City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 16, 2014

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

THROUGH: RASHAD M. YOUNG, CITY MANAGER RMY

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

SUBJECT: BUDGET MEMO #23: RESPONSE TO COUNCIL QUESTIONS

The Office of Management & Budget issues Budget Memos to answer questions posed by members of City Council. We prepare the memos in a question and answer format. Below are answers to some of the questions posed thus far.

PENSION CONTRIBUTIONS (Mayor Euille)

Question: "Can you please confirm the current amount in the proposed budget for Pension Contributions? To date, are we fully funded? Also, what would be the impact of reducing/deferring any portion of this contribution?"

Response: The City currently budgets our pension contribution based on the funding requirements calculated by our actuaries. The amount budgeted for FY 2015 is $44.3 million which is considered the best practice by rating agencies and governmental accounting standards. That funding is part of a multi-year obligation to pay the cost of providing the Council approved benefits. While the City is up to date for our annual contribution, we must continue to pay our ongoing obligations each year in order to fully fund our pensions.

The impact of not funding any given year is an indicator to the City's bondholders, the rating agencies and the public that we are having difficulty with managing our finances. The health of a pension plan is often measured by what is known as a funding ratio. The City's funding ratios are as follows:

Pension Plan	Ratio
Public Safety	73%
City Supplemental	86%
Disability	48% (prior to changes in plan)
VRS	73%

A well-funded plan should strive to be as close to 100 percent as possible. The downturn of the stock market in 2008-2009 caused the City's funding ratios to decline, but our policy of paying the annual required contribution each and every year ensures that we continue to move toward fully funding these plans.

Rating agencies consider the willingness of the government to fund their obligations when determining whether the jurisdiction should maintain a 'AAA' bond rating. Jurisdictions that use pension payments to fund other government expenditures signal to the rating agencies that our government may not be willing to cut operating spending when faced with shortfalls.

SELF INSURANCE RESERVES (Mayor Euille)

Question: "Can you please confirm the current amount in the proposed budget for the Self Insurance/Risk Program, and provide an update for the last 5 years as to actual utilization? What would be the impact of reducing any portion of this set-aside?"

Response: The City currently sets aside $5 million for self-insurance reserves. This amount has not increased since it was implemented in 1995, even though the City assets have grown since that time. This reserve serves several purposes:

1) Insurance premium rates. When the City seeks insurance coverage, vendors assess the amount of self-insurance reserves the City has set aside. The City receives lower rates by having a set aside for catastrophic events.
2) Part of a well-managed fund balance policy. The City Council's current fund balance policy requires the City to maintain a 10 percent fund balance. Any reduction in our insurance reserve would place our fund balance below our own policies and well below a fund balance that the rating agencies consider to be appropriate.
3) Good fiscal management of self-replenishing. The City makes payments for insurance claims every year. Good fiscal management would dictate that we strive to utilize current operating funds for these payments. In years that we have had to utilize fund balance to pay for extraordinary expenses, we then need to replenish those funds as soon as practicable.

While the City has not specifically "drawn down" the insurance reserve, we paid $5 million for claims, primarily for workers compensation insurance and line of duty health insurance claims, for each of the past five years. The impact of decreasing this reserve would signal to rating agencies that the government may not be willing to cut operating spending when faced with shortfalls but instead relies on depleting reserves set aside for catastrophic events..

T&ES LABORER POSITION (J. Chapman)

Question: "What would the savings be if staff received training for the maintenance of transitway facilities instead of a new Laborer position in T&ES?"

Response: The proposal for the additional Laborer position ($65,787) addresses a T&ES capacity issue and is intended to provide resources to operate and maintain the newly constructed Route 1 Metroway to a higher level of service commensurate with the premium transit service to be provided by WMATA.

The Metroway design approved by City Council detailed in a May 1, 2012 staff report indicated that it would be a "special transportation feature – not just another roadway" with a goal to "enhance the pedestrian experience to/from the transit stations as well as across Route 1." Similar to King Street, which is cleaned to a higher standard by a Laborer I detailed from T&ES, the Metroway is expected to require continual policing to assure that transit stops/shelters are kept clean and litter-free. Responsibilities assigned to this position will include cleaning sidewalks, planting areas, graffiti/handbill removal, inclement weather support and machinery operation. The position would also be responsible for providing basic customer service for Metroway users. The responsibilities of the proposed laborer position cannot be absorbed without impacting citywide right-of-way/bus shelter maintenance.

