

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

**Report on the City Manager's Proposed  
Budget for FY 2010**

**Staff Response**

**11/07/2009**

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## **BFAAC FY09 SUMMARY OF RECOMMENDATIONS**

The following is a summary of the Budget & Fiscal Affairs Advisory Committee's FY 09 budget report recommendations with staff responses. Staff responses are bulleted below each recommendation and highlighted in italics.

### **1 THE BUDGET PROCESS**

**1.1** 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 City's strategic plan is being revised and linked to the programs and activities as part of the FY 2011 budget process.*

### **2 THE OPERATING BUDGET**

**2.1** 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.

- *No response needed.*

**2.2** 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.

- *No response needed.*

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

- *This was part of the Watson Wyatt study. A first step of performance management evaluations for members of the senior management group is underway and further steps are now being evaluated by the City.*

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**2.4** 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.

- *This approach will be evaluated as part of the City’s review of its compensation policies and in the context of the FY 2011 budget.*

**2.5** 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 high level Risk Management Oversight Committee (chaired by the City Attorney and Fire Chief) has been formed and is focusing on efforts to improve risk management policies, procedures and practices.*

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

- *We provide disability benefits through three defined benefit plans:*
  - I. Disability Benefits in the Fire fighters and police Officers Pension Plan are offset by Workers Compensation benefits. By and large: employment earnings decrease workers Compensation. A Reduction in Workers Compensation benefits increases Disability Benefits.*
  - II. Substantially all full time permanent city employees not covered by the Fire & Police Plan are covered by the Virginia Retirement System (VRS). VRS monitors benefits provided through their plans.*
  - III. Most City general employees are also participants in the Supplemental Retirement Plan. The Supplemental Retirement Plan requirements for disability benefits include a standard based on an award of Social Security Disability benefits. This is one of the most rigorous standards in existence for disability. Continued employment is very unlikely.*

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- 2.7** 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.
- *Transparency may be in the eye of the beholder. Some would seek to understand the process. Others would seek a detailed listing of each disability payment. The disability provisions are found in the plan document. This includes the criteria as well as the benefit formula. These are on line. The actuarial valuation with the assumed rates, gain and loss experience, and financial history of the plan are also in the public domain and can be posted on-line as well. We would not recommend releasing names (or addresses, amounts, or SSN'S).*
  - *The City has created a Risk Management Oversight Committee (RMOC). The RMOC membership is composed of the many of the City's most high profile managers (General Administration, Human Resources, Finance, Sheriff, Fire and T&ES departments along with the City's CFO).*
- 2.8** 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.
- *OMB is developing a more robust 10 year financial forecasting model that enables policy makers and interested members of the public to understand (1) the long-term impacts on the budget of current fiscal decision, and (2) the range of uncertainty in budget projections caused by factors largely outside of the City's control. The model is also designed to be interactive to permit anyone to explore the long-term effects of changes in fiscal policies and different assumptions about the future.*
- 2.9** 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.
- *AHOP has been discontinued in FY 2010. If the need resurfaces and the real estate market returns to a period of explosive growth in values, the City will reevaluate the need for this program.*
- 2.10** City staff should continue efforts to prepare maintenance cost estimates when open space acquisition is under consideration.
- *Will continue to prepare estimates.*

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**2.11** 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.

- *RPCA applies for and receives a Litter Control Grant from the State each year that it uses to reimburse various civic associations for litter mitigation work performed throughout the year. The City's use of these grant revenues falls within the bounds of the grant. If the grant was not sought by the City, RPCA employees would need work overtime hours in order to provide the same level of service, likely costing much more than the grant award. If at some point in the future these State revenues become unavailable, the City will need to identify a new method for accomplishing the work. At this time, RPCA is comfortable continuing the relationship as is.*

**2.12** 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.

- *The City is working closely with ACPS on a number of fronts to address short and long-term school needs.*
  - *P&Z is working with school staff to analyze recent and future trends in school enrollment and to better estimate student generation from new development. P&Z is also working jointly with ACPS staff to facilitate the review of relocatable classrooms in time for the 2011-2012 school year.*
  - *ACPS is now more closely involved in small area planning, including the Potomac Yard plan and the Beauregard plan.*
  - *ACPS has included City staff on their Long Range Facilities Planning Work Group, which is looking at all aspects of future school needs. Both P&Z and RPCA are members of the work group, which provides a forum for coordinating school, land use and park/recreation issues.*

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**2.13** 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.

- *The draft AR developed this spring has not yet been issued. The take-home limits in the final draft's appendix will reflect the post-recission total (126) take-homes for the Police Department, and some other minor corrections in the other departments.*
- *The FMIT is preparing an options paper for the City Manager to consider whether to impose user fees or some level of cost recovery from employees who are assigned take-home vehicles out of the city.*

**2.14** 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.

- *No Response Needed*

**2.15** 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.

- *Staff have reviewed policies of Arlington and Fairfax police, although Fairfax had only a draft policy last year. Staff is not aware of any jurisdictions that include take-home vehicles in the determination of an employee's compensation. This would be extremely unpopular with the affected employees, and it could cause inequities in pension calculations for officers in the same pay grades.*
- *What we have found from additional research of jurisdictions not in this region is that some charge law enforcement employees up to \$200 per month for their assigned take-homes. This practice seems to have increased in popularity during the gasoline price crisis of 2007-08. Special IRS rules allow law enforcement personnel to exclude the value of take-home vehicles from their taxable income.*

