*City of Alexandria, Virginia*

# MEMORANDUM

**DATE:** APRIL 16, 2015

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**THROUGH:** MARK B. JINKS, CITY MANAGER

**FROM:** MORGAN ROUTT, ASSISTANT DIRECTOR, OFFICE OF MANAGEMENT AND BUDGET

**SUBJECT:** BUDGET MEMO #22: BFAAC REPORT ON THE CITY MANAGER'S FY 2016 PROPOSED OPERATING BUDGET AND FY 2016 – FY 2025 CAPITAL IMPROVEMENT PROGRAM

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Attached you will find the Budget and Fiscal Affairs Advisory Committee's (BFAAC) report on the City Manager's FY 2016 Proposed Operating Budget and FY 2016 – 2025 Capital Improvement Program (CIP). This report will be discussed along with the two prior reports already submitted by BFAAC this fiscal year at the worksession with City Council on April 21, 2015. All three of these reports have been attached to this budget memo for your convenience.

ATTACHMENTS:

Attachment 1 – Report of Observations and Recommendations on the City Manager's FY 2016 Proposed Operating Budget and FY 2016 – 2025 Capital Improvement Program

Attachment 2 – Summary of FY 2015 Recommendations & Key Policy Issues for FY 2016 Budget Guidance

Attachment 3 – Report of Observations and Recommendations on the City's FY 2016 – FY 2020 Five-Year Financial Plan

*City of Alexandria, Virginia*

# MEMORANDUM

**DATE:** APRIL 16, 2015

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE

**SUBJECT:** REPORT OF OBSERVATIONS AND RECOMMENDATIONS ON THE CITY MANAGER'S FY 2016 PROPOSED OPERATING BUDGET AND FY 2016 – 2025 CAPITAL IMPROVEMENT PROGRAM

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As you may recall, the Budget and Fiscal Affairs Advisory Committee (BFAAC) is providing three separate reports on different topical areas in lieu of one large annual report. This report is our third and final planned report to City Council in FY 2015 and discusses our observations and recommendations on the City Manager's FY 2016 Proposed Operating Budget and FY 2016 – 2025 Capital Improvement Program (CIP). We look forward to discussing all three of these reports and their observations and findings with you at our annual budget worksession on April 21.

## Executive Summary

**Summary of Observations:**

- **BFAAC applauds the City's efforts to create and maintain a systematic and strategic approach to employee compensation benchmarking.**

- **BFAAC commends the City's Human Resources Department (HRD) for developing and administering a new, more comprehensive benchmarking process for General Schedule (GS) jobs that will be used annually to determine the City's market position for GS jobs, and for establishing a civilian employee working group to improve communication and collaboration.**

- **Failure to recruit and retain exceptional talent during periods of high employee turnover has the potential of having negative budget implications.**

- **BFAAC commends the City's HRD for developing and implementing a well-organized Professional Development Program (PDP) to ensure employees have access to resources necessary to enhance their professional growth and to perform their jobs more effectively.**

- **BFAAC cautions that there are some limitations and risks related to shared services. Furthermore, these savings may not be realized quickly as the organizational concerns will need to be ironed out between jurisdictions/agencies.**

- **BFAAC observes that CIP project cost estimates vary greatly in reliability and recommends that the City Manager and staff emphasize CIP cost estimation improvements.**

**Summary of Recommendations/Actions:**

- **BFAAC encourages the continued use of the Cumulative Earnings Benchmarking Model (CEBM) to identify deficiencies in the pay ranges and policies for sworn/uniform public safety jobs.**

- **BFAAC encourages Council to support the Office of Management and Budget and Human Resources Department multi-year compensation planning process and a more robust outreach plan to educate City staff about total compensation and the City's Compensation Philosophy.**

- **BFAAC reiterates its prior recommendation that employee compensation competitiveness and fairness be measured by both salary and benefits.**

- **BFAAC supports the need to examine ways to achieve and maintain competitiveness over the long term and strongly encourages the development of a multi-year strategy.**

- **BFAAC recommends that Council regularly review employee benefits, including health insurance plan design, so that the City remains competitive with neighboring jurisdictions.**

- **BFAAC commends the City for adopting the "career ladder program" and encourages HRD to expand the program beyond the current eligible positions to encourage employee development and create a happy and stable workforce.**

- **BFAAC encourages City staff to be mindful of the federal excise tax on "high cost" health care plans that is scheduled to take effect in 2018. BFAAC encourages staff to conduct an audit of the existing plans to see if the City is in any danger of exceeding the thresholds in 2018 and beyond.**

- **BFAAC recommends the City use the PDP as a tool for recruiting top talent. For example, the PDP should be detailed as part of all recruiting efforts, including employment postings.**

- **PDP details should be provided to every new hire during their orientation to ensure each new employee is familiar with the resources that are available to facilitate their career development.**

- **BFAAC recognizes that the PDP is an initiative in its infancy and encourages City staff to make it a priority to ensure the program evolves with market and employee demands. City staff should regularly seek feedback from City employees to determine if the various programs provide desired career advancement resources.**

- **BFAAC recommends that City staff maintain relevant statistics, such as utilization details, to determine what PDP resources employees are using.**

- **BFAAC recommends that the Council direct the City Manager to explore shared services with other governmental agencies, regional governments, and/or non-profits in more detail in the next several years. The City could realize both operational efficiencies as well as cost savings in better aligning functions with other regional governments, non-profits, or ACPS.**

- **BFAAC specifically recommends that the City explore shared services and resources from a cost savings perspective in order to further promote efficiencies that allow more resources to be dedicated to program and service needs. Furthermore, BFAAC recommends the City focus first on potential cost savings with ACPS, although other joint efforts could also save resources.**

- **BFAAC encourages Council to make shared services a priority and to direct the City Manager to identify well defined outcomes with commensurate savings by the start of the next budget cycle.**

- **BFAAC recommends joint long range CIP planning as an outgrowth of the Long Range Educational Facilities Workgroup. Specifically, the City should consider working with ACPS to consolidate capital projects as a way to save money and minimize land use.**

- **BFAAC recommends that the City and Schools Staff Group examine possible collaboration on core programs delivered in and out of school time and strongly encourages the two bodies to collaborate on shared metrics to demonstrate performance outcomes and justify any matching City funds.**

- **BFAAC recommends exploring the possibility of integrating administrative functions that cross City and ACPS departments, such as State lobbying services, legal services, and personnel services.**

- **BFAAC recommends Council explore the creation of a broader Northern Virginia Regional Shared Services Committee with other cities/counties.**

- **BFAAC recommends Council work with the School Board to pursue joint mechanisms that ensure grant awards by both ACPS and the City promote efficiency and are effective in working together to further policy goals and good**

**government objectives in addition to purely cost savings.**

- **BFAAC recommends that the City Manager prioritize CIP investments according to projected outcomes, with economic development return on investment being a major prioritization criterion.**