Funding for the new Laborer is budgeted in the Proposed FY 2015 Operating Budget through the Transportation Improvement Program (TIP). If this position is not funded, savings may be put toward other eligible transportation expenses within the TIP.

The May 1, 2012 staff report referenced can be found on-line at: http://dockets.alexandriava.gov/fy11/051212ph/di13.pdf (page 5 of the .pdf document).

RPCA COST RECOVERY (J. Wilson)

Question: "What are the options for speeding up the Cost Recovery Model for Recreation, Parks, and Cultural Activities (RPCA)?"

Response: City Council approved a Cost Recovery Policy and Fee Assistance Policy in September 2013 based on findings from the "The Resource Allocation and Cost Recovery Philosophy, Policy, and Model for Alexandria" developed by Greenplay LLC in April 2013. This policy includes guidance in the form of a tiered cost recovery model based on the benefits different types of programs provide to the community (see attachment). The policy takes in consideration a number of factors, moving the department away from arbitrary pricing, while balancing both the desire for full cost recovery with market demand and customer needs/resources.

RPCA is in the process of adjusting program fees to be in alignment with the policy. In the first year of implementation (FY 2015), these adjustments net an additional $277,054 in revenues for the City, and those revenues are included as part of the FY 2015 Proposed Operating Budget. If directed by City Council, RPCA can modify the implementation of the fee adjustment schedule so that each program could recovery the maximum allowable cost as defined by the policy. **Further analysis would be required to identify additional revenue**

opportunities, and this would take place within the context of the development of the Five Year Financial Forecast and the FY 2016 Operating Budget development process.

It is important to note that cost recovery is only one factor when determining programmatic fees. Market factors that may alter participation levels must be taken into consideration. For example, raising the fees for a program may reduce participation to the point where less revenue is being generated despite greater collections per individual. Additionally, the balance of community versus individual benefit must be taken into consideration. The Cost Recovery Policy and Fee Assistance Policy seeks to balance both costs to the City and opportunities for Alexandria citizens, and alterations to the implementation of this policy would require further analysis to be presented to Council as a separate docket item later in the fiscal year.

Attachment: Alexandria Resource Recovery Model – Service Categories Sorted by Tier

Cost Recovery Levels	**Tier 1**	**Tier 2**	**Tier 3**	**Tier 4**	**Tier 5**
Benefit Focus	Mostly Community Benefit	Considerable Community Benefit	Balanced Individual and Community Benefit	Considerable Individual Benefit	Mostly Individual Benefit
% recovery	No cost recovery	20 % cost recovery	50% cost recovery	125% cost recovery	175% cost recovery
	Non-monitored parks and facility usage	Monitored park and facility usage	Special events and parades	Classes, camps, programs, workshops and clinics – multi-level	Concessions and vending
	Inclusionary services	Out-of-school time program (school year and summer)	Rentals exclusive use government agencies	Tenant leases	Merchandise
	Support services	Affiliates and grantees rentals and exclusive use	Work study, internship, and community service programs	Equipment rentals	Private and semi-private lessons

		Community wide events	Social and affinity groups	Trips	Rentals and exclusive use – private
		Volunteer led programs		Specialized activities and camps	Organized parties
		Arts grant program		Drop-in child care and babysitting	Permitted services
		Therapeutic and adapted special recreation		Professional services	
				Tournaments and leagues	

<u>PARKING REDUCTION FUND (J. Chapman)</u>

Question: "Can funds be captured from developers and businesses when waivers are granted from providing the number of parking spaces required by the development code?"

Response: Beginning in April 2014, Planning and Zoning has initiated the development of a *Parking Standards for New Development Projects* study. The purpose is to review the City's parking standards, which have not had a comprehensive review since 1992, and provide parking standards that reflect existing parking demand and market trends. This study will also look at how to capture potential contributions from <u>all</u> development projects under future lower parking ratios, and not just those seeking a waiver for parking reduction.

Assuming that study results in new, "right-sized" parking standards, the City will see a significant decrease in the number of requests for parking reductions. Nevertheless, there will continue to be cases where proposed projects will not be able to meet parking requirements and the Parking Standards Task Force will look into the potential for developer/business payments to the City in those cases.

