City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 12, 2013

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

THROUGH: RASHAD M. YOUNG, CITY MANAGER

FROM: NELSIE L. SMITH, DIRECTOR, OFFICE OF MANAGEMENT & BUDGET

SUBJECT: BUDGET MEMO #19: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE REVIEW OF THE FY 2014 PROPOSED BUDGET

The Budget and Fiscal Affairs Advisory Committee (BFAAC) has completed its analysis of the FY 2014 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 15, 2013.

City of Alexandria, Virginia
Budget and Fiscal Affairs Advisory Committee

Report on the City Manager's Proposed Budget for Fiscal Year 2014

John J. Renner, II, Chairman
Margaret S. Gullen, Vice-Chairwoman
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Thomas Karol
Jean Sun Kim
Benjamin Klein
Patrice Linehan
Laurie MacNamara
Len Rubenstein
Clarence Tong
Michael Wenk

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- **BFAAC observes that the overall growth of residential tax and fee burden is outpacing mean household income, and this trend should be monitored. For the past 4 years, non-real estate taxes and fees have accounted for a substantial portion (approximately 18 percent) of the overall resident tax/fee burden. Council should be cautious about increasing the residential tax and fee burden in FY 2014 and beyond.**

- **BFAAC continues to work with staff on metrics that provide a more comprehensive measure of the tax and fee burden on residents. BFAAC strongly encourages City staff to develop comparable metrics for businesses.**

- **BFAAC cautions Council to continue monitoring the declining percentage of commercial (excluding commercial multi-family) assessments relative to residential and multi-family assessments. If the goal is to obtain a 50/50 balance, Council should work with AEDP, Planning and Zoning, and other stakeholders to develop a tactical plan to grow the commercial base under the City's land use plans.**

- **BFAAC encourages Council to provide AEDP with the resources to proactively attract businesses to the City and the appropriate authority to utilize economic development incentives.**

- **BFAAC recognizes that, while it is impossible for Council to accurately predict federal and state funding levels, it is prudent to anticipate a reduction in FY 2014 and beyond.**

- **BFAAC discourages Council from using Fund Balance to make up for the shortfall in federal and state revenue.**

- **BFAAC recommends Council not raise the current debt policy targets and limits.**

- **BFAAC has found borrowing in excess of the City's debt policy guidelines acceptable only if the projects to be funded are essential to achieve strategic goals and result in significant long-term benefit to the City, or represent the City's commitment to fulfill a prior obligation.[1] BFAAC agrees there is a reasonable case for Council to make a temporary exception for the Potomac Yard Metrorail Station given the project's unique features – including being self-financed and having a positive projected impact on economic development and estimated long-term revenue for the City.**

- **BFAAC again emphasizes that FY 2014 debt policy projections do not assume the impact of several high profile projects that have been approved and are being implemented. BFAAC cautions that additional borrowing to implement these other**

[1] Budget Memo #48, BFAAC Report on the City Manager's Proposed Budget for FY 2011, p. 30.

- **BFAAC recommends Council review proposed changes in plan design, particularly those that appear to deviate substantially from health plan design in neighboring jurisdictions in a manner that imposes substantial new out of pocket costs on employees, whether they are low or high users of health care services.**

- **BFAAC recommends Council review whether it should shift an additional cost to employees in light of $1.75 million that has already shifted to employees over the past three years.**

- **BFAAC recommends Council ask the City Manager to review alternatives to plan design to assure that Alexandria's plans are competitive with those in neighboring jurisdictions and are equitable, especially for lower-paid employees.**

- **BFAAC recommends that alternatives to deductibles and high hospitalization co-payments be explored should additional cost shifting in health plans be imposed.**

- **BFAAC recommends Council examine whether pension cost increases in FY 2014 are beyond what was expected and/or signal longer term funding concerns that warrant an immediate increase in employee pension contributions.**

- **BFAAC encourages the City/Labor Group to identify an acceptable funding alternative should Council determine increased pension costs require immediate action.**

- **BFAAC encourages the City/Labor Group to develop an adjustment mechanism to ensure future changes to the Plan are based on an agreed upon objective criteria.**

- **BFAAC recommends a review of disability benefits to determine if an opportunity exists to minimize immediate and long term pension cost concerns.**

- **BFAAC commends the City for establishing an SRP Board and recommends that the City, in consultation with the SRP Board, act on minimizing disparities in contribution rates and benefits covered under SRP.**

- **BFAAC commends the City for its continued commitment to address the unfunded liability posed by retiree healthcare and life insurance benefits.**

- **BFAAC also commends the City Manager's decision to include OPEB funding within departmental budgets as an important step in institutionalizing the City's commitment and shielding the commitment from short-term fiscal pressures.**

- **BFAAC urges the City to continue to address its unfunded OPEB commitment with, at a minimum, the current 4 – 5% per year funding level through the general fund.[2]**

THE PROPOSED CAPITAL IMPROVEMENT PROGRAM

- **BFAAC again supports appropriate commercial development in Alexandria. The proposed Potomac Yard Metrorail Station is expected to generate major commercial development in an area that is designated for high density mixed use development. Although the initial public investment will be significant, the estimated contributions and property taxes paid by commercial development in the long run should far exceed the initial cost of the station.**

- **BFAAC recommends that prior to further action, including the FY 2016 issuance of the General Obligation Bonds, a "market feasibility study" be conducted to update the 2010 financial projections and to determine the expected pace of development to make sure there is no lag. With this updated market information, the City will be able to provide an updated and more detailed analysis of the costs and benefits associated with this major undertaking.**

- **BFAAC commends the cooperation between the City and ACPS to meet the capacity needs of Alexandria's burgeoning public school population.**

- **The additional capital necessary to accommodate the projected enrollment increases in the years FY 2017 through FY 2022 would likely strain the City's funding and borrowing capacity, given the other capital projects slated for the same period.**

- **The City should, in consultation with ACPS, be mindful of the likely impact on student population of any land-use planning proposal considered in the next several years.**

- **BFAAC recommends greater coordination between ACPS and City CIP budget processes. In addition, BFAAC continues to encourage similar coordination across all departments that impact budget and planning.**

- **BFAAC recommends all CIP projects be listed in priority rank and a transparent justification be provided for the ranking. Issues that remain to be addressed include: ranking all CIP projects by running them through the new evaluation tool by FY 2015, incorporating IT projects into the CIP, having components use the same evaluation criteria, trying to more closely align projects with strategic plan and outcomes, and quantifying additional operating impact.**

- **Council should consider requesting, for future budgets, that each department or agency provide standard cost benefit analysis information.**

[2] City of Alexandria Budget & Fiscal Affairs Advisory Committee. Report on the City Manager's Proposed Budget for Fiscal Year 2007. Pages 23-25.

- **This is one of the better budgets presented in recent years. It is well thought out and well presented. Better explanation of transit and transportation projects would be helpful, including the reasons and justifications of the projects and costs. It is difficult to track projects from year to year, as some are eliminated and others are merged. Projects of vastly different magnitudes (e.g. the Potomac Yard Metrorail Station and construction of a bicycle path) are treated the same way, with almost the same level of detail. It would also be very helpful to break down various cost elements of a project.**

I. REVENUES AND OUTLOOK

The City relies on the following sources of revenue: Residential Real Estate Tax, Commercial Real Estate Tax, Other Local Taxes, Non-Tax revenue, and Federal and State revenue. For years the City has attempted, with limited success, to diversify non-tax revenue and continues to rely upon real estate taxes to fund the majority (57.7 percent) of the budget. This revenue is derived from residential as well as commercial properties. This section will address each of these sources separately.

A. Residential Tax and Fee Burden Issues

In 2011, Council requested that BFAAC work with City Staff to explore the development of new metrics to measure the tax and fee burden for residents and businesses. These metrics would more fully track the City-imposed financial burdens on residents *and* businesses. While there has been progress on the residential side, the City is still unable to compile the data for the impact on businesses.

Table I below shows that for the past four years, non-real estate taxes and fees account for approximately 18 percent of the overall resident tax/fee burden. BFAAC observes that over a five-year period (2008-2012), the average annual growth in overall taxes and fees exceed mean household income growth, at 1.7 percent versus 0.6 percent. BFAAC also notes that while the overall tax and fee burden has inched up, from 4.6 percent to 4.8 percent from FY 2010 to FY 2012, the total dollar burden increased 4.0 percent in FY 2011 and 3.3 percent in FY 2012, after being relatively flat in the three prior years (in dollars growing from $5,114 to $5,491).

If mean household income growth remains sluggish, this will eventually result in the overall tax and fee burden noticeably exceeding historical averages.

