

Alexandria City Council Retreat

November 21, 2015



Agenda

- 9:30 Welcome & Opening Remarks

- 9:40 Budget Overview
 - FY 2017 Preliminary Estimates
 - Five-Year Financial Planning Model

- 10:30 Key FY 2017 Budget Issues
 - Employee Compensation
 - Affordable Housing
 - Transportation Funding



Agenda

- 12:00 Lunch/Traffic Control Center Tour
- 12:45 Growing the Commercial Tax Base
- 2:00 Discussion of City Council FY 2017 Budget Guidance
- 3:00 Update on Broadband Initiative
- 3:30 Conclusion

Retreat Outcomes

- Informed on economic and fiscal picture, as well as on key budget drivers
- Discuss City Council's guidance for the FY 2017 budget
- Discuss process, schedule, and rules of engagement
- Identify any follow-up questions or information items



FY 2017 Preliminary Revenue & Expenditure Estimates

November 21, 2015

Budget Outlook

- Office Vacancy Rate Decrease
- Unemployment Decrease
- Low Growth Real Estate Values/Revenues
- Likely Interest Rate Increases
- Federal Procurement Declining



FY 2017 Preliminary Estimates

- Estimated revenues +\$12 M increase over FY 2016
- Estimated real estate assessments +1.5% to +2.0%
- Estimated "worst case" expenditures +\$36 M increase over FY 2016
 - Possible ACPS Operating Transfer +\$11 M (order of magnitude placeholder – ACPS five-year forecast shortfall = \$21 M if no City transfer increase)
 - City Personnel Costs +\$7 M
 - WMATA +\$4 M
 - City Non-Personnel +\$4 M
 - City Debt Service +\$8 M (ACPS = \$5 M of that)
- Estimated Gap = \$24 M



FY 2016 Recap

- FY 2016 Approved Budget
 - \$13 M increase over FY 2015
 - ACPS Operating Transfer +\$7 M
 - City Operating +\$7 M
 - Transit Subsidies +\$2 M
 - City & Schools Debt Service +\$1 M
 - City & Schools Cash Capital -\$5 M



FY 2017 Overview

- FY 2017 Areas of City Staff Focus
 - Affordable Housing Funding
 - Traffic/Parking Management
 - Initiatives to Trigger Long-term General Fund Revenue Growth
 - IT Investment
 - Pre-K/Childcare



FY 2017 Budget Community Feedback

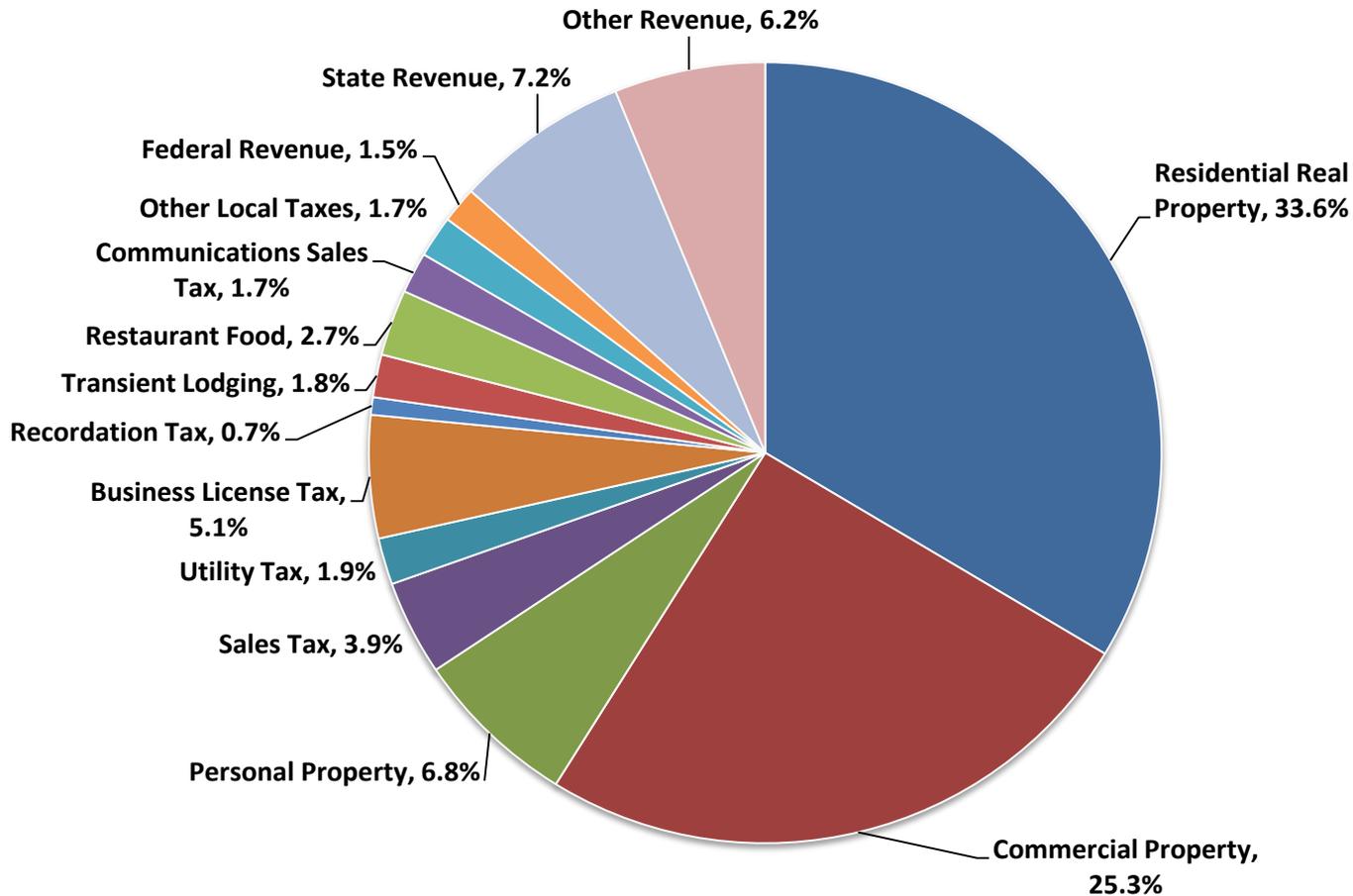
- Expressed Priorities:
 - Affordable Housing
 - Schools
 - Public Safety
 - Transportation
 - Preventative Maintenance of Roads
 - Pedestrian/Bicycling Facilities
 - Transit
 - Community Health Services
 - Support Senior Citizens
 - Aging in Place
 - Recreation and Open Space
- Expressed Ideas on How to Balance the Budget:
 - Raise Taxes
 - Expand Commercial Tax Base
 - More Effort on Leveraging State/Federal resources (Grants)
 - Increase Developer Contributions
 - Public/Private Partnerships
 - Explore Payments in Lieu of Taxes (PILOT)
 - Explore in-kind services that could be provided to the City

Budget Overview

- 5% General Fund Reduction Target Options Requested from Most Departments
- 5% Exercise Does Not Include:
 - ACPS
 - WMATA, VRE, Regional Programs
 - Certain Public Safety Emergency Response/Security Elements of the Budget

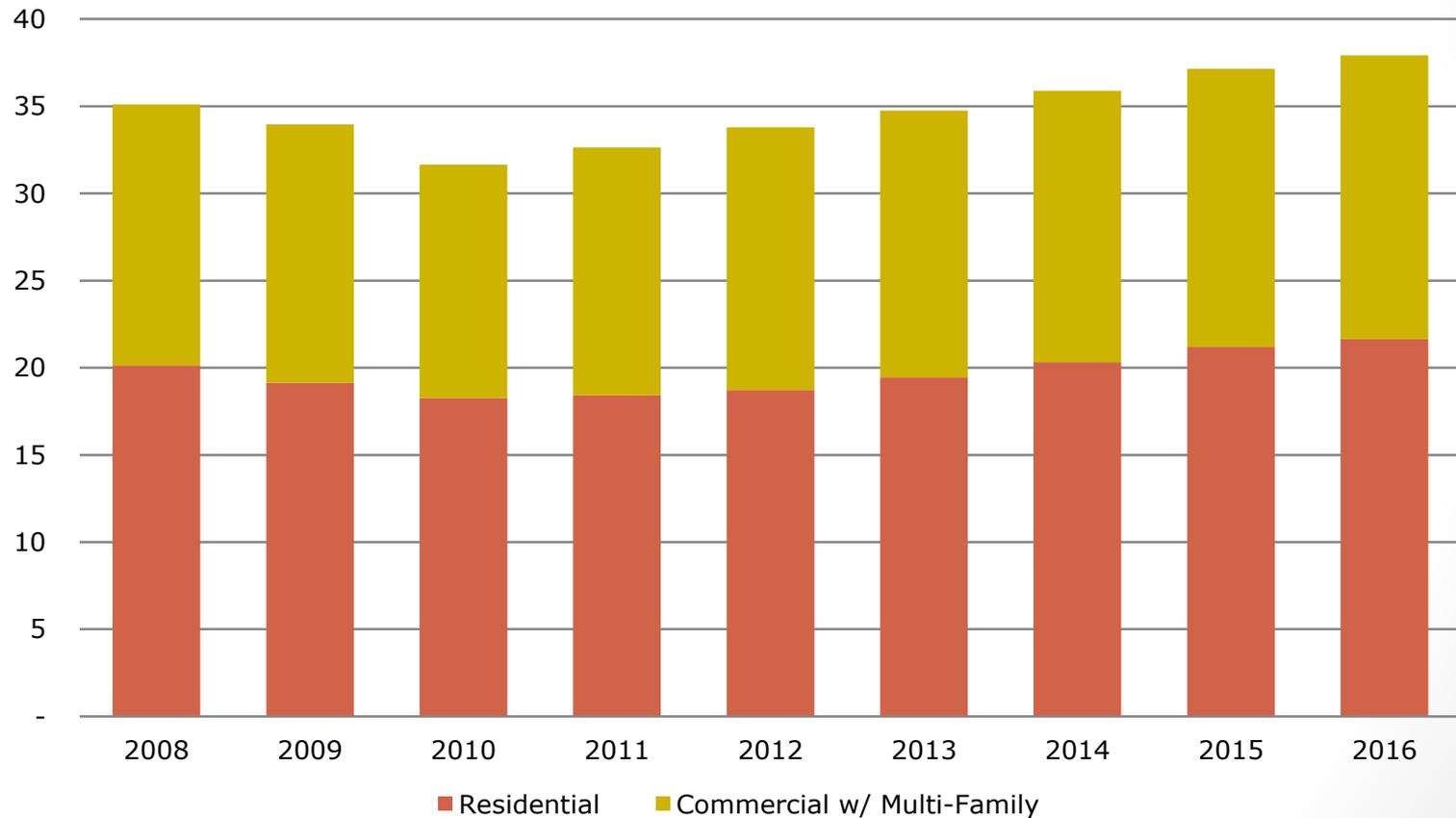


FY 2017 Estimated General Fund Revenue



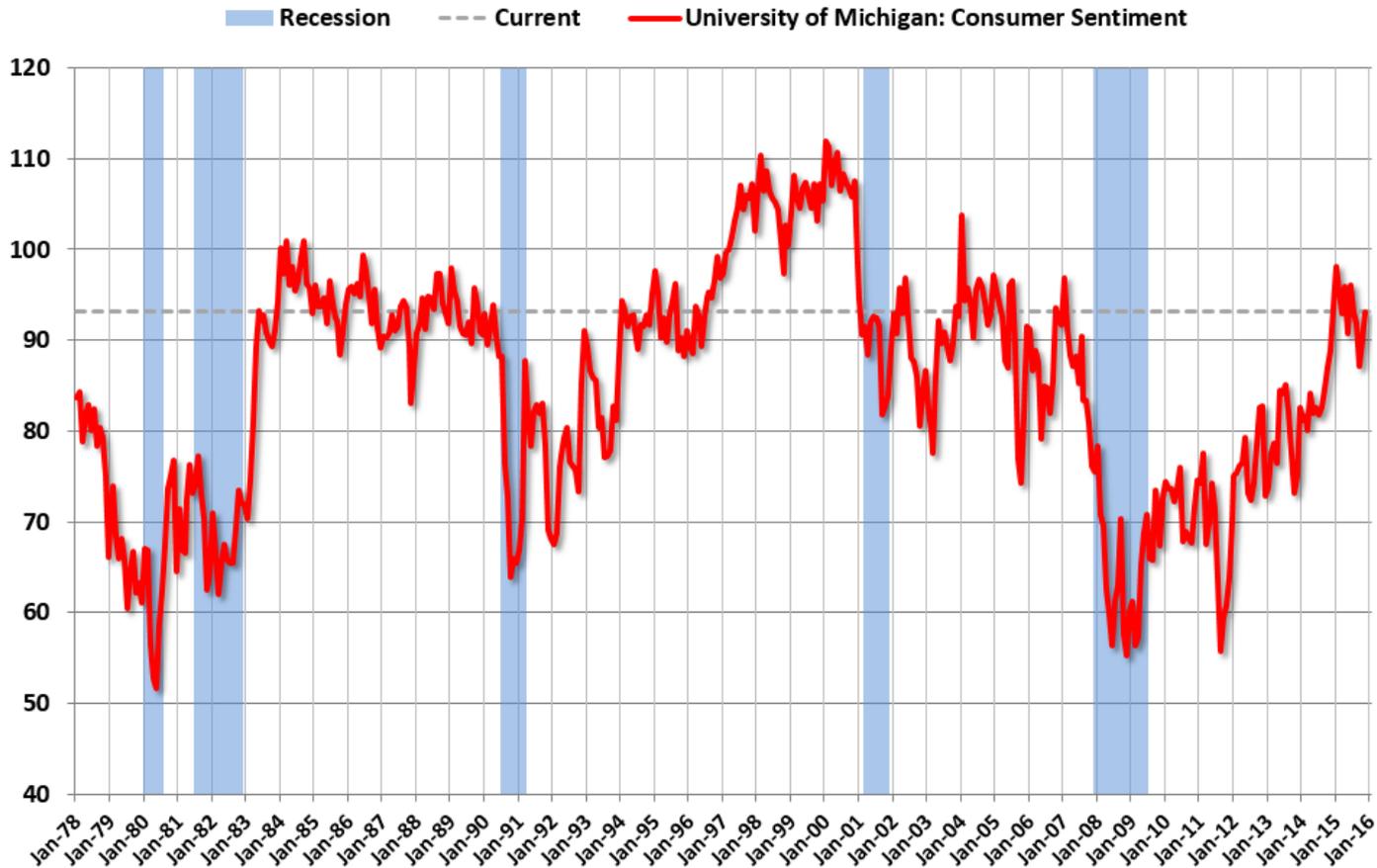


Real Estate Tax Base CY 2008-2016 (Estimated)



Consumer Sentiment

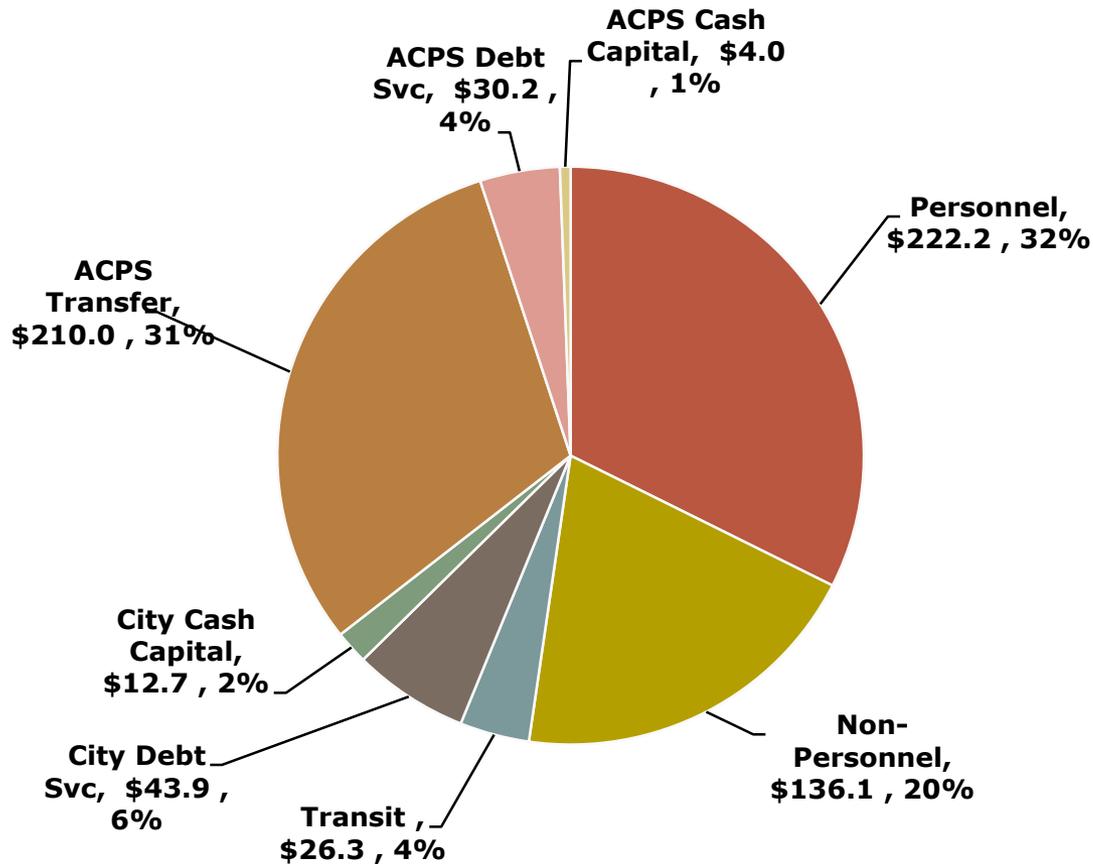
University of Michigan Consumer Sentiment



<http://www.calculatedriskblog.com/>

Budget Overview

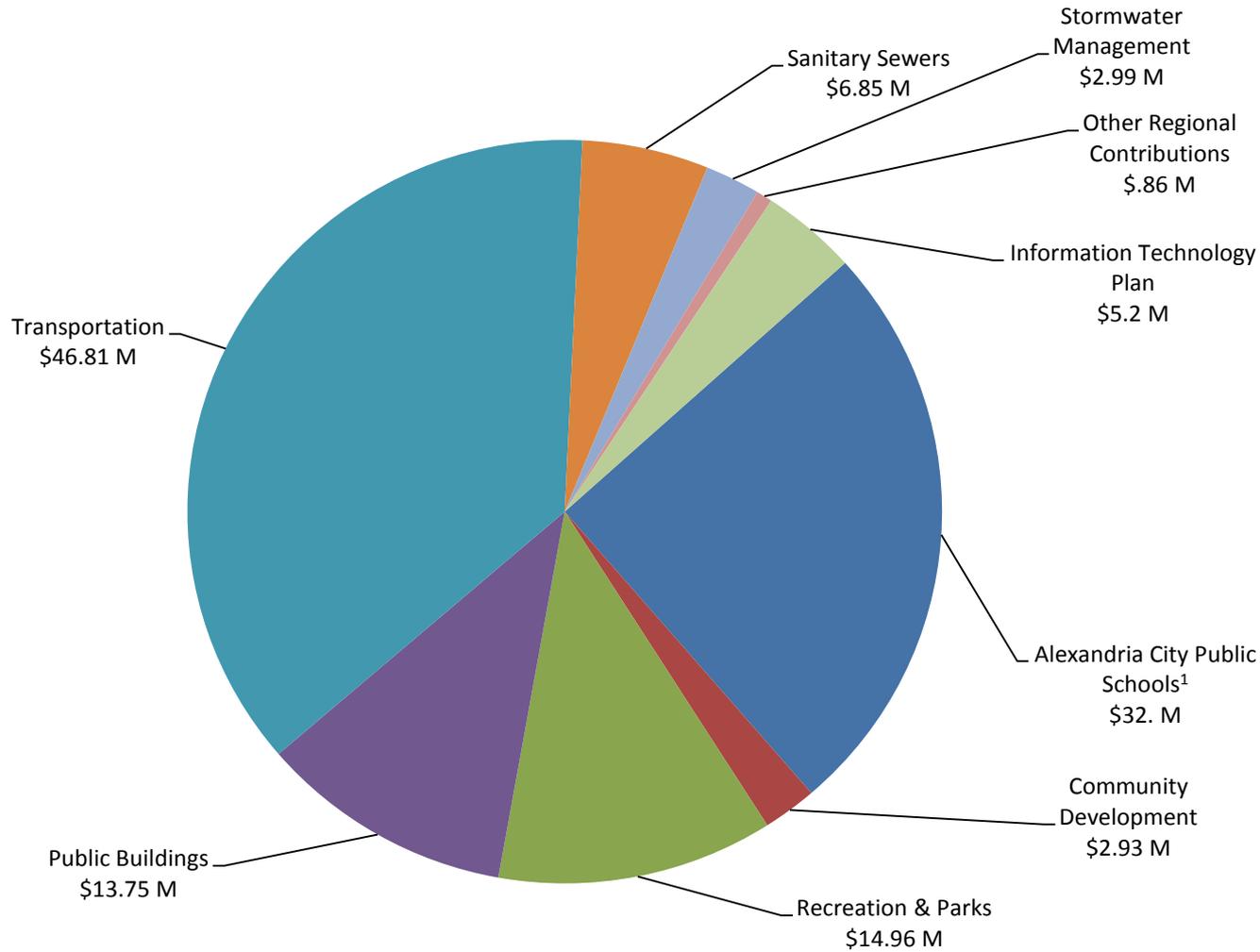
FY 2017 Estimated Expenditures \$685 M (\$ in millions)





FY 2017 Previously Planned Capital Expenditures

\$126.3 million (Excluding Potomac Yard Metro)



¹ ACPS Superintendent's proposed capital request is \$44.3 M



FY 2017 Planned Capital Budget Projects

SIGNIFICANT PROJECTS IN FY 2017 (BASED ON FY 2016 PROJECTIONS)

