of enrollment growth and reduced funding for FY 2010, while still maintaining current programming and class size. However, continued enrollment growth coupled with constrained revenues could be challenging for ACPS to sustain over a multi-year period.

RECOMMENDATION

- **ACPS and City staff should continue to closely monitor student populations throughout the system, paying particular attention to the demographic trends that may impact the school population.**

H. Take-Home Vehicles

In an ongoing effort to promote transparency in government and apply the principles of MFRI, the City authorized a study of its fleet management policy, which was delivered by the Matrix Consulting Group in December 2007. At the time of the study, Alexandria had 188 take-home vehicles, despite Administrative Regulation 7-3 limiting that number to 58. The Police Department accounted for 152 of these vehicles; 93 of these vehicles were taken out of the City. As an immediate response, the City Manager revised Administrative Regulation 7-3, effectively increasing total allowable take-home vehicles to 195. In our FY 2009 report, BFAAC recommended that the City should review the fleet take-home policies of surrounding jurisdictions, apply an MFRI approach to the take-home policy set forth in Administrative Regulation 7-3 and consider revising Administrative Regulation 7-3 to reflect the recommendations provided by the Matrix study.

BFAAC applauds the Chief of Police for taking swift and responsible action to address the immediate conflict between the City's fleet take-home policy and the Matrix study's recommendations. In these hard economic times, the Chief convened an intra-agency committee to review the policy and recommend revisions – an action that promoted ownership and accountability for this politically charged benefit. The committee recommended reducing the number of the Police Department's take-home vehicles to 89. This represented a reduction of 63 vehicles, some of which were vehicles kept within the City limits.

Two barriers existed to this recommendation: 1) the City of Alexandria continued to be served when police take-home vehicles remained within the jurisdiction; 2) there was insufficient parking for the rescinded vehicles. After obtaining 25 additional parking spaces, the Chief ultimately reduced the number of out-of-city take-home vehicles from 93 to 62, retaining vehicles taken home within the City limits and for staff who met the more narrow eligibility requirements recommended by the Matrix study. Due to prior arrangements between the Commanders Association and the previous City Manager, five the 31 rescinded vehicles were restored, resulting in a net decrease in take-home vehicles of 26 vehicles, or 28%.

As we noted last year, BFAAC would like to see Administrative Regulation 7-3 revised to be consistent with an MFRI approach. The City Manager's justification for increasing the maximum allowable take-home vehicles is unclear. It appears that the approach utilized by the Police Department is consistent with MFRI, and this approach resulted in a 28% reduction in take-home vehicles. Therefore, BFAAC recommends that the City revisit Administrative Regulation 7-3 to determine if the policy is consistent with both MFRI and the recommendations of the Matrix study.

Further, BFAAC has yet to see comparison of Alexandria's fleet management and take-home vehicle policies to our surrounding jurisdictions. We understand that OMB is preparing such an analysis. A *Washington Post* article in June 2008, addressed this controversial issue in Fairfax County.[6] The article noted a stark difference in percentages of Fairfax County Police Department vehicles taken home outside the jurisdiction in comparison to the neighboring Montgomery and Prince George's Counties. Similarly sized, these jurisdictions allow 10% and 3%, respectively, to cross the county line, whereas Fairfax County officials acknowledged that most vehicles leave their county. As we noted in our FY 2009 report, it is unfortunate that the Matrix study did not provide the City with comparison data with respect to Arlington County's take-home vehicle policy and statistics. We understand that the City has recently completed such a comparison and that the City continues to examine our policy to determine if it is in line with comparable jurisdictions.

Additionally, the article lists employee incentive among the reasons provided to continue offering take-home vehicles to Police Department staff. As the City moves towards greater emphasis on total compensation, BFAAC urges the City to evaluate the impact of take-home vehicles and determine how the benefit should be calculated in a total compensation package.

RECOMMENDATIONS

- **BFAAC commends the City Manager for taking prompt and necessary action to ensure the City is in compliance with regulations concerning take-home vehicles. In light of the recent changes made by the Police Department with regard to take-home vehicles, BFAAC recommends that the City reevaluate the take-home vehicle limitations set by Administrative Regulation 7-3, to ensure consistency with MFRI and the recommendations set forth in the Matrix study.**

- **BFAAC commends the Chief of Police for taking prompt and appropriate action consistent with MFRI to address the discrepancy between the Department's take-home vehicle policy and the Matrix study recommendations.**

- **The City should review the take-home policies of Alexandria's surrounding jurisdictions and consider the provision of take-home vehicles as part of a total compensation package.**

[6] Tom Jackman, "Officers' Free Rides Questioned in Fairfax," *Washington Post*, June 18, 2008.

III. THE PROPOSED CAPITAL IMPROVEMENT PROGRAM

A. Overview

The FY 2010 budget summary indicates that "the community's appetite for capital investment continues to grow." The CIP for FY 2010-2015 proposes $403 million in capital investments over a six year period. As the community's appetite for capital investment has grown, so has the challenge of funding that investment. The FY 2008-2013 approved CIP identified $85.3 million for projects more than the City could afford without increasing taxes or incurring greater debt. Comparatively, the shortfall was $61.3 million in the FY 2009 to FY 2014 approved CIP cycle. For the FY 2010 to 2015 proposed CIP, the gap between requested capital expenditures and the City funding capacity has grown to $ 127.5 million. While greater debt may appear to be an attractive alternative in the current economic environment, over the long term, the greater the debt load, the greater the debt service. Significant increases in debt service in the out-years would reduce the City's ability to fund the operating budget.

To meet these growing challenges, the CIP section focuses on further re-fining the CIP, especially the priority ranking process. This section will address the role of cash capital in the capital planning process and will include a discussion of the potential impact of the American Recovery and Reinvestment Act (Federal Stimulus Package) on the City's CIP.

B. CIP Prioritization and Development

The FY 2010- FY 2015 CIP includes more fully developed spending plans for all six years. The City manager followed—to some degree—a framework for assessing proposed capital projects as recommended by BFAAC last year. The development of the FY 2010-2015 CIP was relatively similar to the process used the last few years:

City departments developed capital project requests for six years:

- The requests were divided into projects that maintain facilities and infrastructure at current levels and those that improve upon the size or capabilities of those functions;

- The projects were grouped together into six "maintain" categories and "five" improve categories. (Pages 2-6 and 2-7 of the FY 2010- FY 2015 proposed CIP address the categorization and prioritization process fully.)