Table I: Tax and Fee Burdens as a Percent of Household Income in Alexandria[3]

	FY 2008	FY 2009	FY 2010	FY 2011	FY 2012
City of Alexandria Mean Household Income*	$110,677	$107,925	$110,485	$112,947	$113,522
Fees and Taxes					
Real Estate Tax	4,232	4,227	4,255	4,380	4,523
Personal Property Tax	279	277	225	256	303
Trash Removal Fee	264	301	331	336	336
Decal Fee	57	59	51	53	56
Utility Tax on Natural Gas	24	24	23	23	22
Utility Tax on Electricity	33	32	31	31	29
Utility Tax on Water	22	23	24	27	25
Communication Sales and Use Tax	168	149	147	150	142
Sanitary Sewer Maintanance Fee	57	40	28	60	54
Average Total Taxes and Fees per Alexandria Household	$5,137	$5,133	$5,114	$5,316	$5,491
Total Taxes and Fees as Percentage of Total Household Income	4.6%	4.8%	4.6%	4.7%	4.8%

*Data from the American Community Survey, published by the Census Bureau (1-year estimates). FY 2012 assumes increase in personal income of 0.51% in 2012 based on the compound average growth rate FY08-11.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC observes that the overall growth of residential tax and fee burden is outpacing mean household income, and this trend should be monitored. For the past 4 years, non-real estate taxes and fees have accounted for a substantial portion (approximately 18 percent) of the overall resident tax/fee burden. Council should be cautious about increasing the residential tax and fee burden in FY 2014 and beyond.**

- **BFAAC continues to work with staff on metrics that provide a more comprehensive measure of the tax and fee burden on residents. BFAAC strongly encourages City staff to develop comparable metrics for businesses.**

[3] Source: OMB email communication to BFAAC, February 27, 2013.

B. Commercial Real Estate Tax Base

In 2007, the Mayor's Economic Sustainability Work Group recommended realigning the residential/commercial tax base to a 50/50 balance.[4] Data provided for FY 2013 suggests a relatively balanced picture (55.8 percent in residential, 44.2 percent in commercial), but when commercial multi-family units are removed from the commercial total, as shown in Chart II below, the City's tax base remains not only out of balance, but the share of commercial assessments has gradually declined over the past five years, from 30.5 percent in FY 2009 to 29.8 percent in FY 2011 to 27.7 percent in FY 2013.[5]

Chart I: Percentage of Real Estate Assessments by Property Type (CY 2013)[6]

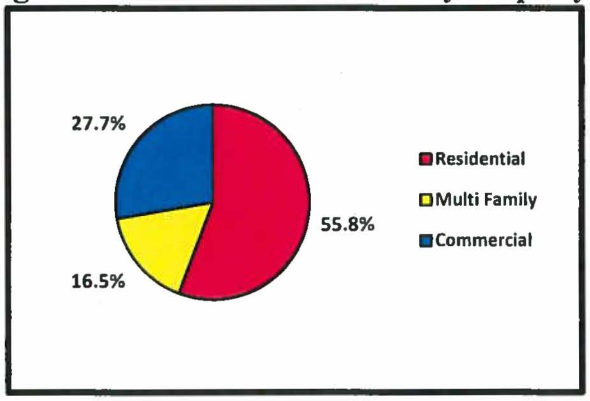
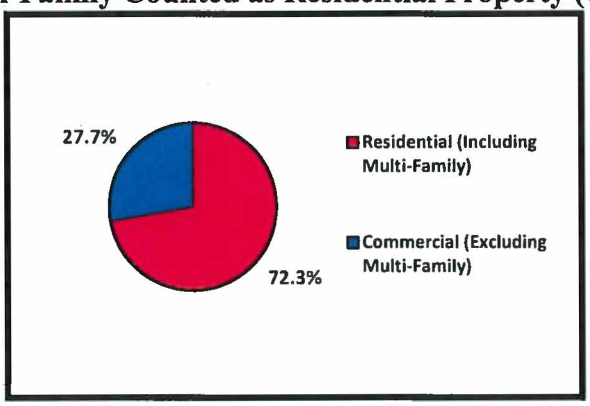


Chart II: Percentage of Real Estate Assessments by Property Type with Multi-Family Counted as Residential Property (CY 2013)[7]



BFAAC notes that Arlington faces a similar challenge, with commercial properties (excluding multi-family) only making up 31 percent of its real estate revenue base. Yet, as illustrated in Chart III, between 2011 and 2013 Arlington's commercial bases increased (30 to 31 percent) at the same time Alexandria's base decreased (30 to 27.7 percent).

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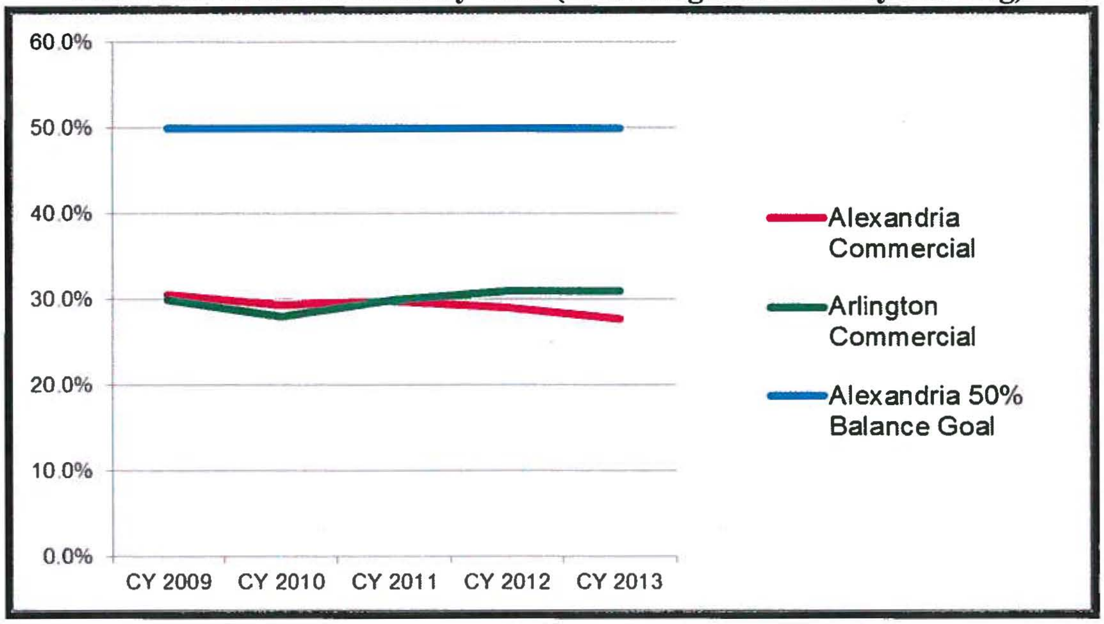
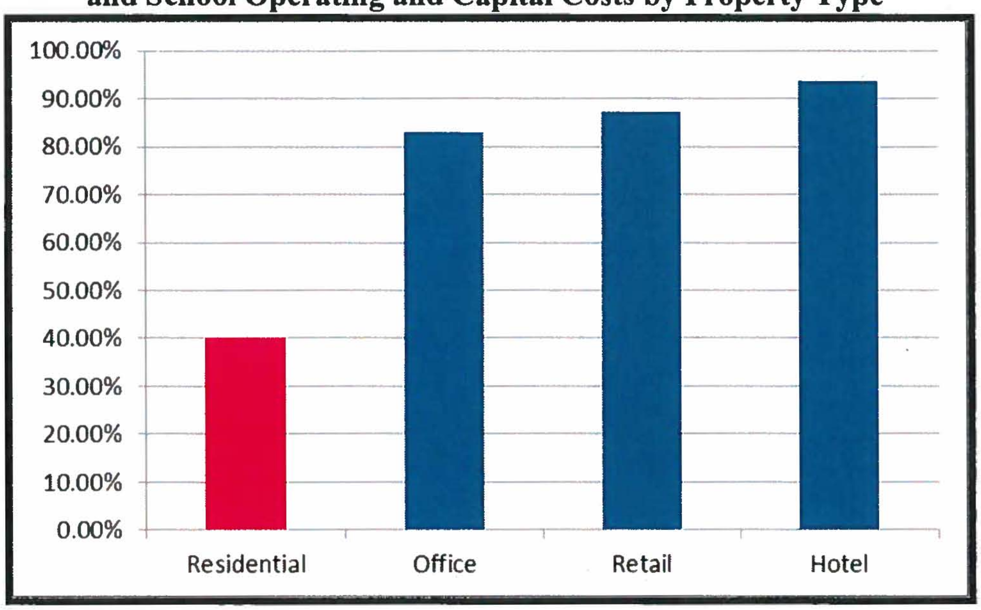
[4] Recommendation from the Mayor's Economic Sustainability Work Group, October 27, 2007, page 4.
[5] City of Alexandria Proposed FY14 Operating Budget, 7-13.
[6] Ibid.
[7] Ibid.

Chart III: Commercial Assessments as Percent of Total Real Estate Revenue by Year (Excluding Multi-Family Housing)[8]



The recent drop in commercial development is troubling, particularly since (as illustrated in Chart IV below) commercial properties generate the most revenue for the City, net of operating and capital costs.

Chart IV: Percent of Tax Dollars Generated Net of City and School Operating and Capital Costs by Property Type[9]



[8] City of Alexandria Proposed FY14 Operating Budget and Arlington FY14 Proposed Budget.
[9] AEDP provided data in chart IV at the request of BFAAC.

BFAAC urges Council to further explore and understand the challenges of commercial development in Alexandria. While we do have high commercial office vacancy rates (16 percent[10]) at competitive rents, the City continues to be challenged to meet the 50/50 goal due in part to the types of open office space currently available in our inventory (Class A vs. B).