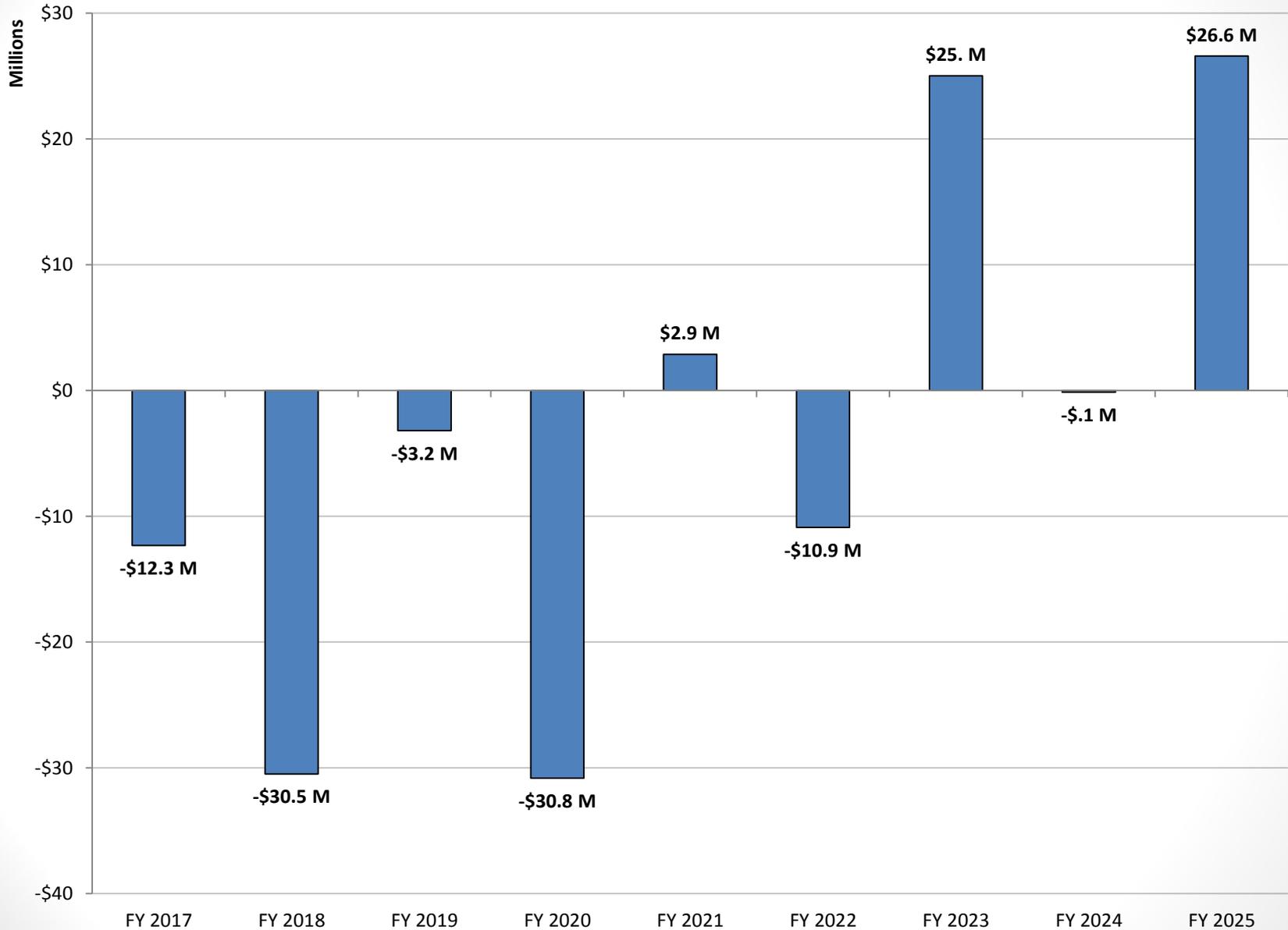
PROJECT	GENERAL FUND SUPPORTED	OTHER FUNDING SOURCES
Potomac Yard Metrorail Station	NA	\$270.0M
Alexandria City Public Schools Funding ¹	\$32.0M	\$-
Transit Corridor "C" - Beauregard	\$-	\$22.3M
WMATA Capital Contributions Including Metro 2025 Funding	\$7.1M	\$0.6M
Fire Station 203 (Cameron Mills)	\$6.3M	\$-
Street Reconstruction and Resurfacing of Major Roads	\$3.8M	\$1.5M
Chinquapin Aquatics Center	\$4.5M	\$-
DASH Bus Fleet Replacements	\$0.7M	\$3.3M
Citywide Sewershed Infiltration & Inflow	\$3.0M	\$-
Wet Weather Management Facility	\$2.0M	\$0.3M

¹ ACPS Superintendent's proposed capital request is \$44.3 M



City Approved CIP vs ACPS Superintendent Proposed CIP

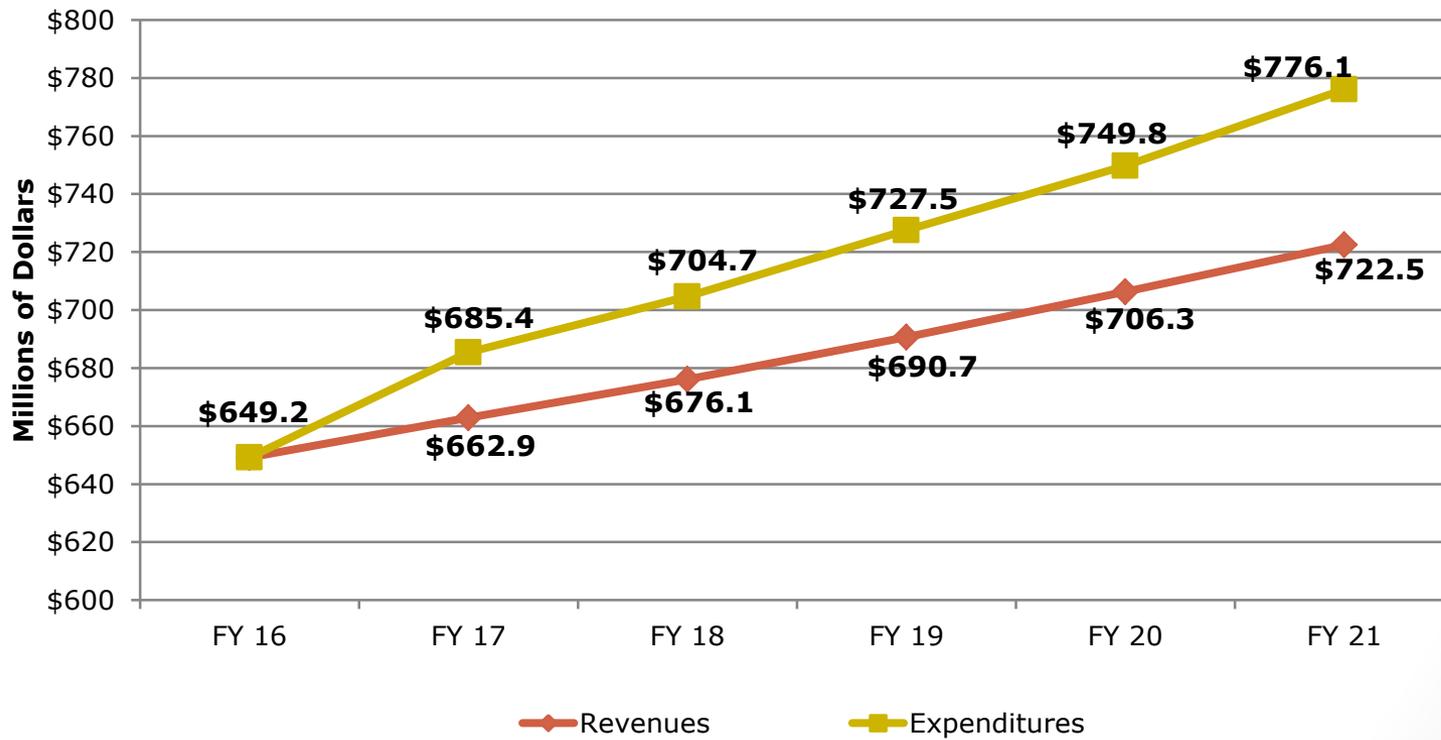
Difference in Programed Funding (FY 2017 - 2025)





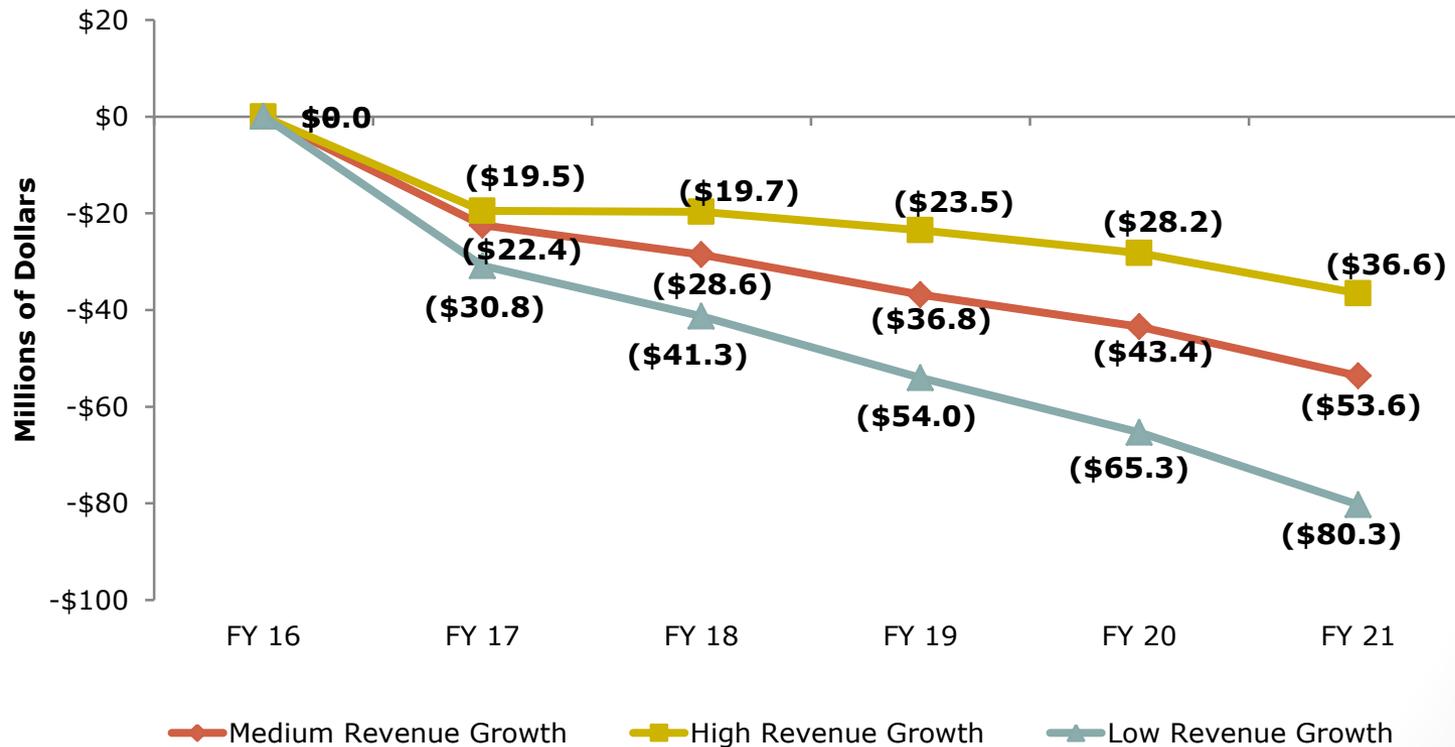
Five Year Financial Planning Model

General Fund Revenue and Expenditure Forecast



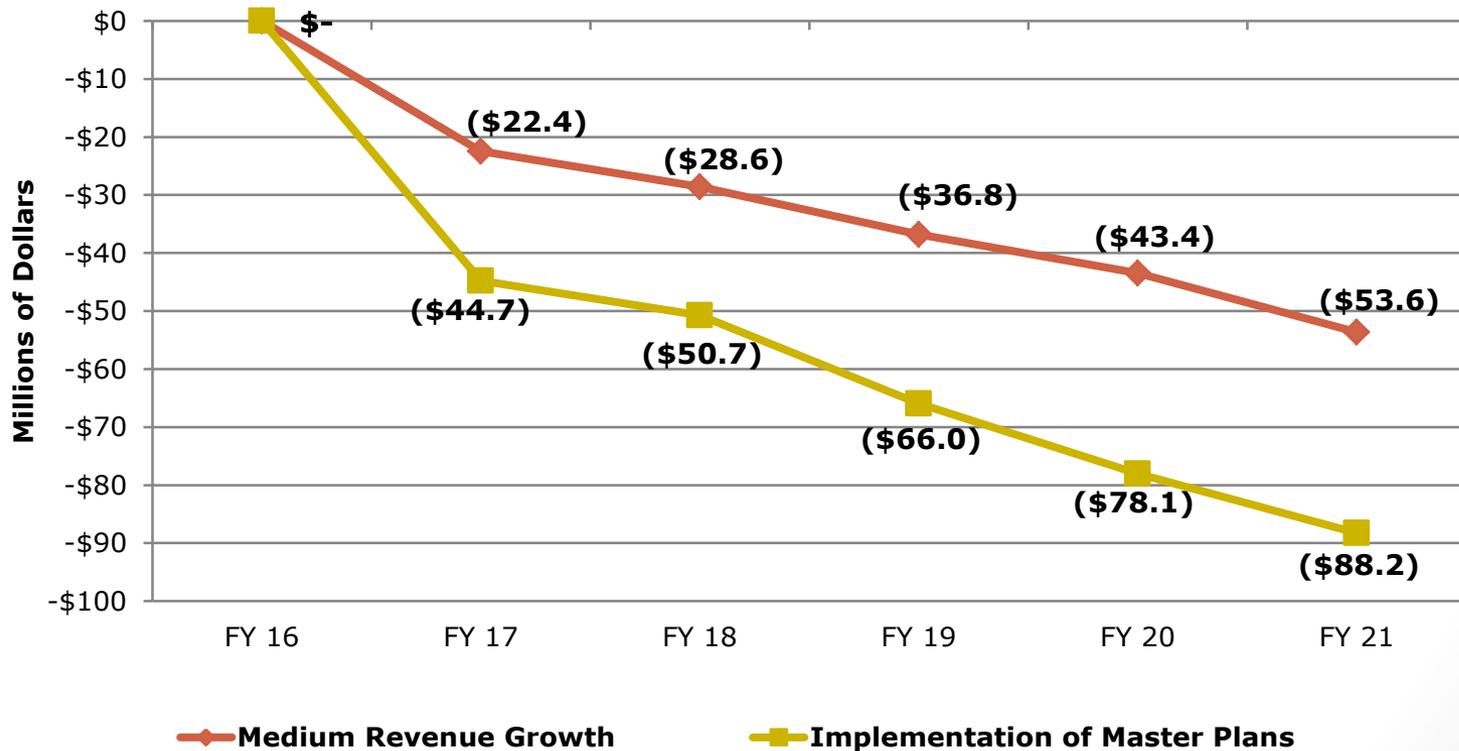
Five Year Financial Planning Model

General Fund Shortfall



Five Year Financial Planning Model

General Fund Shortfall

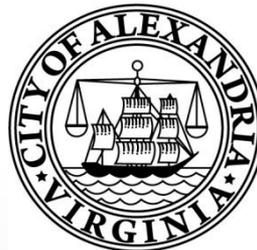


Questions & Discussion

City of Alexandria, Virginia

**FY 2017
Employee Compensation**

City Council Retreat
November 21, 2015



FY 2016 Actions

- Merits Funded
- VRS 1% Adjustment (4th Year)
- Health Insurance back to 80%/20% Cost Sharing
- Consumer Driven Health Plan Added
- Police Recruitment / Retention / Competitiveness
 - +5% Police Officer Starting Pay
 - +4.5% Police Salary Scale Increase
 - +\$2.0M Annual Cost

FY 2017

- Merits = +\$4.7M = +3.25% average
- VRS 1% Adjustment = +\$1.3M (5th year)
- Health Insurance = +\$1.3M (est.) = +7%
- Police/Fire Retirement Adjustment
- Consider Public Safety Years of Service Alignment Model (YOSAM)
- Consider Fire Salary Competiveness

Public Safety YOSAM

- YOSAM equates placement on pay scale to years of service and not years of experience
- YOSAM mirrors results of an application of new promotional rules to prior promotions
- Prior promotional rule = 8.5% plus placement
- New promotional rule + move straight down pay scale, same step (20% max)
- YOSAM would apply to Public Safety only
- YOSAM could be phased in

Public Safety YOSAM Implementation Options

Five Year Implementation By Years of Service

	FY 2017	FY 2018	FY 2019	FY 2020	FY 2021
Incremental Cost	\$0.2M	\$0.6M	\$0.7M	\$0.2M	\$0.1M
Budget Cost	\$0.2M	\$0.8M	\$1.5M	\$1.7M	\$1.8M
Years of Service	25+	15-25	10-15	5-10	0-5

Four Year Implementation By Years of Service

	FY 2017	FY 2018	FY 2019	FY 2020
Incremental Cost	\$0.7M	\$0.7M	\$0.2M	\$0.2M
Budget Cost	\$0.7M	\$1.4M	\$1.6M	\$1.8M
Years of Service	15+	10-15	5-10	0-5

Four Year Implementation through equal progression

	FY 2017	FY 2018	FY 2019	FY 2020
Incremental Cost	\$0.45M	\$0.45M	\$0.45M	\$0.45M
Annual Cost	\$0.45M	\$0.9M	\$1.3M	\$1.8M

Employee Compensation

Firefighter Pay Scale Adjustment and Reclassification

- Market-pay Analysis indicated pay for Sworn Firefighters, Lieutenants, and Captains is below market.
- The pay scale for Firefighters has not been adjusted in at least five years. The Fire Fighter I job class was reclassified in 2014 from a grade 9 to a grade 10 resulting in a 5% increase. Increase only impacted those in the Fire Fighter I job class and did not affect the pay of other sworn fire public safety employees.

Firefighter Pay Scale Adjustment and Reclassification

Current Model Alignment – Comprehensive Pay Range

New Firefighter	Minimum	Midpoint	Maximum
Arlington	\$ 48,006	\$ 75,576	\$ 103,147
Fairfax	\$ 53,732	\$ 72,715	\$ 91,699
Montgomery	\$ 44,813	\$ 64,407	\$ 84,002
Prince George's	\$ 40,848	\$ 72,07	\$ 103,297
Prince William	\$ 47,299	\$ 67,516	\$ 87,734
Market Average	\$46,940	\$70,458	\$93,976
Alexandria	\$45,801	\$68,802	\$91,802
Market Deviation	-2.42%	-2.35%	-2.31%

Firefighter Pay Scale Adjustment and Reclassification

Current Market Alignment – Cumulative Earnings

Fire Fighter Salary and Earnings Deviation from the Market Average				
	Entry Level	Year 6	Year 10	Year 17
Annual Salary	\$45,801	\$62,614	\$71,017	\$83,273
Average of Market Comparators	\$46,940	\$66,941	\$78,442	\$89,363
Market Deviation	-2.42%	-6.46%	-9.46%	-6.82%

Employee Compensation

Fire Officer Pay Market Comparison – Pay Adjustment Options

Fire Officer Pay Range Market Comparability

	Deviation from Average Minimum Salary*		Deviation from Average Midpoint Salary		Deviation from Average Maximum Salary*	
Lieutenant		-0.26%		-3.89%		-6.62%
Captain		-1.75%		-8.26%		-13.50%
Battalion Chief		3.35%		-1.64%		-5.99%

*Minimum salary reflects earliest salary in rank based on a typical career progression

*Maximum salary reflects the year employees in every comparator should reach the top of their pay scale

Fire Pay Scale Options

Firefighter Pay Scale Adjustment and Reclassification

Two options to better align pay for Sworn Fire

- Consider adjusting entire Fire pay scale by a to-be determined percentage (each 1% adjustment = \$0.2M)
- Consider reclassifying Fire Officer ranks upward (each grade increase = \$0.4M)

Employee Compensation

Living Wage Adjustment

- City's living wage is \$13.13, last increase went into effect July 1, 2008 (FY 09)
- Living wage for FY 2017 if fully adjusted would be \$15.79.
- +20.72% over the current living wage.
- Adjusting the pay rate for employees making less the \$15.79 - 265 employees. Cost: \$0.7M
- Applying a one-step pay adjustment to those City employees whose pay would be compressed due to the change in the living wage - Cost: \$0.2M
- For Contract Employees, additional cost to the City: \$0.1m
- The total cost of implementing the direct living wage adjustment for regular and contract employees, and the adjustment for compression: \$1.0M
- If +5% adjustment = +\$0.2M

Next Steps

- Further refine and cost options
- Meet with Public Safety employee representatives
- Develop recommendations for FY 2017 budget consideration