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### 3 THE CIP

**3.1** 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.

- *The current staff direction for the FY 2011 CIP is to expand to a 10-year plan (from the current 6). This 10-year plan will contain no unfunded or TBD amounts, and will assume annual funding levels that the City anticipates are realistic. Projects that cannot be funded within these 10 years will be listed and briefly described in an appendix to the CIP, but will not be programmed in any year.*
- *Because of the sheer number of capital projects (200+), and the fact that the CIP will feature 10 years of planned projects, an individual ranking of all projects is simply not feasible given limited time and staff resources. Details of the prioritization methodology for the FY 2011 CIP will be presented at the City Council Retreat in November*

**3.2** 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.

- *Departmental submissions to the CIP Steering Committee include detailed justification about the costs of doing or not doing specific projects. The benefits of projects are also laid out in these submissions. It is this information that informs the Steering Committee's decisions of when, or if, to program projects.*
- *The City has a ranking system that is effective and allows a vast number of informed decisions to be made in a relatively short period of time. When comparing the benefit of performing an individual ranking of all projects compared to the amount of staff time necessary to complete such an exercise, staff has determined that the current ranking system is sufficient.*

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

- *Assuming the City's availability of funds continues each year in the approved CIP for FY 2010 to FY 2015. A policy may be helpful as a guideline for measuring those efforts and describing circumstances under which variations may occur.*

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**3.4** 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.

- *Staff agrees with this philosophy and will work to facilitate such discussion to the degree possible. The concept of generational equity has been brought up in past Council discussions of the CIP funding.*

**3.5** 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.

- *The FY 2010 – FY 2015 CIP was built and approved assuming the City would not receive any stimulus funds.*

**3.6** 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.

- *The City acted in accordance with state and federal regulations when applying for stimulus funding and prioritized “shovel ready” projects above projects that cannot be started until the out-years.*

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

- *Stimulus projects will be considered within the CIP project prioritization in at least two capacities. First, receipt of stimulus funding may negate the need for other City capital money for a certain project, and free up funds for the next higher priority project on the list. Second, a funded-stimulus project may reduce the City staff capacity to manage another capital project and accordingly reduce the ranking of that project.*

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## 4 REVENUES AND OUTLOOK

- 4.1** 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.
- *This is a useful indicator but as BFAAC itself indicates, while caution is required, the ratio is not a hard and fast limit.*
- 4.2** 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.
- *This statistic, included on page 7-7 of the Budget Document has remained relatively flat over the last several years. The City will continue to monitor this number and include it in the budget document.*
- 4.3** 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.
- *The City includes debt policy guidelines on Page 23-28 of the budget document. The debt ratio limit graphs are included on page 20-23 through 20-25 of the budget document. The guideline regarding debt per capita as a percent of per capita income was raised in June, 2008. The City's FY 2010 debt service costs of borrowing remain below the maximum limit for all guidelines. The only limit exceeded at the time is the 10% limit for unreserved fund balance as a percent of GF revenues (at the end of FY 2009, the City was at 9.3%).*
- 4.4** 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.
- *Debt service information is detailed in the operating overview and CIP document.*
- 4.5** 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).
- *Agree*

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- 4.6** 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.
- *This remains a priority for the City. As part of its FY 2010 budget, the City set aside \$65,000 in contingent reserves to the AEDP for a Landmark Mall Area promotion and investment program. Investment capital for development remains scarce in the current economic climate.*
- 4.7** 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.
- *As a requirement to release its supplemental appropriation, the City is requiring the AEDP, ACVA, and SBDC to execute performance contracts for FY2010.*
- 4.8** 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.
- *An implementation Group was formed, consisting of 2 council members, 3 members of the original work group and one individual involved with the small business task force, to ensure the continued focus and implementation on the economic sustainability recommendations.*
- 4.9** 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
- *Tom Gates was hired in March of 2009 as the Assistant City Manager for Management Improvements to spearhead the initiatives above.*
- 4.10** 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 Implementation Group meets once a month with City staff as well as outside organizations responsible for the Recommendations set forth by the Work Group. The Committee also receives quarterly updates on the status of the entire body of recommendations.*

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

- *City Council formed a Subcommittee and the City formed an Executive Committee and several smaller committees related to strategic planning and accountability when the stimulus funding first became available to ensure that the City was ready to pursue available funding, as well as prepared to track and report on awarded funding as required. Each committee meets as needed to discuss and respond to stimulus funding issues. In addition, staff reports to Council as needed to keep them apprised of opportunities and awards for the City related to Stimulus Funding.*

**4.12** 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.

- *Agree*

**4.13** 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.

- *Agree, but since no quantitative studies are available on this subject, this evaluation is subjective at this time.*

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

- *In the FY 2010 Approved Budget, the City Council increased the cigarette tax from 70 cents per pack to 80 cents per pack.*

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

- *Page 7-42 of the Approved Budget document includes the maximum tax rate allowed by the State for major City revenues.*

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

- *Grants procedures were revised in FY 2010 so that recurring grants are approved in the initial budget adoption.*

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

- *Department staff continues to pursue grant opportunities as they become available. The aforementioned ARRA subcommittees are also pursuing any available and appropriate stimulus funding opportunities.*

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

- *As noted above, recurring grant applications (for the most part) were approved as part of the budget process. ARRA reporting is presented periodically to council at their legislative meeting.*

**4.19** 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.

- *All new grant applications reviewed by both OMB (from a fiscal perspective) and staff in the City Manager's Office (from a policy perspective).*

**4.20** 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.

- *Grant meetings with departments to identify program costs and estimate future revenue were conducted in early September. All departments were notified that the general fund support of grant programs was frozen for FY 2011. If revenues were not sufficient to maintain the same level of service, the department would need to find the additional general fund support within their existing general funds, or submit a supplemental request to compete with all requests for general fund increases in FY 2011.*