Currently, the City addresses these cases by asking the developer or business for a payment is if their project will create off-site impacts that they cannot solve on their own. The City has created a fund to collect these payments, and the collections are used for initiatives that will mitigate the development's impact. The recent change to the Transportation Management Plan (TMP) program is an example: when it is infeasible for small development projects to operate their own TMP program, they can instead contribute to a City-run program. In the great majority of parking reduction cases, the reduction in the amount of required parking is justified by evidence that the parking will not be needed. Consequently, most reductions in the parking requirement do not result in off-site impacts that need to be mitigated.

However, staff is very conscious that reduced parking requirements have a financial value to the developer. Planning and Zoning endeavors to recapture as much of that value as possible for the public good – usually in the form of specific on-site or off-site public benefits at the developer's expense. Examples include:

- Small Area Plans: In small area plans, when reduced parking requirements are recommended, the savings is used to increase on-site amenities (such as open space) and to increase the pot of money provided by the developer for public benefits. For example, the Beauregard Corridor Plan constrains the amount of parking in new development because (a) the department believes that amount of parking is all that is needed and (b) the department needed to maximize the amount of developer funds available for affordable housing, transportation improvements, the new fire station, etc.
- Development Cases: In development cases, the departments follow the same approach, with the "increased public benefit" being a mix of on- and off-site improvements. These can include increased or better quality open space, contributions to improve or maintain nearby parks, off-site undergrounding of utilities or other streetscape improvements, etc. The City has an extremely good record of extracting public benefits from new development and it has been a principle that much of the amenities resulting from new development benefit people living in the same area as the new development.
- Special Use Permits: In special use permit cases, staff is often recommending conditions of approval to mitigate neighborhood impacts which have a financial cost to the applicant. At the same time, the department is typically dealing with small businesses at a particularly vulnerable time – they have a lot of money going out the door (leasing the property, remodeling the space, marketing, and permitting fees) and none coming in. Planning and Zoning will continue to study these cases and identify sources of potential income.
- Affordable Housing: For affordable housing projects, often the parking reduction is the key to making the project financially feasible. In some cases, the City is a financial partner, and the parking reduction may indirectly reduce the magnitude of the City's contribution. In all cases, the finances of affordable housing projects are quite tight, and parking reductions help improve the balance sheet. Of course, even in these cases, staff does not recommend parking reductions below what is needed to adequately park the project.

DASH DISCOUNT FOR SENIORS (J. Chapman)

Question: Would it be possible to implement a DASH Discount for seniors, and if so, would it would be eligible for TIP expenditures?

Response: The ATC Board of Directors sets fare policy and routes for DASH. The Board has determined year after year to maintain a simple base fare with a deeply discounted monthly pass program and 4-hour transfer pass that is used quite heavily by senior citizens. For seniors who use DASH regularly, they are provided with a significant savings equal to or more than the regional half fare program on Metrobus. Based upon vulnerable populations served, it is not realistic to consider the impact on a reduced fare program for seniors without considering also a reduced fare program for persons with disabilities.

Based upon DASH analysis of options for discounts, it is likely that if the Board were to consider a discount, they would do so by implementing a reduced fare program commensurate with the regional transit systems. Such a program would ensure seniors and persons with disabilities who ride other systems would be able to easily understand a similar DASH program with the same requirements and expectations. Regionally, these programs offer a half-fare discount for elderly and disabled riders.

According to DASH, Alexandria has a comparably high percentage of senior population and ridership. Based on ridership data and demographics, a median scenario for anticipated elderly disabled ridership percentage of 12% was used to analyze the potential loss of revenue from a 50% discount for this population. Under this scenario, the additional subsidy necessary to pay for a discounted program would be $232,242. This type of program, which would improve the ability of elderly and disabled Alexandrians to access transit service, would be an eligible expenditure under the revised definition of the Transportation Improvement Program (TIP) funding. However, a reprioritization by City Council of the current Proposed 10-year TIP would be necessary to identify programs or projects which would be eliminated in order to fund a discount program within the balanced plan.

Estimated Revenue Impact from 50% Reduction in Elderly & Disabled Fares

Fare Type	FY 2015 Proposed	Population Served Ridership %	Current Fares	Reduced Fare	Estimated Revenue Loss
Base Fare Trips	1,800,000	12%	$1.60	$0.80	$172,800
Pass Sales	10,000	12%	$40	$20.00	$24,000
Rail-Bus Fare Trips	537,000	12%	$1.10	$0.55	$35,442
		Additional Subsidy Needed to Implement Discount Program			**$232,242**