- **BFAAC would like to compliment the City on identifying the variety of funding mechanisms available and strongly recommends this approach for major future CIP investments.**

- **BFAAC recommends that CIP infrastructure investments in specific areas with high economic development potential (e.g., Potomac Yard, the Waterfront, Eisenhower Valley, Landmark, Beauregard Corridor), as well as transportation/transitway and connectivity projects be prioritized for investment due to their revenue-generating potential.**

- **BFAAC recommends using specific CIP investments as proactive business/commercial development initiatives as part of the City's overall economic development strategy.**

- **BFAAC again reiterates its standing recommendation to Council to not exceed established debt policy guidelines but believes an exception to this policy for the Potomac Yard Metro is appropriate.**

- **BFAAC cautions that Waterfront development investments will not completely break even over the projected twenty-year timeframe and recommends that Council direct City staff to brief Council on projected revenues and costs once three major sites (the Carr hotel property and Robinson Terminals North and South) have all been approved.**

- **BFAAC recommends Council continue to prioritize transitway projects in order to maximize revenue generating potential.**

- **BFAAC strongly encourages the identification of potential public-private partnerships and incorporation of their innovative features into future CIP projects to meet the needs of our community.**

- **BFAAC strongly recommends the School Board and Council immediately initiate discussions for future public-private partnerships to meet school capacity needs.**

## Employee Compensation

*Benchmarking/Employee Compensation Studies*

City Council's approved Compensation Philosophy requires the City to benchmark positions to determine whether employee compensation is competitive with neighboring jurisdictions and to propose a plan of action every two years. Prior to FY 2013, benchmark analysis was often completed by paid consultants on an as needed basis. More recently, the Human Resources Department (HRD) has been collecting and analyzing benchmark data annually to determine Alexandria's competitiveness in the comparator market defined in the Compensation Philosophy as the Counties of Arlington, Fairfax, Prince William, Montgomery, and Prince George's. The Compensation Philosophy also requires that the City's pay programs be competitive at the average pay of comparator jurisdictions in order to attract and maintain a quality workforce. For the most part, past efforts to implement the pay philosophy on a consistent basis have been less than successful, resulting in various employee groups falling below the market average of pay in the comparator market. This has resulted in the City having to react with pay adjustments within a fiscal year or costly budgeted increases to "catch up" to reach a competitive posture.

It also appears that prior benchmarking efforts by outside consultants were not successful because the results and subsequent recommendations relied on data the year the survey was administered. This single year approach made forecasting future market rate adjustments extremely difficult, and did not provide the guidance necessary to maintain a consistently competitive, sustainable, and strategically sound approach to employee compensation. BFAAC applauds current efforts to create and maintain a systematic and strategic approach to employee compensation benchmarking. One such effort is HRD's Cumulative Earnings Benchmarking Model (CEBM), which has been successful in identifying deficiencies in the City's pay ranges and policies for sworn/uniform public safety jobs. The CEBM helped determine adjustments needed for Fire (FY 2014) and Police (FY 2016 proposed) to achieve market alignment.

Until recently, reviews of General Schedule (GS) jobs have been limited to reviewing data collected through the Local Government Personnel Association's annual benchmarking survey. In FY 2015, HRD staff developed and administered a more comprehensive benchmark survey for GS jobs, an initiative BFAAC commends as a much needed improvement in assessing GS grade competitiveness. The survey identified 204 matches within the City's five comparators, approximately 34 percent of all GS job classes. This sample is well within acceptable standards for job benchmarking. HRD now intends to use its well-developed benchmark survey annually to determine the City's market position for GS jobs. The City's intention to establish a civilian employee compensation working group, similar to those used for public safety, also has potential to improve communication and collaboration through the benchmarking process.

Finally, HRD is to be commended for understanding the need to examine ways to achieve competitiveness and maintain it over the long term. While it is evident that the City is at or above the comparator market in many areas, there are other positions that will require future investments to raise pay to the average of the market. Over time, the City will need a consistent and workable strategy to maintain competitiveness. Given the limitations that annual benchmarking presents to forecasting future market adjustments, HRD working with staff from the Office of Management and Budget (OMB) intends to forecast levels of change based on recent comparator actions and develop a multi-year strategy for Council in the coming year.

BFAAC supports HRD's efforts to communicate the compensation policy and strategy to City staff. While the compensation philosophy is not new, there is still a perception that the most vocal employee groups tend to be first in line for compensation adjustments. BFAAC recognizes the City lacks adequate resources to make all of the necessary adjustments in any given year, and the City will still have to make difficult choices. However, by outlining a long-term plan that is based on data-driven decisions and demonstrating progress is being made to close existing compensation gaps, City employees will have more confidence in the process.

*Employee Benefits*

For many years, BFAAC has recommended that in comparing employee compensation with that of other jurisdictions, it consider both salary and benefits. As noted above, the City has made substantial progress reviewing its salary structure to assure competitiveness with other jurisdictions. The scope and quality of employee benefits, including health insurance, can be important factors in assuring that qualified and talented people find Alexandria attractive as an employer. As such, the competitiveness of its benefits must also be assessed regularly.

At the same time, employee benefits can lead to very significant costs for the City. In recent years, the City has taken steps to address benefit costs through action on the recommendations of the Ad-Hoc Retirement Benefit Advisory Group (2011) and through changes in employee health insurance, including a gradual increase in employee share of premiums to 20 percent and, more recently, major changes in plan design that impose significant out of pocket costs on employees.

Given these changes, BFAAC believes that an assessment is needed to assure that the City keeps pace with other jurisdictions in the benefit dimensions of employee compensation. Two years ago BFAAC recommended that Council review changes in health plan design to determine whether they are consistent with practices in neighboring jurisdictions, especially regarding burdens placed on lower paid employees,[1] and we reiterate that recommendation. In this process, of course, BFAAC encourages staff to be mindful of the federal excise tax on high cost plans ("Cadillac Tax") that is schedule to take effect in 2018. This tax is a 40 percent excise tax on plans that cost more than $10,200 for individuals and $27,500 for families.

*Talent Management and Professional Development*

The City's most valuable assets include its talent and the unique skillset that each professional brings to the workplace. Two critical aspects of ensuring the City's economic stability is recruiting and retaining these professionals. Recruiting qualified applicants allows the City to operate in an efficient and effective manner, while retaining high performing employees makes certain that inherent knowledge remains within the City's offices (among other benefits). Failing to retain exceptional talent has the potential to have negative budget implications. Significant resources are expended when recruiting and onboarding new employees. Fluctuating employee turnover rates makes budgeting for these critical human resource processes very difficult, as

[1] Budget and Fiscal Affairs Advisory Committee review of the FY 2014 proposed budget, April 12, 2013, pp. 21-23. (https://www.alexandriava.gov/uploadedFiles/budget/info/budget2014/memos/BM19BFAACReport.pdf).

expenditures are often much greater than originally planned. Moreover, while difficult to quantify, the opportunity costs related to losing critical employees are oftentimes material.