- The Department's ranked their submission within the "maintain" and "improve" project lists;

- A CIP Steering Committee produced an overall ranking of project groups for FY 2010 and FY 2011. All projects within a group are considered of equal priority. The FY 2012 - FY 2015 projects were not priority ranked individually.

Despite these improvements, the FY 2010-2015 CIP, in our judgment does not yet present the budget at the desired level of clarity. Some members of the City Council have pointed out that prioritization of all projects is critical; that more justification for each project listed is necessary;

that the CIP proposals should better reflect financial realities and that the CIP needs to clearly outline what will be funded, what can be done and what falls outside of the City's funding capability.

This method ranks a project's priority in large chunks: Maintain Group 1; Improvement Group 2. This type of ranking engenders many questions as Budget Memo 13, “CIP Projects Immediately Above and Below Proposed Funding Line,” points out.

Council's various working sessions on the CIP indicate that the CIP as currently structured may present "difficulties with managing expectations." Projects appear in the CIP that are not likely to be funded for years, if at all. It is difficult to fully identify the realistic funding capabilities of the CIP over the six year period. All projects by the Departments seem to be included—and which is frequently referred to as "a wish list." As currently presented, the CIP gives the impression to the community that a particular project is included when in several cases there is no money for the project. (There are examples where project design dollars may be identified in one year but there is no realistic possibility that the project will be fully funded in the near future.)

As noted in previous reports, 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, and commends the City Manager and City staff for putting a formal process in place starting with the development of the FY 2009–FY 2014 CIP budget. In last year’s report we recommended that the City adopt a structured business case approach (including estimates of full lifecycle costs; analysis of two to four alternatives; and defined project dependencies and risks) for all new CIP projects and stand by this recommendation as a management best practice. We recognize, however, that the City’s challenging fiscal situation has resulted in project start delays, making the structured business case approach we have proposed less relevant.

Even with the FY 2010 – FY 2015 CIP budget’s emphasis on facilities/infrastructure maintenance and improvement (*vs*. new project starts), BFAAC recommends that a more rigorous prioritization process be adopted to aid Council in making challenging resource decisions. In particular, we urge the CIP Steering Committee to require managing departments to provide justifications for each proposed maintenance/improvement project that include detail on what (real or opportunity) costs the City will incur as result of maintenance/improvement deferral as well as any cross-project impacts of which the Committee, and by extension the City Manager and Council, should be aware. Based on this cost/benefit analysis, the Committee should rank projects individually rather than using the project “group” approach, which we believe falls short of providing adequate guidance to the City Manager and Council and risks leaving projects on the list which have no reasonable chance of being funded in the short-to-medium term.

RECOMMENDATIONS

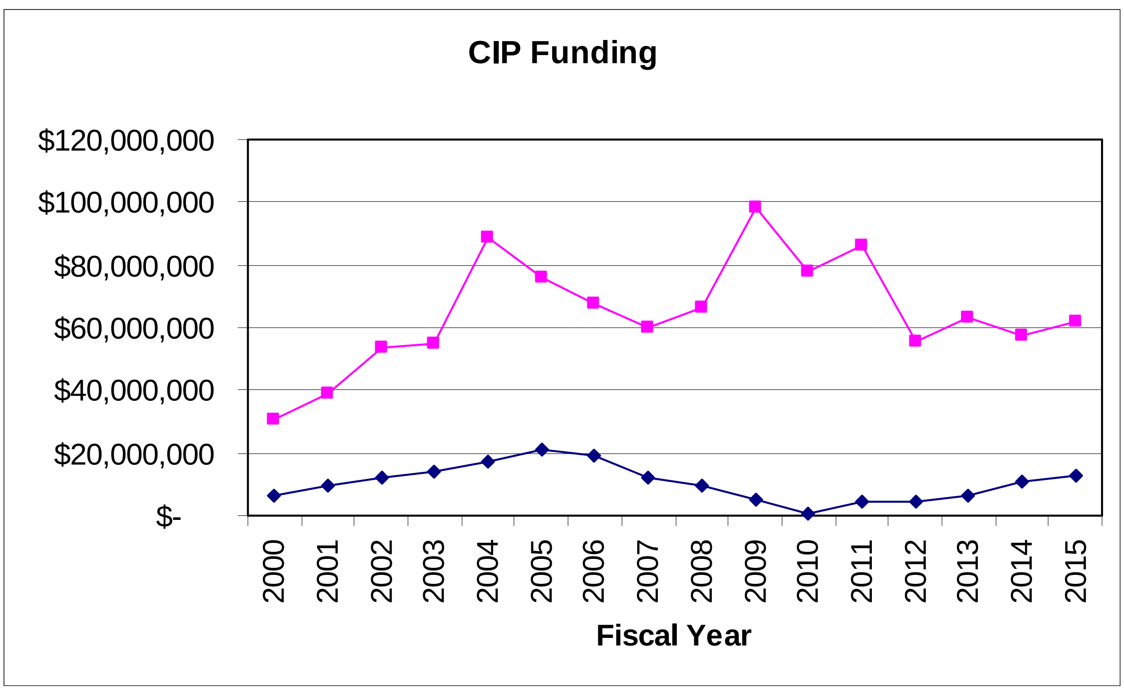
- **We recommend that the CIP clearly identify and rank all projects; that there be a list of projects that will clearly be funded and a separate list of projects that may have been considered but did not make the cut.**

- **We recommend that the CIP Steering Committee require managing departments to provide a cost/benefit justification for each CIP maintenance/improvement project, and use these justifications to rank projects individually rather than by project groups.**