BFAAC recently met with leadership from the Alexandria Economic Development Partnership[11] (AEDP) to discuss their strategic plan and was encouraged by their: 1) focus on encouraging new Class A office development around transit centers; 2) strategy to target, recruit, and retain a diverse range of professional businesses and industries, including business and consulting services, venture capital, information technology, creative industries, and government agencies; and 3) emphasis on attracting high-profile tenants to serve as anchors for commercial development projects.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC cautions Council to continue monitoring the declining percentage of commercial (excluding commercial multi-family) assessments relative to residential and multi-family assessments. If the goal is to obtain a 50/50 balance, Council should work with AEDP, Planning and Zoning, and other stakeholders to develop a tactical plan to grow the commercial base under the City's land use plans.**

- **BFAAC encourages Council to provide AEDP with the resources to proactively attract businesses to the City and the appropriate authority to utilize economic development incentives.**

C. Federal and State Revenue

Federal and state revenue is projected to account for $54.36 million of the City's General Fund in FY 2014. However, this does not include $85.58 million of federal and state revenue that is allocated to the City's Special Revenue Fund. In total, federal and state revenue is expected to account for approximately 18 percent of the City's total revenue in FY 2014 (General Fund and Special Revenue Fund).

BFAAC cautions Council that the projected federal and state revenue for FY 2014 represents a best-case scenario, particularly on the federal side. Unless Congress acts, the federal budget will automatically be cut by more than $100 billion per year for fiscal years 2013 thru 2022 (Budget Control Act of 2011). For most federal non-defense discretionary programs, these cuts will result in an across-the-board 8.2 percent reduction for FY 2013. The impact of these cuts have neither been considered in the City's budget nor measured on a number of existing grant programs.

BFAAC recognizes the impact of these cuts will be felt by residents, particularly the most vulnerable Alexandrians. BFAAC encourages Council to take steps to ensure that critical

[10] AEDP presentation to Council on March 5, 2013.
[11] March 14, 2013 meeting at AEDP.

programs are funded. However, BFAAC discourages Council from using Fund Balance to cover the shortfall from federal and state revenue reductions as it is not a sustainable strategy. The City needs to be fully prepared for the cuts, including the likely reduction in sales tax revenue, drop in occupancy in hotel stays with many federal conferences being canceled, and other indirect budgetary impacts.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recognizes that, while it is impossible for Council to accurately predict federal and state funding levels, it is prudent to anticipate a reduction in FY 2014 and beyond.**

- **BFAAC discourages Council from using Fund Balance to make up for the shortfall in federal and state revenue.**

D. Debt Burden Issues

BFAAC has long supported adherence to City debt policy guidelines as an important tool in promoting financial discipline and ensuring maintenance of Alexandria's AAA/Aaa bond rating. The guidelines include three benchmarks against which the magnitude of borrowing can be assessed for its impact on the City's fiscal condition: 1) debt service as a percent of general government expenditures; 2) debt as a percent of real property assessed value; and 3) debt as a percent of personal income. For each of these benchmarks, the City sets both targets and limits.

In its last three reports, BFAAC noted that at some point over the ten-year budget window, all three of the metrics exceed the targets, and either approach or exceed the limits. BFAAC continues to raise concerns that this borrowing trajectory will crowd out operating budgets.

BFAAC is concerned that starting with FY 2011, the debt ratios for all three benchmarks have gradually inched upwards (Appendix II) with each successive budget submission: in FY 2012, to FY 2013, to the FY 2014 proposal. This trend is evident regardless of whether the Potomac Yard Metrorail Station is included in the calculation, meaning that the City's debt ratios for the base operating budget, i.e., without any major capital projects, are worsening. BFAAC expressed our concern in the last several budgets that when the Potomac Yard Metrorail Station development is included, the City exceeds its debt limits for certain metrics. For the FY 2014 budget, BFAAC observes that some of the metrics are now hitting the limits without Potomac Yard Metrorail Station included.

Whether the Potomac Yard Metrorail Station is or is not included greatly affects the City's adherence to these debt policy guidelines.

Excluding Potomac Yard Metrorail Station : With the costs of the Potomac Yard Metrorail Station development excluded, FY 2014 budget projections for two of the debt policy benchmarks – debt as a percent of real property assessed value and debt as a percent of personal income hit the City's debt policy limit for at least one year during the budget window; this is the first time that BFAAC has observed this trend. Two of the metrics – debt as a percent of real property assessed value and debt as a percent of personal income – exceed the targets for every year of the entire budget window, except 2023.

Including Potomac Yard Metrorail Station : The City will exceed its debt policy guidelines with the inclusion of the Potomac Yard Metrorail Station. With the costs of the Potomac Yard Metrorail Station included, for the first time that BFAAC has examined the data, FY 2014 budget projections for all three debt policy benchmarks – debt as a percent of real property assessed value, debt as a percent of personal income, **and now** debt as a percent of governmental expenditures – exceed the City debt limits during some portion of the budget window.

Appendix I provides a table that compares the City's FY 2014 projections for these three debt policy benchmarks to the FY 2013 projections (which include the impact of the Potomac Yard Metrorail Station), as well as to the targets and limits. The RED shaded areas in the last column represents years for which the relevant debt burden metric exceeds the City's prescribed limits.

For each graph below, the BLUE thick line, which represents the FY 2014 debt percentage for that particular metric without the impact of the Potomac Yard Metrorail Station. Note the significant increase in these percentages in both the 2013 and 2014 estimates with the cost of the Metrorail Station included, and how inclusion of the Metrorail Station moves these metrics either above or closer to the City's debt limits.