Affordable Housing

November 21, 2015

Housing Master Plan Goal by 2025

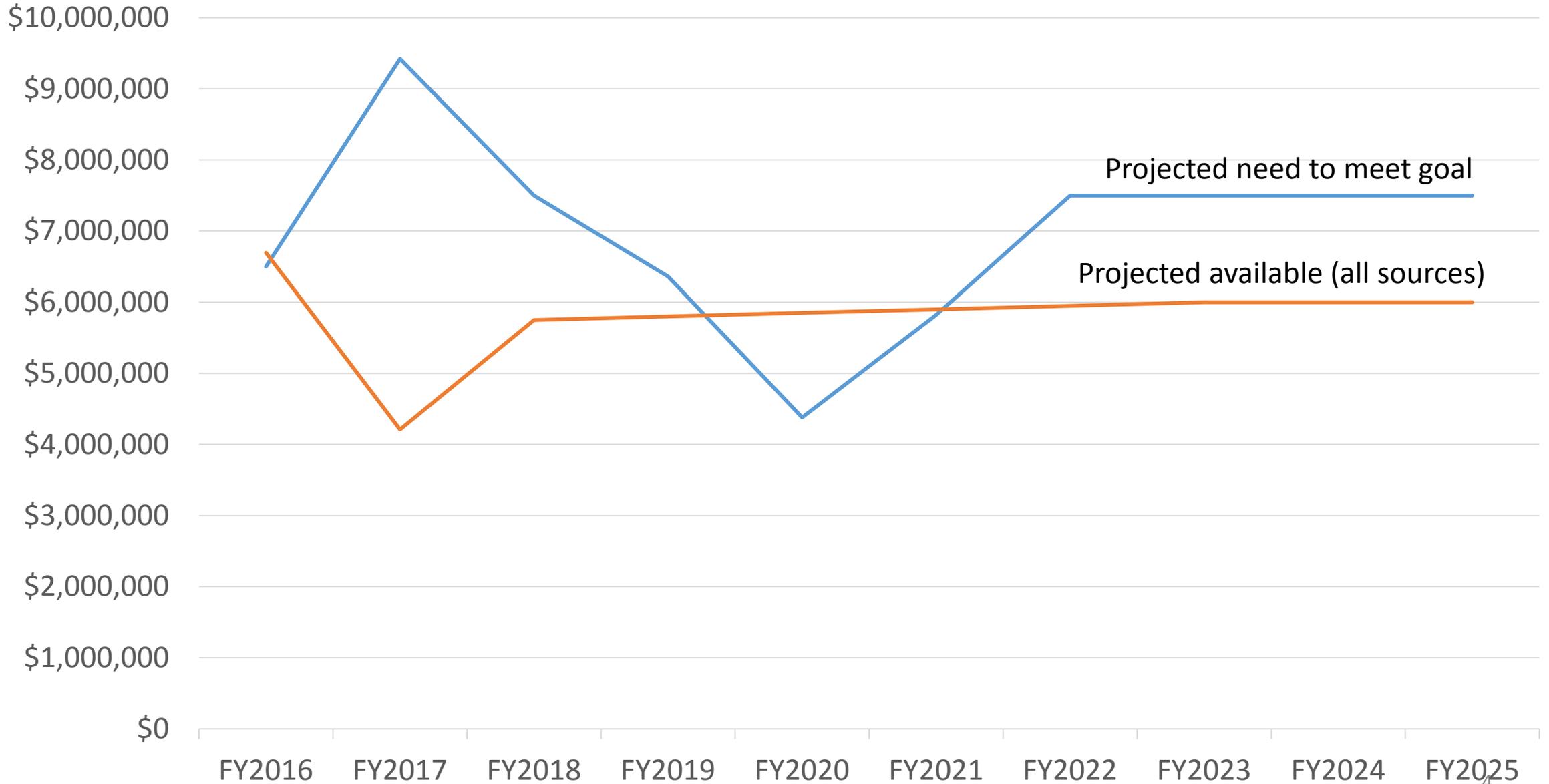
New affordability for 2,000 units

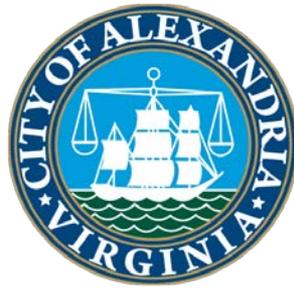
- Preservation of existing committed affordable rental units
- New committed affordable units
- New rental units modified for accessibility
- New or preserved affordable homeownership units
- New loans for income eligible borrowers for housing rehabilitation

Historical Unit Production Affordable Units, 2006-2015

	\$ Spent	Units Approved	Units Completed
FY2006	\$10,600,000	325	295
FY2007	\$13,900,000	328	260
FY2008	\$24,000,000	295	261
FY2009	\$5,200,000	275	212
FY2010	\$3,500,000	132	97
FY2011	\$3,700,000	39	65
FY2012	\$4,800,000	286	272
FY2013	\$4,400,000	41	109
FY2014	\$4,800,000	45	63
FY2015	\$3,400,000	120	136
FY2016*	\$8,200,000	200	272
*Projected			

Projected Available Funding vs. Need





Transportation Funding Overview

November 21, 2015

Agenda & Purpose

1. Review Existing Transportation Funding Sources and Uses
2. WMATA budget – Capital & Operating Impacts
3. Questions & Discussion



Why Discuss Transportation Funding Now?

- Funding needs continue to outpace sources
- New sources cannot finance maintenance and operations
 - NVRTA 70%
 - House Bill 2 funds
 - State grants
- WMATA subsidy requests will likely increase
- Slow economic development and growth
- State transit funding 'Fiscal Cliff'



FY 2016 Transportation Improvement Program Sources Summary (10-years)

Transportation Improvement Program (TIP) Revenues	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
TIP Reserved Real Estate Tax Rate	\$7,916,284	\$8,153,773	\$8,418,770	\$8,692,380	\$8,979,229
TIP Cash Capital	\$0	\$0	\$0	\$0	\$0
TIP Cash Reprogrammed from Prior Years	\$150,000	\$325,000	\$0	\$0	\$0
TIP General Obligation Bonds	\$0	\$0	\$0	\$0	\$0
TIP General Obligation Bonds Reprogrammed from Prior Years	\$4,650,000	\$750,000	\$0	\$0	\$0
Fund Balance Carryover	\$0	\$0	\$185,985	\$263,991	\$224,294
Total TIP Revenues	\$12,716,284	\$9,228,773	\$8,604,756	\$8,956,371	\$9,203,523

Transportation Improvement Program (TIP) Revenues	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total FY 16-FY25
TIP Reserved Real Estate Tax Rate	\$9,293,502	\$9,618,775	\$9,955,432	\$10,303,872	\$10,664,507	\$91,996,524
TIP Cash Capital	\$0	\$0	\$0	\$0	\$0	\$0
TIP Cash Reprogrammed from Prior Years	\$0	\$0	\$0	\$0	\$0	\$475,000
TIP General Obligation Bonds	\$0	\$0	\$0	\$0	\$0	\$0
TIP General Obligation Bonds Reprogrammed from Prior Years	\$0	\$0	\$0	\$0	\$0	\$5,400,000
Fund Balance Carryover	\$403,550	\$120,589	\$666,122	-\$40,453	\$274,451	\$0
Total TIP Revenues	\$9,697,052	\$9,739,364	\$10,621,554	\$10,263,419	\$10,938,958	\$97,871,524



FY 2016 Transportation Improvement Program Expenditure Summary (10-years)

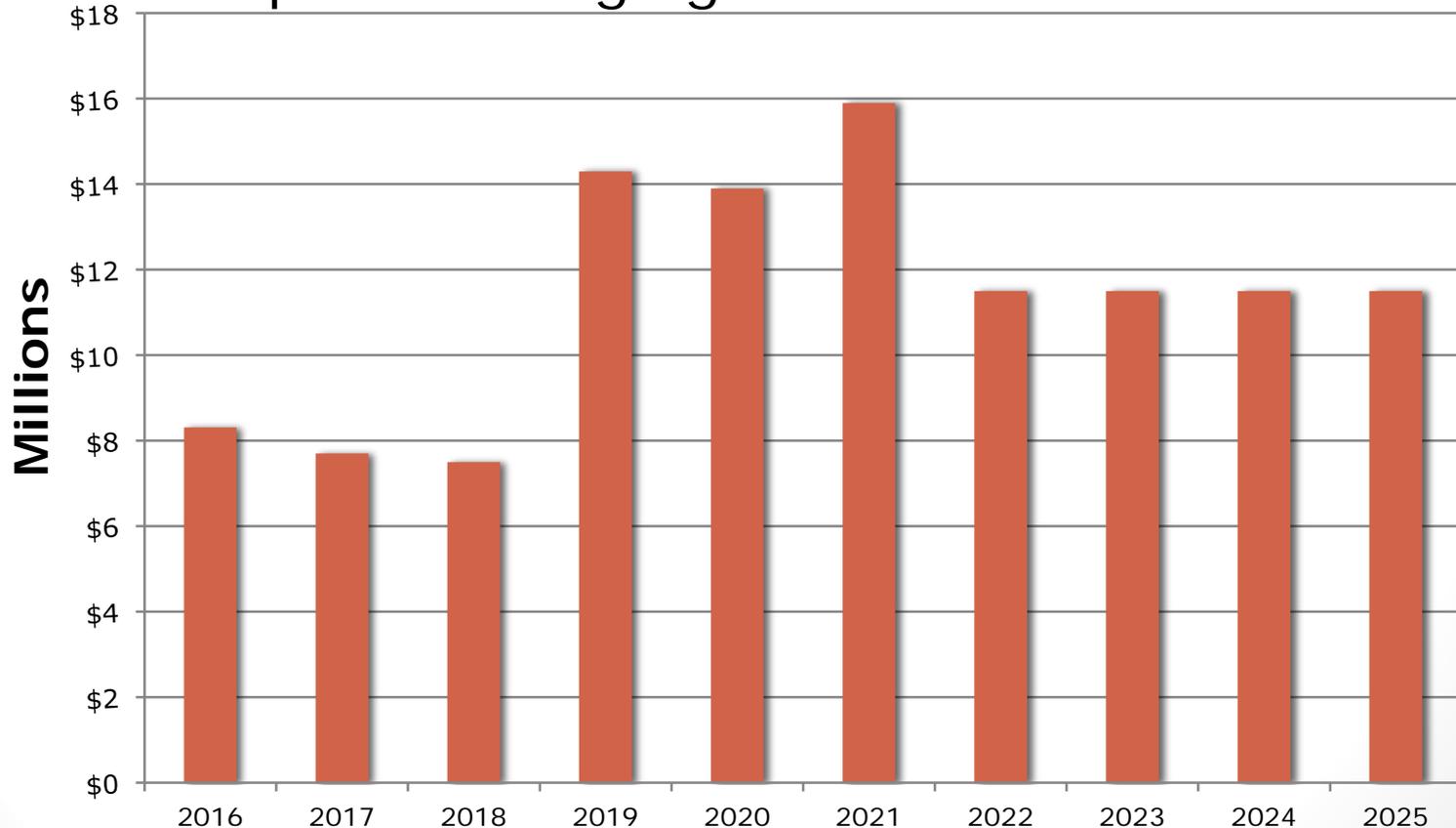
Transportation Improvement Program Expenditure Overview	FY 2016	FY 2017	FY 2018	FY 2019	FY 2020
TIP Operating (Current + Expanded)	\$4,249,977	\$4,033,322	\$4,098,808	\$4,507,628	\$4,593,033
TIP Operating - WMATA (Added FY 2016)	\$2,910,000	\$1,910,000	\$2,910,000	\$2,910,000	\$2,910,000
TIP Capital Projects, non-WMATA	\$3,540,000	\$1,400,000	\$0	\$0	\$250,000
WMATA Capital Contributions (TIP Bonds and Cash)	\$1,460,000	\$1,100,000	\$750,000	\$750,000	\$500,000
TIP Debt Service (2013 \$6.75M Bond Issuance)	\$556,307	\$599,466	\$581,957	\$564,449	\$546,940
Total TIP Expenditures	\$12,716,284	\$9,042,788	\$8,340,765	\$8,732,077	\$8,799,973

Transportation Improvement Program Expenditure Overview	FY 2021	FY 2022	FY 2023	FY 2024	FY 2025	Total FY 16-FY25
TIP Operating (Current + Expanded)	\$5,037,031	\$5,151,319	\$5,257,592	\$5,353,811	\$5,454,135	\$47,736,657
TIP Operating - WMATA (Added FY 2016)	\$2,910,000	\$2,910,000	\$2,910,000	\$2,910,000	\$2,910,000	\$28,100,000
TIP Capital Projects, non-WMATA	\$0	\$250,000	\$2,000,000	\$1,250,000	\$1,000,000	\$9,690,000
WMATA Capital Contributions (TIP Bonds and Cash)	\$1,100,000	\$250,000	\$0	\$0	\$0	\$5,910,000
TIP Debt Service (2013 \$6.75M Bond Issuance)	\$529,432	\$511,923	\$494,415	\$475,156	\$457,735	\$5,317,780
Total TIP Expenditures	\$9,576,463	\$9,073,242	\$10,662,007	\$9,988,967	\$9,821,870	\$96,754,437



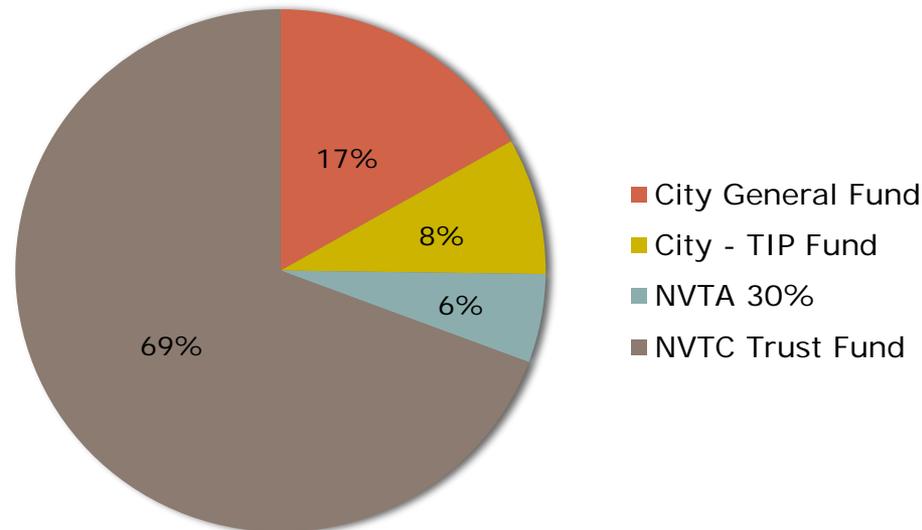
Estimated Capital Contributions to WMATA

- \$8.3 million in FY 2016
- \$113 million over 10 years
- New capital funding agreement for FY17-22 likely



Operating Contributions to WMATA

- \$34 million in FY 2016
- General Fund contribution +\$3.0 million or 35% increase in FY 2016
- If 10% increase for FY 2017, WMATA General Fund contribution would increase \$3.4 million above FY 2016 General Fund levels





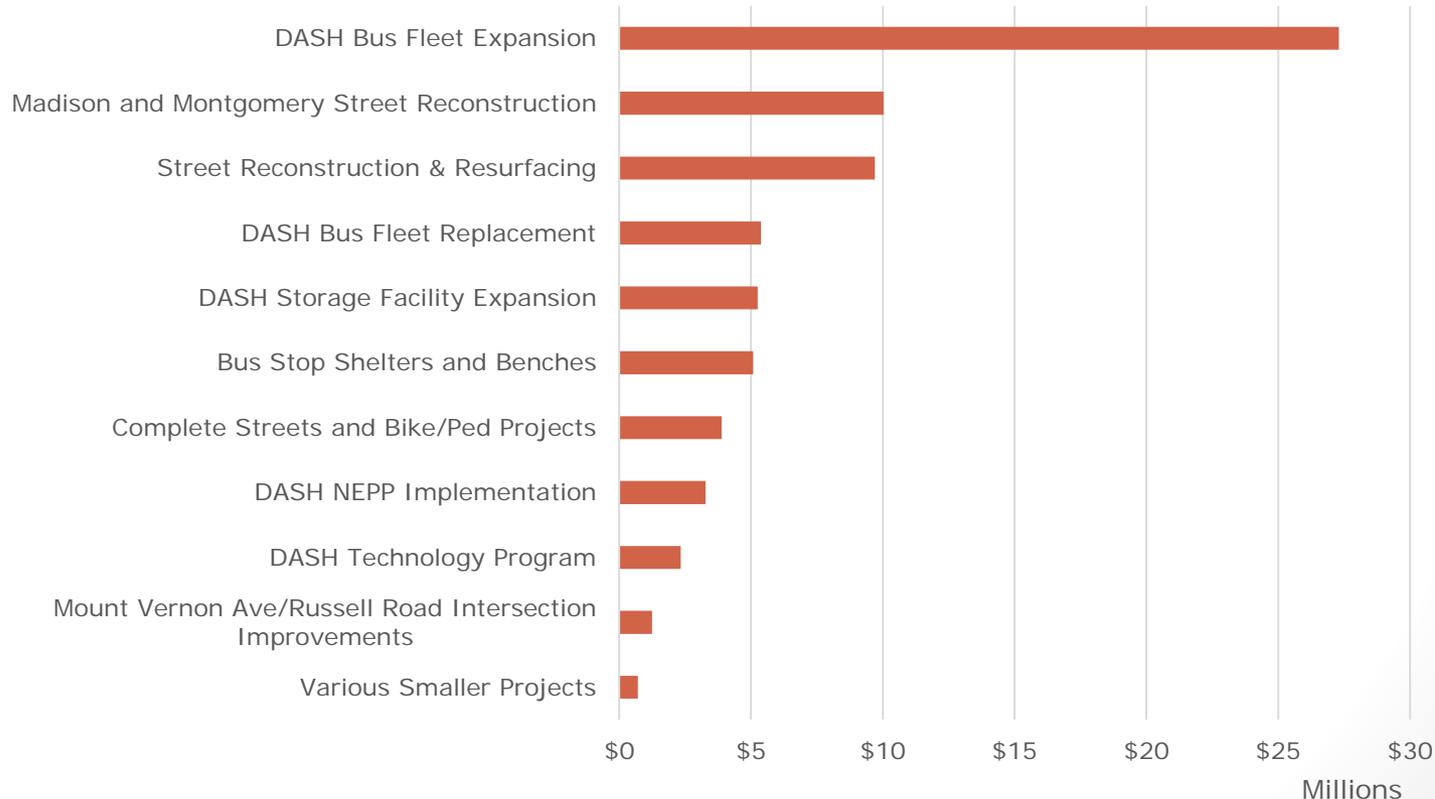
Current WMATA Operating Proposal

- Four high-level options for FY2017:
 - 1) Zero-growth scenario
 - 2) 'Business as usual' scenario which would be about a 10% increase in jurisdictional contribution
 - 3) Substantial fare increase, limits subsidy growth to 3% (DC has signaled it will veto a fare increase)
 - 4) Smaller fare increase, targeted service reductions could limit subsidy growth to about 3%



FY 2016 -2025 Capital Unfunded Transportation

- \$74 million in FY 2016- FY 2015





Growing the Commercial Tax Base

CITY COUNCIL RETREAT- NOVEMBER 21, 2015



City Budget Reality

Cost & Demand Growing Faster than Revenue





Why Economic Development

Alternative to Increasing Taxes and/or Decreasing Services

- Quality of Life
- Services
- Jobs/Resident Balance
- Consumer Choices
- Tax revenues/burden/diversification
- Neighborhood and City stability

Promoting our Principles:

- Vibrant
- Diverse
- Historic
- Beautiful
- Unique
- Neighborhoods
- Urban Villages
- Great Community



City Policies & Directives in Place

Focus on Increasing Commercial Tax Base and Revenues

- Economic Sustainability Recommendations- 2007
 - Rebalance real estate tax base to 50% - 50%
 - Make economics part of land use decision process
 - Increase commercial economic activity
 - Capture waterfront potential
 - Leveraging assets- ex. Metro development
 - Encourage travel and tourism
- Small Business Zoning Changes- 2010
 - More administrative uses; daycare, outdoor dining
 - Discourage Commercial Conversions to Residential