C. Cash Capital

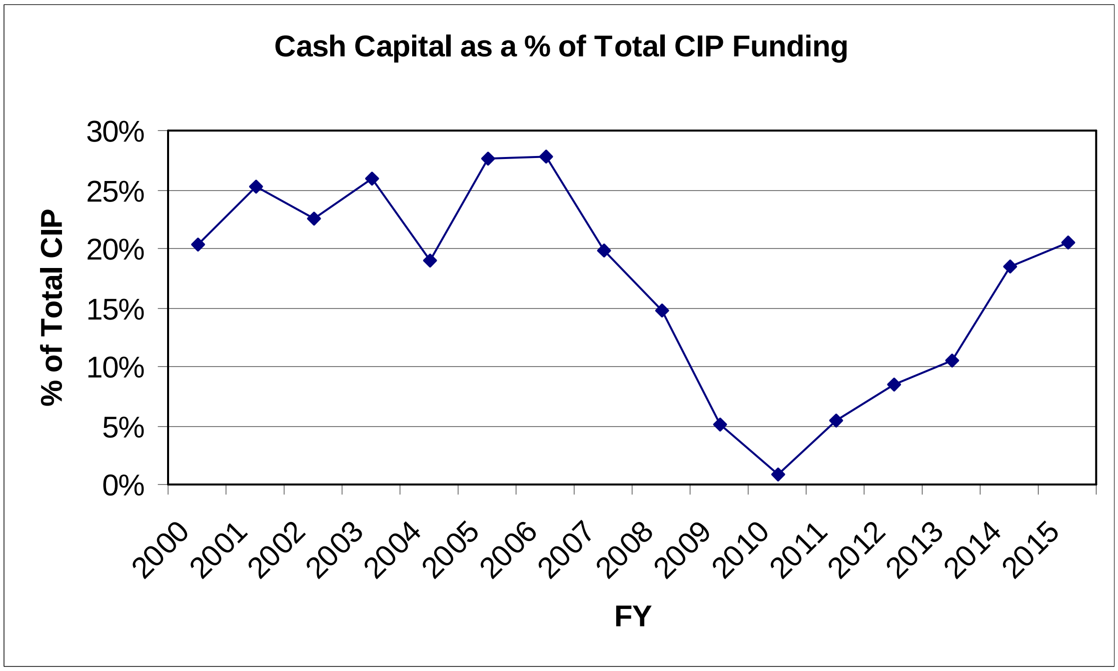
There is always something of a balance that BFAAC hopes the City achieves when it comes to the relationship in the CIP between cash capital contributions and debt. Historically, we have chosen to address this issue as an equitable one–how much of any given project should be paid by existing taxpayers and how much should be paid by future taxpayers given that capital projects, by definition, are designed to benefit the City long term? In our 2005 report to Council, for example, BFAAC noted the increasing size and significance that cash capital contributions had made to the expanding CIP and that such contributions had remained high for a number of years. We then observed that cash capital contributions "may have reached the point where today's taxpayers are paying more than their fair share for projects that will also be enjoyed by future residents." We thus recommended that Council reduce the planned cash capital contribution and "spread the burden out more equitably to future generations of Alexandrians."

In past years, BFAAC has simply looked at the City Manager's proposed cash capital contribution(s) in relation to the amount of debt projected in the CIP and made a judgment call about whether the burden seemed more weighted toward current or future taxpayers.



Note: Top line represents total CIP funding; bottom line represents cash capital.

Back in FY 2005, when it was BFAAC's judgment that cash capital contributions had been too high, the contribution was $21,132,339. For FY 2006, BFAAC recommended cash capital be reduced when the contribution was $18,859,735. Those may well have been too high, but no one can argue that this year's $700,000 contribution is equitably weighted between current and future taxpayers. In fact, when looked at as a percentage of the City's total contribution to the CIP, you can see how significantly cash capital has declined.



BFAAC is mindful of the many City capital needs as well as the favorable environment that currently exists for debt financing. We are also acutely aware of the City's revenue situation and the challenges inherent in making a significant contribution to cash capital. To the extent possible going forward, BFAAC recommends that Council considers the equities between current and future taxpayers that are inherent in funding the CIP budget.

RECOMMENDATIONS

- **The City should develop a cash capital policy similar to the one it has successfully utilized with respect to debt policy.**

- **When considering cash capital contributions to the CIP, Council should consider the equities between current and future taxpayers that are inherent in funding the CIP budget.**

D. Stimulus Spending

On February 17, 2009, President Obama signed H.R. 1, "The American Recovery and Reinvestment Act of 2009." The Act is intended:

- To preserve and create jobs and promote economic recovery.

- To assist those most impacted by the recession.

- To provide investments needed to increase economic efficiency by spurring technological advances in science and health.

- To invest in transportation, environmental protection, and other infrastructure that will provide long-term economic benefits.

- To stabilize State and local government budgets, in order to minimize and avoid reductions in essential services and counterproductive state and local tax increases.

The Act provides $789 billion spread over three broad categories: tax cuts ($288 billion); state and local fiscal relief, with the vast majority of funding targeted for Medicaid and education ($144 billion); and federal social programs and spending programs ($357 billion).

From Alexandria's perspective, the funds provided by the Act will be expended through the traditional channels used by the Federal government to provide assistance to the state and local level: block grants, formula grants, categorical grants, and contracts. It should also be noted that not all program funds provided by the Act will be distributed to state and local governments. Some of the funding will be provided to the private sector through the federal procurement process.

Currently, the Commonwealth of Virginia estimates that its apportionment of ARRA funding will be approximately $4.8 billion allocated across the following areas:

Health and Human Services	$1,833 million
Education	$1,548 million
Transportation	$811 million
Commerce and Trade	$309 million
Finance	$218 million
Natural Resources	$81 million
Public Safety	$47 million

These funds enable the Commonwealth to temporarily avoid draconian cuts in education and human services that otherwise might be the consequence of falling state revenue. The funds also provide an unprecedented opportunity for the Commonwealth, and by extension the City of Alexandria, to make investments in infrastructure that will be the foundation of our economic future.

To ensure that this historic opportunity was open to the greatest number of stakeholders, Governor Kaine implemented an open and structured process to determine where these investments are best made across the State. Through the web site www.stimulus.virginia.gov , the Commonwealth solicited suggestions for potential project that might benefit from federal stimulus funds. From February 10, 2009 through March 6, 2009, citizens, localities and other groups submitted 9,160 project ideas. Of those project ideas, 195 ideas pertained to possible uses of stimulus funding in Alexandria. Project ideas were submitted from a wide variety of sources—elected officials, City department heads, non-profit organizations, and citizens.

These project ideas have been screened by the Governor's Stimulus Working Group and are currently being reviewed and evaluated by the Governor's cabinet. The members of the cabinet will ultimately recommend which projects merit stimulus funding. As the Governor makes his decisions, detailed information on these projects will be made available to the public.