Table II: Debt Service as a Percent of Real Property Assessed Value

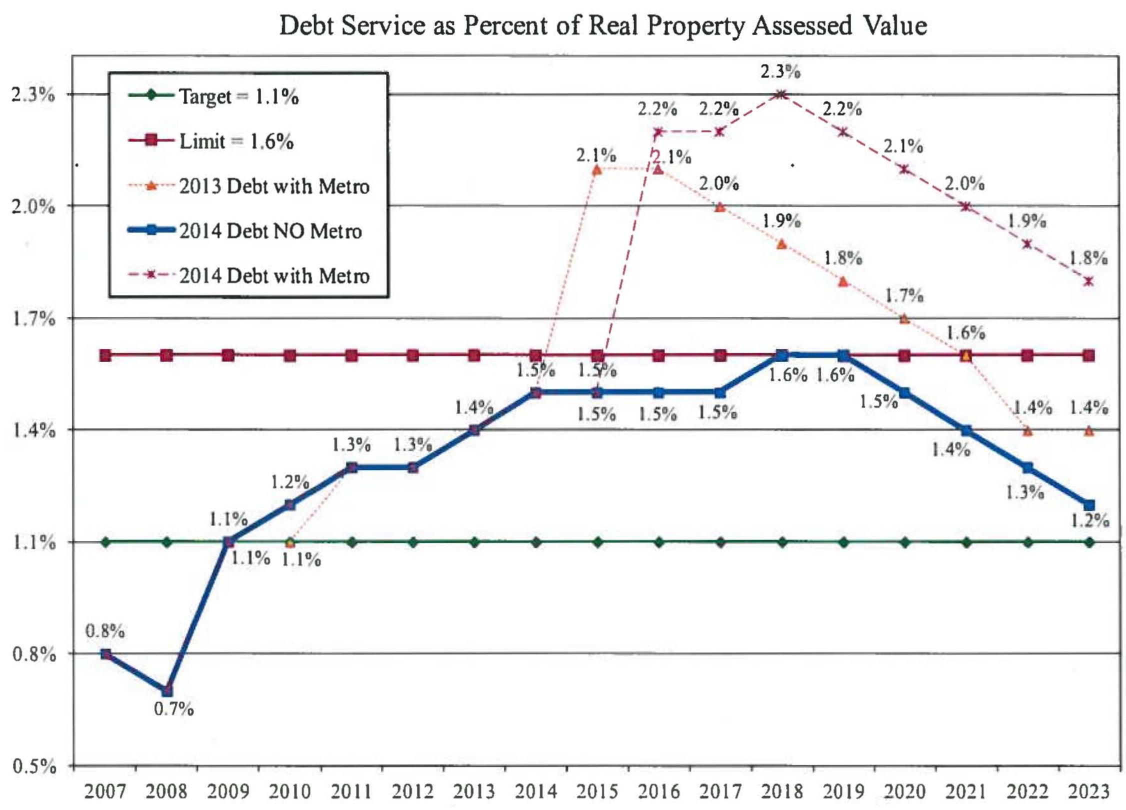


Table III: Debt Service as a Percent of Personal Income

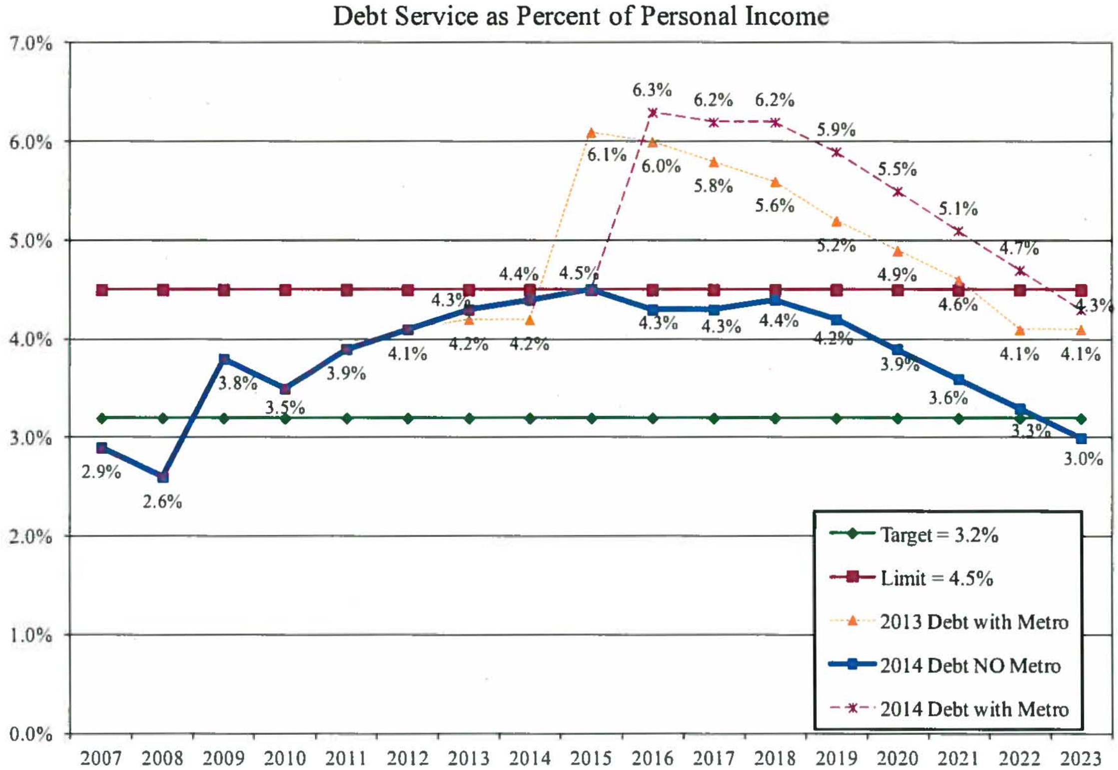
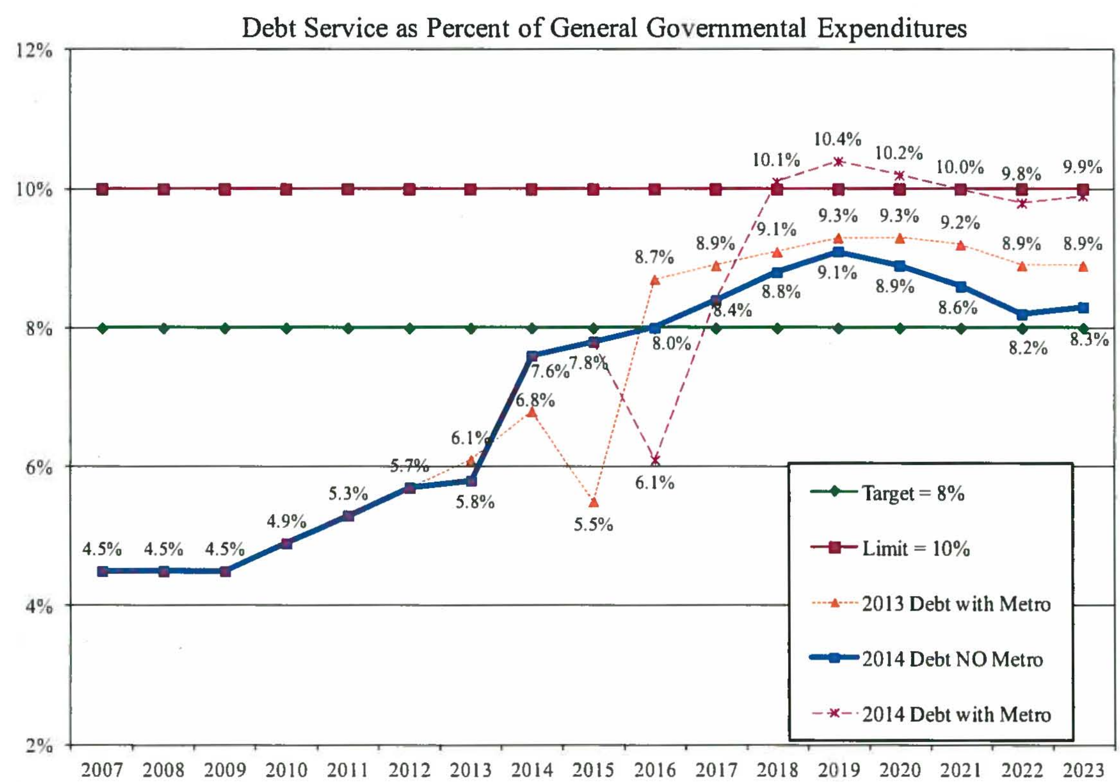


Table IV: Debt Service as a Percent of General Governmental Expenditures



BFAAC cautions that while the debt policy projections in the FY 2014 budget include the impact of the Potomac Yard Metrorail Station , they do not include the full impact of several other planned, high-profile projects that could result in significant additional borrowing: sanitary sewer and storm water repairs, the full out-year CIP request for the Alexandria City Public Schools (ACPS), the Waterfront Plan, the Landmark/Van Dorn Plan, the Beauregard Small Area Plan, and the Master Transportation Plan. OMB has informed BFAAC that the impact of these projects is excluded from its debt projections because the costs, including the combination of developer financing and City revenue, are simply not known at this time. The costs of any one of these projects would further weaken the City's financial position as measured by the debt policy guidelines.

BFAAC has found borrowing in excess of the City's debt policy guidelines acceptable only if the projects to be funded are essential to achieve strategic goals and result in significant long-term benefit to the City, or represent the City's commitment to fulfill a prior obligation.[12]

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends Council not raise the current debt policy targets and limits.**

- **BFAAC has found borrowing in excess of the City's debt policy guidelines acceptable only if the projects to be funded are essential to achieve strategic goals and result in significant long-term benefit to the City, or represent the City's commitment to fulfill a prior obligation.[13] BFAAC agrees there is a reasonable case for Council to make a temporary exception for the Potomac Yard Metrorail Station given the project's unique features – including being self-financed and having a positive projected impact on economic development and estimated long-term revenue for the City.**

- **BFAAC again emphasizes that FY 2014 debt policy projections do not assume the impact of several high profile projects that have been approved and are being implemented. BFAAC cautions that additional borrowing to implement these other projects would significantly deteriorate the City's performance relative to its debt policy guidelines and adversely impact our AAA/Aaa bond rating.**

- **BFAAC encourages Council to begin to assess the potential cost of federal and state mandated sanitary sewer and storm water projects and the impact on the City's debt policy guidelines.**

E. Use of Set-Aside Funds

BFAAC continues to be concerned with set-asides (automatic designations of revenue) that fall outside of the general fund and CIP budget process. In challenging budget years such as this, Council should have flexibility to evaluate all spending and determine priorities based on the City's Strategic Plan and needs of the community.

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[12] Budget Memo #48, BFAAC Report on the City Manager's Proposed Budget for FY 2011, p. 30.
[13] Ibid.

As the City implements a new prioritization process to assess competing budget priorities, all programs will be evaluated on a level playing field, making the need for set-aside funds unnecessary. While the use of set-aside funds does allow Council to issue bonds to borrow against future outlays, BFAAC continues to be concerned with setting aside portions of the general fund for specific purposes.

The FY 2014 budget continues three set-asides within the general fund – Transportation Improvement Program (TIP) (2.2 cents), affordable housing (0.6 cents), and open space (0.3 cents). In total, these set-asides now account for 3.1 cents of the real property tax rate. The FY 2014 budget also includes a set-aside (0.5 cents) for storm water improvements, but that fund falls outside of the general fund.

BFAAC notes that the transportation set-aside is a general fund reservation, while the affordable housing and open space set-asides are dedicated funding streams. A general fund reservation represents the intent of Council and can be changed with a simple vote at any time. In contrast, a dedicated fund requires an ordinance and public hearing to make any changes.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC continues to oppose the use of set-aside funds, particularly those in the form of general fund dedications, which limit Council's flexibility to set priorities.**

- **BFAAC continues to recommend Council adopt a sunset provision to force a review of each set-aside on an annual basis.**

F. Transportation Matching Funds

The pending transportation funding legislation that is now on the Governor's desk (HB 2313) would provide substantial new revenue for transportation projects in Northern Virginia. However, the City's share of the new revenue generated from regional taxes for Northern Virginia is dependent on the City finding matching funds of approximately $11.2 million.

The legislation allows the City to meet its match by adopting a 12.5 cent add-on commercial and industrial real estate tax or by identifying other qualifying sources of money.

According to guidance from City staff, the City can meet the equivalency test, in part, through the TIP and the funding set aside for the Potomac Yard Metrorail Station. BFAAC supports the approach outlined in the staff guidance. The City should ensure credit is appropriately taken for all qualifying funds to satisfy the match requirement.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC supports the proposal to leverage the TIP and other existing transportation funds to meet the local share required for the new state transportation fund.**

- **BFAAC continues to have concerns with the use of set-aside funds, but in this case the benefits of maintaining the TIP outweigh concerns about setting aside portions of the general fund.**

II. THE PROPOSED OPERATING BUDGET

A. The Need for Transparent Criteria in Determining Priorities for Service Reductions and Enhancements

BFAAC welcomes the City Manager's initiative to assess the effectiveness of programs through the new performance management process. The process will contribute to the most effective use of City funds and provide an additional tool for improving accountability to Council and citizens through concrete measures of effectiveness and value. BFAAC supports the City's significant investment in this process.