Recommendations
of the
Mayor's
Economic Sustainability Work Group

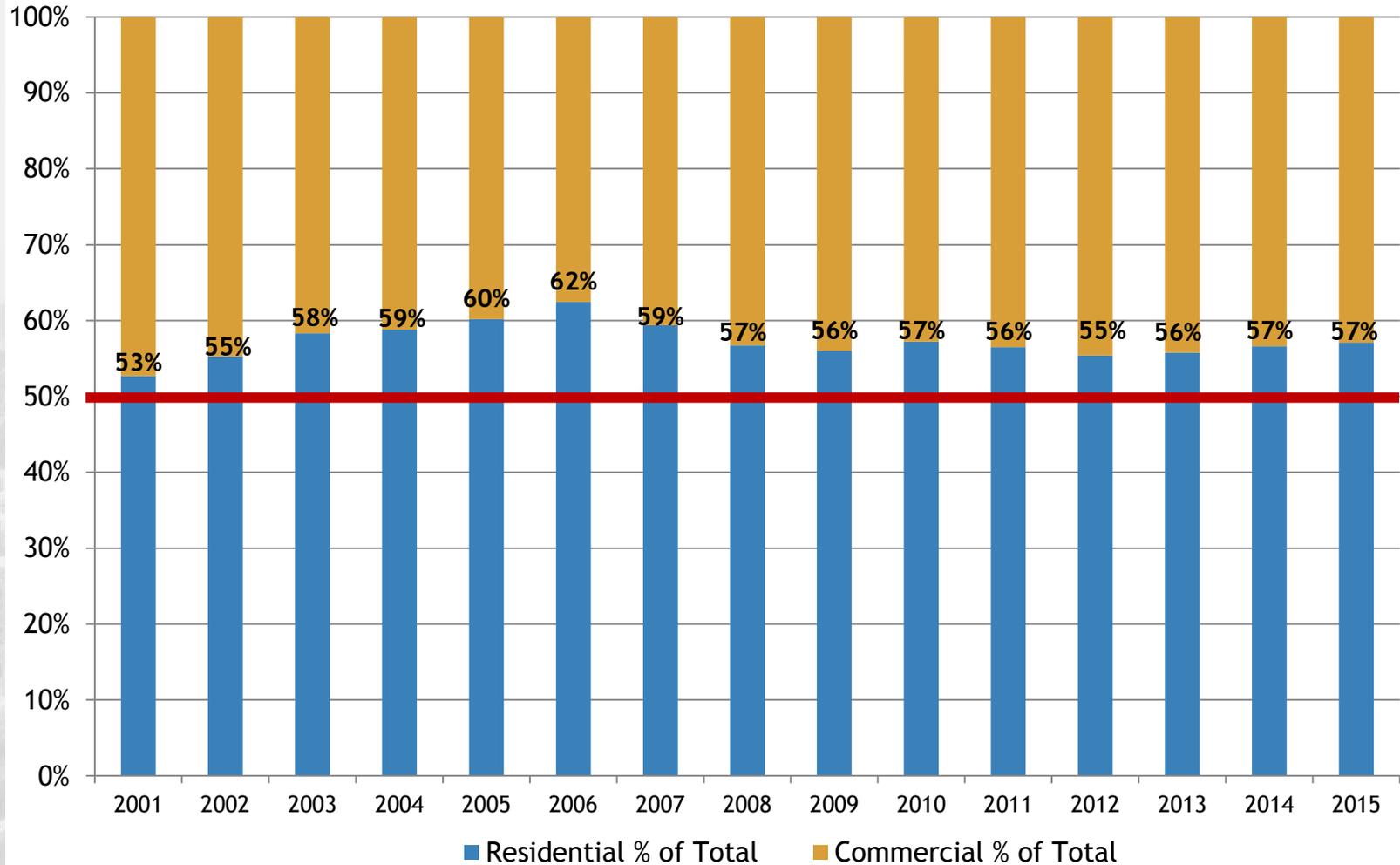
October 27, 2007





Tax Base with Multifamily as Commercial

Close to 50/50 Target When Apartments are Considered Commercial

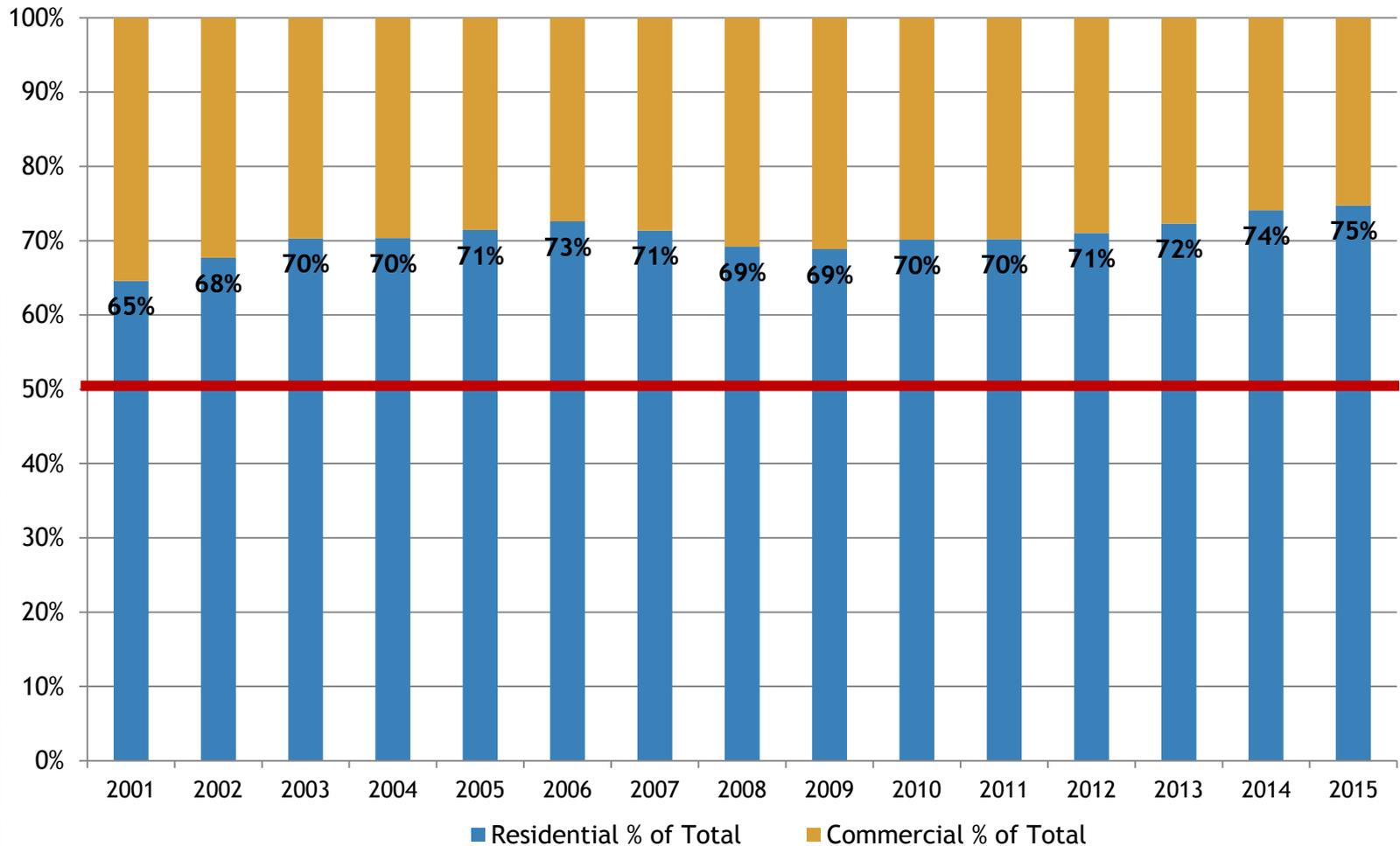


Source: City Finance Department



Tax Base with Multifamily as Residential

Different Story When Apartments are Considered Residential

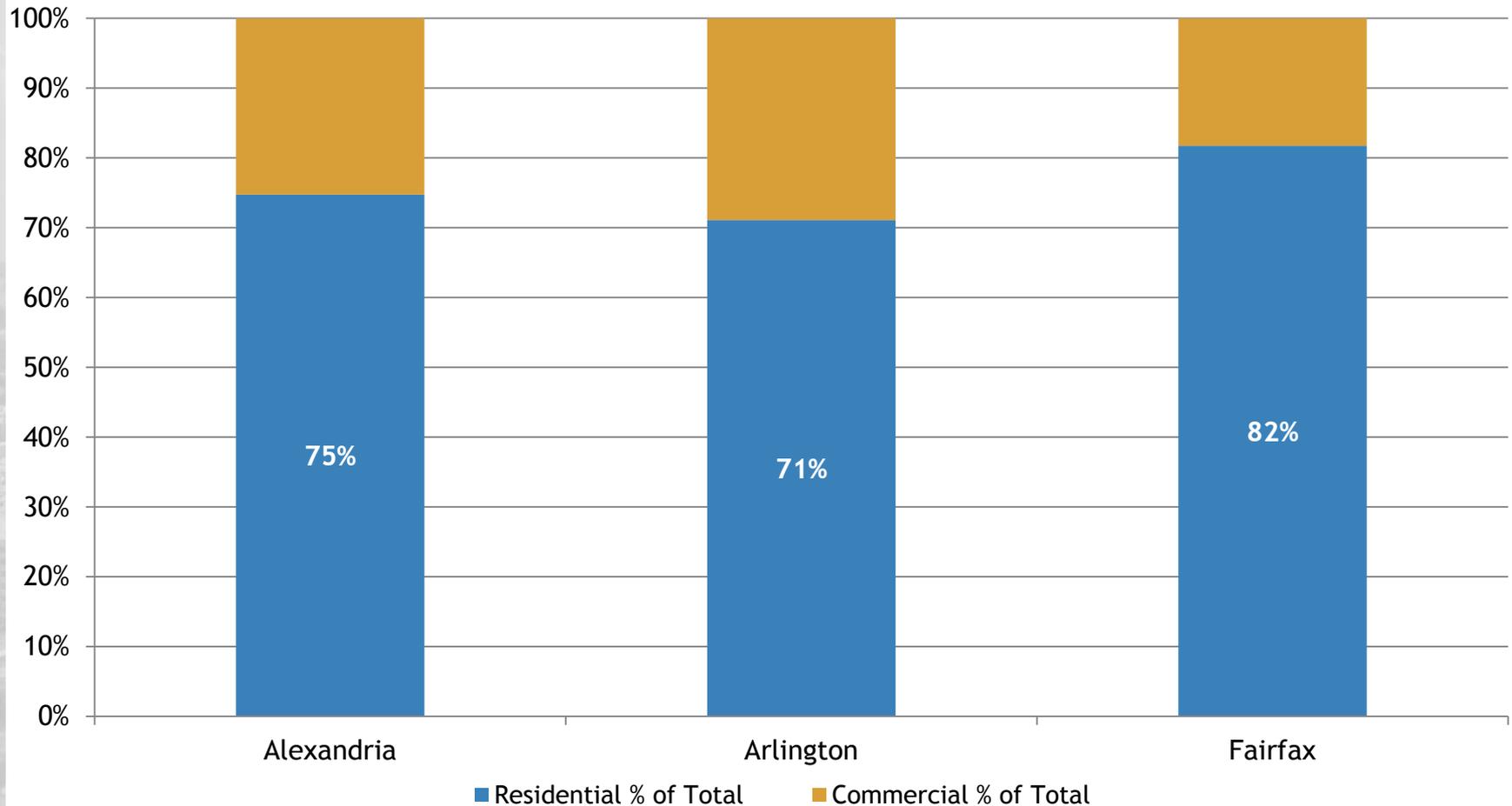


Source: City Finance Department



Residential Proportion Compared to Neighbors

Arlington and Fairfax County Treat Multifamily Similarly

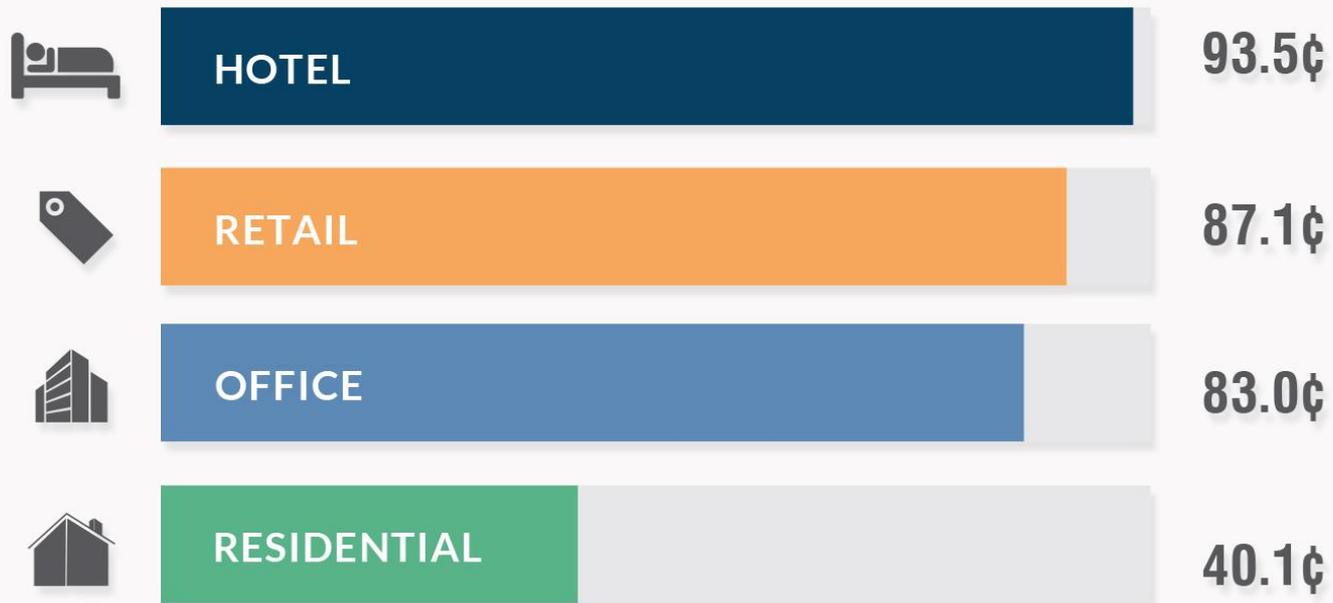


Source: City Finance Department



Net Tax Income by Real Estate Type

Commercial Uses Generate More Revenue





Regional Economic Trends

Region is Growing Slower and Growth Industries Have Changed

- Historically Virginia outperforms nation & region in employment
- DC region has recovered the total number of private sector jobs, but in lower wage, non-office industries
- DC area used to lead in job growth by MSA, but now trends towards the bottom
- Overall average wage has dropped due to industry shift
- DC metro area GDP growth has also shifted from leader to lagging
- Region remains overly dependent on DoD spending, while DoD spending continues to decline
- All Federal spending and federal employment continues to decline

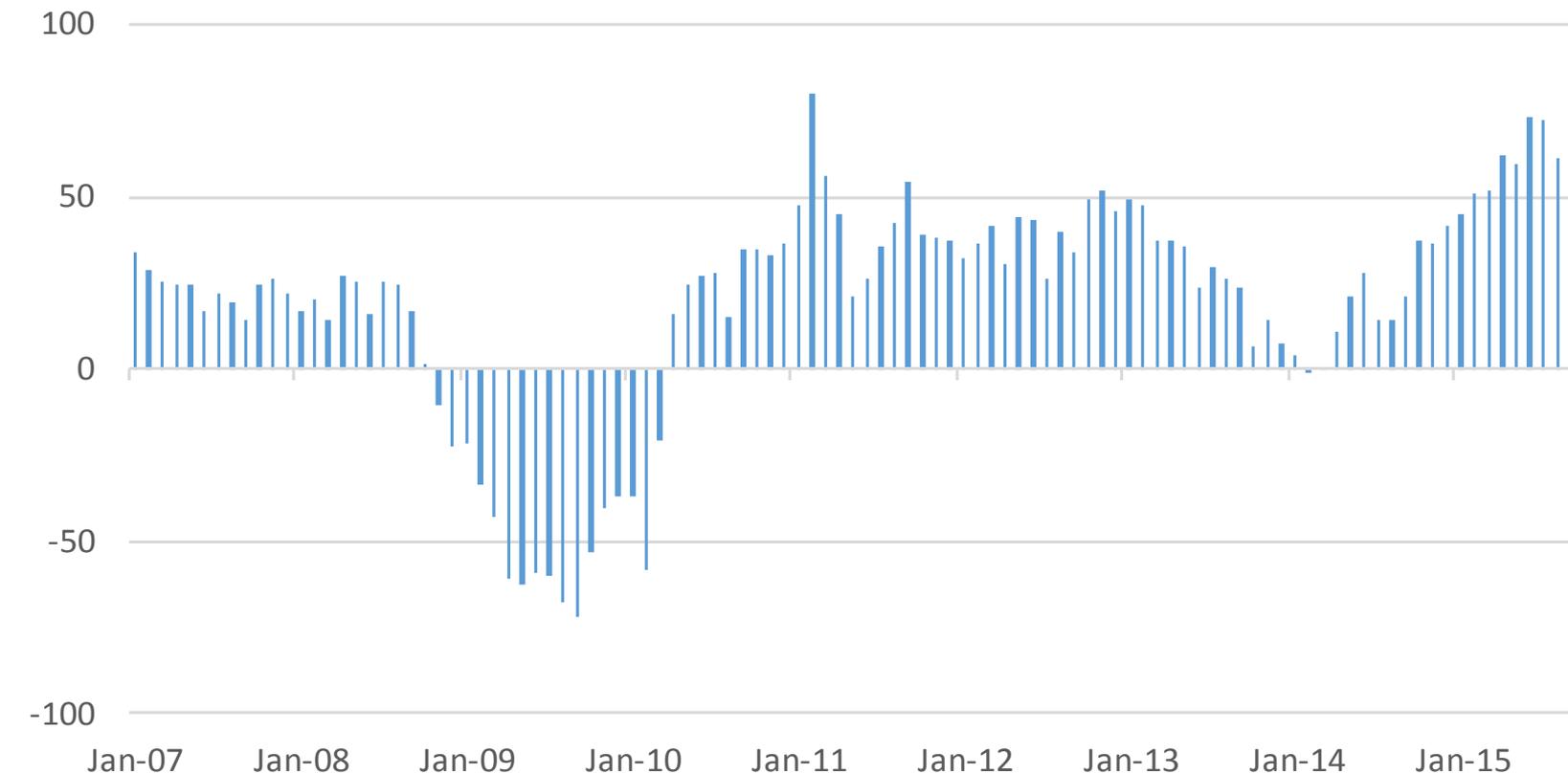


Regional Annual Job Changes

DC Metro has Recovered Number of Jobs from Recession

Annual Job Change, Washington MSA Month Over the Year Change

(000s)



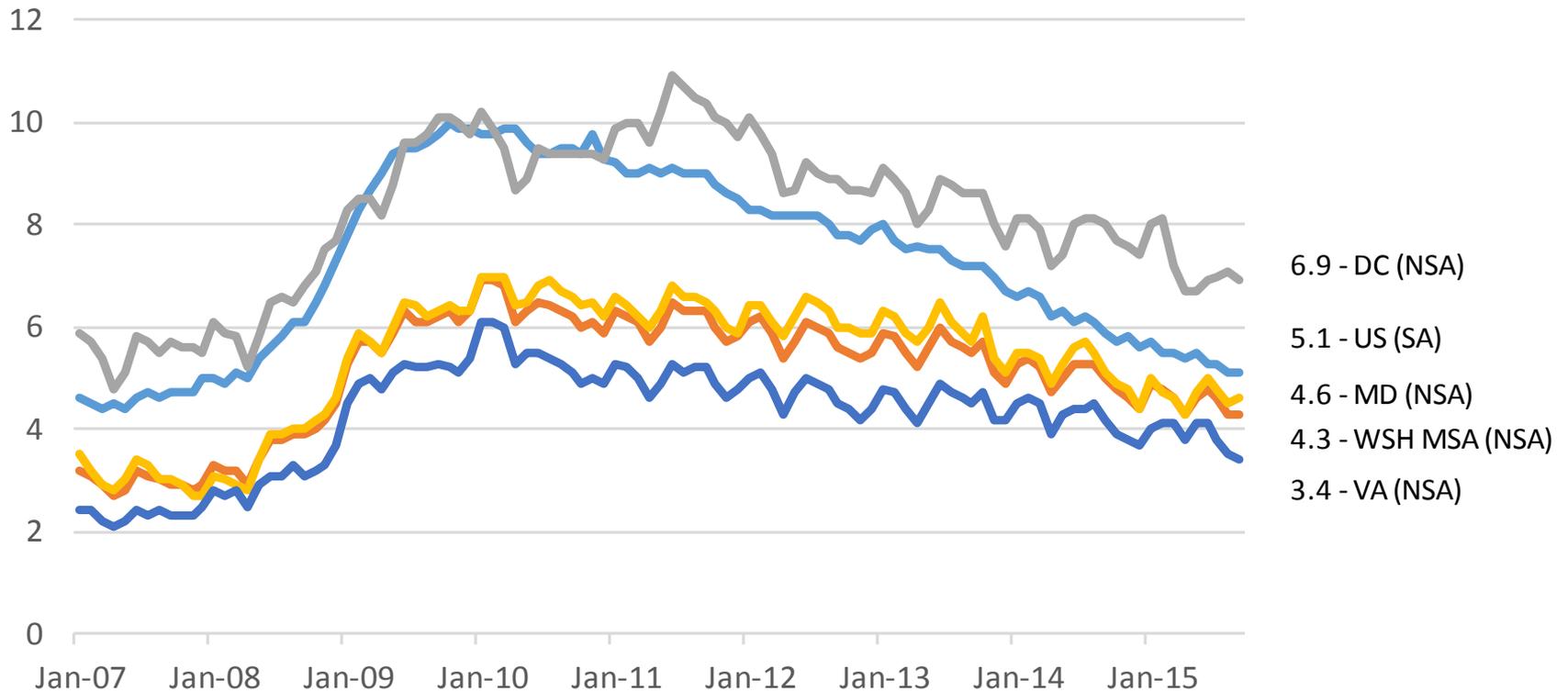
Source: BLS, GMU C.R.A.



Regional Unemployment Rates

Historically Virginia Outperforms Nation & Region

Unemployment Rates in the WMSA By Sub-State Area, 2007-2015



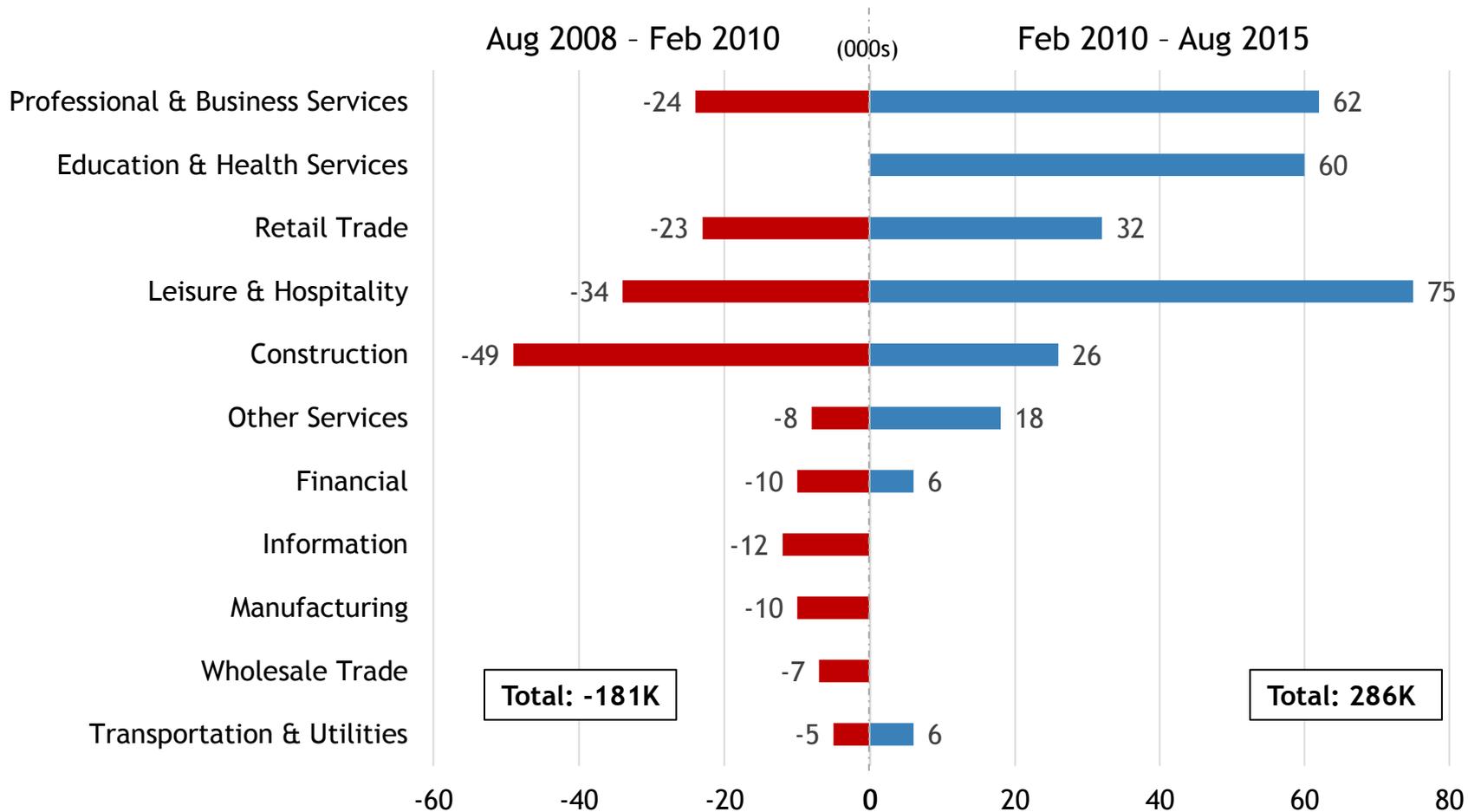
Source: BLS, GMU C.R.A.