RECOMMENDATIONS

- **The timing as to receipt of stimulus funding by whatever method is uncertain; therefore the Council should not rely on the availability of stimulus funding to make budgetary decisions for the FY 2010–2015 CIP.**

- **Consistent with state and federal regulation, stimulus funding should first be applied to projects scheduled for FY 2010 and FY 2011; the next priority should be programs funded in the out-years that can be accelerated, thus potentially reducing cash capital and debt loads.**

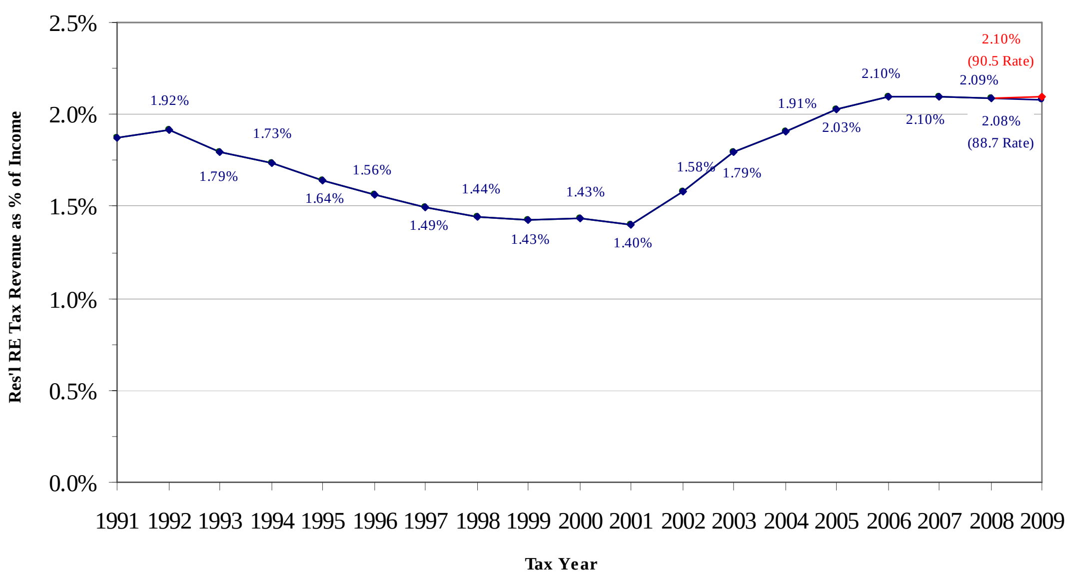
- **Any new starts made possible by stimulus funding should be subjected to the rigorous process recommended by BFAAC with respect to project prioritization.**

IV. REVENUES AND OUTLOOK

A. Tax Burden Issues

BFAAC has been tracking the percentage of per capita income that goes to pay the residential real property tax for several years. This measure may be an indication of taxpayers' ability to pay. We have observed that on average, Alexandrians have typically paid less than 2.0% of their income for this tax; we have cautioned against setting rates that would result in tax/personal income ratios above historic ranges. As shown in the chart below, after declining in the 1990s when personal income outpaced appreciation in property values, the ratio began a steep rise in 2001, reflecting a strongly appreciating real estate market relative to personal income. The ratio has leveled off in the last four years, with a more constant ratio that is expected to hold into the current year, at slightly more than 2.0%. This measure should continue to be monitored, particularly in the current economic environment where personal income may be declining. FY 2010 Proposed Budget page 7-7.

Residential Real Estate Tax Revenue as a Percent of Per Capita Income[7]



RECOMMENDATIONS

- **The percentage of per capita income that goes to pay the residential real property tax should continue to be monitored and Council should be especially cautious, particularly in the current economic environment, in setting tax rates that that would result in ratios significantly above historic ranges.**

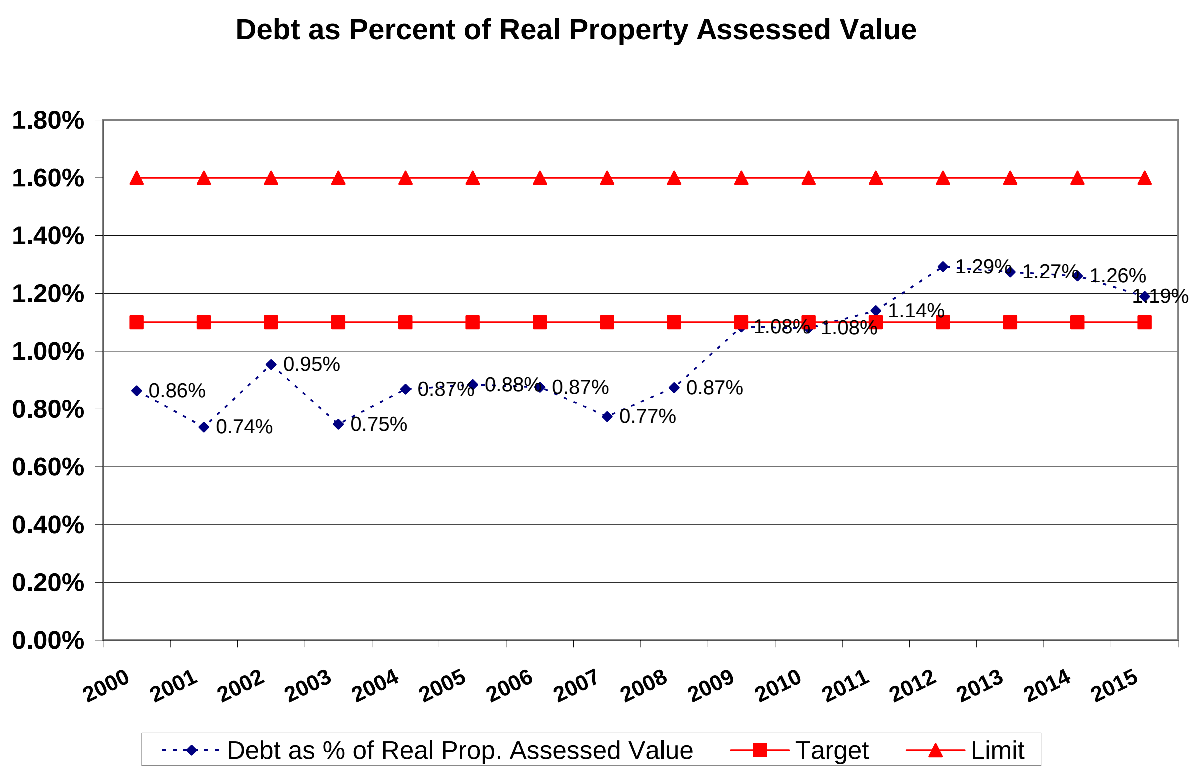
---

[7] This chart includes multi-family rental properties, as well as single family, under the assumption that most landlords pass along property taxes to tenants in the form of higher rents.