HRD gave an update to BFAAC on a policy initiative geared towards recruiting and retaining exceptional employees. The City's "career ladder program" designates certain positions where an employee has the potential to be promoted to a higher level job without requiring competition. The professional's potential promotion is based on the notion that as they develop professionally and take on greater responsibility over time, their level in the organization and compensation increases. BFAAC commends the City for adopting such a policy initiative and urges HRD to expand the program beyond the current eligible positions to encourage employee development and to create a happy and stable workforce.

Another important aspect in recruiting and retaining exceptional talent is the City's ability to develop professionals. Providing access to training and opportunities allows employees to obtain the skills, qualifications, and experiences necessary to enhance their professional growth and to perform their jobs more effectively. BFAAC recently learned that HRD implemented a Professional Development Program (PDP) that provides comprehensive means for employees to pursue and achieve their professional goals. The PDP is comprised of three programs and was launched in January 2015:

- The City's **Tuition Assistance (TA)** program provides financial support for voluntary education programs that help City employees perform more effectively in their current job and career field and encourages them to achieve their career goals. HRD works in partnership with several national known universities and colleges to align various programs/certification to job series and career paths.

- The City's **Employee Professional Development (EPD)** program offers employees the opportunity to develop skills and abilities to increase performance within their positions and for career advancement. A key component of EPD includes, for example, measurable learning outcomes provided by an opportunity directly applicable to employee performance in a City job held by the applicant. Examples of EPD programs include classes, seminars, workshops, and programs supporting leadership development, professional association conferences/trainings, and regional programs/trainings.

- The City's **Citywide Training (CT)** program supports employee career development and organizational efficiency. The course curriculum advocates core competencies that each employee should possess.

BFAAC commends HRD for developing and implementing a well-organized program to ensure employees have access to resources necessary to enhance their professional growth and to perform their jobs more effectively. Professional development programs, such as the PDP, are not only important to current employees, but they are also very important to prospective employees. BFAAC recommends the City use the PDP as a tool for recruiting top talent. For example, the PDP should be detailed as part of all recruiting efforts, including within all employment postings. Additionally, PDP details should be provided to every new-hire during their orientation to ensure each new employee is familiar with the resources that are available to facilitate their career development.

BFAAC recognizes that the PDP is an initiative in its infancy and encourages City staff to make it a priority to ensure the program evolves with market and employee demands. City staff should regularly seek feedback from City employees to determine if the various programs provide desired career advancement resources. This could be done, for example, through a usefulness survey at the end of a Citywide Training session. BFAAC also recommends that City staff maintain relevant statistics, such as utilization details, to determine what resources employees are using.

**Summary of Observations:**

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**Future Savings Through Shared Services**

*The Concept of Shared Services*

As the City continues to face increasingly tight revenue situations, BFAAC recommends that Council direct the City Manager to explore shared services and shared resources with other governmental agencies, regional governments and/or non-profits. Conceptually, the City could realize both operational efficiencies as well as cost savings in better aligning functions with other regional governments and the Alexandria City Public Schools (ACPS).

The City has explored this concept occasionally with an eye towards minimizing duplicative efforts, mainly for the purpose of streamlining administrative functions. BFAAC believes the City should examine these possibilities in more detail over the next several years, specifically focusing on cost savings through operational efficiencies. These savings could then be appropriated to maintain or expand other priorities. BFAAC encourages Council to make shared services a priority and to direct the City Manager to identify well defined outcomes with commensurate savings by the start of the next budget cycle.

BFAAC cautions that there are some limitations and risks related to shared services. Differing goals and operational priorities may prevent successful shared operations, and the City would need to include provisions to ensure that service levels are not negatively affected. Integrating services may also require different agencies/governments to function and report in a consistent way that may go against current organizational cultures. Still, BFAAC believes that the potential cost savings deserve more research by staff and greater prioritization by elected officials.

*Potential Shared Services with ACPS*

While City and ACPS leaders have made strides in streamlining duplicative services, BFAAC believes that current efforts only scratch the surface of potential shared services and shared resources. In many ways, a successful ACPS/City shared services initiative could serve as a pilot program for the concept, identifying potential opportunities and problems in efforts with regional governments and nonprofits.

BFAAC recommends Council and ACPS focus specifically on the aim of reducing per-pupil administrative costs for ACPS. Given anticipated future shortfalls in the City budget, reducing per-pupil administrative costs could allow more resources to be dedicated towards program priorities.

Coordination between ACPS and the City of shared resources and services is already underway but could be furthered by focusing on cost-savings and/or revenue generation. On the savings side, the City should continue to identify staff fulfilling similar functions across agencies and coordinate resources and services. For example, co-location of services is also worth investigating, such as the Adolescent Clinic and Teen Wellness Center, located at T.C. Williams High School, where ACPS offers facility space and the City staffs the clinic with medical and mental health professional employees to deliver shared services. On the revenue generation side, the City and ACPS could consider ways to market and expand facility rentals to increase revenue generated by usage fees.

The City should also build on the successful coordination between ACPS and City staff working on the Long Range Educational Facilities Work Plan. ACPS leaders have aligned the schools budget cycle so that it is more in sync with the City timeline, and the improved timeline, and staff coordination around ACPS enrollment growth, are positive signs that the two bodies can tackle larger long-range facilities planning issues. Specifically, the City and ACPS staff might consider consolidating capital projects given the tight budgets and lack of space for major development projects (e.g., aquatics/pool and school expansion project, performance or public art space at school facilities). Therefore, BFAAC recommends joint long range CIP planning as an outgrowth of the Long Range Educational Facilities Workgroup.

Increased collaboration between the City and ACPS can be used also to better position Alexandria to pursue grant funding. BFAAC recommends, for example, that the City and ACPS Staff Group examine possible collaboration on core programs delivered in and out of school time. Having a joint plan for in and out of school time in place puts the City and ACPS in a better position to pursue grants from federal agencies, such as the Safe Schools/Healthy Students grant recently awarded to the City by the Substance Abuse and Mental Health Services Administration. As the City and ACPS develop joint plans to improve programs and apply for future grants, BFAAC strongly encourages the two bodies to collaborate on shared metrics (e.g., developmental assets work underway, performance measures) to demonstrate performance outcomes and justify any matching City funds.

Although more difficult than other approaches, integration of resources and services can lead to the largest cost-savings by reducing administrative costs for departments that administer similar functions. A good example is the 2014 Memorandum of Understanding (MOU) between ACPS and the City related to building and grounds maintenance. BFAAC encourages the City and ACPS to continue pursuing cost-savings across major departments such as facilities and human resources. For instance, integration of bus fleet storage, use, and maintenance could save funding for both ACPS and the City. Furthermore, the development of a City-wide technology plan, including ACPS, might lead to efficiencies in the short-term with the potential for future consolidation. BFAAC also recommends exploring the possibility of integrating administrative functions that cross City and ACPS departments, such as State lobbying services, legal services, and personnel services.