Changes in Total Jobs by Sector

Total # of Jobs Recovered, but in Lower Wage, Non-Office Industries

Washington, DC MSA Private Sector Jobs: Recession and Recovery

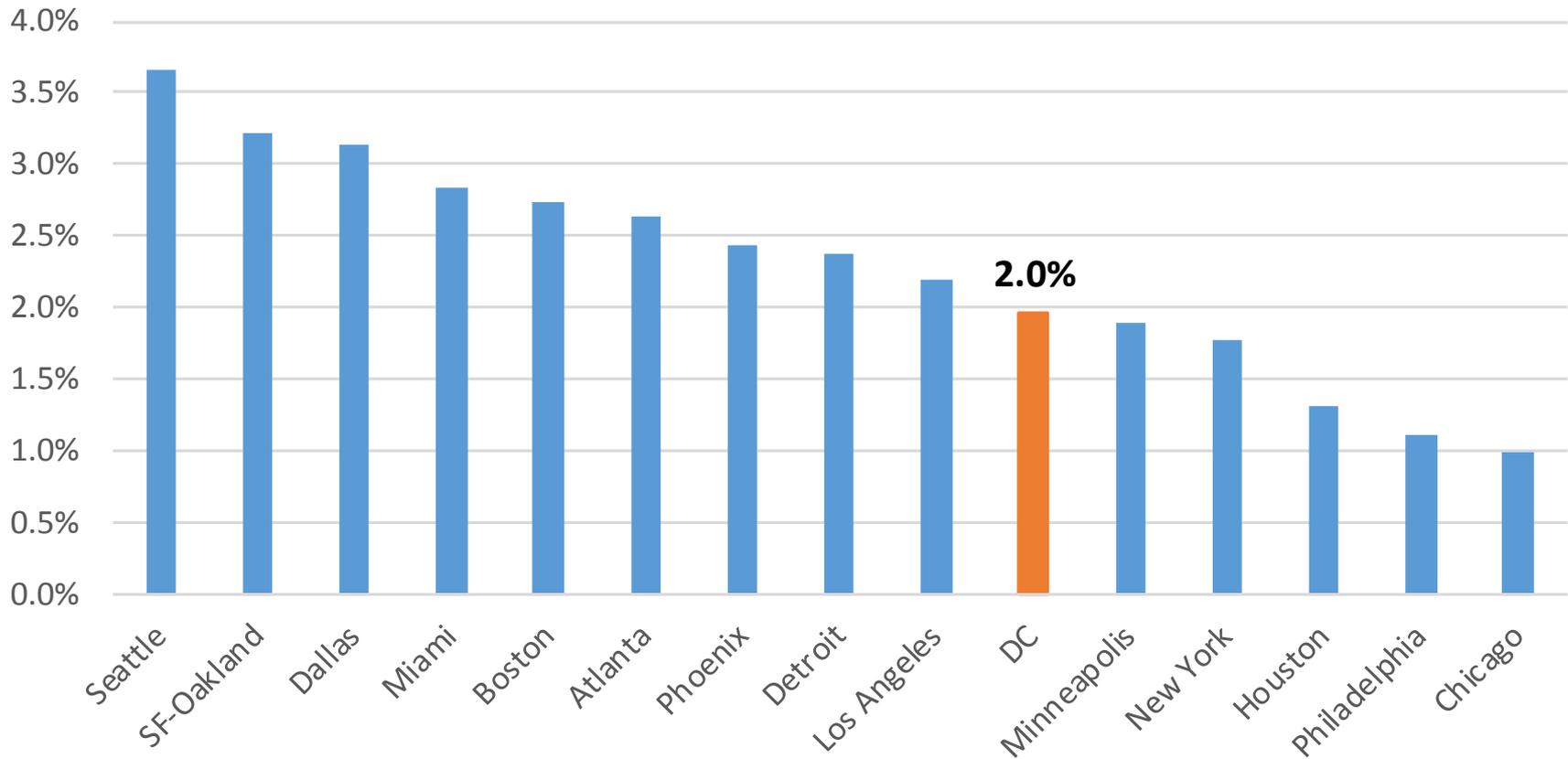




Regional Job Growth Comparison

DC Area Used to Lead in this Category- Trending Towards Bottom

15 Largest Job Markets Job Change, 2014-2015

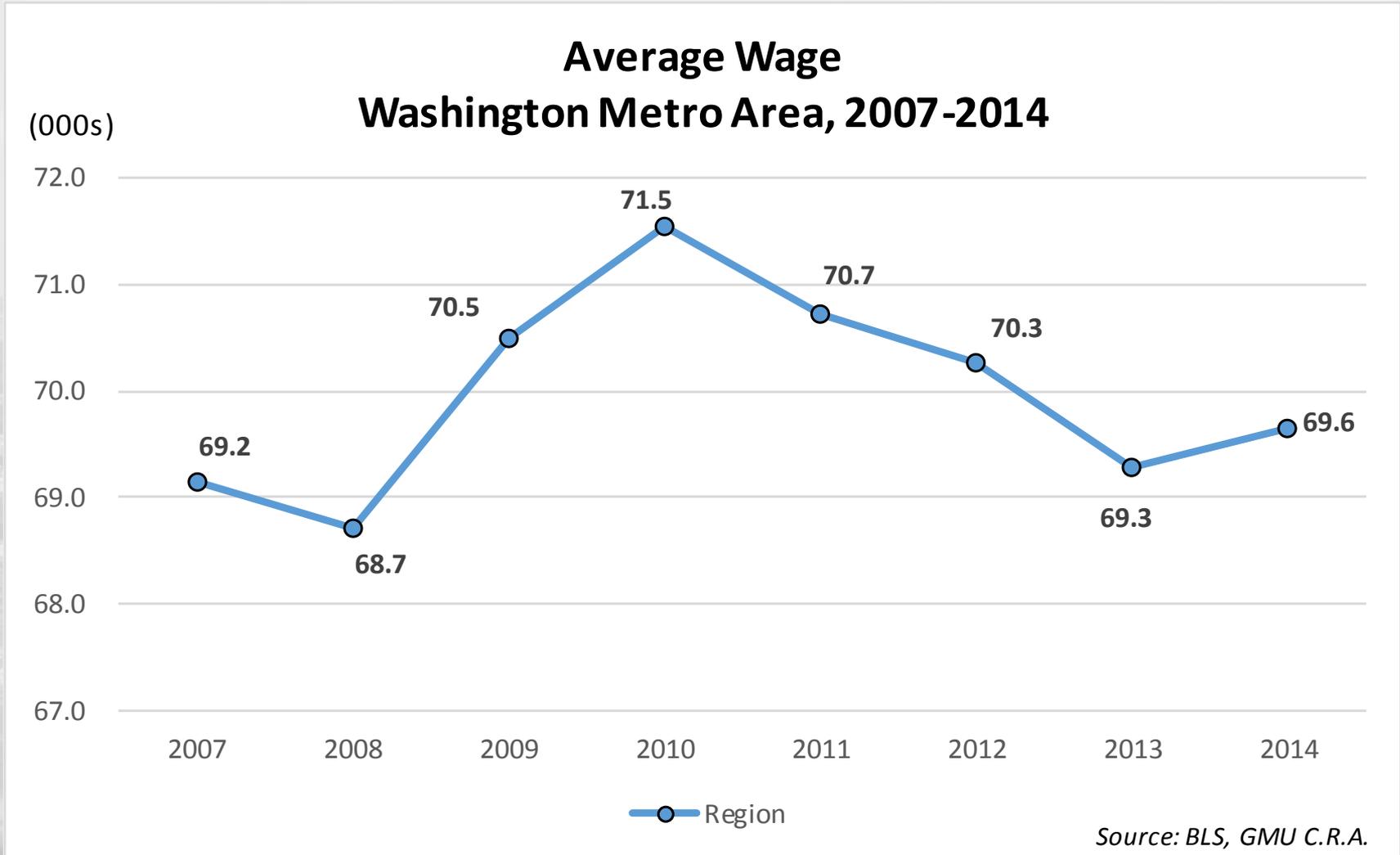


Source: BLS, GMU C.R.A.



Regional Wage Trends

Recovery to 2010 Levels Not yet Recognized- Lower Wage Jobs

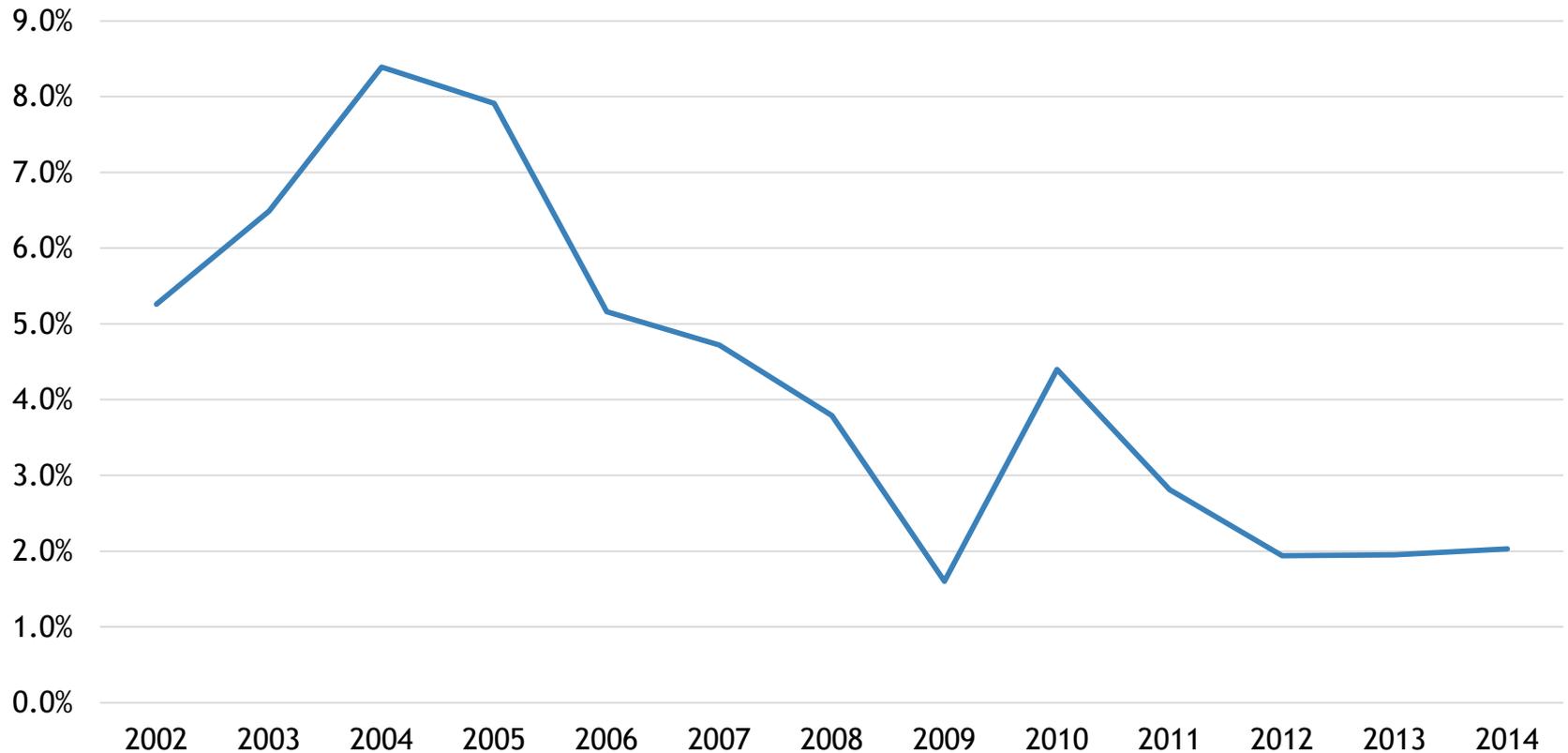




Regional GDP Growth

Growing at a Slower Pace than Pre-Recession Rates

**GDP Growth
Washington MSA 2002-2014**



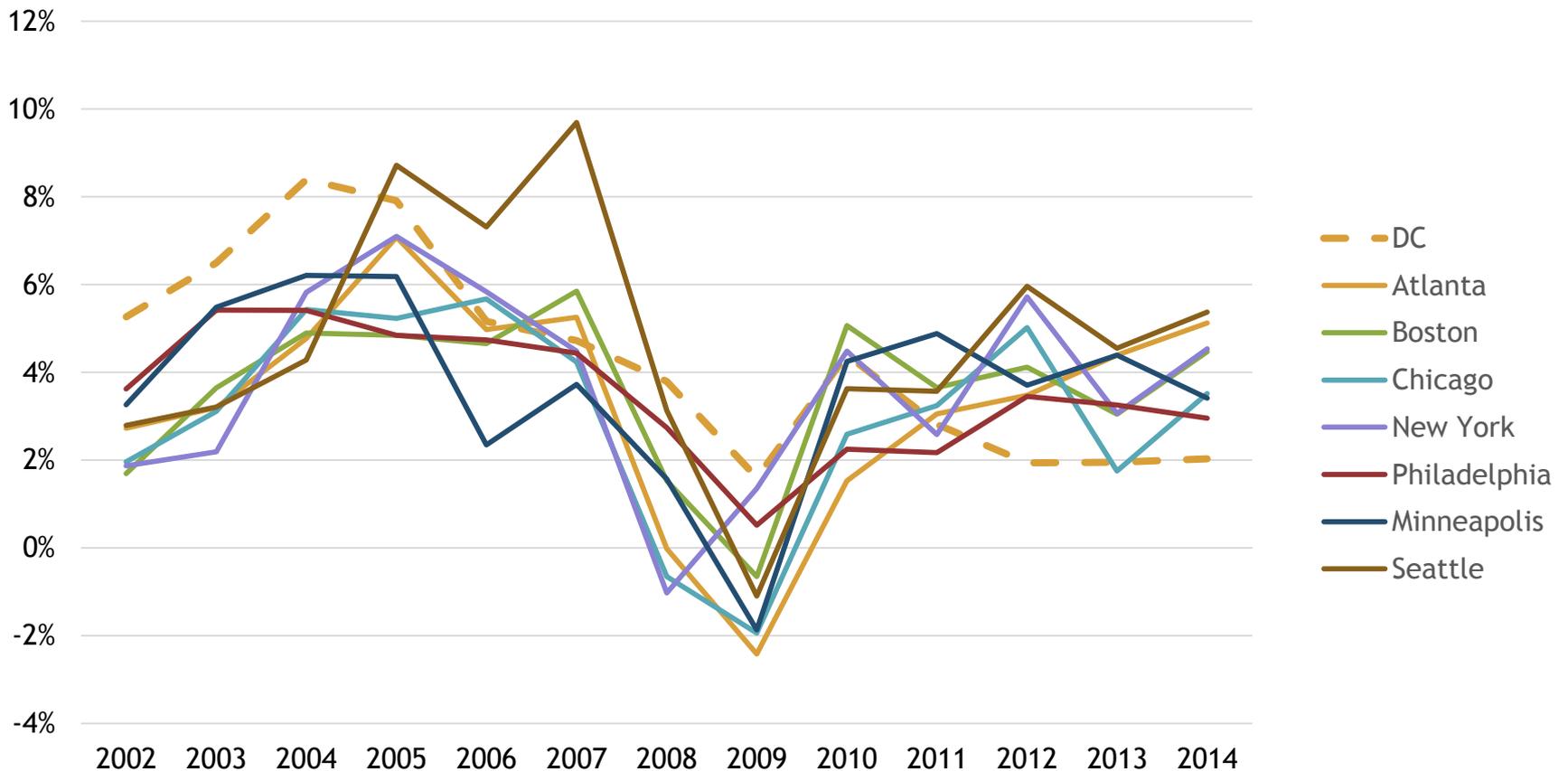
Source: Bureau of Economic Analysis



GDP Growth Comparisons

Like with Job Growth, DC was a Leader, Now Outpaced

GDP Growth for Washington MSA vs. Select MSAs 2002-2014



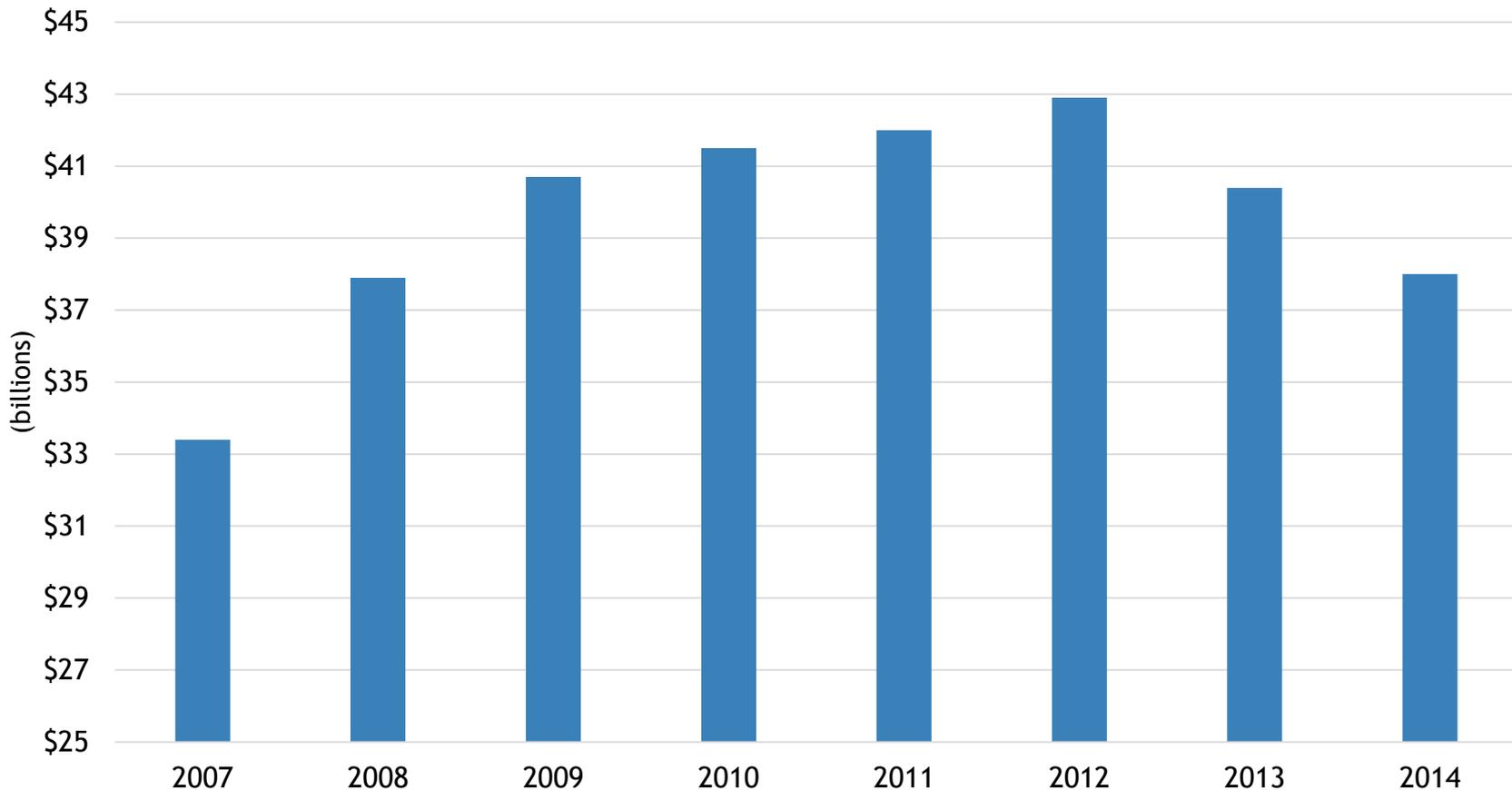
Source: Bureau of Economic Analysis



Value of Defense Contract Awards in Virginia

Forecasts Show Continued Decreases in DoD Spending

Total Contract Award Values (in billions)