The performance management process is, however, only one essential new element required to make rational and transparent decisions on service enhancements or reductions, particularly regarding the required judgments to fund one service over another. These decisions are not simply a matter of assessing the effectiveness of a particular service, but require comparing the need for it to the needs for other services. As BFAAC has noted in previous reports, it is not sufficient to rely on the Strategic Plan in making these decisions, as the plan lacks criteria for determining priorities within and among Strategic Plan categories.

As BFAAC has recommended in prior reports, transparent criteria are needed for assessing whether a funding reduction or enhancement should be made for a particular service, and to assess the comparative need for services competing for funds. Once the criteria are applied, services can be ranked. Every year since FY 2009, the City Manager has provided a Budget Memo that sets out proposed reductions and amounts.[14] This year he listed reductions with a statement of potential impact.[15] This list, however, does not specify why most reductions were chosen. An additional Budget Memo was prepared by the City Manager listing other possible reductions that were not chosen.[16] The City Manager has a rationale for each decision, but citizens and Council have no way of knowing the criteria he uses or how judgments are made to include a service on the first (reduce) or second (preserve) list.

The City Manager is to be congratulated for bringing department heads into the process across a cluster area rather than proceeding on a department-by-department basis.[17] BFAAC is also pleased that the City Manager did not make decisions for service reductions on a strictly proportional basis based on the funding level of each department. However, more transparent criteria would help citizens and Council review whether services in one line of business are more essential than services in another line of business.

In reviewing the proposed service reductions this year, the services affected appear to disproportionately affect the most vulnerable citizens. For example, the strategic plan area of Children, Youth and Families represents 33 percent of positions in the City but accounts for 62 percent of the reductions in FTE positions. In Public Safety, a social worker position will be

[14] FY 2014 Budget Memo #3, Detail of the City Manager's Proposed FY2014 General Fund Reductions and Additions.
[15] FY 2014 Budget Work Session Revenue/Expenditures March 4, 2013
[16] FY 2014 Budget Memo #7, Detail of the General Fund Expenditure Reductions and Revenue Increase Proposals not Included in City Manager's Proposed FY 2014 General Fund Budget (Councilman J. Wilson request).
[17] Ibid, p. 1.

eliminated which will end the Police Department's ability to follow-up in non-arrest cases;[18] a vacant mental health probation officer position will be left unfilled; detoxification services will be reduced, resulting in a decrease in the percentage of individuals who could otherwise avoid hospitalization;[19] and a child protective services position will be eliminated, reducing by 25 percent the number of families receiving early intervention services in FY 2014.[20]

While the City Manager has reasons for these decisions, the establishment of transparent and clearly articulated criteria would help citizens and Council rationally evaluate proposed service reductions and identify possible unintended consequences. Further, if there is a strong justification for eliminating or reducing one service rather than another, citizens will better understand the decision.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC commends the City Manager for initiating the performance management process.**

- **BFAAC recommends Council establish criteria for determining priorities aligned with the Strategic Plan, which the City Manager can use in making decisions on reducing or increasing spending. This way, budget decision-making is transparent to the public, much like it is in the CIP.**

- **BFAAC recommends Council closely review the rationale for the apparent disproportionate impact of service reductions on vulnerable populations in the City.**

- **BFAAC recommends Council review the impact of service reductions since FY 2009, including the impact on vulnerable populations.**

B. Employee Compensation

1. Pay for Performance

BFAAC concurs with the decision to include $4 million in the proposed budget for salary increases. This consists of $3.6 million for merit-based pay increases and $0.4 million for employees at the top of their grade. Employees can expect a 2.3, 3, or 5 percent merit increase assuming a satisfactory review. Those at the top of their grade will receive a one-time bonus of 2.3 percent also subject to a satisfactory review.

BFAAC supports a merit-based pay system and other pay-for-performances initiatives. However, *as the merit-pay system is currently structured*, BFAAC has two concerns. First, as we have said in prior years, nearly all employees will receive a pay increase because it is difficult to not receive a satisfactory review. While this is partly a reflection of the quality of employees

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[18] City of Alexandria, Virginia, Proposed Operating Budget Fiscal Year 2014, p. 14-50.
[19] Ibid p 15-31.
[20] Ibid p. 15-30.

Alexandria attracts, it also highlights the need to reform standards of performance to provide a more robust merit-pay system. BFAAC notes that the City Manager continues to work on creating a pay-for-performance system with a proposal to pilot the new system in July for senior staff. This initiative will eventually revamp all employee work plans and performance standards. As in last year's report, BFAAC supports this effort but cautions that it needs to be done carefully and with significant employee input to ensure fairness and effectiveness.

A second concern with the current merit-pay system is the resultant salary compression at the top of the grade. This year, the City Manager proposes to offer a top-of-grade bonus rather than permanently adding a step to the pay scale. One way to address this problem is shifting to pay bands rather than a step system. BFAAC notes that the City Manager is in process of implementing the support structure to be able to offer pay bands and is looking to expand them across more job classifications. This will be a multi-year process that will continue to push the issue of salary compression into the next several budget cycles.

2. Transparent Criteria in Determining Compensation Priorities

The proposed budget makes a distinct and explicit choice to create greater balance between salary and benefits compensation by choosing to increase employee costs on health care while supporting the merit-pay increase (see section C below). BFAAC has supported such efforts to rebalance compensation in the past.

Furthermore, this choice also addresses compensation competitiveness compared to other local jurisdictions. The City Manager believes that increasing base salaries will help to attract and retain employees past the first few years. BFAAC supports the City Manager's continued efforts to address this issue.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC commends the City's continued efforts to create a more robust merit-pay/pay for performance salary structure but again reminds Council of the need for transparency and careful implementation of these proposals.**

- **BFAAC recommends Council carefully consider net compensation changes keeping in mind fairness, recruitment and retention.**

C. Employee Health Insurance

Over the past three years, the City has gradually increased the health insurance premiums for City employees to 20 percent of cost for participation in the least expensive HMO plan and more for point of service plans. BFAAC has supported this change both as a means of sound financial management and to achieve comparability with practices in neighboring jurisdictions. Over the past three years, the cost shift has been substantial: $750,000 in FY 2011, $600,000 in FY 2012, and $400,000 in FY 2013, for a total shift of $1.75 million in costs from the City to its employees.

In the FY 2014 budget, the City Manager now proposes additional changes to "shift the cost of health care to employees"[21] by imposing substantial deductibles on participants in all plans, including the least expensive HMO, of $400 for an individual and $800 for a family. The cost shift as a result of this and other plan design changes results in another $1.5 million savings to the City.

The proposed budget states that the "health insurance plans available to City employees are far more generous than those offered to public employees in surrounding jurisdictions."[22] A review conducted by a consultant brought in by the City Manager,[23] indicate that the differences between Alexandria's plan designs and those of other jurisdictions are small except for the lower co-payments for emergency room use and hospitalization. Further, Alexandria is not paying significantly higher premiums for comparable Fairfax and Arlington plans.

The City, like all employers, faces challenges in the rising cost of health insurance, and senior staff deserves commendation for looking at alternatives. BFAAC recognizes that there are significant increased healthcare costs if no changes are made. BFAAC is especially concerned that the proposed plans impose deductibles of $400 for individuals and $800 for families in all plans. This change imposes first dollar requirements on all participants, particularly burdening employees who use the fewest health care services and those at the lower end of the salary spectrum. Neither Arlington nor Fairfax has deductibles in their HMO plans, and in-network POS plans generally lack them as well. A Kaiser Family Foundation study found that only a third of private employer, which typically have less generous plans than public ones, impose deductibles in HMO plans. Further, the proposed plans impose far higher hospitalization co-payments than those in Fairfax and Arlington, BFAAC recommends Council be cautious about shifting additional cost burden to employees, and if chooses to do so, recommends that it consider alternative approaches to impose greater costs to individuals at the higher end of the pay scale who can better afford to bear these additional costs, such as through differential premiums.

The City Manager has recently notified employees of adjustments to mitigate the impact of the plan design changes, reducing employee share of premiums and establishing an out-of-pocket financial assistance program that allows employees to trade annual leave or comp time for up to $200 in deductibles. While we appreciate the City Manager's effort to respond to concerns raised by the plan, we do not believe that they sufficiently address the structural problem in requiring significant deductibles in health plans, especially an HMO plan.

BFAAC supports the City Manager's intention to explore options to the current health care offerings. Suggested ideas include creating new plans with higher deductibles/lower premiums, lower premiums/higher deductibles, health savings accounts, and combining with the ACPS employee pool. Additionally, some employers are imposing differential premiums based on salary so that higher paid employees, who can afford to pay more, bear a greater share of insurance costs than lower paid employees.