*Potential Shared Services with Other Regional Governments*

The impact on state and local budgets have heightened the need to consider alternative funding and use of resources across the entire region of Northern Virginia. There are a number of successful efforts across jurisdictional lines that exist today: a Council of Governments Committee on Cooperation, Consolidation and Shared Efforts in procurement, and WMATA in transportation.

BFAAC would recommend that the Council explore the creation of a broader Northern Virginia Regional Shared Services Committee with other cities/counties. This committee could be tasked with identifying possible shared resources and services between jurisdictions focusing on public safety, transit, transportation, and administrative services such as payroll processing, translation services, technology, and facilities management. A specific example is the possible creation of a joint firefighter recruit School with shared classes. Another example could be the joint

acquisition and use of a state of the art firefighting foam truck by Alexandria as well as Arlington or Fairfax. In addition, a potential shared resource could be the creation of a joint Arlington/Alexandria fifty-meter pool.

*City/ACPS Cooperation*

The City currently awards approximately $2.0 million to nonprofit organizations, through the Alexandria Fund for Human Services (AFHS), to complement human services provided by the City. In the past year, the program has instituted successful reforms to streamline application and operations processes, as well as provide awards that seek to maximize return on investment (ROI) and encourages collaboration between groups. While City services focus on supporting youth development goals and fostering nurturing home environments, ACPS also makes awards to organizations to further goals focused on academic achievement and career readiness goals.

Both types of investments are important as post-school outcomes, civic engagement and independent living often depend on strong connections across family, school and community environments. BFAAC recommends Council work with the School Board to pursue joint mechanisms that ensure grant awards by both ACPS and the City that promote efficiency and improve program delivery in addition to cost savings.

**Summary of Observations:**

- **BFAAC cautions that there are some limitations and risks related to shared services. Furthermore, these savings may not be realized quickly as the organizational concerns will need to be ironed out between jurisdictions/agencies.**

**Summary of Recommendations/Actions:**

- **BFAAC recommends that the Council direct the City Manager to explore shared services with other governmental agencies, regional governments, and/or non-profits in more detail in the next several years. The City could realize both operational efficiencies as well as cost savings in better aligning functions with other regional governments, non-profits, or ACPS.**

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- **BFAAC recommends Council work with the School Board to pursue joint mechanisms that ensure grant awards by both ACPS and the City promote efficiency and are effective in working together to further policy goals and good government objectives in addition to purely cost savings.**

## Targeted CIP Investments to Generate Revenue Growth

In our prior memo, "The Five-Year Financial Plan FY 2016 – FY 2020", BFAAC discussed the need for the City to develop a multi-year revenue strategy. Each year at this time budgeting resources are principally focused on cost and spending issues, while revenue is treated passively as a forecast founded on "best guess" percentage projections of how much traditional revenue streams will change. By contrast, a revenue strategy includes projections as well as strategies for increasing total revenue through new revenue-generating programs and re-energizing existing programs.

The need for increasing revenue through proactive measures should be well understood in the context of data indicating a widening gap between the ever-increasing need for capital to fund the City versus the decreasing expectations for revenue. Even considering optimizing borrowing and possible tax increases, BFAAC observes that the Five-Year Financial Plan portrays a highly tenuous fiscal position without greater and more diverse revenue sources.

### *Revenue Potential of CIP Projects*

For many years, the CIP was seen as a list of necessary maintenance and improvement costs, with little articulated "value" to the City. Unlike operating budget expenses that are explicitly linked to outcomes aligned with the City's Strategic Plan, the CIP budget ranks CIP investments but does not prioritize these investments according to projected outcomes. As one important outcome given the City's long-term fiscal sustainability challenge, generating revenue should be a major CIP investment priority. BFAAC notes, however, that with the latest iteration of the CIP Budget, the exact opposite is happening.

The City now evaluates and ranks projects within the CIP according to project evaluation criteria. In preparation for the FY 2016 – 2025 CIP, the CIP Process Improvement Team revised the investment ranking criteria, eliminating the "Supports Economic Development (Goal 1)" criterion under the "Align with Strategic Plan." The current list of 19 categories does not contain wording that specifically references economic development or return on investment (ROI) as a ranking criterion. Minimizing the economic development ROI in ranking CIP projects, as well as the lack of an explicit CIP investment prioritization approach based on outcomes, fosters the impression that the City is indifferent to promoting economic growth.

BFAAC recognizes that many CIP projects that will not contribute directly to economic development should, and will be, funded. Recognizing this, there are also many CIP projects that will directly stimulate or indirectly leverage investment and commercial activity, and should be a priority for investment as part of the City's needed long-term revenue strategy. As examples, infrastructure projects impacting Potomac Yard, the Waterfront, the Beauregard Corridor, Landmark, and the Eisenhower Valley should spur revenue-generating economic development. Likewise, transportation, connectivity, and "walkable community" spending contribute to attracting quality commercial tenants to Alexandria.

BFAAC notes that CIP projects can also be used to proactively accelerate Alexandria's business revenue, and should be a key part of the City's overall economic development approach. For example, if the Eisenhower Valley is to be positioned as a science and technology hub, then the City should be prioritizing CIP investments to supercharge the infrastructure related to those

uses. This may include establishing an advanced fiber cable communication backbone and other infrastructure needs to support technology incubators.

BFAAC also notes that funding for CIP projects is based on cost estimates provided by City departments and these estimates have varying degrees of reliability. As an example, Waterfront-related infrastructure project costs have been difficult to quantify. It is essential to improve the quality of estimates in order to fairly evaluate the potential economic benefit.

*Project Specific Discussions*

Presently, the City is evaluating and implementing a variety of long-term, high-level CIP investments that will have a significant impact on Alexandria's future. Given the nature of these projects, and the associated future budget expenditures needed to bring these projects to fruition, BFAAC offers the following observations on several key CIP projects.

Potomac Yard Metro

On several occasions over the past five budget cycles, BFAAC has advised Council of its opinion on the City's approach to the building of the Potomac Yard Metro station. In general, BFAAC has cautioned Council to preserve the City's conservative debt policy guidelines, with the notable exception of issuing the general obligation bonds needed for the construction of the Metro station. BFAAC again reiterates its standing recommendation to Council to not exceed established debt policy guidelines. However, given the enormous opportunity for revenue growth as a result of the building of the Potomac Yard Metro station, BFAAC again believes an exception to policy in this instance is appropriate and is comfortable with the direction the City is taking.