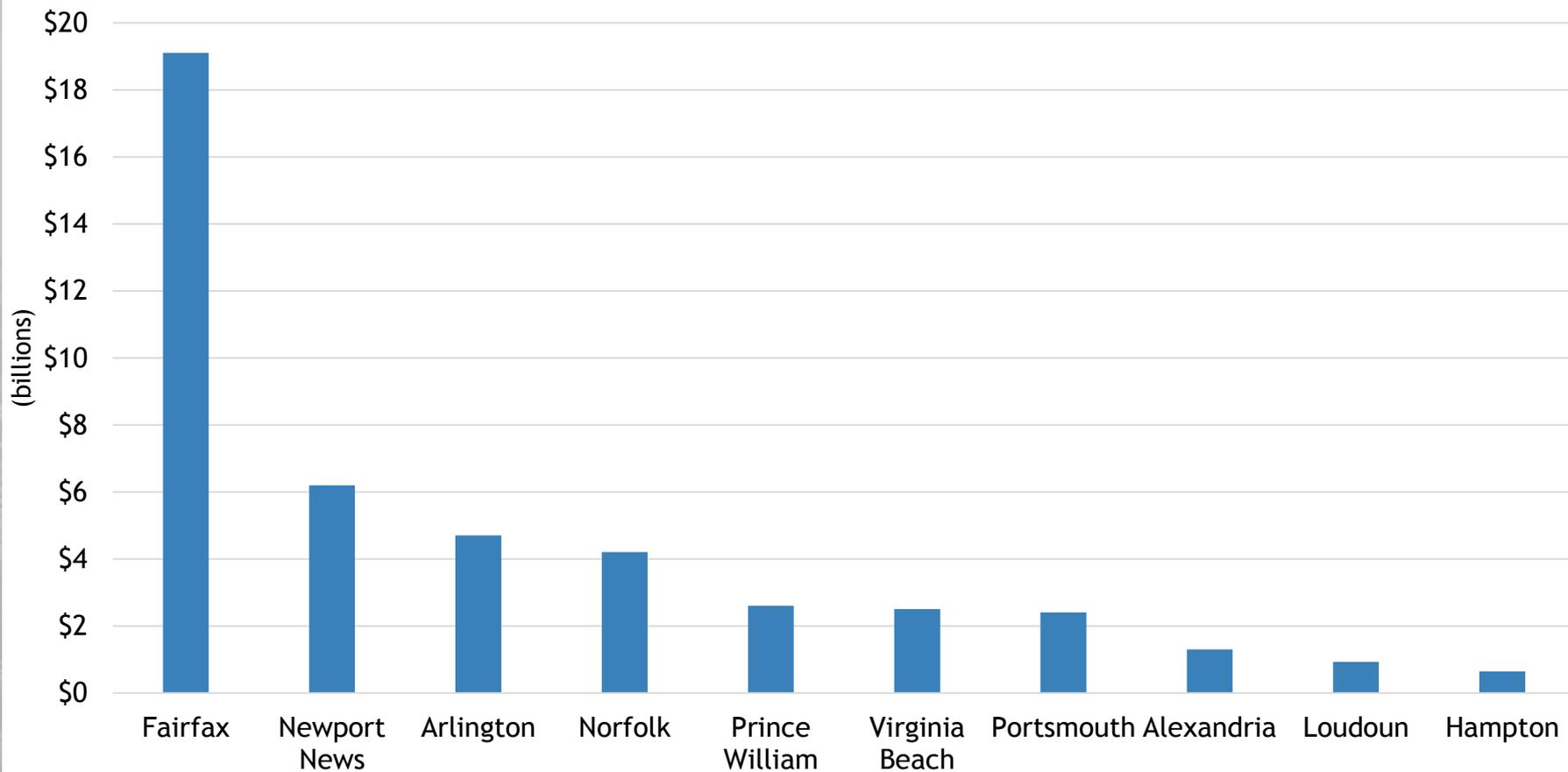
Source: Department of Defense



Virginia Localities with Top Defense Spending

DoD cuts Have Large Impact on Northern Virginia Economy

Total Contract Award Values (in billions) in FY 2014

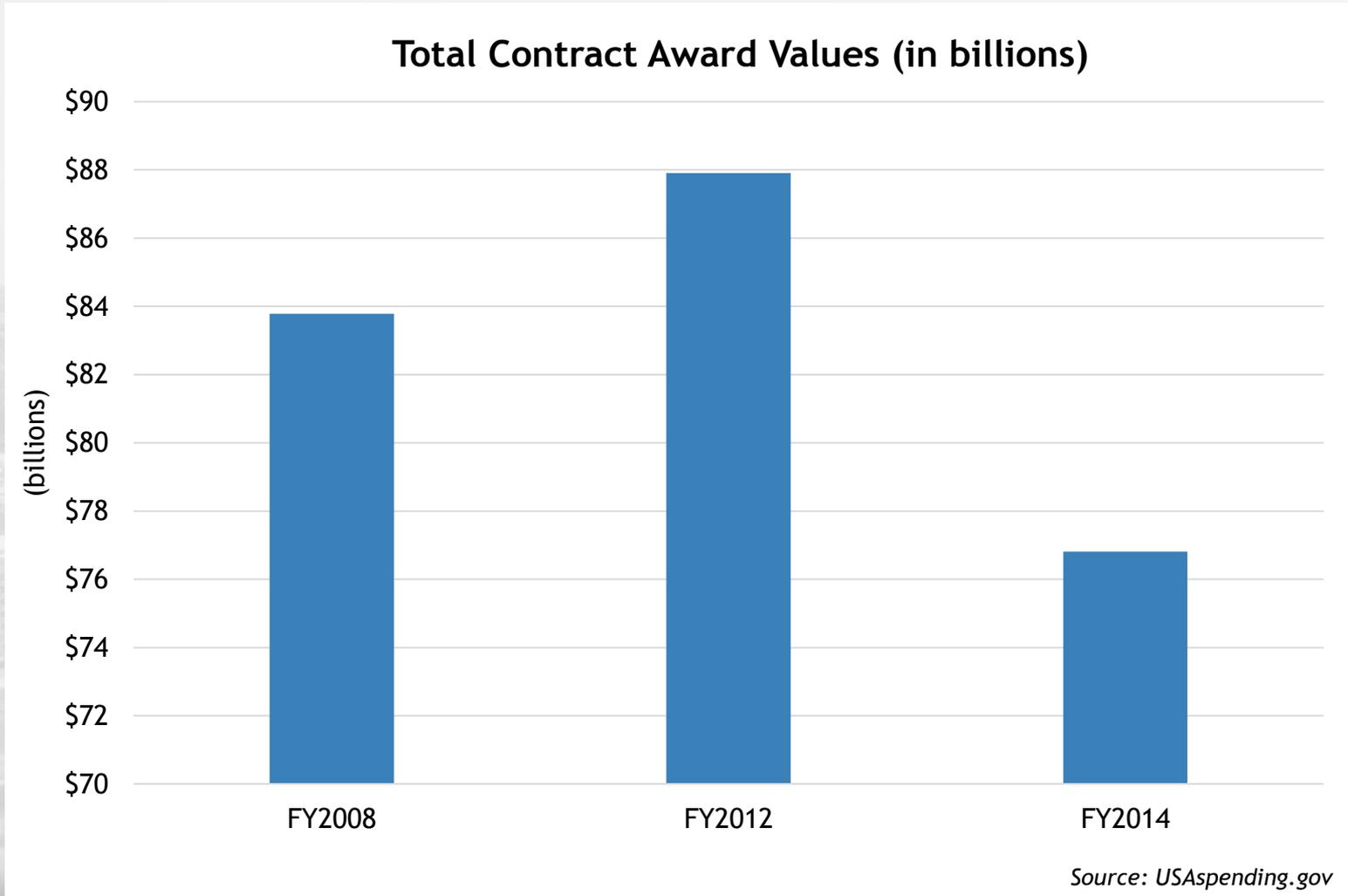


Source: Department of Defense



Value of Federal Contract Awards in the DC Region

Overall Federal Spending in DC Area Dropping





Federal Employees in the Washington, DC MSA

Federal Employment Accounts for 11% of jobs in MSA

Total Number of Employees in Washington, DC MSA (in thousands)



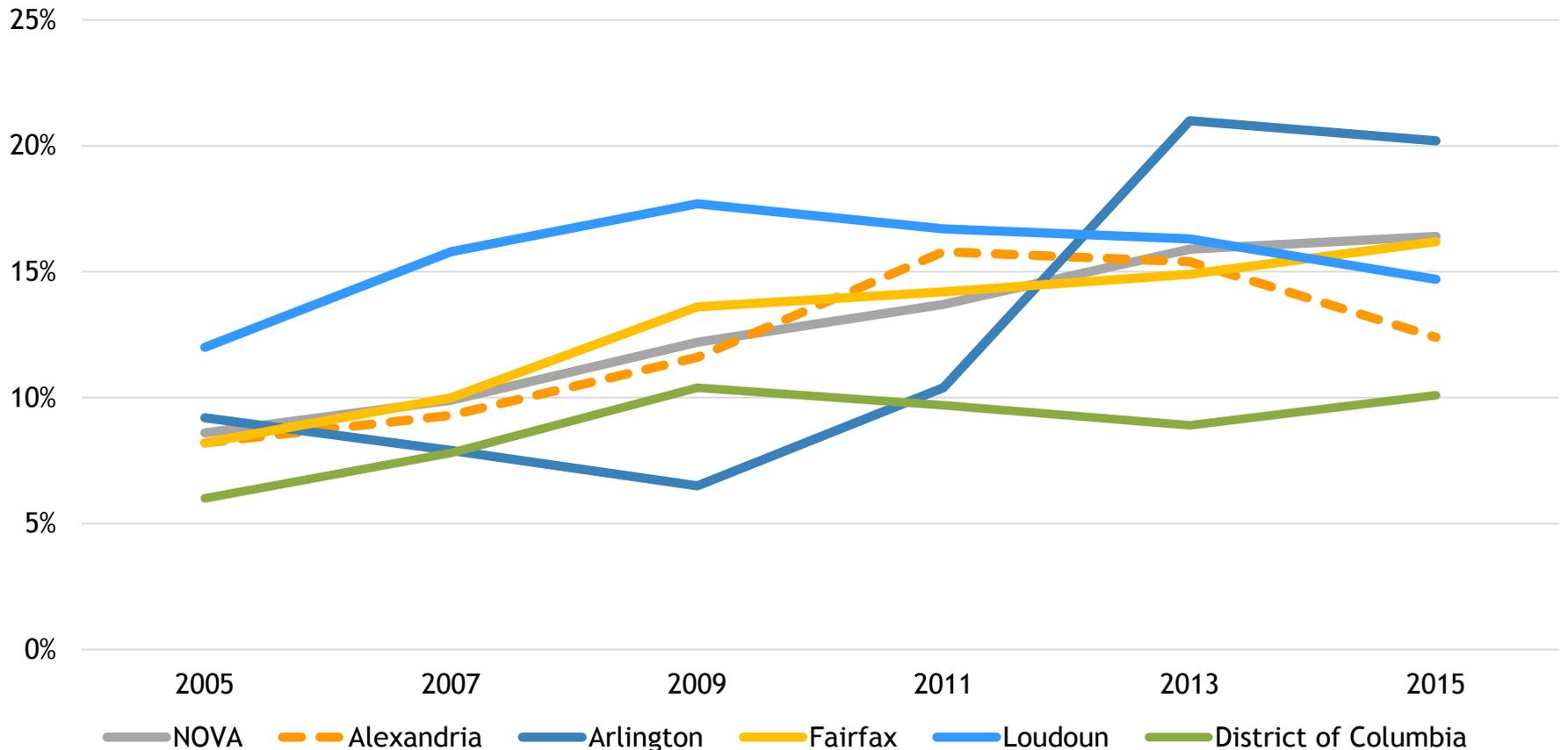
Source: BLS QCEW



Regional Office Vacancy Trends

Strong Office Market- but Alexandria has Weak Points

Regional Office Vacancy Rates 2005 - Present



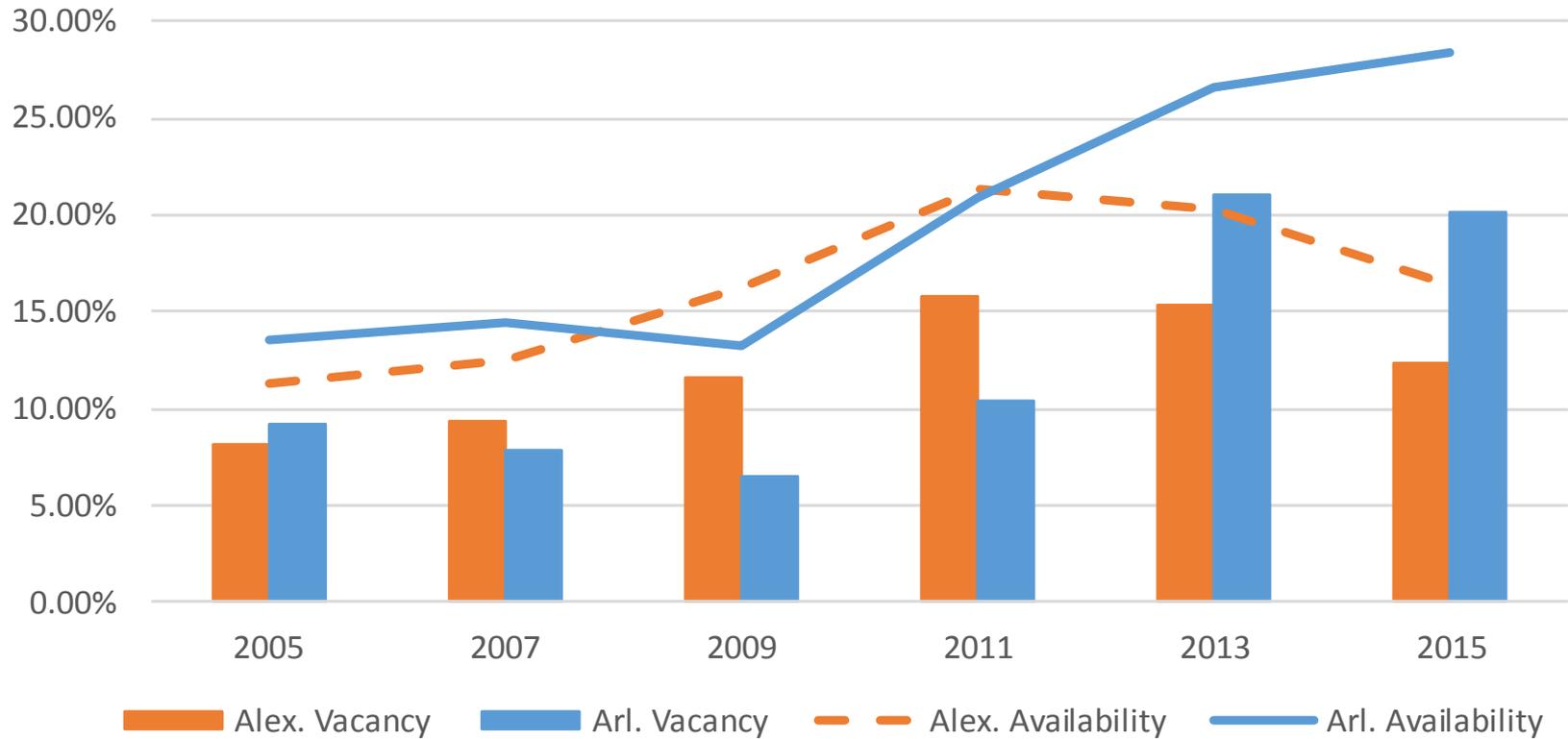
Source: CoStar



Alexandria v. Arlington

Arlington's Higher Vacancy is a Threat to Alexandria

Office Availability and Vacancy Alexandria v. Arlington 2005-2015

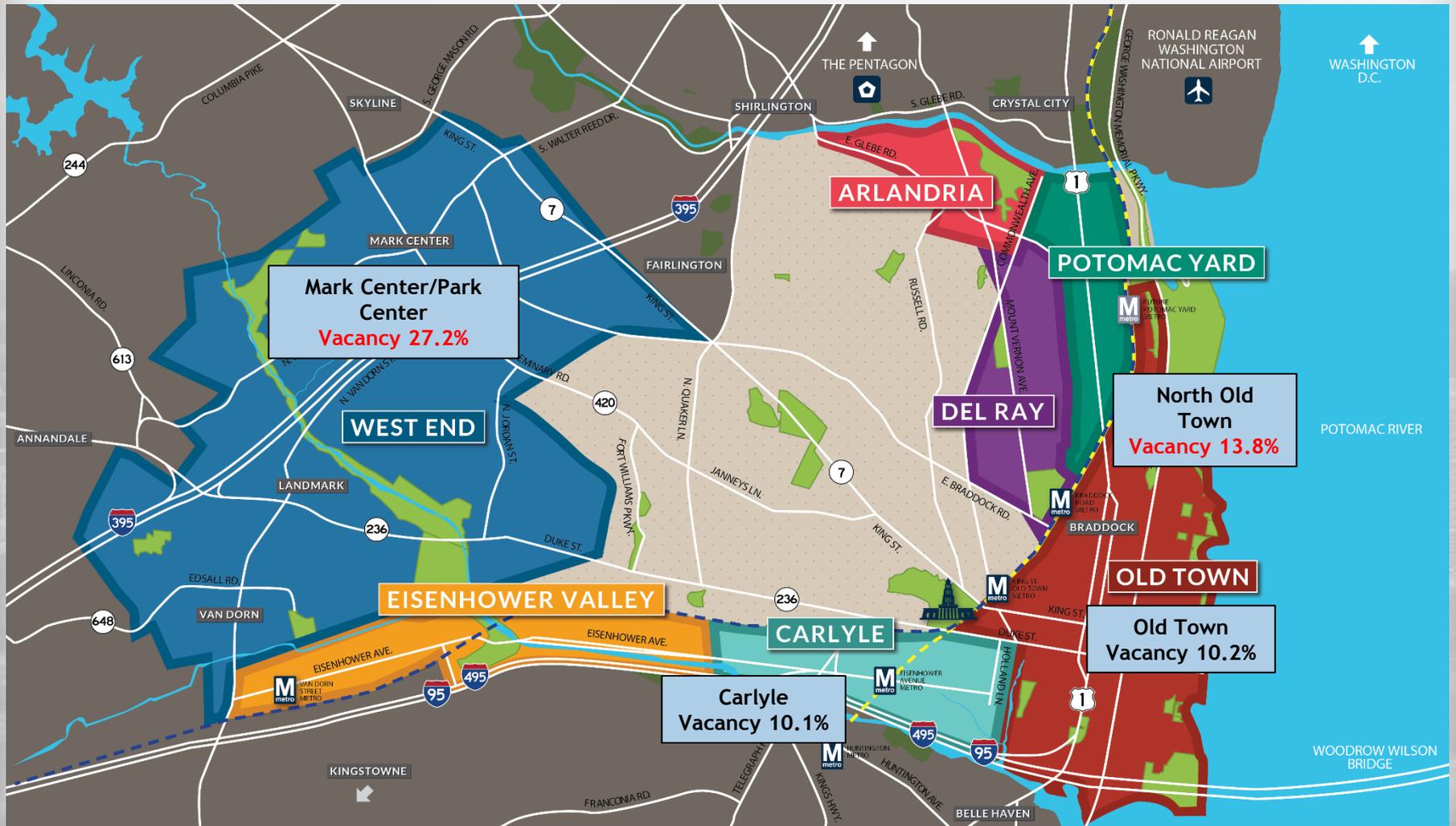


Source: CoStar



Current Office Vacancy

Lower Vacancy Rates in Areas with Transit & Amenities

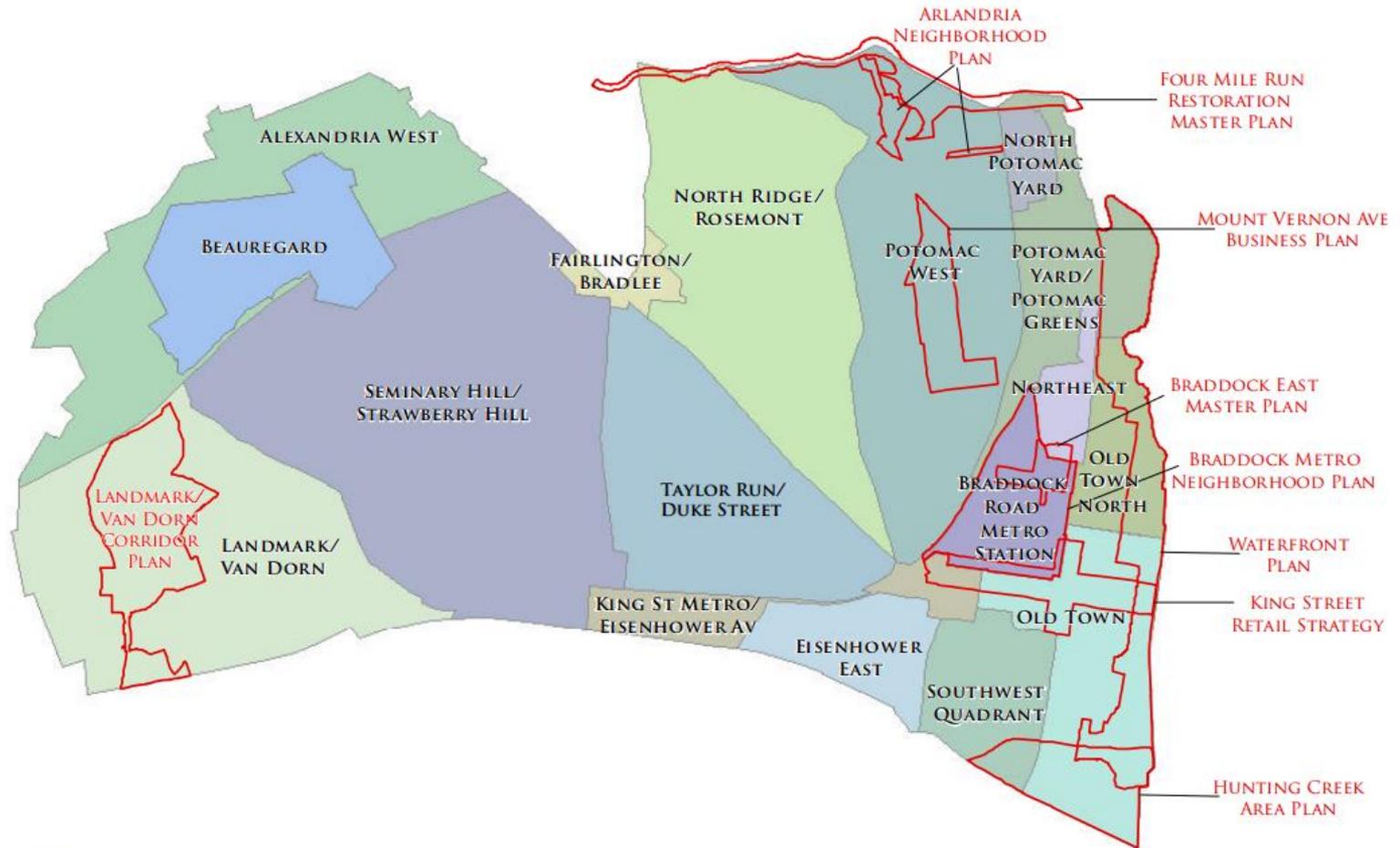




Growth by Small Area Plan

Future Development Focused Around Transit

CITY OF ALEXANDRIA, VIRGINIA MASTER PLAN



 OVERLAY PLANS

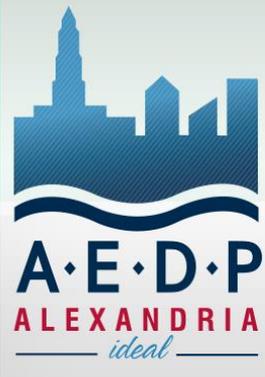


Carlyle Vitality Initiative

Turning great Infrastructure into a great PLACE

- Interdepartmental staff group is working with partners to enhance neighborhood vitality and quality of life within Carlyle.
- Build a sense of community
- New branding strategy
- Activate the community with programming tailored to employees and residents
- Host events and encourage use of the space:
 - Pop-up coffee cart and “play me” piano
 - Lunch and Happy Hour events with food and drink
 - Game days and workouts in the Square
 - Add Wi-Fi to public spaces
 - Holiday lights

