City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 7, 2014

TO: MEMBERS OF THE BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

FROM: NELSIE BIRCH, DIRECTOR, MANAGEMENT & BUDGET

SUBJECT: STAFF RESPONSE TO BFAAC'S REPORT ON THE CITY MANAGER'S PROPOSED FY 2015 BUDGET

Attached to this memorandum, you will find City staff's response to your report on the City Manager's Proposed FY 2015 Budget. The attached matrix identifies each of the actionable recommendations and observations from your report, how City staff is addressing it, and its status. Additionally, the report lists outstanding recommendations that are still being completed from your FY 2014 report and their updated status. The report lists those recommendations and statuses first, followed by ones for FY 2015.

Please note that recommendations that require no staff action do not have a staff response. FY 2015 recommendations that are marked as on-going, requiring no staff action or complete will be removed from further reports. Each report will provide the updated status on active issues only from the point of the last report. Please refer to the report from March 2014 for information and statuses on additional FY 2014 recommendations.

Please feel free to review the document in detail. We will have a discussion on this response at your October 21 meeting.

If you have any questions, please feel free to contact myself or Alex Braden of my staff.

Attachment: Staff Response to Budget and Fiscal Affairs Advisory Committee's Observations and Findings on the City Manager's Proposed FY 2015 Budget

CC: Honorable Mayor Euille and Members of City Council
Rashad Young, City Manager
Debra Collins, Deputy City Manager
Tom Gates, Deputy City Manager
Mark Jenks, Deputy City Manager

Laura Triggs, Deputy City Manager
Kendel Taylor, Acting Director, Finance Department
Alex Braden, Management & Budget Analyst

City of Alexandria, Virginia

Staff Response to Budget and Fiscal Affairs Advisory Committee's
Observations and Findings on the City Manager's Proposed FY 2014 and 2015 Budgets

Status as of October 1, 2014

Active: The work related to this recommendation is in progress. The approximate completion percentage and expected completion date as determined by City staff are provided.
On-going: The work related to this recommendation is on-going in nature with no precise completion date. Staff will continue to work towards completing this recommendation over time.
No Staff Action Required: This recommendation is one which requires a Council policy decision or is simply informative. There is no staff work related to this recommendation.
Complete: The work for this recommendation is complete. Refer to the staff response column for further information. The completion date for this work is also provided.

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2014	2	BFAAC continues to work with staff on metrics that provide a more comprehensive measure of the tax and fee burden on residents and strongly encourages City staff to develop comparable metrics for businesses.	OMB has discussed with BFAAC the possibility of conducting this analysis however, because the range of business types and sizes is so wide, OMB is developing between 3 and 5 representative sample business types/sizes. Once OMB determines this list, the calculations can then be completed.	Active 10% complete Expected completion: 12/1/2014
2014	10	BFAAC continues to recommend Council adopt a sunset provision to force a review of each set-aside on an annual basis.	OMB will review all existing set-asides (Affordable Housing & Stormwater) and provide information to Council on options to remove them and the impacts of doing so as part of the 5-Year Financial Plan.	Active 10% complete Expected completion: 11/1/2014

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2014	12	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.	OMB and OPA are leading a framework called Results Alexandria which is designed to identify, prioritize, and align services with strategic plan outcomes to aid in budget decisions. The City Manager's Performance Plan (CMPP) was released on November 15, 2013, which defines performance expectations and outlines the City Manager's strategy to align City programs with the goals of the Strategic Plan. The FY 2015 Approved Budget document reflects OMB's development of a redesigned budget book to aid in communicating budget information through Programs, as defined in the CMPP, and to highlight changes to levels of service/performance through the lens of the Results Alexandria process. Additionally, OMB (in collaboration with OPA, Communications and the CMO's Civic Engagement & Community Relations Division) is leading an increased effort to determine priorities aligned with the Strategic plan. This effort is designed as an iterative process through which subject matter experts within City Departments, the City Manager and City Council all provide input on what constitutes the City's strategic priorities for the coming fiscal year. Gathering input from these various stakeholders will occur throughout the fall of 2014. These identified strategic priorities will be critical in the budget decision-making process. Budget submissions will in part be judged upon their connections to achieving these identified strategic goals. Staff will continue to refine and build off of the progress to date.	Active 50% Complete Expected completion: 11/1/2014