[21] City of Alexandria, Virginia, Proposed Operating Budget Fiscal Year 2014, p. 10-17.
[22] Ibid.
[23] City of Alexandria, Health Plan Benchmarking Study, no date.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC commends City staff for taking a fresh look at the City's health plans, and hiring a consultant to compare Alexandria's plans to those of neighboring jurisdictions.**

- **BFAAC recommends Council review proposed changes in plan design, particularly those that appear to deviate substantially from health plan design in neighboring jurisdictions in a manner that imposes substantial new out of pocket costs on employees, whether they are low or high users of health care services.**

- **BFAAC recommends Council review whether it should shift an additional cost to employees in light of $1.75 million that has already shifted to employees over the past three years.**

- **BFAAC recommends Council ask the City Manager to review alternatives to plan design to assure that Alexandria's plans are competitive with those in neighboring jurisdictions and are equitable, especially for lower-paid employees.**

- **BFAAC recommends that alternatives to deductibles and high hospitalization co-payments be explored should additional cost shifting in health plans be imposed.**

D. Pension Benefits

1. Proposed Increase in Employee Contributions to Police and Fire Pension Plan

BFAAC notes the continued relevance of the Ad Hoc Retirement Benefit Advisory Group Report submitted to Council in November 2011. The report comprehensively describes all aspects of the City's retirement and disability plans. BFAAC believes the report will benefit new members of Council, and recommends they receive a copy of the report.

The City's cost for funding the Police and Fire pension plan rises by $2.2 million in FY 2014. This increase is due largely to increased mortality rates, general investment losses, and increases in public safety pay rates. The City has funded all increases to the plan since its inception.

The Ad Hoc Group recommended an *adjustment mechanism* be developed to control increasing contribution costs so future plan changes would not be arbitrary or a surprise to affected employees. The Group defined the adjustment mechanism as a plan rule where an objectively determined event of significant proportion would trigger an automatic change in the future employee contribution or benefit accrual rate, and have an ability to reverse any action taken when economic conditions improve. Expected increased costs alone would not constitute a trigger. In other words, there is nothing in the Ad Hoc Committee's recommendations that supports the creation of a funding mechanism just for increased pension costs, unless such costs demonstrate the Plan is in trouble or clearly not sustainable. The mechanism is a strategic response to help contain the City's pension obligations by ensuring that a continuing pattern of escalating costs will be shared by the City and its employees. It is not meant to shift all burdens to the employees.[24] BFAAC agrees with this approach.

The City met with a special Fire and Police Officers Pension Plan (FPOPP) Retirement Board subcommittee last summer and fall, and more recently, with representatives from the Police and Fire Labor Groups to discuss ways to develop an effective and sustainable adjustment mechanism. This effort is on-going, and the City/Labor Group is actively discussing options. BFAAC strongly encourages the City/Labor Group to commit to developing an agreed upon adjustment mechanism so that future changes to the Plan are only made within agreed upon objective criteria. This way there will be no surprises when Plan changes are recommended, they will not be perceived as arbitrary or without merit, and conflict between the City and affected employee groups will be minimized.

The City Manager proposes a 2 percent increase in the employee contribution costs because it reportedly approximates the cost sharing associated with one of the adjustment mechanisms considered by the FPOPP subcommittee. This change saves the City $0.6 million in FY 2014, representing a cost-sharing ratio of 30 percent for employees. The City will fund the remaining 70 percent, totaling $1.6 million. If approved by Council, sworn Police and Fire employees will pay 2 percent more of their salary towards their pensions than they did in FY 2013, changing from 8 to 10 percent in FY 2014. The City Manager included this increase in his proposed budget as a "placeholder" in case the efforts of the City/Labor Group do not produce an adjustment mechanism or other viable funding alternative. He feels strongly that the time to act is now, and that the passage of time alone is not an effective strategy to address cost and sustainability concerns. The City Manager has also been clear to BFAAC and employee groups that he does not want to impose the proposed increase and will not do so if a workable alternative is presented by the City/Labor Group.

BFAAC recommends Council examine whether pension cost increases projected in FY 2014 are beyond what was expected and/or signal longer term funding concerns that warrant an immediate increase in employee pension contributions. BFAAC also encourages the City/Labor Group to agree on an adjustment mechanism or identify an acceptable funding alternative should Council determine increased pension costs require immediate action. Disability reform may be one alternative worth exploring.

2. Disability Benefits in the Police and Fire Pension Plan

The FPOPP has two components: a pension component and a disability component. Modifying the current disability component may provide an opportunity to minimize immediate and long-term pension cost concerns.

The plan defines a disability as the loss of ability to perform the duties of a Police Officer or Firefighter. Employees with partial disability who are later employed in other types of work may receive income from their job and disability income from the FPOPP. Other local jurisdictions provide lower benefits for participants who are able to obtain other work. Fairfax and Montgomery Counties have instituted benefit design changes that make distinctions about what

[24] Ad Hoc Retirement Advisory Group, November 11, 2011, p 79.

constitutes a disability. The City/Labor Group should review these plans to determine if similar reforms can offset the proposed increase to employee contribution rates and benefit the long-term sustainability of the FPOPP.

3. Retirement Board Review of Contributions Disparities Among Employees

General Schedule, Deputy Sheriffs, Medics, and Fire Marshals are affected by Virginia Retirement System (VRS) rate and plan changes enacted by the state legislature. The new VRS structure includes higher contribution rates, later eligibility, lower benefit formulas, higher employee contribution rates to the City's Supplemental Plan, and the addition of a hybrid plan for future employees. BFAAC notes that these changes are expected to decrease the long-term cost of contributions for the VRS plan. Although the City will phase in VRS employee contribution rates over 5 years until all members are contributing at least 5 percent, differences in contributions and benefits will still exist depending on an employee's date of hire.

The City's mandatory Supplemental Retirement Plan (SRP) is provided to the same group of employees. There is no employee contribution into the SRP for covered employees hired before June 30, 2009, a 2 percent of salary contribution for General Schedule employees hired on or after July 1, 2009, and a waiver of the 2 percent employee contribution for Deputy Sheriffs, Medics, and Fire Marshals who become participants on or after July 1, 2009.

BFAAC commends the City for establishing a joint management-employee retirement board for the SRP comparable to the FPOPP Retirement Board, and for coordinating the activities of both boards to minimize duplication and maximize efficiency. The SRP Board should be consulted when considering changes to the SRP. BFAAC recommends that the City, in consultation with the SRP Board, act on minimizing disparities in contribution rates and benefits covered under SRP.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends Council examine whether pension cost increases in FY 2014 are beyond what was expected and/or signal longer term funding concerns that warrant an immediate increase in employee pension contributions.**

- **BFAAC encourages the City/Labor Group to identify an acceptable funding alternative should Council determine increased pension costs require immediate action.**

- **BFAAC encourages the City/Labor Group to develop an adjustment mechanism to ensure future changes to the Plan are based on an agreed upon objective criteria.**

- **BFAAC recommends a review of disability benefits to determine if an opportunity exists to minimize immediate and long term pension cost concerns.**

- **BFAAC commends the City for establishing an SRP Board and recommends that the City, in consultation with the SRP Board, act on minimizing disparities in contribution rates and benefits covered under SRP.**

E. Other Post-Employment Benefits (OPEB)

The City continues to address the unfunded liability posed by retiree healthcare and life insurance benefits, a major concern first identified by BFAAC in its FY 2007 report.[25] Given the magnitude of this unfunded liability, a multi-year effort has been needed, with 4-5 percent of the liability addressed annually; the City will have approximately 20 percent of the projected total liability funded by FY 2014. With $2.6 million dedicated for Other Post-Employment Benefit (OPEB) funding in FY 2014 ($2.4 million in general funds, and $0.2 million in fund balance – the final year of fund balance contribution), the City has and must continue to execute its multi-year strategy. In order to institutionalize the City's commitment, the City Manager has called for OPEB funding inclusion in departmental budgets, representing approximately 1.5 percent of salary. We commend this approach as an excellent way to ensure a sustained commitment to ensuring the City's long-term fiscal health.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC commends the City for its continued commitment to address the unfunded liability posed by retiree healthcare and life insurance benefits.**

- **BFAAC also commends the City Manager's decision to include OPEB funding within departmental budgets as an important step in institutionalizing the City's commitment and shielding the commitment from short-term fiscal pressures.**

- **BFAAC urges the City to continue to address its unfunded OPEB commitment with, at a minimum, the current 4 – 5% per year funding level through the general fund.[26]**

[25] City of Alexandria Budget & Fiscal Affairs Advisory Committee. Report on the City Manager's Proposed Budget for Fiscal Year 2007. Pages 23-25.

[26] Ibid.

III. THE PROPOSED CAPITAL IMPROVEMENT PROGRAM

A. Overview

The CIP budget summary states that the City Manager's Proposed FY 2014-2023 CIP includes $1.142 billion in total funding, which represents a $4.0 million, or 0.4 percent, increase from the Approved FY 2013-2022 CIP (excluding the $0.03 option). The Proposed FY 2014–2023 CIP is consistent with capital plans from recent years, placing an emphasis on maintaining core facilities and the infrastructure of the City.