BFAAC does not make this recommendation for the exception to policy without full knowledge of the risk of such an investment. BFAAC acknowledges that the risk in obligating funds for the Potomac Yard Metro exists and will continue to exist until all general obligation bonds are repaid. That being said, the City is to be commended for its financing approach to this project.

Although it is impossible to precisely estimate how much business/commercial activity will result from construction, BFAAC strongly believes that Potomac Yard Metro construction will spur economic development, resulting in significant additional revenue for the City. Given this desired financial outcome, BFAAC supports both the debt policy exception as well as the innovative financing portfolio secured for Metro station realization.

In order to pay for the Potomac Yard Metro station, a combination of funding sources has been identified that significantly reduces the risk to the City and makes the project more affordable and sustainable. The combination of developer contributions, special tax districts, Northern Virginia Transportation Authority funding, and low-interest loans from the Commonwealth Transportation Board, not to mention net new tax revenues from new development, is the ideal way to pay for this type of historic investment. BFAAC compliments the City Manager and staff on securing the variety of funding mechanisms available and strongly recommends a similar innovative approach be employed for funding major CIP investments in the future.

Waterfront Public Investments

To review, the total estimated cost of waterfront public improvements is $120 million, with $61.2 million needed for the "core" of the waterfront, roughly defined as the area between Duke Street and Queen Street. Promenade and flood mitigation alone will cost $33.1 million.[2] While these costs are significant, given the revenue potential of Alexandria's waterfront and the reduction of nuisance flooding in the area, BFAAC believes that this investment is both necessary and warranted. On March 23, 2015, the City Manager detailed a $61.6 million, ten-year CIP implementation schedule to address the "core" of the waterfront improvements, with funding for flood mitigation, bulkhead replacement, parks and waterfront connectivity included for the first time.[3] Core-Secondary and non-core area projects are not included in the current ten-year CIP.

BFAAC cautions Council on waterfront-related expenditures, given that the approved level of Waterfront development falls short of what is necessary to support the variety of waterfront improvements. Waterfront development revenues, including any additional tax revenue, developer contributions, etc. are likely to fall well below the total $120 million cost for waterfront improvements. Given this concern, BFAAC cautions that Waterfront development investments will not completely break even over the projected twenty-year timeframe and recommends that Council direct City staff to brief Council on projected revenues and costs once three major sites (the Carr hotel property and Robinson Terminals North and South) have all been approved. BFAAC believes that it is prudent to have a financial re-estimate once the development picture is more certain so Council may sufficiently manage the Waterfront's investment requirements transparently and effectively and to ensure sufficient revenue will be raised over a reasonable time period

Transitway-Enabled Development

Similar to the Potomac Yard Metro station, the opportunity to generate revenue growth via the "Transit Corridors" is vital for the City's future. BFAAC observes that implementation of the identified Corridor C (Beauregard-Sanger-Van Dorn) project continues via the City Manager-appointed Policy Advisory Group, which includes a BFAAC member, and is progressing in line with Council direction. BFAAC also acknowledges the opening of the new MetroWay transit line along Route 1, which is a significant investment leading to additional revenue-generating opportunities. Overall, BFAAC recommends Council continue to prioritize transitway projects in order to maximize revenue-generating potential.

*Public-Private Partnerships for all CIP Projects*

As BFAAC continues to evaluate CIP projects and their effect on the City's long-term health, one of the main observations the committee makes is that the need in CIP far outstrips the City's ability to provide. As a City, we have reached a point where concepts like public-private partnerships are no longer exceptions, but necessary tools that must be utilized by the City to advance its overall CIP goals. BFAAC strongly encourages the identification of potential public-private partnerships and incorporate their innovative features into future CIP projects to meet the needs of our community.

[2] Waterfront Implementation presentation to Alexandria Planning Commission, January 6, 2015
[3] FY 2016 City Manager's Proposed Budget; FY 2016-2025 Capital Improvement Program (CIP), March 23, 2015

BFAAC would like to highlight one area where public-private partnerships should be immediately considered: the Alexandria City Public Schools. Although school capital investments do not directly impact revenue growth, respected and desirable schools raise property values, attract corporate investment and enhance the overall livability of our City. BFAAC understands that a previous public-private partnership for the Jefferson-Houston School was not successful. That example should not deter future public-private partnership opportunities, but should be used to inform how to appropriately approach a public-private partnership. The Miracle Field illustrates the promise of such an approach for smaller ACPS capital needs. Given the CIP resource constraints of the City, BFAAC strongly recommends the School Board and Council immediately initiate discussions for future public private partnerships to meet school capacity needs. Both Councilmembers and School Board members need to recognize that the City can no longer meet its school capacity needs without innovative ideas.

**Summary of Observations:**

- **BFAAC observes that CIP project cost estimates vary greatly in reliability and recommends that the City Manager and staff emphasize CIP cost estimation improvements.**

**Summary of Recommendations/Actions:**

- **BFAAC recommends that the City Manager prioritize CIP investments according to projected outcomes, with economic development return on investment being a major prioritization criterion.**

- **BFAAC would like to compliment the City on identifying the variety of funding mechanisms available and strongly recommends this approach for major future CIP investments.**

- **BFAAC recommends that CIP infrastructure investments in specific areas with high economic development potential (e.g., Potomac Yard, the Waterfront, Eisenhower Valley, Landmark, Beauregard Corridor), as well as transportation/transitway and connectivity projects be prioritized for investment due to their revenue-generating potential.**

- **BFAAC recommends using specific CIP investments as proactive business/commercial development initiatives as part of the City's overall economic development strategy.**

- **BFAAC again reiterates its standing recommendation to Council to not exceed established debt policy guidelines but believes an exception to this policy for the Potomac Yard Metro is appropriate.**

- **BFAAC cautions that Waterfront development investments will not completely break even over the projected twenty-year timeframe and recommends that Council direct City staff to brief Council on projected revenues and costs once three major**

**sites (the Carr hotel property and Robinson Terminals North and South) have all been approved.**

- **BFAAC recommends Council continue to prioritize transitway projects in order to maximize revenue generating potential.**

- **BFAAC strongly encourages the identification of potential public-private partnerships and incorporation of their innovative features into future CIP projects to meet the needs of our community.**

- **BFAAC strongly recommends the School Board and Council immediately initiate discussions for future public-private partnerships to meet school capacity needs.**

CC: Mark Jinks, City Manager
Emily Baker, Acting Deputy City Manager
Debra Collins, Deputy City Manager
Laura Triggs, Deputy City Manager
Kendel Taylor, Acting Director, Finance Department
Morgan Routt, Assistant Director, Office of Management and Budget
Alex Braden, Management & Budget Analyst, Office of Management and Budget