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2014	14	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.	As part of the FY 2015 budget, Deputy City Managers and department heads have been moved to executive pay bands to align performance with pay. This process will be analyzed and expanded to appropriate City staff, as part of Results Alexandria in the future. Career ladders encourage and reward employees for the development of additional competencies and the capacity to perform more complex work. They are a form of pay for performance. The City's career ladder program has been significantly modified and expanded, including funding of $500,000 in FY 2013, $900,000 in FY 2014, and $700,000 in FY 2015. The City is projecting 41 career ladders in 25 departments by the end of FY 2015. Elevation in a career ladder is a function of performance and is measured at the department level and not through a classification audit of assigned work conducted by the Human Resources Department. In addition, pay policies have been amended to reward employees who achieve higher grade levels. New policy aligns the amount of pay with the number of grades increased. All compensation changes have been transparent and carefully vetted. Total Compensation staff has worked in close collaboration with a number of formal and representative employee compensation work groups to develop the recommended changes.	Active 50% Complete Expected completion: 11/1/2014
2014	23	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.	Updated financial projections associated with Potomac Yard development are expected to be completed in fall 2014. Planned issuance of General Obligation Bonds is scheduled for FY 2017.	Active 70% Complete Expected Completion: 12/1/2014

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2014	28	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.	In each individual "sources and uses" table on each individual project page, OMB has added information regarding changes to each individual project for the prior year approved CIP. CIP project descriptions were improved this year, but OMB still continues to work with staff on making descriptions more consistent. Various costs elements as part of the budget information display are still under consideration for inclusion as part of future CIPs. Additionally, the creation of new quarterly capital projects status report that will be presented to City Council and available on the City's website will assist in tracking project implementation and completion.	Completed 2/25/2014
2014	29	Provide an analysis on the impact of the City's BPOL tax rates on commercial development and attractiveness.	The Business Reform Task Force completed its report and presented its findings as part of the April 24 work session. Staff will discuss the results and impacts of implementing the proposed changed with City Council as part of the presentation and discussion of the 5-Year Financial Plan later in 2014.	Complete 4/24/2014
2015	30	BFAAC encourages Council to closely monitor the residential tax and fee burden as a percentage of average household income.		No Staff Action Required
2015	31	BFAAC recommends Council also track the residential tax and fee burden for households with incomes below the average.		No Staff Action Required
2015	32	BFAAC recommends the City Manager track the residential tax and fee burden and include the metrics in the City Manager's annual proposed budget submission to Council.	Staff will include the residential tax and fee burden metrics in the City Manager's FY 2016 proposed budget submission.	Active 1% Complete Expected Completion: 2/28/2015
2015	33	Any increase in fees or taxes should be carefully considered, particularly with income levels remaining flat.		No staff action required

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	34	BFAAC encourages Council to develop metrics to track the commercial tax and fee burden. While BFAAC recognizes it will be a challenge to identify common metrics for the wide range of businesses in the City, BFAAC encourages Council to start with metrics appropriate for the types of businesses the City is hoping to attract in the coming five years.	OMB has discussed with BFAAC the possibility of conducting this analysis however, because the range of business types and sizes is so wide, OMB is developing between 3 and 5 representative sample business types/sizes. Once OMB determines this list, the calculations can then be completed.	Active 10% Complete Expected Completion: 12/1/2014
2015	35	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 Alexandria Economic Development Partnership (AEDP), Planning and Zoning, and other stakeholders to develop a tactical plan to grow the commercial base under the City's land use plans.		No Staff Action Required
2015	36	BFAAC commends the City staff for developing a five-year financial plan and forecasting model, and recommends the development of a long-term revenue plan to guide decision-making.	The Plan is expected to be presented to Council at the November retreat. Staff has already solicited comments from BFAAC members regarding the appropriate format and content. As completed, staff will share some parts of the plan with BFAAC.	Active 65% Complete Expected Completion: 12/1/14
2015	37	BFAAC recommends enriching the forecasting model with additional data that will permit more sensitive analysis of the revenue impact of policy decisions over the longer-term.	The model has been refined to include the separate effects of residential and commercial assessment and new construction increases. Staff has developed a supplementary model to track the effect of different rates of growth in categories of Business License Tax on revenues.	Active 65% Complete Expected Completion: 12/1/2014

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	38	BFAAC encourages Council to undertake policy and administrative actions designed to stimulate business activity in the City.		No Staff Action Required
2015	39	BFAAC recommends Council provide AEDP with the resources to proactively attract businesses to the City and the appropriate authority to utilize economic development incentives.		No Staff Action Required
2015	40	BFAAC encourages Council to consider alternative revenue sources and recommends a further review be conducted to determine the merits of a Payment In Lieu Of Taxes (PILOT) initiative or special assessment approach. BFAAC recognizes the important services nonprofit organizations provide and urges Council to proceed cautiously.	As part of the 5-Year Financial Plan, staff is completing an analysis of a potential PILOT program and PILOT alternatives. The analysis will be included in the 5-Year Financial Plan which will be presented to City Council later in 2014.	Active 70% Complete Expected Completion: 12/1/2014