The FY 2014 CIP sizes and shapes the three very expensive, but strategic, capital investments set forth in the FY 2013 CIP: the Alexandria City Public Schools (ACPS) CIP; various transportation projects; and the Potomac Yard Metrorail Station. The transportation projects portfolio has been resized to be consistent with 2.2 cents of the base real estate tax rate and additional General Fund cash capital for continuation of the City's Transportation Improvement Program approved by Council in FY 2012. The Metrorail Station funding is consistent with the sources set forth in the FY 2013 CIP. The City and ACPS have achieved consensus on the CIP from FY 2014 through FY 2018, but there remain significant differences between the City and ACPS over the remaining five years of the CIP.

The most significant change from last year's approved CIP to this year's proposed CIP is moving the borrowing for Potomac Yard Metrorail Station from FY 2015 to FY 2016. Additionally, a significant increase in FY 2018 is due to the inclusion of a second new capacity project for ACPS.

There remain a number of identified capital investments which are not funded in the CIP plan due to the lack of resources within the available capital funding streams. The most significant omission is the capital costs associated with federally and state mandated improvements for local sanitary sewer and storm sewer infrastructure, which are not included in the proposed CIP. These costs could reach $250-400 million over the next two to three decades.

The FY 2013 CIP contained significant commitments to the improvement of the City's infrastructure and current economic conditions do not provide a reason to change course.

In addition to following the guidance provided by Council, the City Manager created a "CIP Process Improvement Team" in the fall of 2012 and charged it with evaluating the existing CIP process and developing a system for linking CIP decisions with the City's strategic priorities. BFAAC commends the City for the continued progress in describing the CIP's impact on the operating budget. BFAAC also applauds the City Manager's commitment to develop a more robust and quantitative system to prioritize CIP projects.

B. Potomac Yard Metrorail Station

BFAAC is strongly in favor of growing the tax base in Alexandria, particularly the commercial tax base that provides greater revenue for less outlay. BFAAC agrees that the development of a

Potomac Yard Metrorail Station could provide the type of commercial development that the City has been seeking.

The proposed FY 2014 budget acknowledges that General Obligation Bonds for Potomac Yard Metrorail Station will have significant impact on the City's debt ratios (Appendix I) and that the financial risk to the City must be carefully structured and managed. That said, BFAAC notes the project is expected to have a positive impact on the City's long-term financial health.

This project has been under consideration and review for years. Documentation includes a 2010 Potomac Yard Metrorail Station Concept Development Study of February 2010 and various pieces of information in the proposed FY 2014 budget.

Given the importance and expense of this project, BFAAC recommends Council direct staff to develop more current, detailed financial and operational information on the Potomac Yard Metrorail Station project prior to Council taking any further action.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC again supports appropriate commercial development in Alexandria. The proposed Potomac Yard Metrorail Station is expected to generate major commercial development in an area that is designated for high density mixed use development. Although the initial public investment will be significant, the estimated contributions and property taxes paid by commercial development in the long run should far exceed the initial cost of the station.**

- **BFAAC recommends that prior to further action, including the FY 2016 issuance of the General Obligation Bonds, a "market feasibility study" be conducted to update the 2010 financial projections and to determine the expected pace of development to make sure there is no lag. With this updated market information, the City will be able to provide an updated and more detailed analysis of the costs and benefits associated with this major undertaking.**

C. Alexandria City Public Schools

The FY 2014 Capital budget for the Alexandria City Public Schools (ACPS) was $10.0 million, with $5.0 million for a capacity-related project at Patrick Henry and $5.0 million for non-capacity projects, including existing asset capital infrastructure improvements.

In the Proposed FY 2014-2023 CIP, a total of $216.7 million over ten years has been included for the capital needs of ACPS: $92.9 million is planned to address capacity issues through projects such as additional capacity at Patrick Henry and a new school to address increasing school system enrollment; and $123.8 million is planned for major facility maintenance projects throughout the ACPS system.

BFAAC continues to note the importance of a having an excellent school system to produce qualified workers[27], attract business to the City, and ensure residents have the ability to participate as strong citizens and consumers[28]. There are two main challenges to capital improvement programs for Alexandria schools: limited school capacity and the continued need for improved coordination across City and ACPS staff. With respect to the former, BFAAC urges Council and ACPS to do more to obtain more accurate enrollment projections which will help identify the long-term structural requirements and changing learning environment needs.

BFAAC recommends greater coordination between ACPS and City CIP budget processes. In addition, BFAAC continues to encourage similar coordination across all departments that impact budget and planning.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC commends the cooperation between the City and ACPS to meet the capacity needs of Alexandria's burgeoning public school population.**

- **The additional capital necessary to accommodate the projected enrollment increases in the years FY 2017 through FY 2022 would likely strain the City's funding and borrowing capacity, given the other capital projects slated for the same period.**

- **The City should, in consultation with ACPS, be mindful of the likely impact on student population of any land-use planning proposal considered in the next several years.**

- **BFAAC recommends greater coordination between ACPS and City CIP budget processes. In addition, BFAAC continues to encourage similar coordination across all departments that impact budget and planning.**

D. Process Transparency

The CIP draws significant resources from the Alexandria City Budget. The proposed FY 2014 - 2023 CIP totals $1.142 billion. If the $0.03 cent add-on in real estate taxes shown in the City Manager's budget is adopted, the out-year total expenditure (until FY 2023) will be $1.269 billion. To assist the City and the public in understanding such substantial expenditure of tax dollars and make the best decisions for the future, the City Manager revised the CIP budget process to better determine "what's in, what's out, what's essential now, and what's needed in the future."

Long and intermediate outcomes were developed that better link the CIP to the City's strategic plan. A new scoring tool was developed to better evaluate projects based on these outcomes. A financing plan for all capital projects commenced which more clearly identified specific sources of funding and uses for the CIP projects. The intent is to go beyond measuring inputs and outputs

[27] Anthony Carnevale and Donna Desrochers, *Standard for What?: The Economic Roots of K-16 Reform* (Princeton, NJ: Educational Testing Service, 2003).

[28] Mercer Consulting, *Quality of Living Survey: The best cities in the world for environment and infrastructure* (City Mayors, 2012).

to better identify outcomes. The goal is to demonstrate public impact and public benefit of key CIP projects.

BFAAC supports these changes and commends the City Manager for bringing this type of rigor to the CIP process and the overall City budget decision process.

BFAAC agrees with ranking the new and revised capital project funding during FY 2014-2023 CIP process. However, BFAAC strongly urges all capital projects – current, new, revised or cut - be ranked. BFAAC urges the City Manager to place all CIP projects in priority order based on criteria. That said BFAAC recognizes that funding decisions will not always be based solely on the priority order. BFAAC is also aware projects were not ranked that deserved immediate consideration (*i.e.,* self-contained breathing apparatus for the fire-department).

BFAAC believes that this is one of the better budgets presented in recent years; well thought out and presented. Better explanation of transit and transportation projects would be helpful including the reasons and justifications of the projects and costs. It is difficult to track projects from year to year, as some are eliminated and others are merged. Projects of vastly different magnitudes (e.g. the Potomac Yard Metrorail Station and construction of a bicycle path) are treated the same way, with almost the same level of detail. It would also be very helpful to break down various cost elements of a project.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends all CIP projects be listed in priority rank and a transparent justification be provided for the ranking. Issues that remain to be addressed include: ranking all CIP projects by running them through the new evaluation tool by FY 2015, incorporating IT projects into the CIP, having components use the same evaluation criteria, trying to more closely align projects with strategic plan and outcomes, and quantifying additional operating impact.**

- **Council should consider requesting, for future budgets, that each department or agency provide standard cost benefit analysis information.**

- **This is one of the better budgets presented in recent years. It is well thought out and well presented. Better explanation of transit and transportation projects would be helpful, including the reasons and justifications of the projects and costs. It is difficult to track projects from year to year, as some are eliminated and others are merged. Projects of vastly different magnitudes (e.g. the Potomac Yard Metrorail Station and construction of a bicycle path) are treated the same way, with almost the same level of detail. It would also be very helpful to break down various cost elements of a project.**

Appendix I

City of Alexandria Debt Calculations by Debt Burdent Metric: With and Without Potomac Yard Metro /1