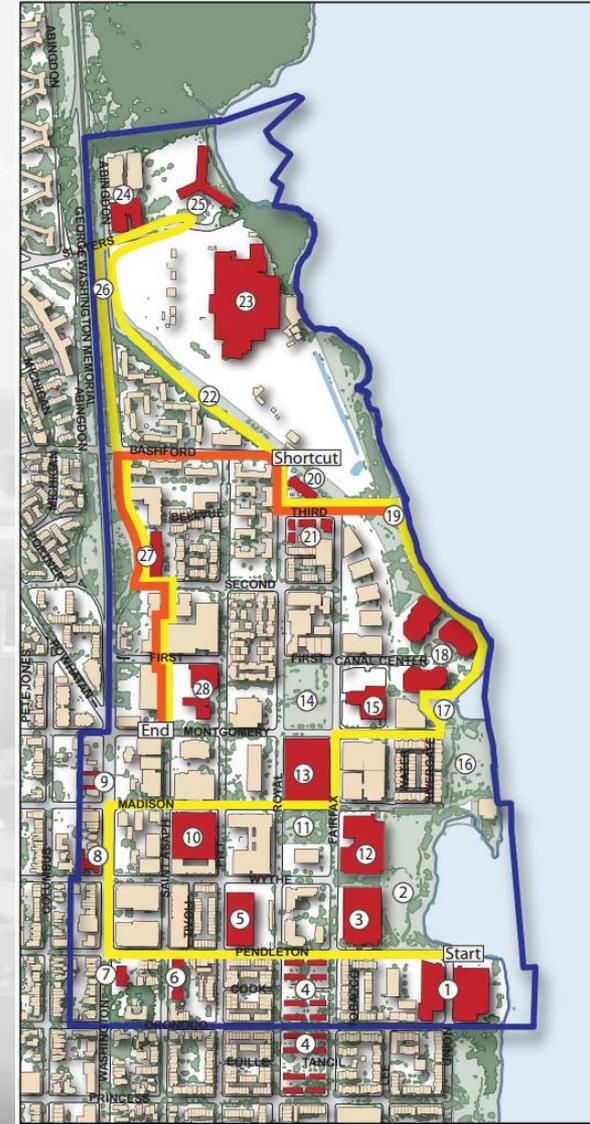
CARLYLE



Old Town North

SAP will Enhance 'Vitality' and Transit Connectivity

- Office vacancy trending higher
- Vitality approach
- Facilitate Retail/Amenity areas by concentrating retail on St. Asaph and Montgomery Streets
- Connectivity to Braddock Road Metro via improved transit and walkable streets





The National Science Foundation Breaks Ground in Alexandria, VA

Monday, January 27, 2014





NSF Economic & Fiscal Impacts

Invest in Catalyst, spin-off will Follow

■ Impacts include:

- 2,100 new NSF jobs
- 1,800 new indirect jobs
- 30,000 annual visitors to NSF offices
- 90,000 hotel room nights per year
- \$83 million annual addition to the City economy
- \$51 million net new tax revenues to City over 15 years



Another Federal Anchor in 2017

Alexandria Times

Vol. 11, No. 34 Alexandria's only independent hometown newspaper AUGUST 20, 2015

Leaders laud advent of TSA in Eisenhower West

Federal tenant to move into long-vacant Victory Center in 2017
BY ERICH WAGNER AND CHRIS TEALE

City officials and business leaders are brimming with excitement following the announcement last week that the U.S. Transportation Security Administration will relocate to Alexandria.

The agency will move its approximately 3,400 employees into 500,000 square feet of existing office space at Victory Center in the Eisenhower West neighborhood in 2017. The news came at the end of a multi-year bidding process, and more than a decade since the Victory Center last had an active tenant.

Officials are hopeful the advent of a large federal tenant will spark new economic activity in the Eisenhower West corridor, a neighborhood where plans for redevelopment already are in the works.

Stephanie Landrum, CEO of the Alexandria Economic Development Partnership, said securing the TSA was among her organization's top priorities for many months.

"Because of [Victory Center's] size and location, and even the way it's situated on the lot, the only likely tenant was going to be the federal government," Landrum said.

Local officials and business leaders lauded the announcement last week that the U.S. Transportation Security Administration would move into the long dormant Victory Center in Alexandria. They said the relocation will spur economic development in the Eisenhower West neighborhood.

SEE TSA | 5



PHOTO/ALEXANDRIA ECONOMIC DEVELOPMENT PARTNERSHIP

- 640,000 SF office lease - 140,000 SF of which is new construction
- Technology and meeting center, with broadcast studio
- New parking garage and retail space on site



Transportation Security Administration



TSA Economic & Fiscal Impacts

Invest in Catalyst, spin-off will Follow

- City's investment of \$23M in real estate tax abatement will produce:
 - Catalyst for new development & investment in Eisenhower West
 - Decreases Alexandria's office vacancy rate by 3%
 - 3,800 new TSA jobs
 - \$16 million annual addition to the City economy
 - Injection of riders to the Van Dorn Metro Station



AEDP Initiatives

- Reorganization of staff complete
- Addition of Business & Real Estate Development positions
- Increased research function
- Coordinating Marketing and PR efforts with Visit Alexandria
- PR efforts outside of DC metro area
- Partner efforts- Visit Alexandria, Department of Planning & Zoning, Department of Finance



Showcasing the City

Using Targeted Events to Reach Specific Audiences

- Site visits and tours with brokers and prospects
- ICSC Mid-Atlantic Retail Convention
- NAIOP Northern Virginia Bus Tour
- Targeted Broker Events for Women & Millennials



- Briefings and tours with GSA and federal government real estate representatives
- Tech/Start-up Focus- SXSW, looking at opportunities with MAVA (Mid-Atlantic Venture Association) and more like Tech Crunch, Tech Cocktail...

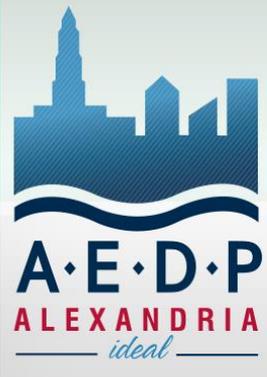


Regional Cooperation and Collaboration

DC Metro Challenges Open the Door for Regional Solutions

- Global Cities Initiative
- COG
- Go Virginia
- Alexandria-Arlington joint marketing
- ALX-ARL-DC- Washington's urban core





Solutions and Opportunities

The City has Ideas and Recommendations to Consider

- Two categories of focus:
 - How do we leverage non-City resources to help attract tenants to desirable neighborhoods?
 - What incentives do we need to encourage investment and location decisions in emerging neighborhoods?
- Ideas from the Business Tax Reform Tax Force and programs proposed by staff based on the Tax Reform recommendations



Business Tax Reform Task Force

- Recommendations:
 - Commit to change the business climate in Alexandria and publicize that commitment
 - Reduce Alexandria's Business, Professional & Occupational License (BPOL) tax rates across all business sector categories to at least one cent less than Arlington's BPOL rates for similar categories
 - Do not provide a two year BPOL tax exemption for new/relocation businesses
 - Make no changes to personal property tax rates paid on business equipment



Task Force Recommendations

- Develop specific procedures for City staff to use that more fully explore and document the potential impact on businesses of actions being recommended by City staff to the City Manager and/or City Council
- Improve City tax services to the business customer
- Take next steps to examine additional ideas to improve the business climate



Business Professional Occupation License Tax

- Many recommendations and findings in the report
- Recommendations changing BPOL tax received significant attention
- Also called gross receipts tax
- Good indicator of business activity
- Task Force proposed reforms to the BPOL tax to spur economic growth



BPOL History

- What is it?
 - Tax levied as a percentage of gross receipts on all enterprises engaging in commercial activity
 - Tax rates are based on classification of business activity
 - Rates are at the discretion of the locality, within state maximum guidelines
 - Rates range from \$.00 to a maximum of \$.58 per \$100 of gross revenues.
 - First levied to pay Virginia's share of the War of 1812



BPOL History

- 1978 VA General Assembly set rate caps based on business classifications
- Studied industry profit margins
- Tax collected on receipts
- Rate variation intended to equalize burden by considering profit margins



BPOL History

- 2001 JLARC study of Virginia State and local tax structure
- Considered repealing BPOL and replacing with increased sales or corporate income taxes
- Ultimately decided against a dramatic change in VA tax codes, including BPOL
- No major changes to tax code or rates for BPOL in nearly 40 years

Rate Comparisons

- Higher margin businesses (professional and business services) have highest rates
- Retailers and wholesalers are taxed at the lowest rates
- Similar to a Value Added Tax (VAT)
 - Businesses where employees make up a large portion of their costs (office-based businesses) have the higher rates.



Professional Services BPOL Category

- Types of businesses included in Professional Services:
 - Accountant
 - Architect
 - Attorney
 - Doctor
 - Engineer
 - Chiropractor
 - Psychologist
 - Optometrist



Rates and Comparisons

(Source: developed Fall 2013 for BTRTF)

BPOL Category	Arlington Rate	Alexandria Rate (now)	Alexandria rate (Proposed)	Alex revenue (now)	Alex revenue (proposed)	Revenue Impact
Professional Services	\$0.36	\$0.58	\$0.35	\$5.8M	\$3.5M	(\$2.3M)
Financial Services	\$0.36	\$0.35	\$0.35	\$1.2M	\$1.2M	\$0.00
Repair, Personal, Business Services	\$0.35	\$0.35	\$0.34	\$11.8M	\$11.4M	(\$0.3M)
Retail Merchants	\$0.20	\$0.20	\$0.19	\$5.5M	\$5.26M	(\$0.3M)
Wholesale Merchants	\$0.08	\$0.05	\$0.05	\$0.3M	\$0.3M	\$0.00
Contractors	\$0.16	\$0.16	\$0.15	\$0.945M	\$0.886M	(\$0.1M)
Amusements	\$0.25	\$0.36	\$0.24	\$0.123M	\$0.082	(\$0.05)
Utilities: telephone	\$0.50	\$0.50	\$0.49	\$0.443	\$0.0434	(\$0.009M)
Renting residential property	\$0.28	\$0.50	\$0.27	\$2.6M	\$1.4M	(\$1.2M)
Renting commercial property	\$0.43	\$0.35	\$0.35	\$1.8M	\$1.8M	\$0.0
Total decrease in BPOL revenues						(\$4.2M)

Rates Comparison

Business Taxes



21

Area BPOL Tax Rates

	Alexandria	Arlington	Fairfax
Professional	\$ 0.58	\$ 0.36	\$ 0.31
Financial	\$ 0.35	\$ 0.36	\$ 0.19
Repair/Personal/Business	\$ 0.35	\$ 0.35	\$ 0.19
Retail	\$ 0.20	\$ 0.20	\$ 0.17
Wholesale	\$ 0.05	\$ 0.08	\$ 0.04
Construction	\$ 0.16	\$ 0.16	\$ 0.11
Amusements/Entertainment	\$ 0.36	\$ 0.25	\$ 0.26
Rents Residential	\$ 0.50	\$ 0.28	\$ 0.26
Rents Commercial	\$ 0.35	\$ 0.43	\$ 0.26



Incentives for Business Attraction & Retention

Business Attraction and Retention



Anchors & Catalysts

- Access to State Incentives
- RE Tax Abatements
 - NSF
 - TSA
- Other Incentives
 - Landmark Mall



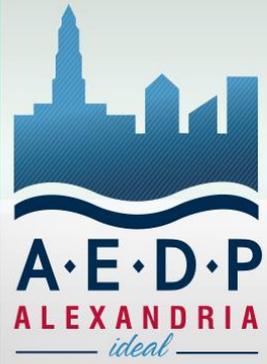
Bread & Butter Tenants

- High-Potential Assets
- TOD locations
- Focus on vibrancy & curating amenities
 - Carlyle
 - Potomac Yard



Where we Need Help

- Suburban locations
- Aging office stock
- Amenity desert
- Changing preferences



Regional Office Trends



1775 Tysons Blvd.



Gensler D.C. Office



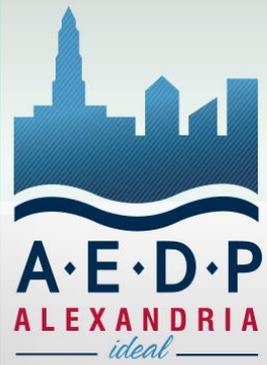
Reingold Office, Alex.





Factors Tenants Are Evaluating

- Location - proximity to transit, highway access and workforce
- Building Amenities & Neighborhood - retail, fitness centers, shared spaces
- Building Age - year built or renovated
- Building Characteristics - size of building floor plates, natural light, efficiency and uniqueness
- Cost

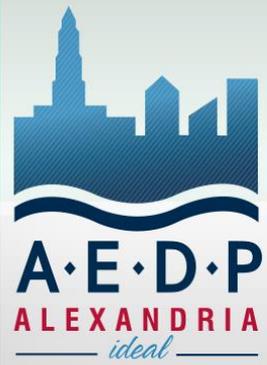


What is Office Obsolescence?

Obsolescence is the decline in the economic value and appeal of an office building.



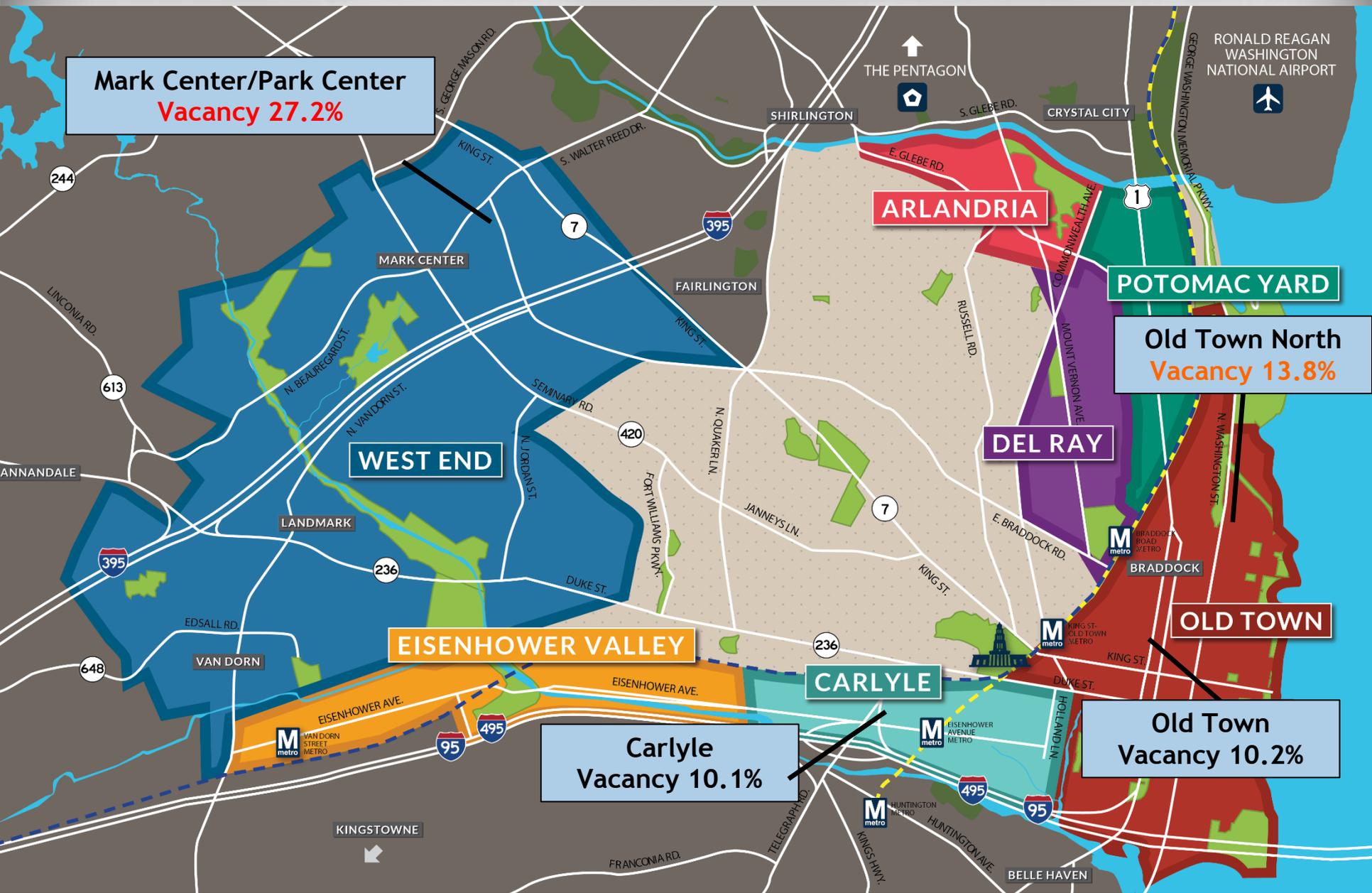
Illustrative Examples



Alexandria Submarkets

Evaluating Submarkets on Tenant Preferences

Alexandria Submarket	Proximity to				Cost	Vacancy %
	Quality of Office Stock	Amenities	Workforce	Metro		
Old Town	●	●	●	●	●	10.20%
Carlyle/Eisenhower East	●	●	●	●	●	10.10%
Old Town North	●	●	●	●	●	13.80%
Eisenhower West	●	●	●	●	●	95.20%
West End	●	●	●	●	●	27.20%



Mark Center/Park Center
Vacancy 27.2%

Old Town North
Vacancy 13.8%

Carlyle
Vacancy 10.1%

Old Town
Vacancy 10.2%

WEST END

ARLANDRIA

POTOMAC YARD

DEL RAY

OLD TOWN

CARLYLE

EISENHOWER VALLEY

KINGSTOWNE

BELLE HAVEN

RONALD REAGAN
WASHINGTON
NATIONAL AIRPORT

THE PENTAGON

SHIRLINGTON

CRYSTAL CITY

MARK CENTER

FAIRLINGTON

LANDMARK

BRADDOCK

VAN DORN

EDSALL RD.

KING ST. OLD TOWN METRO

VAN DORN STREET METRO

EISENHOWER AVENUE METRO

HUNTINGTON METRO

244

613

648

7

420

7

236

95

495

495

95

LINCONIA RD.

S. GEORGE MASON RD.

S. WALTER REED DR.

S. GLEBE RD.

E. GLEBE RD.

GEORGE WASHINGTON MEMORIAL PKWY.

ANNANDALE

N. BEAUREGARD ST.

N. VANDORN ST.

SEMINARY RD.

N. JORDAN ST. T.

DUKE ST.

FORT WILLIAMS PKWY.

N. OMAKER LN.

JANNEYS LN.

RUSSELL RD.

COMMONWEALTH AVE.

MOUNT VERNON AVE.

E. BRADDOCK RD.

KING ST.

KING ST.

DUKE ST.

FRANCONIA RD.

TELEGRAPH RD.

KINGS HWY.

HUNTINGTON AVE.