*City of Alexandria, Virginia*

# MEMORANDUM

**DATE:** NOVEMBER 5, 2014

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE

**SUBJECT:** SUMMARY OF FY 2015 RECOMMENDATIONS & KEY POLICY ISSUES FOR FY 2016 BUDGET GUIDANCE

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**New BFAAC Work Schedule:**
In previous years, the Budget and Fiscal Affairs Advisory Committee (BFAAC) has provided an analysis of the City Manager's proposed budget for Council's consideration. The analysis has traditionally been provided in late April, shortly before the budget is finalized and has focused on four key areas: budget process, operations, revenues and capital investments. As we approach the FY 2016 budget process, BFAAC intends to provide analysis of key issues earlier in the process to give Council more time to consider the Committee's recommendations. Please find our proposed work schedule below:

| Date | Topic |
|---|---|
| November 1 | Summary of FY 2015 recommendations and discussion of high-level policy issues facing Council |
| Early January | Analysis of the Five-Year Financial Plan |
| Late April | Streamlined analysis of City Manager's proposed FY 2016 budget |

**Summary of Previous BFAAC Recommendations:**
As Council begins work on the FY 2016 budget, BFAAC thought it would be helpful to highlight the Committee's recommendations from the last two years. Attached please find a memo from City staff that includes a brief summary of BFAAC's previous recommendations as well as a response from staff regarding the status of any actionable recommendations from the previous two BFAAC reports.

**Budget Guidance Development: Focus on Outcomes, not Methods**
As Council enters the FY 2016 cycle, Councilmembers Wilson and Pepper have been tasked by Mayor Euille to develop the budget guidance for the City Manager. BFAAC observes the template for budget guidance varies from year to year. In some years the guidance has been very prescriptive in its approach and in other years, the City Manager has been given more flexibility.

For FY 2016, BFAAC recommends Council provide the maximum amount of flexibility to the City Manager to develop a budget, while still allowing Council to strategically manage the process.

As Council develops and considers the FY 2016 budget guidance, BFAAC strongly recommends the Council focus on achieving outcomes as it sets guidance rather than giving the City Manager specific instructions in specific areas. BFAAC recommends Council avoid giving specific instructions in areas like employee compensation, school division transfers, tax rates, the number of full-time equivalents in specific departments, etc. and allow the City Manager to present Council a variety of options in order to meet strategic objectives identified in the guidance. Moreover, BFAAC recommends the strategic objectives set by Council be directly tied to the five-year strategic plan.

BFAAC believes Council should focus on outcomes in order for the City to have a budget process that is more strategic and accomplishes long-term objectives. The approach outlined above maximizes Council's ability to strategically manage the budget process and provide input throughout the budget deliberations. Council will still have the opportunity to amend whatever budget the Manager recommends. Additionally, to the extent possible, BFAAC encourages the City to identify the need for services within the City and the percentage of each need that is currently being met.

**Key Policy Issues Facing Council:**
Below please find key issues BFAAC recommends Council consider as it develops the FY 2016 budget guidance and ultimately deliberates the FY 2016 budget.

- ***Commercial Development –*** In its last several reports, BFAAC has noted the growing imbalance between residential and commercial property land use. In CY 2014, residential real estate tax base (including multi-family housing) account for 74.1 percent of the total real estate tax base. Unless the commercial base grows, the average resident's property tax bill will need to be increased by nearly $900 over the next five years to sustain <u>current</u> City services.

  BFAAC recognizes any effort to grow the commercial base will incur a short-term cost. For example, even under the best economic growth scenarios, the Business Tax Reform Task Force proposal to reduce the Business and Professional Occupancy License (BPOL) tax to one cent below Arlington's rates would cost more than $6.8 million over the next three years. While this change can encourage business activity if coupled with a strategic emphasis on economic development, the rate and time for a positive return will vary depending on other factors.

  BFAAC encourages Council to develop a long-term business growth revenue plan, one that is tied to the five-year strategic plan. If the goal is to obtain a 50/50 balance between the residential and commercial base, Council should work with partners such as the Alexandria Economic Development Partnership and Alexandria Chamber of Commerce and with key City departments such as Planning and Zoning and Code Administration to develop a tactical plan.

BFAAC encourages Council to aggressively engage the community on the issue of revenue development. Residents need to understand the tradeoffs. If action is not taken in the short-term to boost the commercial base, residents will be hit with growing tax bills and/or City services will need to be significantly scaled back. However, any action to boost the commercial base may come at a cost in the short-term (next 3-5 years), which will create additional pressure in what is already a difficult budgetary climate. The community needs to be engaged immediately so it may understand the challenges facing the city.

- ***Results Alexandria –*** In considering the FY 2015 City Manager's budget, BFAAC noted the introduction of *Results Alexandria* and the grouping of City functions into four "focus areas." As we communicated last fiscal year, only those City departments reporting directly to the City Manager were subject to the *Results Alexandria* performance measurement process. All told, roughly 35 percent of the total City expenditures were not subject to the performance metrics required by *Results Alexandria*.

  With the new budget year, BFAAC recommends that, to the extent practicable, all entities receiving City funding, but not necessarily reporting to the City Manager, be evaluated using the *Results Alexandria* framework. BFAAC continues to endorse the objectives of Results Alexandria and encourages Council to push for more accountability among all entities that receive city funding.

- ***Alexandria City Public Schools (ACPS) budget process –*** During the last five budget cycles, BFAAC has expressed concern about the process and timeline by which ACPS delivers a school budget to the City Manager. The delivery of an ACPS school board approved budget after the City Manager's proposed budget is introduced is a failure of the process and creates an untenable situation where Council must address a substantial shortfall in the ACPS operating budget and capital improvement budget. The process failure is highlighted further for FY 2016 since BFAAC understands that ACPS does not intend to deliver a budget to the City Manager until March.

  BFAAC recommends the Council and School Board meet immediately to rectify this misalignment and adopt a common budget development calendar. If an agreement cannot be reached, BFAAC strongly recommends the City Manager propose and Council adopt a top-line for ACPS with or without an approved School Board budget.

  Finally, BFAAC recommends a joint City Council/School Board work session focusing exclusively on shared services and identifying areas where savings can be found.

- ***Long-Term Capital Investments and Debt Policy Targets and Limits –*** BFAAC has long supported adherence to City debt policy guidelines as an important tool in promoting financial discipline and ensuring Alexandria maintains its AAA/Aaa bond rating. BFAAC recognizes the City is facing substantial capital costs in the coming years and the Committee has previously warned that when accounting for the Potomac Yard Metro station and sanitary sewer upgrades, the City will exceed its limits for debt service as a percent of general

government expenditures and debt service as a percent of personal income in FY 2016 and beyond.

BFAAC recognizes the City's debt policy guidelines are very conservative. BFAAC has also recognized exceeding the current guidelines may be acceptable if the projects to be funded are essential to achieving the City's strategic goals, result in significant long-term benefit to the City, or represent the City's commitment to fulfill a prior obligation.