Including Target, Limit, and Debt Estimate for Budget Years FY 2011-2014

	2011	2012	2013	2014	2015	2016	2017	2018	2019	2020	2021	2022	2023
WITHOUT POTOMAC YARD METRO													
Debt as Percentage Real Property Value													
Target	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Limit	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
FY 2011 Budget Year	1.3%	1.5%	1.5%	1.5%	1.5%	1.4%	1.4%	1.3%	1.2%	1.2%	--	--	--
FY 2012 Budget Year	1.3%	1.4%	1.4%	1.4%	1.4%	1.3%	1.3%	1.2%	1.1%	1.1%	1.0%	--	--
FY 2013 Budget Year	1.3%	1.4%	1.4%	1.5%	1.5%	1.4%	1.4%	1.4%	1.3%	1.2%	1.1%	1.0%	--
FY 2014 Budget Year	1.3%	1.3%	1.4%	1.5%	1.5%	1.5%	1.5%	1.6%	1.6%	1.5%	1.4%	1.3%	1.2%
Debt as Percentage Personal Income													
Target	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Limit	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
FY 2011 Budget Year	3.9%	4.3%	4.4%	4.4%	4.2%	4.1%	3.9%	3.7%	3.5%	3.3%	--	--	--
FY 2012 Budget Year	3.9%	3.9%	3.9%	3.8%	3.7%	3.6%	3.4%	3.2%	3.0%	2.8%	2.6%	--	--
FY 2013 Budget Year	3.9%	4.1%	4.2%	4.2%	4.2%	4.2%	4.2%	4.1%	3.9%	3.6%	3.4%	2.8%	--
FY 2014 Budget Year	3.9%	4.1%	4.3%	4.4%	4.5%	4.3%	4.3%	4.4%	4.2%	3.9%	3.6%	3.3%	3.0%
Debt as Percentage Government Expenditures													
Target	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Limit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
FY 2011 Budget Year	5.3%	6.1%	6.6%	7.1%	7.8%	8.1%	8.5%	8.9%	9.2%	9.2%	--	--	--
FY 2012 Budget Year	5.3%	5.8%	6.3%	6.9%	7.1%	7.2%	7.2%	7.3%	7.3%	7.2%	6.9%	--	--
FY 2013 Budget Year	5.3%	5.7%	6.1%	6.8%	7.2%	7.4%	7.6%	7.9%	7.8%	7.6%	7.6%	7.2%	--
FY 2014 Budget Year	5.3%	5.8%	5.8%	7.6%	7.8%	8.0%	8.4%	8.8%	9.1%	8.9%	8.6%	8.2%	8.3%
WITH POTOMAC YARD METRO													
Debt as Percentage Real Property Value													
Target	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%	1.1%
Limit	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%	1.6%
FY 2011 Budget Year	1.3%	1.4%	1.5%	1.5%	2.2%	2.1%	2.0%	1.9%	1.8%	1.7%	1.5%	--	--
FY 2012 Budget Year	1.3%	1.4%	1.4%	1.4%	2.1%	2.0%	1.9%	1.8%	1.6%	1.5%	1.4%	--	--
FY 2013 Budget Year	1.3%	1.4%	1.4%	1.5%	2.1%	2.1%	2.0%	1.9%	1.8%	1.7%	1.6%	1.4%	--
FY 2014 Budget Year	1.3%	1.4%	1.4%	1.5%	1.5%	2.2%	2.2%	2.3%	2.2%	2.1%	2.0%	1.9%	1.8%
Debt as Percentage Personal Income													
Target	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%	3.2%
Limit	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%	4.5%
FY 2011 Budget Year	3.9%	4.3%	4.4%	4.4%	4.2%	4.1%	3.9%	3.7%	3.5%	3.3%	--	--	--
FY 2012 Budget Year	3.9%	3.9%	4.0%	4.0%	5.9%	5.6%	5.3%	5.0%	4.8%	4.4%	4.1%	--	--
FY 2013 Budget Year	3.9%	4.1%	4.2%	4.2%	6.1%	6.0%	5.8%	5.6%	5.2%	4.9%	4.6%	4.1%	--
FY 2014 Budget Year	3.9%	4.1%	4.3%	4.4%	4.5%	6.3%	6.2%	6.2%	5.9%	5.5%	5.1%	4.7%	4.3%
Debt as Percentage Government Expenditures													
Target	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%	8.0%
Limit	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%	10.0%
FY 2011 Budget Year	5.3%	6.1%	6.6%	7.1%	7.8%	8.1%	8.5%	8.9%	9.2%	9.2%	--	--	--
FY 2012 Budget Year	5.3%	5.9%	6.4%	6.9%	5.4%	7.1%	8.3%	8.3%	8.3%	8.4%	8.2%	--	--
FY 2013 Budget Year	5.3%	5.7%	6.1%	6.8%	5.5%	8.7%	8.9%	9.1%	9.3%	9.3%	9.2%	8.9%	--
FY 2014 Budget Year	5.3%	5.7%	5.8%	7.6%	7.8%	6.1%	8.4%	10.1%	10.4%	10.2%	10.0%	9.8%	9.9%

/1 These debt impacts exclude the full impact of certain capital projects, including: sanitary sewer and storm water repairs, Alexandria City Public Schools, the Waterfront plan, the Landmark, the Beauregard Small Area Plan, and the Master Transportation Plan.
Source: City of Alexandria proposed budgets for Fiscal Years 2011 through 2014.

Appendix II

CITY OF ALEXANDRIA DEBT BURDEN METRICS:
2014 Budget Projections Compared to 2012 Budget, City Targets, and City Limits

DEBT AS PERCENT OF REAL PROPERTY ASSESSED VALUE:

				2014 Budget Estimates		Comparisons:		
	Target	Limit	2013 Approved CIP (with Metro)	Without Potomac Yard Metro	With Potomac Yard Metro	2014 Vs 2013 Estimates WITH METRO	2014 Estimate Vs Target WITH METRO	2014 Estimate Vs Limit WITH METRO
2013	1.1%	1.6%	1.4%	1.4%	1.4%	0.0%	+0.3%	-0.2%
2014	1.1%	1.6%	1.5%	1.5%	1.5%	0.0%	+0.4%	-0.1%
2015	1.1%	1.6%	2.1%	1.5%	1.5%	-0.6%	+0.4%	-0.1%
2016	1.1%	1.6%	2.1%	1.5%	2.2%	+0.1%	+1.1%	+0.6%
2017	1.1%	1.6%	2.0%	1.5%	2.2%	+0.2%	+1.1%	+0.6%
2018	1.1%	1.6%	1.9%	1.6%	2.3%	+0.4%	+1.2%	+0.7%
2019	1.1%	1.6%	1.8%	1.6%	2.2%	+0.4%	+1.1%	+0.6%
2020	1.1%	1.6%	1.7%	1.5%	2.1%	+0.4%	+1.0%	+0.5%
2021	1.1%	1.6%	1.6%	1.4%	2.0%	+0.4%	+0.9%	+0.4%
2022	1.1%	1.6%	1.4%	1.3%	1.9%	+0.5%	+0.8%	+0.3%
2023	1.1%	1.6%	--	1.2%	1.8%	--	+0.7%	+0.2%

DEBT AS PERCENT OF PERSONAL INCOME:

				2014 Budget Estimates		Comparisons:		
	Target	Limit	2013 Approved CIP (with Metro)	Without Potomac Yard Metro	With Potomac Yard Metro	2014 Vs 2013 Estimates WITH METRO	2014 Estimate Vs Target WITH METRO	2014 Estimate Vs Limit WITH METRO
2013	3.2%	4.5%	4.2%	4.3%	4.3%	+0.1%	+1.1%	-0.2%
2014	3.2%	4.5%	4.2%	4.4%	4.4%	+0.2%	+1.2%	-0.1%
2015	3.2%	4.5%	6.1%	4.5%	4.5%	-1.6%	+1.3%	0.0%
2016	3.2%	4.5%	6.0%	4.3%	6.3%	+0.3%	+3.1%	+1.8%
2017	3.2%	4.5%	5.8%	4.3%	6.2%	+0.4%	+3.0%	+1.7%
2018	3.2%	4.5%	5.6%	4.4%	6.2%	+0.6%	+3.0%	+1.7%
2019	3.2%	4.5%	5.2%	4.2%	5.9%	+0.7%	+2.7%	+1.4%
2020	3.2%	4.5%	4.9%	3.9%	5.5%	+0.6%	+2.3%	+1.0%
2021	3.2%	4.5%	4.6%	3.6%	5.1%	+0.5%	+1.9%	+0.6%
2022	3.2%	4.5%	4.1%	3.3%	4.7%	+0.6%	+1.5%	+0.2%
2023	3.2%	4.5%	--	3.0%	4.3%	--	+1.1%	-0.2%

DEBT AS PERCENT OF GENERAL GOVERNMENTAL EXPENDITURES:

				2014 Budget Estimates		Comparisons:		
	Target	Limit	2013 Approved CIP (with Metro)	Without Potomac Yard Metro	With Potomac Yard Metro	2014 Vs 2013 Estimates WITH METRO	2014 Estimate Vs Target WITH METRO	2014 Estimate Vs Limit WITH METRO
2013	8.0%	10.0%	6.1%	5.8%	5.8%	-0.3%	-2.2%	-4.2%
2014	8.0%	10.0%	6.8%	7.6%	7.6%	+0.8%	-0.4%	-2.4%
2015	8.0%	10.0%	5.5%	7.8%	7.8%	+2.3%	-0.2%	-2.2%
2016	8.0%	10.0%	8.7%	8.0%	6.1%	-2.6%	-1.9%	-3.9%
2017	8.0%	10.0%	8.9%	8.4%	8.4%	-0.5%	+0.4%	-1.6%
2018	8.0%	10.0%	9.1%	8.8%	10.1%	+1.0%	+2.1%	+0.1%
2019	8.0%	10.0%	9.3%	9.1%	10.4%	+1.1%	+2.4%	+0.4%
2020	8.0%	10.0%	9.3%	8.9%	10.2%	+0.9%	+2.2%	+0.2%
2021	8.0%	10.0%	9.2%	8.6%	10.0%	+0.8%	+2.0%	0.0%
2022	8.0%	10.0%	8.9%	8.2%	9.8%	+0.9%	+1.8%	-0.2%
2023	8.0%	10.0%	--	8.3%	9.9%	--	+1.9%	-0.1%

Source: City of Alexandria FY 2014 proposed budget and OMB email communication to BFAAC, March 13, 2013.