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	41	BFAAC believes that organizations that receive any City funding, even if they fall outside the scope of Results Alexandria, should have metrics, targets and goals that can be easily communicated to Alexandria's taxpayers.	OMB and OPA continue to reach out to the City's entities that fall outside the scope of Results Alexandria to provide metrics, targets and goals that are easily communicated. Entities that are part of the City structure, but are not directly accountable to the City Manager (i.e. Constitutional Offices, Library, etc.) were invited to conduct the Logic Model/Goals and Strategies exercise and the Results Alexandria Workplan exercise. Some of these entities opted in, while others did not. Completely external agencies (i.e. ACPS) did not participate in the Logic Model/Goals and Strategies exercise, nor the Workplan exercise. Senior City Staff are continuing outreach efforts with these external entities to obtain buy-in to the Results Alexandria process/framework and to provide greater strategic input into the budget process. Staff will continue to work toward and advocate for increased participation and transparency of data from these external entities for the budget process and for communication to the public.	Active 25% Complete Expected Completion: 2/28/2015

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	42	BFAAC urges Council to direct the City Manager's proposed budget for FY 2016 include identification of needs for services and the percentage of need met in current programs and proposed spending.	There are a variety of on-going efforts in the City that will help in identifying needs for services and the percentage of need met. First and foremost are the various efforts at the Department level to assess needs and plan resource allocation for the future (i.e. master plans). Second, the City will soon embark on the process of updating the City Strategic Plan (CSP). Updating the CSP will require an extensive evaluation of public value/need, the related strategies to meet these needs and indicators for success. Third, OPA continues its efforts to develop and articulate the City's strategic structure, identifying the services that the City provides and measuring the success of these services in meeting the public's needs. Fourth, OMB continues to develop and expand the 5-Year Financial Plan to identify future needs for service and the resources to meet these needs. Finally, OMB, OPA, Communications and the CMO's Civic Engagement & Community Relations Division are working collaboratively to conduct Civic Engagement to determine public value and input on a variety of topics. Specifically, OMB will provide topics this fall for civic engagement. Results of these engagement activities should provide a better insight into the public's budget priorities and by extension needs for services. All of these activities, in concert, should provide a greater level of understanding and context to the City's needs for services and the organization's progress in meeting these needs. Staff will continue to work toward this goal of identifying needs for services and the City's level of success in meeting these needs in the FY 2016 budget process and beyond.	Active 10% Complete Expected Completion: 7/1/2016

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	43	BFAAC notes that the budget development process of the Alexandria City Public Schools (ACPS) and the City are misaligned. BFAAC urges the Council and School Board to rectify the misalignment in order to avoid an adversarial relationship between the bodies.	City staff has participated in several planning meetings with the ACPS staff to address the misalignment of our respective budget development processes and to develop a mutually beneficial solution. In addition, City Council and the ACPS School Board held a retreat on May 28th to discuss, among other topics, alternative options for the upcoming fiscal year's budget development calendar, in an effort to more appropriately synchronize the submission of each organization's Proposed and Approved budget documents. Further discussion on this topic between staff and the governing bodies will be forthcoming in the fall of 2014.	Completed 9/3/2014
2015	44	BFAAC strongly encourages Council to closely examine city expenditures not subject to the Results Alexandria performance metrics and demand a high level of budgetary rigor for those entities receiving city funding, but not directly accountable to the City Manager.	OMB is exploring options to increase the level of analysis and budgetary rigor as it relates to those entities that receive City funding, but are not directly accountable to the City Manager. During the August 2014 Department Head Retreat, this issue was a topic of discussion. Department heads, Deputy City Managers and related staff discussed strategies for improving/increasing budgetary input from external partners to better understand alignment with achieving the City's strategic priorities. Additionally, Senior City Staff are continuing outreach efforts with external entities (i.e. ACPS) to obtain buy-in to the Results Alexandria process and framework. External entities will likely be asked to play a larger role in the Focus Area Team discussions, which in-and-of-itself will require increased budgetary and strategic input from the City's external partners. Staff will continue to refine and build off of the progress to date.	Active 25% Complete Expected Completion: 2/25/2015