BFAAC encourages Council to revise the existing debt policy guidelines. BFAAC also urges Council to develop better tools to look at the operational impacts of long-term capital investments (*e.g.*, size of capital investments relative to the General Fund) and review the merits of cash vs. debt financing for capital projects and educate citizens on the variety of funding mechanisms

- ***Add-Delete Subcommittee*** – BFAAC appreciates the opportunity to play an active role in the Council's subcommittee on the add-delete process and looks forward to discussing the results of the subcommittee's efforts with the entire Council. As of this writing, the exact details of the recommendations are still pending. However, BFAAC applauds the Council for creating the subcommittee and seeking to improve the budget process.

- ***Employee Compensation –*** BFAAC understands the issue of employee compensation has taken on increased urgency this year and agrees that pay should be examined in a thoughtful and constructive way. As part of the budget guidance, BFAAC recommends Council commit to a long-term strategic approach around employee compensation and allow the City Manager to provide options for addressing compensation in FY 2016 and beyond. That recommendation must be part of the City's five-year financial plan.

  BFAAC strongly discourages Council from addressing compensation in a tactical way in the budget guidance and instead allow the City's Office of Management and Budget, working with the City Manager, to develop a compensation recommendation for consideration as part of the FY 2016 City Manager's budget. Once finalized, BFAAC recommends Council consider a more robust plan to communicate the City's ongoing efforts to improve its compensation practices with City staff.

**CC:** Rashad Young, City Manager
Debra Collins, Deputy City Manager
Tom Gates, Deputy City Manager
Mark Jinks, Deputy City Manager
Laura Triggs, Deputy City Manager
Kendel Taylor, Acting Director, Finance Department
Nelsie Birch, Director, Office of Management & Budget
Alex Braden, Management & Budget Analyst

**Attachments:** Staff Response to BFAAC's Report on the City Manager's Proposed FY 2015 Budget

*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

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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 Jinks, Deputy City Manager

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

# City of Alexandria, Virginia

Memorandum

DATE: FEBRUARY 18, 2015

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: MARK B. JINKS, ACTING CITY MANAGER

SUBJECT: REPORT ON FIVE-YEAR FINANCIAL PLAN FROM BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

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Attached you will find BFAAC's report and recommendations concerning the Five –Year Financial Plan issued by City staff this past November. This will be discussed at the BFAAC worksession with Council on April 21, 2015.

Attachment

*City of Alexandria, Virginia*

# MEMORANDUM

**DATE:** FEBRUARY 13, 2015

**TO:** THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

**FROM:** BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE

**SUBJECT:** REPORT OF OBSERVATIONS AND RECOMMENDATIONS ON THE CITY'S FY 2016-2020 FIVE-YEAR FINANCIAL PLAN

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As stated in our memo to City Council dated November 5, 2014, the Budget and Fiscal Affairs Advisory Committee (BFAAC) intends to provide three separate reports on different topical areas in lieu of one large annual report. This report is our second planned report to City Council in FY 2015 and discusses our observations and recommendations on the City's Five-Year Financial Plan put out this past November. BFAAC intends to write our third and last report this fiscal year on the City Manager's Proposed FY 2016 Operating Budget and FY 2016-2025 Capital Improvement Program which will be delivered in mid-April. We look forward to discussing all three of these reports and their observations and findings with you at our annual budget worksession in April.

**The Five-Year Financial Plan FY 2016 – FY 2020**

Alexandria continues to face challenging fiscal circumstances impacting both short-term and long-term operations and capital investments. The City is expecting a decrease in revenue coming from the State due to anticipated cuts in spending. Currently the City expects a $16.1 million shortfall in FY 2016, without including costs of implementing various master plans and assuming the ACPS FY 2016 budget request will stay level with its FY 2015 request[1]. With the cost of current service expenditures, this imbalance is expected to grow to $33.8 million by FY 2020 or 4.4% of projected expenditures. Over the period FY 2016 to FY 2020, the City projects the cumulative deficit will total over $128 million.[2] To address the short-term need to balance the FY 2016 budget: 1) Council guidance left open the possibility of a residential tax rate increase[3]; 2) Council shifted the terms of the debate on cash capital versus debt financing of certain capital expenditures[4]; and 3) the Acting City Manager directed department heads to identify an additional 2% cost reduction in departmental expenditures[5]. The annual need to address what has emerged as a longer-term structural fiscal imbalance also introduces less-than-optimal policy

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[1] BFAAC is aware that the revised budget shortfall in FY 2016 according to City staff is now projected at over $30 million.

[2] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 5.1 – Revenue and Expenditure Forecast.

[3] Item 14-3289, "Setting Guidance for FY 2016 General Fund Operating Budget and Capital Improvement Program for FY 2016-FY2025, November 11, 2014.

[4] City of Alexandria, "Minutes of the City Council Legislative Meeting, January 13, 2015."

[5] Internal memo to Department Heads and Agency Directors, "Request for 2% FY 2016 Budget Reduction Options", January 5, 2015.

choices, such as reallocations from the City's Fund Balance to address ongoing operational needs, into Council deliberations.

**Observations and Recommendations on Using the Plan for Policy and Operational Decisions**

The upcoming budget year demonstrates the City's continuing need to correct annually for deficits. BFAAC commends the Acting City Manager and Staff for the development of the Five-Year Financial Plan ("the Plan"), which provides needed analysis of policy and operational decisions designed to achieve short-term balanced budget requirements. The Plan will provide Council with a greater ability to make policy decisions understanding true, multi-year lifecycle costs. The Plan also offers a more complete picture of the true cost of capital investments, including often poorly-understood associated operational costs. With this more complete "total cost of ownership" picture, Council will be able to make more informed tradeoffs across investments as well as better gauge the need for additional debt and/or cash capital for specific capital investments.

From an operational standpoint, BFAAC notes that the Plan also supports proactive planning across budget years by the Acting City Manager and Staff. BFAAC notes that the Plan's explanation of the benefits structure for City employees provides a greater level of certainty on projected compensation and benefits decisions. BFAAC recommends that the Council direct the Acting City Manager to develop a complementary compensation and benefits strategy to further inform policy and operational decisions and better understand impacts on employee retention and morale.

Although the Plan provides important data and an analytical framework for assessing policy decisions (including two potential policy decision analyses), BFAAC cautions Council not to rely on the Plan for a quantification of the human costs of certain service reductions. As we stated in our FY 2015 Report[6], should a policy and/or operational decision be made that cuts human services provision, BFAAC recommends that Council direct the Acting City Manager to conduct a service reduction impact on vulnerable populations consistent with our previous recommendation.

The Plan also underscores the long-term structural fiscal challenges Alexandria, along with its neighboring jurisdictions, face and offers the opportunity to engage the public in candid discussion about these challenges and resulting impacts. With the larger economic development challenges facing Northern Virginia, as recently noted by Dr. Stephen Fuller of George Mason University's Center for Regional Analysis[7], the Plan also provides City leaders with needed data and analysis to engage in regional discussion and cooperation in specific policy areas. BFAAC recommends that Council direct the Acting City Manager to identify for potential regional cooperation to assist in addressing structural fiscal challenges.