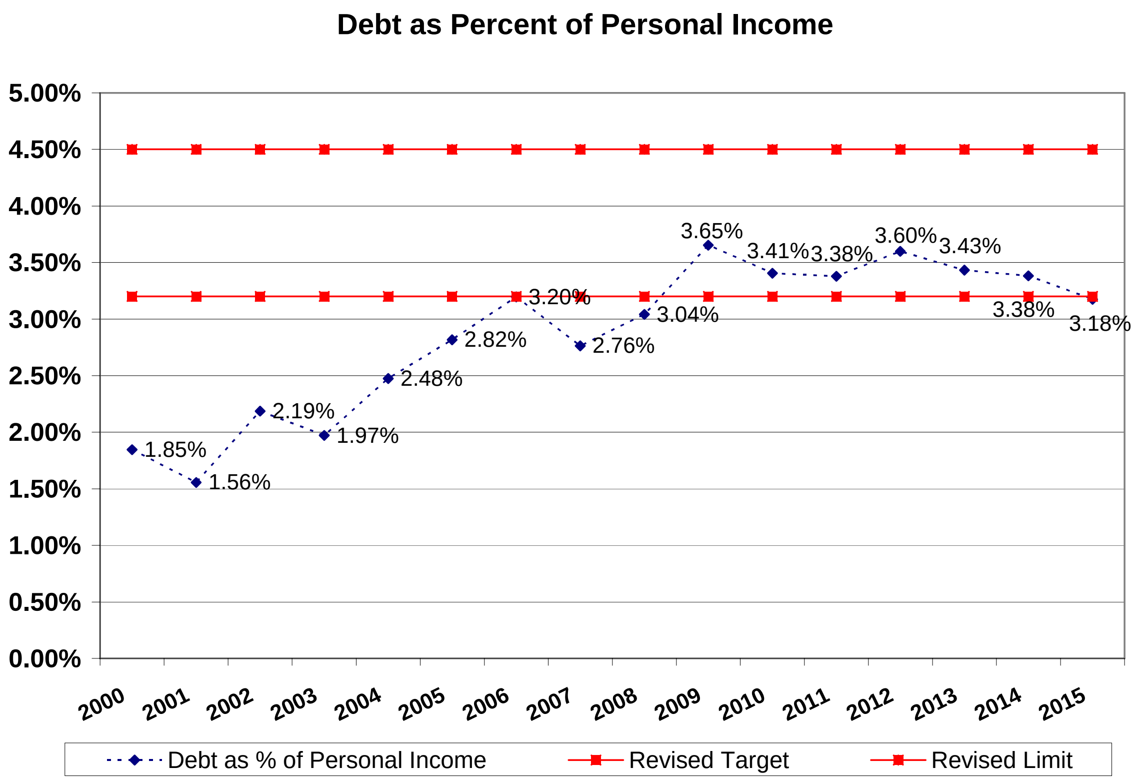
- **If real estate values continue to fall as projected, this indicator may prove helpful in setting the tax rate in future years inasmuch as it is an indication of the taxpayers' ability to pay.**

B. Debt Burden Issues

Last year, this Committee registered its concern about the growing portion of City expenditures represented by debt service payments. Since 2000, when debt service payments were 2.25% of government expenditures, the percentage was expected to grow to more than 6.0% in the out years. This year, as shown in the City Manager's FY 2010 Proposed Budget (p. 20-25), the percentage of debt service is expected to grow to 6.59% in FY 2015. The chart below shows that the level of debt service as a percent of government expenditures is below the debt policy guideline target for this factor (8.0%) and well below the debt policy guideline limit (10.0%). Nevertheless, we reiterate our concerns about the growing amount of expenditures that must be devoted to debt service payments. These payments will begin to crowd out funds available for City operations, and the City Manager has so noted in the Proposed Budget pages 20-22 and 20-25.

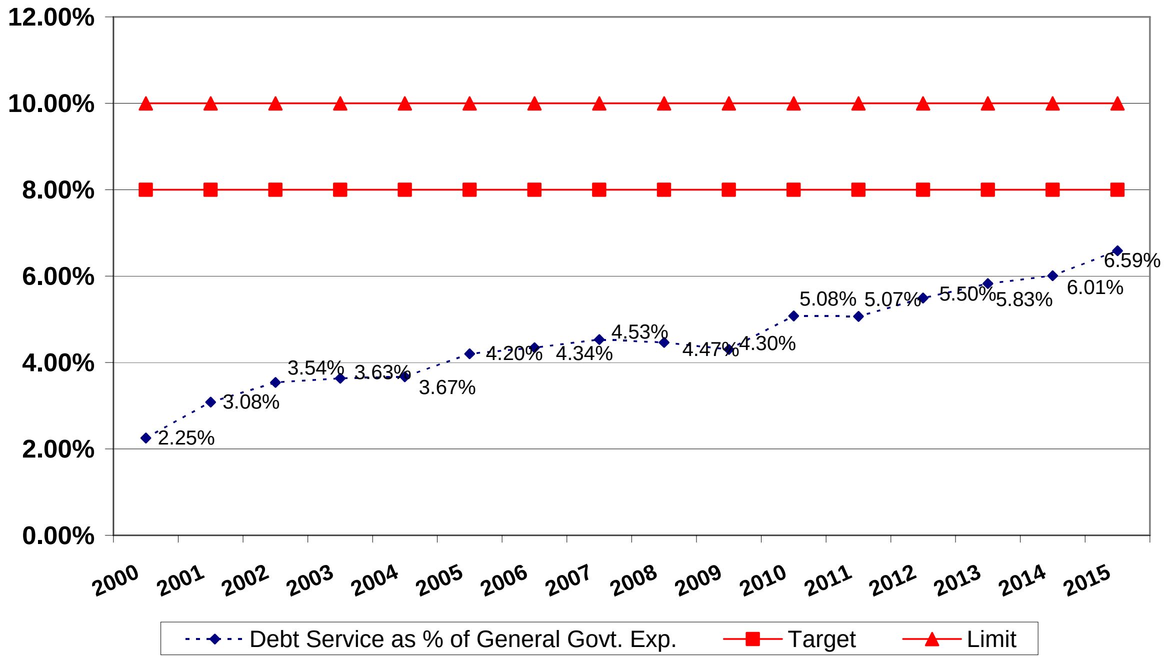


An analysis of debt under the other two debt policy guideline measures shows some reason for concern as well. Although neither measure approaches the limit, both exceed the target established by the guidelines for debt as a percent of personal income (3.25% target; 4.5% limit)[8] and debt as a percent of real property assessed value (1.1% target; 1.6% limit). These relationships are shown in the following charts from the Proposed Budget (p. 20-23 and 20-24):