Old Town



Alexandria Submarket	Quality of Office Stock	Amenities	Proximity to Workforce	Metro	Cost	Vacancy %
Old Town	●	●	●	●	●	10.20%



Carlyle



NSF

USPTO



	Quality of Office Stock	Amenities	Proximity to Workforce	Metro	Cost	Vacancy %
Alexandria Submarket	●	●	●	●	●	10.10%
Carlyle/Eisenhower East	●	●	●	●	●	10.10%



Old Town North



Proximity
to

Quality of

Amenities

Workforce

Metro Cost

Vacancy %

Alexandria Submarket

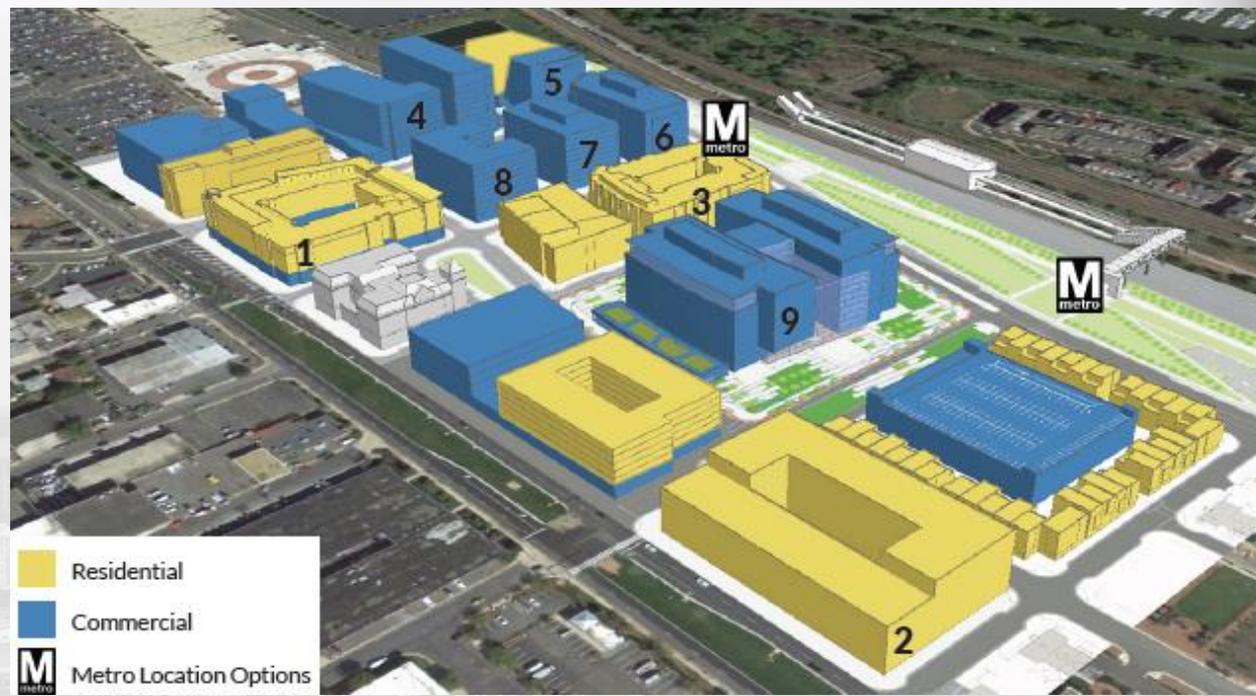
Old Town North



13.80%



Potomac Yard & Oakville Triangle

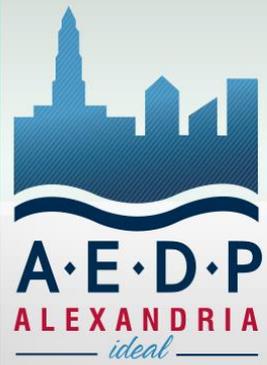




Eisenhower West

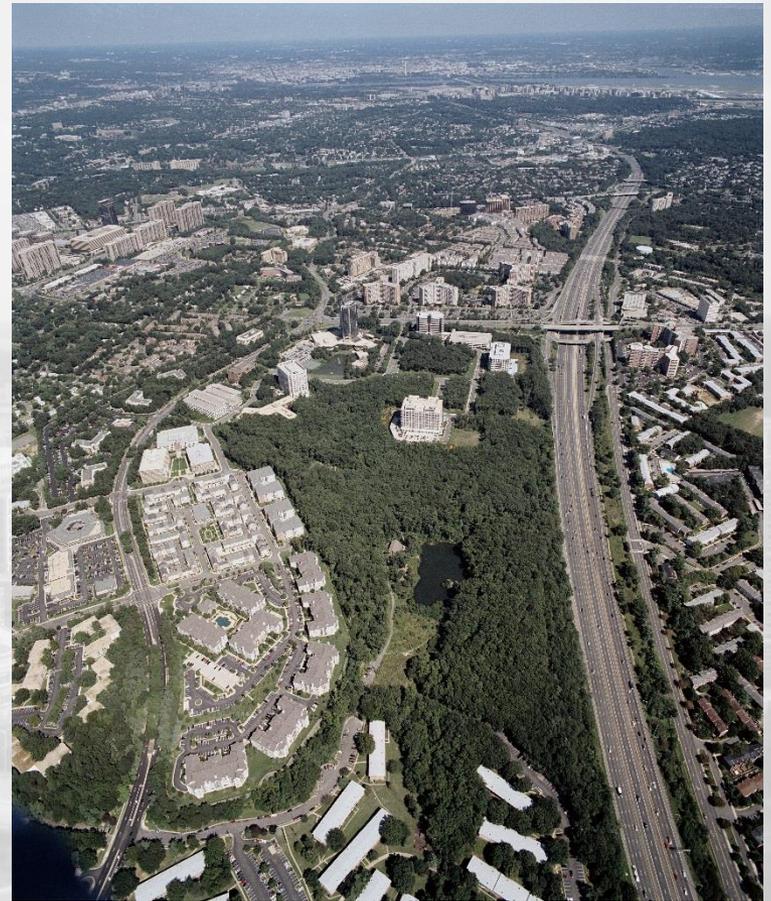


Alexandria Submarket	Quality of Office Stock	Amenities	Proximity to Workforce	Metro	Cost	Vacancy %
Eisenhower West	●	●	●	●	●	95.20%



West End / Beauregard

Mark Center & Park Center



Alexandria Submarket	Quality of Office Stock	Amenities	Proximity to Workforce	Metro	Cost	Vacancy %
West End	●	●	●	●	●	27.20%



The Challenge on the West End

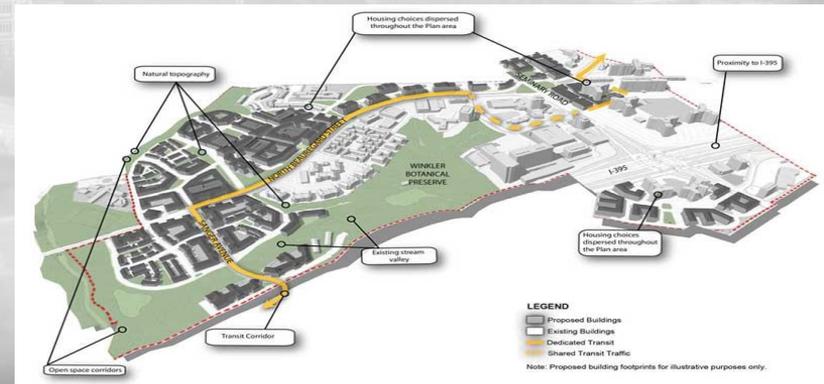
Current State:

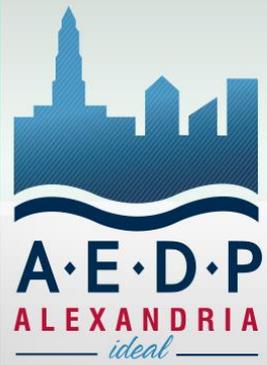
- Obsolete and aging office stock
- Dated suburban office park environment
- Limited access to rapid transit
- Amenities desert
- By right conversion



Strategy for the West End

- Need a “Stop Gap” strategy to attract and retain businesses to the West End over the short-term (5-10 years)
- Longer term strategy is to let Small Area Plans serve as catalysts for revitalization:
 - Beauregard
 - Landmark
 - Eisenhower West





Regional Incentive Snapshot

Economic Incentive Programs by County and City

Jurisdiction	Real Estate Tax	Business Tax	Personal Prop. Tax	Grants	Loan
Fairfax					
Arlington					
Montgomery					
Prince Georges					
District of Columbia					
Alexandria					

Note: AEDP handout provides more detail



Case Study: Advisory Board

CITY INVESTMENT:

- \$60 million in real estate tax breaks over 10 years (2020-2030)

COMPANY RETURN:

- 100 net new jobs annually that are filled by District residents
- 35% of the tenant improvements must be contracted to small or minority owned businesses within D.C.
- 25,000 hours of volunteer services to D.C.-based nonprofits by employees
- Partner with the Department of Employment Services, D.C. L.E.A.P. Academy, or a D.C.-based nonprofit to provide employment training 250 District residents



Scenarios for the Future of the West End

- No Action:
 - Wait for implementation of Beauregard plan over next 20-30 years
 - Potential for more by right conversions

- Action:
 - “Stop Gap” Strategy
 - Implement business incentive program to attract and retain businesses over next 5-10 years



*4501 Ford Avenue
(Park Center)
Current office conversion*



Obsolete Office & Incentives

- Proposing two incentive programs to encourage tenants to lease commercial space on the West End:
 - Tenant Incentive Program (*flashy name pending*) - a grant program to offset moving, renovation or build out costs related to a business re-location or expansion in an obsolete office building.
 - Local Revitalization Zone - establishes specific revitalization zones to allow for lower BPOL taxes for qualified businesses in the zones.



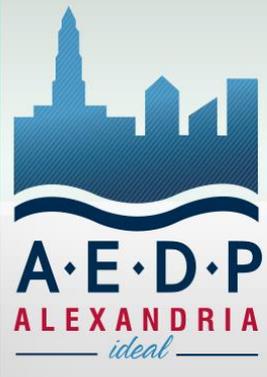
Tenant Incentive Program

- **Purpose:** Encourage business attraction and retention by providing one-time grant funding to businesses to offset moving, renovation or build out costs
- **Eligibility:** Open to new or existing businesses leasing office space; lease term of no less than 5 years; must occupy 3,000+ SF of office space in the West End (area to be defined)
- **Incentive:** Size of grants determined on a case-by-case basis; \$TBD annual budget
- Requires allocation of funds through City budget process



Local Revitalization Zone

- **Purpose:** Incentivize business attraction and retention in specific revitalization zones in the West End through business license (BPOL) tax abatement
- **Eligibility:** Open to new or existing businesses; must be located within a revitalization zone; limited to certain business types (likely based on BPOL categories)
- **Incentive:** TBD; continuing to work with City staff to determine target businesses, level of incentive, and revenue impact
- Requires City Council action to establish zone; no funding allocation required



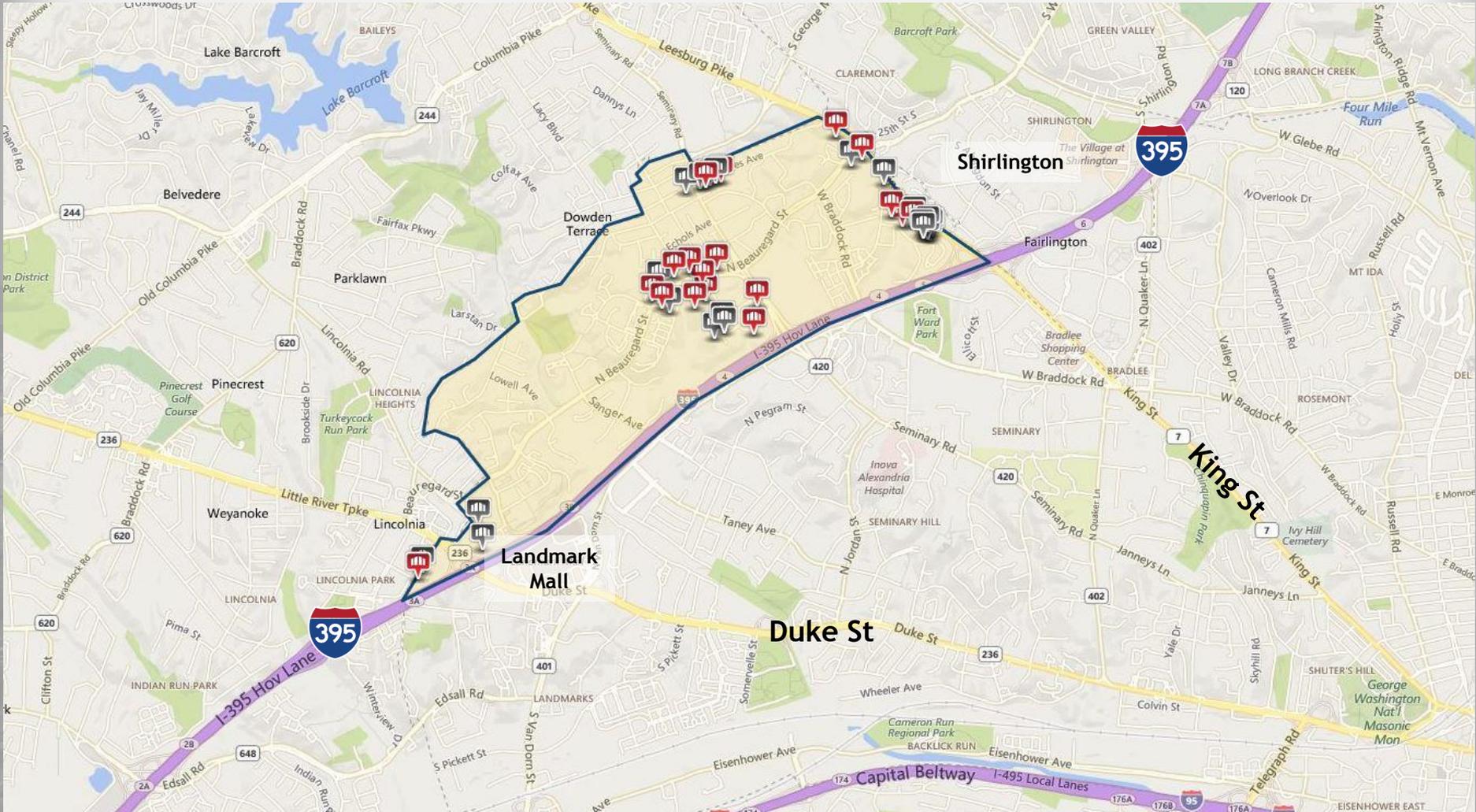
Revitalization Zone Overview

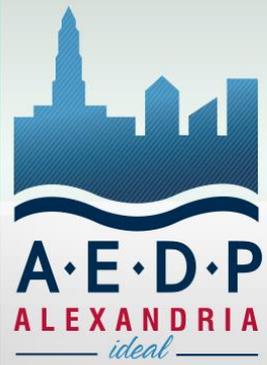
- VA Code permits localities to: *create revitalization zones and provide incentives or regulatory flexibility to private entities to purchase real property and interests in real property to assemble parcels suitable for economic development for a period of 10 years.*
- Zone must include one or more tax parcels and be “reasonably compact”
- Examples of tax incentives include: reduction of fees, reduction of gross receipts tax, and waiver of tax liens to facilitate sale of property



Potential Revitalization Zone

Beauregard Area, North of 395





Fiscal Impact Scenarios

Occupancy Directly Impacts Revenue

Ideal Scenario



Current State





Next Steps

- Feedback from City Council
- Develop incentive options for Council and community consideration





APPENDIX

Extra slides can be viewed here





Small Business Changes

Summary of 2010 Small Business Zoning Changes

A. New permitted uses:

Industrial Zone (I):

- Business or professional office
- Health and athletic club
- Light assembly and crafts
- Personal service

Office Commercial High Zone (OCH):

- Health and athletic club in shopping center, hotel, industrial or flex space or office complexes

Neighborhood Retail Zone (NR):

- Day care center

King Street Urban Retail Zone (KR):

- Day care center (upper floors)

Cameron Station (along Brenman Park Drive):

- Business or professional office
- Catering
- Church
- Convenience store
- Day care center
- Health and athletic club
- Massage establishment
- Medical laboratory
- Medical office
- Personal service establishment
- Pet supplies, grooming and training with no overnight accommodations
- Restaurant
- Retail shopping establishment

B. New Uses Allowed by Administrative Special Use Permit

Commercial and Special Zones:

- Massage establishment
- Valet parking
- Outdoor dining (except where King Street Outdoor Dining program applies)

Office Commercial High Zone:

- Catering in industrial and flex space
- Light automobile repair in industrial and flex space

C. Restaurants:

Changes to Administrative SUP standards:

- Increased seating maximum from 60 to 100
- Full service requirement eliminated for coffee/ice cream shops
- Neighborhood specific standards for hours, alcohol and parking added

Definitions for accessory restaurants, nightclubs and coffee/ice cream shops added

D. Administrative Minor Amendments to Special Use Permits

Amendment limit increased from 10% to 20% with restrictions (Ex. Seating can be increased by 20% through the administrative minor amendment process, with restrictions).

E. Other Changes

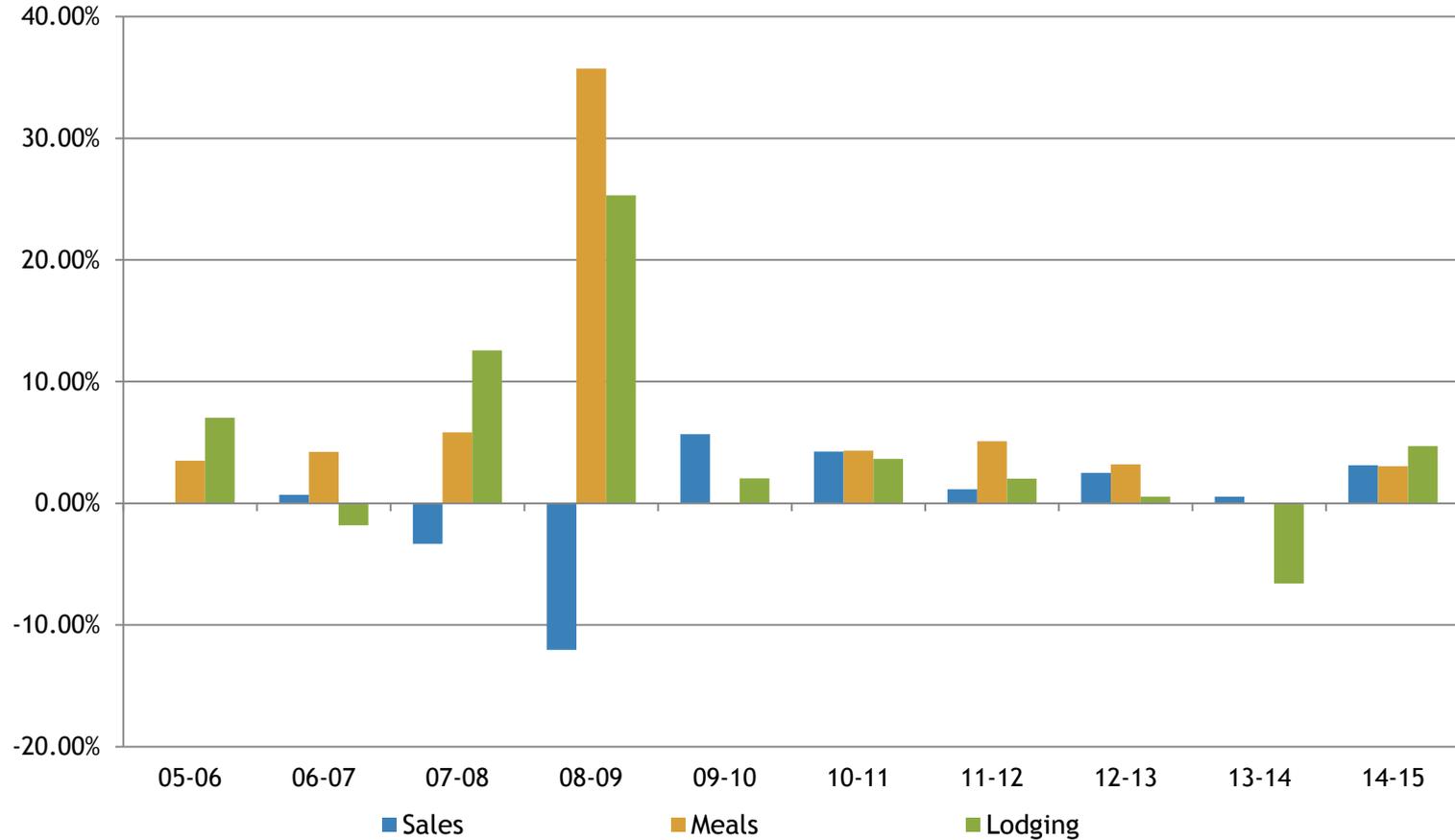
- Exclusion/deduction allowed up to 10,000 sq. ft for day care use.
- Wholesale (office) allowed in additional zones.
- Fee for outdoor display in Mount Vernon overlay decreased to \$50.
- Appeals of administrative SUP decisions increased from 14 to 30 days.
- Off street parking reduction allowed by Administrative SUP with sufficient parking available.



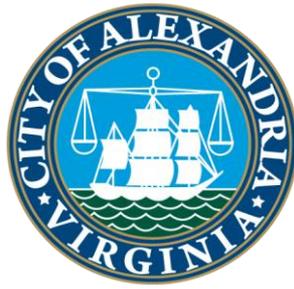


Consumer Tax Growth History

Year over Year Change



Source: City Finance Department



FY 2017 Budget Guidance

November 21, 2015



City Council Budget Guidance

- Consider tax and fee changes
- Consider business tax policy changes
- Identify cost saving measures
- Include employee compensation strategy
- Consider appropriate use of prior-year surpluses
- Update Potomac Yard financing plan
- Fund cash capital at 2.0-2.5% of General Fund revenue
- Review debt policy guidelines
- Increase ACPS operating transfer
- Develop options for funding ACPS capital

City of Alexandria, Virginia

City I-Net and Municipal Broadband Update

November 2015



Defining Municipal Fiber



- Two primary elements of the Municipal Fiber project:
 - Institutional fiber optic network serving City, Library, and ACPS facilities
 - Currently lease our network from Comcast
 - Fiber optic network serving Alexandria businesses and residential premises
 - Primary provides high-speed internet, but could be used to provide television and phone service with right franchisee

Institutional Network



- Alexandria's institutional users (City, Libraries, ACPS) require a robust, highly reliable fiber network
 - Network reliability and performance
 - Support public safety, education, and customer service delivery
 - Backbone for a Community Broadband network
- Currently lease institutional fiber network from Comcast
 - Future cost growth and changing needs
 - Existing fiber lease expires next fall

Community Broadband



- Small businesses and residents desire/need for additional internet service options
- Industry not yet willing to compete with incumbents for residential and small business
- Fiber-to-the-premises would provide service that meets today's standards
- Requires a fiber backbone (City I-Net or other)

Municipal Fiber and Economic Development



- Competitive 10 Gbps speed highly desirable for the business community, including start-ups and the home-based businesses
- Measurable increase in per capita GDP for U.S. cities with widely available gigabit service
- Access would competitively differentiate Alexandria

Market for Municipal Fiber



- Gigabit residential speeds already available in hundreds of communities in 2015
- Global Internet traffic in 2018 will be equivalent to 64 times the volume in 2005
- Fiber ISP's represent a new emerging market

Evaluating Models



- The City received 10 responses to the RFI, representing a good cross section of market players
- The evaluation team is assessing and the different approaches for their fit within our community and start building proposals with cost estimates for City Council consideration
- Have engaged industry experts to assist with research and assessment of viability and appropriateness of the responses

Evaluating Models, cont.



- I-Net options vary primarily in terms of:
 - Ownership (City-owned, leased, or a hybrid)
 - Operation (in-house vs. managed service)
- Community Broadband also offers numerous variations:
 - Ownership (City-owned, privately owned, hybrid)
 - Financing (City financed, privately financed, hybrid)
 - Geographic (Pervasive vs. selected portions of the city)



Timeline

RFI issued for INet and Municipal fiber

City Council Update

Current Comcast Fiber Use Agreement set to expire

Jan 2015

July 2015

Feb 2016

Oct 2016

Jan 2017

Council meeting-
proceeding with
RFI

RFI submissions
received and
evaluation process

Potential
RFP issued
for I-Net

Potential RFP issued for
Community Broadband...
timing TBD



Questions & Discussion

Retreat Conclusion



- ✓ Informed on economic and fiscal picture, as well as on key budget drivers
- ✓ Discuss City Council's guidance for the FY 2017 budget
- ✓ Discuss process, schedule, and rules of engagement
- ✓ Identify any follow-up questions or information items