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	45	BFAAC encourages the City to examine alternatives that prevent imposing an immediate cut of City funded retiree life insurance premiums.	Full funding was restored by City Council in the FY 2015 add-delete process.	Complete 5/1/14
2015	46	BFAAC recommends that in the anticipated review of employee health plans Council carefully assess 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.	The following employee benefit initiatives have been fully implemented since the March 2014 update: 1. New United Healthcare Medicare Advantage Plan for Medicare-eligible retirees/spouses, effective January 1, 2014 – Implemented and on-going 2. Competitively bid the City's dental plan with an optional vision plan – Implemented for FY 2015, effective July 1, 2014 and on-going. We're now forging ahead with our next major initiative -- to competitively bid our medical and prescription drug plans in partnership with the Alexandria City Public Schools and DASH Transportation to achieve competitive pricing and savings in administrative costs. Additionally, this project will include a review of the City's current plan offerings, address the implications of plan designs in relation to the Affordable Care Act, and examine the actuarial and relative value of the City's current and proposed plan options to its comparator jurisdictions. At the project's conclusion, the results will satisfy the 4 major principles of the City's long-term healthcare strategy: 1. Cost containment 2. Flexibility and choice 3. Incentive/disincentives in plan/program options 4. Cost share structure	Active 25% Complete Expected Completion: 7/1/2015

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	47	BFAAC recommends Council ask the City Manager to review alternatives to current plan design to assure that Alexandria's plans are competitive with those in neighboring jurisdictions and are equitable, especially for lower-paid employees.	See response #46	Active 25% Complete Expected Completion: 7/1/2015
2015	48	BFAAC recommends that alternatives to deductibles and high hospitalization copayments be explored.	See response #46. In addition, in FY 2015, a new deductible free Kaiser plan was offered to employees.	Complete 7/1/2014
2015	49	BFAAC supports the Alexandria Fund for Human Services Review Committee's recommendation to improve oversight and performance measures and will continue to monitor efforts by the City to implement stronger performance management measures.	Staff reviewed the current grant priorities to ensure that they were aligned with the City's strategic plan as well as those of city commissions and other entities. DCHS staff will continue to review and analyze mid-year and year-end reports from funded programs to monitor their progress toward accomplishing their goals and objectives. To enhance oversight, staff is also in the process of establishing a work group which will develop a site review protocol for FY 2015. The Request for Grant Proposals issued for FY 2016 will include updated grant priorities outcome statements and corresponding indicators that reflect existing strategic plans and have been vetted by community stakeholders.	Active 50% Complete Expected Completion: 7/1/2015
2015	50	BFAAC encourages continued refinement by City staff to the CIP budget process in the FY 2016 budget cycle.	Staff will continue to refine the CIP budget development process with specific emphasis on future debt burden, additional operating impacts, and aligning project with desired outcomes.	Active 50% Complete Expected Completion: 2/27/2015

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	51	All CIP projects (new and previously approved) should be ranked. BFAAC believes that in any significant revenue downturn, the CIP should not necessarily be held harmless. All CIP projects should be on the table as the City looks to balance short-term gaps in the operations budget with the need to sustain long-term investments through the CIP program.	OMB staff will evaluate and rank all projects in the CIP based on the standard set of project ranking criteria. Staff intends to discuss this issue with Council at the Council Retreat later in 2014.	Active 15% Complete Expected Completion: 2/27/2015
2015	52	BFAAC recommends the Office of Management and Budget explore what other municipalities are doing to fund major CIP related efforts and consider options which may also fit in future CIP funding.	OMB will review other localities best practices during the CIP budget development phase.	Active 30% Complete Expected Completion: 2/27/2015
2015	53	BFAAC encourages the City to review the Results Alexandria budget framework with ACPS in more detail and urge the school division to adopt a well-defined process for evaluating program performance, demonstrating how the City's investment in ACPS contributes to improvements in student learning and the general well-being of the City.	The Alexandria City Public Schools (ACPS) School Board and staff have been made aware of the Results Alexandria budget framework through informal discussions, as well as the sections of the Approved budget document that discuss the Results Alexandria framework. The City is currently in the process of exploring opportunities to incorporate ACPS staff into the budget development discussions. However, the final decision regarding how the school division evaluates program performance and demonstrates how the City's investment contributes to improvements in student learning and the general well-being of the City lies with ACPS to advance. City staff sees opportunities to work collaboratively with the Schools on both the capital and operating budgets.	On-going