[8] In accord with recommendations of this Committee, this guideline was recalibrated last year by raising the target and limit from 2.25% and 3.25% respectively. See Memorandum from James K. Hartmann, City Manager, Modification to the City's Debt Related Financial Policies: Debt Per Capita as a Percent of Per Capita Income, June 18, 2008.

Debt Service as Percent of General Government Expenditures



The City Manager has advised that this level of debt will not have an adverse effect on the City's double triple-A bond rating. Nevertheless, we raise a note of caution against borrowing in excess of the targets, given the effect that increasing debt service has on operating budgets in future years. At the same time, we understand that the City may wish to take advantage of favorable conditions for further borrowing (meaning that market interest rates would be lower for highly-rated bonds in this economic climate) to finance the police headquarters facility and other capital projects and has taken steps to issue a new round of borrowing.

BFAAC observes that as reflected in the proposed FY 2010 budget, the CIP debt as a percent of real property value is expected to hold approximately flat while debt as a percentage of personal income is expected to reverse its upward climb. Moreover, debt service as a percentage of general government expenditures remains below the target rate but is increasing.

RECOMMENDATIONS

- **BFAAC believes that the established debt policy guidelines have served as an important tool for fiscal discipline. We strongly support efforts to remain within all of the guidelines.**

- **Any additional borrowing should be analyzed against the debt policy guidelines and with consideration of the effect that increasing debt service payments will have on future operating budgets.**

- **Borrowing in excess of the targets should be temporary and undertaken only with the most careful deliberation, and only in circumstances where the projects to be funded are essential under the strategic goals and result in significant long-term benefits to the City, or represent the City' commitment to fulfill a prior obligation, (*e.g.*, Metro).**

C. Revenue Diversification

BFAAC remains concerned about the City's continued heavy reliance on the uncertain, and recently declining, residential real estate tax revenue.[9] The proposed FY 2010 budget projects that nearly 56% of the anticipated revenues relies upon real estate assessments, 31.2% of which is dependent upon residential property. In fact, if you remove commercial multi-family rental from the commercial classification and include it with residential,[10] the residential accounts for 69% of the real estate tax base. Notwithstanding the fact that expansion of the commercial tax base will ease the burden on residential owners, Council should be cognizant of the anticipated reduction of commercial real estate assessments in CY 2010 and beyond. The recent contraction of credit markets, increasing capitalization rates, lower rental rates and increased vacancies will result in declining commercial real estate assessments and revenues.[11]

(1) Economic Development

In recent years, BFAAC has stressed the importance of economic development in maintaining a sustainable and predictable revenue source, repeatedly noting that revenue diversification reduces the real estate tax burden on homeowners.[12] The Proposed FY 2010 Budget provides $3.2 million for economic development activities, a 5.9% reduction over the FY 2009 approved budget. While BFAAC recognizes progress in some respects, we remain concerned that the City does not fully appreciate the urgency in implementing a comprehensive and coordinated approach toward making the recommendations of the Mayor's Economic Sustainability Work Group a reality:

Landmark Mall

Redevelopment of this site should be one of the City's highest priorities. Landmark Mall has been characterized as the single most significant land use activity in the City's West End.[13] However, the real estate assessment for Landmark Mall has plummeted in recent years. The property is currently appraised at $85,279,276 which is 42% of the CY 1991 assessed value.[14] Landmark Mall's reduction in value continues to cost the City valuable revenue. The City's other 28 shopping centers continue to perform well with high occupancy levels and stable operating

---

[9] In CY 2009 residential property decreased 4.39% ($883.7 million) While this was somewhat offset by a 1.24% increase in commercial real estate assessments, the net reduction of 2.06% in the overall real property tax base was the first drop in the total tax base since CY 1994. Budget Memo #2, February 10, 2009.

[10] BFAAC notes that the City already has this capacity as a result of last year's adoption of the commercial add-on capability.

[11] Budget Memo #2, February 10, 2009.

[12] Our FY 2008 BFAAC Report contains an extensive history of the City's economic sustainability initiatives.

[13] Technical Assistance Panel Report, ULI Washington, September 29-30, 2004.

[14] By way of comparison, T.C. Williams High School is appraised at $134.5 million.

positions.[15] In addition to the lost real estate tax revenue, the City is also losing tax revenues from gross receipt sales, business licensing, and meals tax. OMB advises that these lost tax revenues are immeasurable at this time. Moreover, the pending redevelopment of Springfield Mall and the success of the Shirlington mixed use development pose a significant competitive threat to Landmark.

While we are not unmindful of the fact that current economic conditions are likely to delay redevelopment, we urge the City to continue to take an active role in seeking out a financially capable developer to proceed expeditiously.[16] While financing may be an issue, the lower cost of labor and materials make this an opportune time to make the redevelopment a reality. We also commend the City's adoption of a flexible design guideline to help promote redevelopment at the appropriate time.[17]

AEDP

In FY 2009 pending AEDP reorganization, Council set aside $125,000 of funding in its contingent reserves, of which $63,000 was subsequently allocated in October 2008. In the interim, AEDP has reconstituted its Board of Directors,[18] established performance measures and completed a detailed strategic plan.[19] BFAAC now believes that AEDP has taken steps to assume an important role in the City's economic sustainability initiatives. This is particularly significant in light of the commercial competition Alexandria faces from surrounding jurisdictions.[20]

ACVA

BFAAC observes that ACVA has also undergone some organizational changes including the hiring of a new Executive Director and the development of a new marketing plan. Significant changes in their media buying strategies, a new high tech website presence, and the adoption of a number of performance measures has been accomplished. While it may be too early to analyze the impact of these changes, their work plays a significant role in the City's implementation of an overall economic development plan.

SBDC

Although 37% of the SBDC proposed budget is non-City funding, the proposed 5% reduction in the City's contribution for FY 2010 poses a significant impact on the SBDC's ability to provide assistance for local business owners at a time when small businesses particularly need their

---

15 Budget Memo #2, February 10, 2009.

16 General Growth Properties, current owner of much of the Mall property, is still trying to negotiate extensions on its bond debt payments and has advised creditors that it will seek bankruptcy court protection if it cannot get additional time. *Washington Post*, A-14 (March 31, 2009).

17 The plan envisions a lively, walkable mixed-use town center incorporating retail, residential, office and hotel development with a number of urban parks and plazas. Landmark/Van Dorn Master Plan Amendment (February 21, 2009).

18 The current Board of Directors (effective October, 2008) includes a number of local business owners as well as persons with expertise in finance, business development and a Mayor's designee. Two City Council slots have been eliminated.

19 Further complicating AEDP's efforts, the newly hired CEO resigned last fall and the search for a new CEO is pending.

20 AEDP reports that several trade associations and at least one of our prized technology businesses are being lured away. Budget Public Hearing Testimony of AEDP Board Member Chuck Collins, (March 11, 2009).

expertise and assistance.[21] Although SBDC has an established system of performance measures through its annual business survey, a more detailed approach is required if it is to maintain a significant role in the City's economic development initiatives.

King Street Retail

In FY 2005, the City received the report of the King Street Retail Study. Notwithstanding receipt of the report in 2005, and the creation of an implementation schedule, the bulk of the recommendations have not been addressed.[22] A new study is underway and preliminary findings and recommendations were publicly introduced on March 19, 2009. BFAAC urges the City to complete the study as expeditiously as possible and to consider the economic impacts of prompt implementation.

Federal Economic Stimulus

BFAAC commends the City for its conspicuous absence of any reliance on the American Recovery and Reinvestment Act to backfill its proposed budget. Nevertheless, we urge the City to be prepared in the event that funding opportunities arise, by evaluating and prioritizing the estimated $340 million projects set forth in its March 17, 2009 submission.[23] We also recognize the City for its foresight in establishing the Council Stimulus Subcommittee and its use of the City website to transparently communicate the projects under consideration.

Economic Sustainability Recommendation Implementation

In our FY 2009 Report to Council, BFAAC noted the progress of implementation in certain respects, but registered our concern over the slow, and in some instances absence of, progress in implementing many of the recommendations of the Mayor's Economic Sustainability Work Group. While we recognize that "Economic Sustainability" requires a long-term effort and may not be immediately achievable, a concerted, collaborative and immediate effort is required.[24]

While we are cognizant of the recent hire of the Assistant City Manger for Management Improvement and his role in "…overseeing the implementation of many of the…" recommendations of Work Group,[25] we also recognize that the position requires a number of other responsibilities. Notwithstanding the reorganization of AEDP and its progress in conjunction with ACVA, SBDC and other economic development entities, there is still no coordinated economic development planning, policy guidance and oversight.

---

[21] SBDC data indicates that the adverse impacts will affect 60 or more business owners as a result of the 243 annual hours reduction of their independent business consultant. FY 2010 Proposed Budget, p.16-30.

[22] While the outdoor pilot dining program, retail storefront guidelines, undergrounding utilities, trolley and valet parking procedures have been commenced, completed or in progress, the bulk of the recommendations have not been addressed.

[23] Memorandum from City Manager James K. Hartman, March 17, 2009.

[24] Status Reports on the Implementation of Economic Sustainability Recommendations were issued in October, 2008 and March 1, 2009.

[25] Memorandum from City Manager James K. Hartman, January 14, 2009.

RECOMMENDATIONS

- **It is imperative that the City increase its efforts to identify a financially capable developer to proceed expeditiously with the redevelopment of Landmark so that, at such time as redevelopment of Landmark becomes viable, the City has positioned itself well to attract the desired development as a result of the City's adoption of the flexible design guidelines.**

- **BFAAC commends AEDP, ACVA and SBDC for their progress in the adoption of performance measures, and we urge the City to be proactive in assisting all economic development entities in the establishment of appropriate indicators to assist in the measurement and evaluation of economic development benchmarks.**

- **BFAAC urges the City to make implementation of the Economic Sustainability Work Group a priority with increased focus and resources for the necessary planning, policy guidance, oversight and control of City spending on economic development activities.**

- **Implementation of the economic sustainability recommendations requires, as a priority, the assignment of a qualified City employee economic development professional to coordinate economic development planning, policy guidance and oversight**

- **The City should ensure that regularly scheduled/periodic status reports covering the progress of implementation of the economic sustainability recommendations are produced to provide progress accountability and transparency.**

- **The City should take immediate steps to identify and prioritize the desired projects that may be undertaken pursuant to the economic stimulus legislation.**

(2) Revenue Options

The City Manager has identified a number of taxation/revenue alternatives for Council's consideration along with the statutory authority and a description of the extent to which the City has the ability to increase the rates.[26] While BFAAC has commented on a number of these alternatives in prior reports, current economic conditions warrant additional consideration:

Commercial Real Estate Add-On Tax

In our FY 2008 Report on the City Managers Proposed Budget BFAAC observed that the commercial add-on tax afforded the City an opportunity and was worthy of consideration as it continued to analyze its transportation needs. In the proposed FY 2009 council advertised a

---

[26] Budget Memo #23, March 16, 2009.

maximum add-on rate of $0.02[27] but in the context of the developing economic downturn, set the rate at 0 in the adoption of the FY 2009 budget. While noting that each $.01 would raise about $1.0 million annually for transportation needs, the City Manager did not recommend the adoption of an add-on tax in the proposed FY 2010 Budget. BFAAC continues to believe that this option should be maintained and be available as Council deems appropriate.