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	54	BFAAC believes that CIP programs and projects should concentrate primarily on building the City's revenue base, addressing federal mandates and maintaining long term health and welfare of the City. BFAAC encourages City Council to fund CIP projects where the City can get "the biggest bang for the buck." City Council should give priority to Potomac Yard Metro, waterfront re-development, complying with the U.S. Environmental Protection Agency (USEPA) storm water management regulations, and mitigation of flash flooding.	The ten-year CIP is a mix between maintaining the City's existing assets, addressing state and federal mandates, and providing new capital infrastructure. While staff continues to look at capital projects which ultimately could provide additional tax revenues for the City, it is important to continue to maintain our existing infrastructure. State and Federal mandates requirements are often "unfunded mandates" which require significant City resources. As the City reviews the CIP on an annual basis, the right mix between new, existing, and mandated infrastructure improvements is at the forefront of every budget development process.	On-Going
2015	55	BFAAC believes the City should continue to fund the station through a variety of funding sources and continue ranking the Potomac Yard Metro Station as a critical investment in the economic viability of Alexandria.	Staff continues to explore all opportunities to assist in providing project funding for the Potomac Yard Metrorail Station. In addition to setting up two special tax districts and applying incremental tax base increases in Potomac Yard to future debt service and operating costs of the station, the City hopes to be awarded NVTA funding which could potentially offset up to $69.5 million in borrowing costs. Staff is also exploring infrastructure loans through the State and Federal government, which would provide a more favorable interest rate than the rate the City currently achieves with its AAA/Aaa Bond Rating. Finally, staff continues to work with developers to provide contributions to assist in funding infrastructure improvements in Potomac Yards.	On-Going
2015	56	BFAAC recommends that all waterfront-related projects requiring capital improvement expenditures within the next 10 years be identified by placeholder project descriptions in the CIP.	OMB staff is currently working with other City departments to identify long-term capital infrastructure needs associated with the Waterfront Plan. Projects will appear in the CIP when funding sources have been identified.	On-Going

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	57	BFAAC observes the total cost of storm water/sewer challenges are not obvious from the current CIP and is concerned the CIP acknowledges that mid- to long-term costs are not yet taken into account. BFAAC recommends that the entire cost be calculated and that funding sources be identified. BFAAC also recommends studying how other similar jurisdictions are dealing with these issues and the magnitude of costs they have identified.	OMB staff is currently with T&ES to refine costs estimates of the infrastructure improvements needed, as well as exploring opportunities to find dedicated revenue to fund these mandates improvements.	On-Going
2015	58	BFAAC believes additional long-range forecasting information is critical to ensuring accurate multi-year forecasting, applauds the Office of Management and Budget for its efforts to obtain this data, and encourages additional data inputs, as determined by city staff, be included in future multi-year projections.	The model has been updated as of September 2014 and will be used as the basis for the 5-Year Financial Plan. It will be updated for the FY 2016 Proposed Budget as well.	Active 55% Complete Expected Completion: 2/25/2015
2015	59	BFAAC strongly cautions Council on future Council imposed tax rate increases in light of the need to balance the city budget over the duration of the five-year financial forecast.		No Staff Action Required
2015	60	BFAAC recommends Council not raise the current debt policy targets and limits.	The City Manager will propose a balanced 10-year CIP that adheres to City Council imposed debt policy targets and limits. City staff has communicated to City Council, the public, and our rating agencies that policy limits will be required to be raised to accommodate debt associated with the Potomac Yard Metrorail Station.	On-Going

Fiscal Year	#	BFAAC Recommendation	Staff Response	Status
2015	61	BFAAC encourages Council to review the merits of cash vs. debt financing for capital projects and the potential effect on the annual operating budget.	As part of the annual CIP budget development, staff reviews the cash to debt funding structure of the CIP while providing a 10-year outlook regarding the debt service required to fund the plan.	On-Going
2015	62	BFAAC recommends Council review the current debt policy guidelines and consider setting a new target based on the overall size of capital investments (cash capital and debt service) relative to the General Fund.	Staff will look at providing City Council information in regards to debt service as a percentage of General Fund expenditures, as opposed to debt service as a percentage of General Government expenditures (the current policy).	On-Going

Note: FY 2015 Recommendations that are marked as on-going, requiring no staff action or complete will be removed from further reports. Each report will provide the updated status on <u>active issues</u> only from the point of the last report. Please refer to the report from March 2014 for information and statuses on other FY 2014 recommendations. FY 2014 recommendations marked as Active and their progress since the March 2014 update have been included in this report.