BPOL

The City of Alexandria (as do all Virginia localities) levies a business professional occupational license tax (BPOL) on the gross receipts of persons, firms, corporations, or partnership engaging in business within the City.[28] The following chart illustrates the current rates for the Business, Personal and Repair Service tax rates expressed as rate per $100 of gross receipts:

BPOL Tax Rates by Jurisdiction (Rate per $100)				
Alexandria	**Arlington County**	**Fairfax County**	**Loudon County**	**Prince William County**
$0.35	$0.35	$0.19	$0.17	$0.21

While BFAAC observes that the City has generally been competitive with our neighboring jurisdictions in setting the real estate tax rates, the marked difference in the BPOL rates with Fairfax, Loudon and Prince William counties warrants review and re-evaluation. BFAAC remains committed to its position on revenue diversification but in the context of the City's economic sustainability initiatives, care must be taken to ensure that our taxation structure is consistent with the attraction and retention of commercial activity that will help expand our tax base.[29]

Cigarette Tax

Currently the City imposes a $0.70 tax on each package of cigarettes and unlike our neighboring counties, there is no limit. Although the proposed budget recommends no change in the tax rate, BFAAC notes that the City Manager's projects that each $0.05 increase in the tax rate would provide an additional $0.2 million in revenue. The current rate has remained in effect since 2005.[30] An increase in the tax will generate additional revenue and further emphasize the City's initiatives promoting healthy lifestyles.

---

[27] March 15, 2008 City Council Public Hearing.

[28] Business Services, Personal Services and Repair Services are distinguished from Financial Services which can be subject to a higher maximum rate. See Budget Memo #23, March 16, 2009.

[29] By way of example, BFAAC observes that even if the City had a site or existing building capable of accommodating the Hilton Corporate Headquarters need for 130,000 s.f. and 3,500 employees, the current BPOL tax structure may have posed a disincentive.

[30] Budget Memo #23, March 16, 2009.

RECOMMENDATIONS

- **The Commercial Real Estate Add-On Tax remains a viable option to address the City's transportation needs and should be evaluated annually in the context of market conditions.**

- **In setting the BPOL tax rates, we recommend that the City evaluate the effect of the rate in retaining and attracting commercial activity to expand the tax base.**

- **An increase in the cigarette tax may be warranted at this time.**

- **BFAAC recommends that the City Manager's Proposed Annual Budget Document set forth the maximum tax rate permitted by law for each revenue option.**

D. Grant Revenues

BFAAC observes that 20% of the FY 2010 City Manager's Proposed Budget relies on estimated Special Revenue Funds including grant sources. State and federal grants account for $78.2 million of the total $102.5 million Special Revenue Sources. While these revenues are used for a number of valuable programs, we find that the grant application and the City's current process for receipt of grant funds is inefficient, labor intensive, and costly. Council is required to approve all grant applications prior to the actual application, and upon receipt of the grant funds, must approve an allocation of the funds as part of its usual ongoing budget process; agency and OMB staff spend time and money preparing hundreds of routine grant docket items each year, and Council, likewise, reviews and votes on each of those items. This results in a strain on Staff time, Council time, and money, especially unfortunate in this time of fiscal restraint.

BFAAC agrees with OMB's efforts to streamline, to the extent possible, the grant approval process. We recommend that the Council approve as part of its regular budget adoption the normal recurring grants received by the City (as outlined on pages 7-51 through 7-56 of the Proposed FY 2010 Budget). BFAAC recommends that all other grant applications and approvals be combined into a single monthly docket item, so as to save agency, Staff, and Council time.[31]

BFAAC further finds that the City lacks a grant application policy. We previously have stated our concern that many grants create programs that are not essential to City operations but, once created, have a resident constituency and, thus, are difficult to reduce in times of fiscal stress. We recommend Council adopt a resolution requiring agencies to demonstrate to OMB and the City Manager that any grant meets the agency's core mission, as defined by the City's Strategic Plan, and is consistent with the City's implementation of its MFRI. Grants should be subject to the same results-focused management system as other government programs.

---

[31] BFAAC is well aware that some grant applications come to Staff's attention on short notice and have accelerated response deadlines. Nevertheless, all grants are not created equal and the City should employ a reasoned analysis of the risks and rewards associated with a specific grant application.

As BFAAC has noted repeatedly in virtually every report issued over the past several fiscal years, the City needs to diversify its revenue. One way to do so is to seek any and all additional funding it can; however, grant funding may warrant a caveat and cautionary note inasmuch as many grants contain conditions with which the City may not wish to be encumbered; others limit the amount of grantor funding while containing no such ceiling on the City's contribution. As a result, an unintended consequence known as "grant creep" occurs when, due to inflation, or otherwise, the City costs of maintaining certain grants increase and may eventually be unsustainable.[32] In order to halt "grant creep," BFAAC recommends that OMB require agencies that accept grants to absorb any additional grant costs within their own budget, and not request new City funding.

BFAAC had recommended that the City hire a grants coordinator and place that person within the City Manager's office. The City did so, but that position has been eliminated due to the budgetary constraints.[33] BFAAC recommends the City reconsider creating such a position when it has the budgetary means to do so. In the meantime, we recommend that OMB serve as the clearinghouse for all grants, but that agencies individually apply for and administer agency- and program-specific grants.[34]

RECOMMENDATIONS

- **Council should approve as part of its regular budget adoption the normal recurring grants received by the City.**

- **The City should continue to explore grant sources to supplement other City tax revenues.**

- **Recurring grant applications should be submitted to Council in a single monthly docket item.**

- **The City should formulate a uniform grant application policy whereby agencies must demonstrate to the satisfaction of OMB and the Manager that each grant meets the agency's core mission, as defined by the City's Strategic Plan, and is consistent with the City's implementation of MFRI.**

- **Recurring grants that are no longer economically sustainable in future years because of reduced grantor funding, or increased operating costs, should be eliminated unless the accepting agencies are able to absorb additional cost within their own budget.**

---

[32] By way of example, the City was awarded the Staffing for Adequate Fire and Emergency Response Grant (SAFER) on February 20, 2009. During the March 24, 2009 Council Work Session it was noted that the grant provides $325,140 over 5 years with a declining Federal contribution each year.

[33] Prior to its elimination, the position had been filled twice but the incumbents left because of reported frustration and other opportunities.

[34] BFAAC observes that the grant searching, grant writing and grant management are essential functions that must be managed by the individual departments in the interim.

E. Fees

Recently the City adopted a fee compendium recommended by BFAAC. We commend the City's adoption of the compendium and its ease of access on the City website and urge the City to continue a periodic review to ensure that the fees are in line with neighboring jurisdictions and that they are set at such a level so as to promote cost recovery for provided services.