**Plan Model and Assumptions**

[6] FY 2015 BFAAC Report to City Council, p. 22.

[7] Fuller, Stephen, "What Will Drive Regional Growth Going Forward?" Cardinal Bank/GMU Annual Economic Conference, January 15, 2015.

The Plan employs a dynamic forecasting model which BFAAC notes is a significant advancement over previously-used static models. Staff refreshes the model based on additional available data and understanding of the impact of major capital projects, such as Potomac Yard development, on the General Fund budget.[8] Despite the relative sophistication of the forecasting model, some level of analytical uncertainty will persist. Staff has accounted, in part, for this uncertainty by developing impact scenarios (baseline/optimistic/pessimistic), commonly used in long-term financial planning.[9] BFAAC recommends that the forecasting model be further enriched by the increased use of benchmarking data from similar municipal jurisdictions across the United States to reduce the level of analytical uncertainty. Benchmarking data would be especially valuable for those policy options requiring investment to generate a longer-term revenue benefit, such as the Business Tax Reform Task Force's recommendation to reduce business license tax rates.[10]

As for the Plan's assumptions, BFAAC believes that the assumptions as a whole appear reasonable to establish a baseline for policy option assessment. Revenue disruptions caused by unforeseen events, such as a federal government shutdown, or cost impacts resulting from higher-than-projected service requirements, such as unexpected ACPS enrollment growth, are not included. Given the outlier nature of these events, BFAAC believes that the Plan's Revenue and Expenditure Forecast reflects the most-likely scenarios that can be reasonably expected. Yearly updates to the Plan will allow for additional fidelity in both estimates and assumptions. To further reduce the probability of these outlier events, BFAAC recommends that the Acting City Manager and ACPS leadership work together to agree on most-likely school enrollment scenarios.

**Plan Communication and Public Engagement**

BFAAC commends the Acting City Manager and Staff for structuring the Plan in a way that effectively communicates the City's current economic position, revenue and expenditure forecasts, and individual policy options. With respect to the City's current economic position, the Plan accurately outlines the City's strengths through easily understood statistics in an effort to detail that the City's local government is stable and prospering. Yet, the Plan throws caution that the slow economic growth experienced in recent years limits the supply of revenue available at current tax rates from keeping up with increasing costs and demand for services.[11] The Plan also effectively communicates projections of future revenues and expenditures in a revamped financial forecast model based on historical analysis and economic indicators with planned or expected changes such as approved CIP out-year funding, the ACPS five-year financial forecast, the expiration of grants, and future changes in programmed service delivery.[12] Finally, the Plan thoroughly examines individual policy options for potential financial impacts within the next five years.[13]

[8] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 5.1 – Revenue and Expenditure Forecast.
[9] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 2.3 – Introduction.
[10] FY 2015 BFAAC Report to City Council, pp. 12-13.
[11] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 4.1-4.6 – Economic Position.
[12] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 5.1-5.16 – Revenue and Expenditure Forecast.
[13] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 6.1-6.8 – Business Tax Reform Task Force Review.

BFAAC understands that the City expended a large amount of resources in developing the Plan and commends the Acting City Manager and Staff for taking a critical step to ensure that the City continues to prosper. Nonetheless, the City should not stop their efforts with respect to communicating the City's current and forecasted fiscal health with the Plan's publication. The City can leverage the Plan's content to communicate strengths and foreseeable challenges to all City stakeholders. BFAAC encourages Council, the Acting City Manager, and Staff to develop a communication plan to ensure the Plan is properly vetted throughout the community and feedback is received in a timely manner.

BFAAC suggests a two-pronged approach for the communication plan. First, BFAAC recommends Council, the Acting City Manager, and Staff to make a commitment to communicate the Plan to key constituencies (e.g., boards and commissions) in an effort to develop broad support for potential policy changes and receive feedback on how to address fiscal challenges. We suggest that the Acting City Manager and Staff meet with ***all*** boards and commissions to discuss the Plan in detail and answer questions. A meeting with all boards and commissions will provide key City stakeholders with a venue to appropriately provide the City with feedback on the Plan and for the City to describe the impact that potential economic occurrences in the future may have on board and commission planning. These meetings should be appropriately advertised on the City's website along with email notifications via the City's eNews service. This will provide an opportunity for citizens not on a board or commission to attend and ensure their voice is heard.

Second, BFAAC recommends Council, the Acting City Manager, and Staff constructively engage with citizens in an effort to expand awareness of fiscal challenges and gain support for policy changes. We recommend that this be primarily accomplished, although not solely, through the *What's Next, Alexandria* initiative. Specifically, the City should develop a webpage for the Plan on the *What's Next, Alexandria* website similar to that of the existing ones for AlexEngage and Chinquapin Aquatics Facility Expansion. Staff should develop a plan to only discuss certain sections of the Plan at a time. For example, the City could discuss the Economic Position section over a two week period and focus on the City's strengths one week and the City's challenges the other week. This will prevent "information overload" and break the Plan into easily consumable portions. In addition to engaging with citizens through *What's Next, Alexandria*, BFAAC recommends that the Acting City Manager and Staff develop a "roadshow" to communicate the Plan and address citizens' concerns. This "roadshow" should include the following:

- Microsoft PowerPoint presentation which details the Plan, its assumptions, and its findings
- Marketing collateral that can serve as "leave-behinds"
- Training for presenters through the Center for Civic Participation
- Engagement with local businesses through the Chamber of Commerce
- Engagement with Alexandria City Public Schools and the Alexandria PTA Council

- Engagement with citizens during the budget development process (similar to the budget development process meetings on January 26, February 5, and February 9, 2015)

- Engagement with civic and homeowner associations

- Engagement with citizens through the annual budget preparation process

- Town hall-type meetings, which can be organized through civic and/or homeowner associations as well as parent-teacher associations

The City's communication plan should not only target one specific audience. Rather, BFAAC recommends that the communication plan be structured in a way where civic engagement is inclusive of all the City's diverse groups. Each group will inevitably have a different view of how the City should invest its resources, and may provide a different or unique viewpoint not previously considered. While meaningful feedback can be gained by speaking with homogenous groups, BFAAC encourages the City to engage different and diverse groups together in constructive discussion. City stakeholders should be encouraged to present how they think the City should invest its resources over the next five years, and to work with different groups to come up with compromises.

As with most publications similar to the Plan, structure and content will likely evolve in future years. A robust communication plan will inevitably provide the City with critical feedback necessary to facilitate the Plan's evolution. BFAAC encourages the Acting City Manager and Staff to not only obtain feedback from boards, commissions, and City stakeholders, but also communicate general themes back. Communication should be two-sided. The City should also include general feedback themes in subsequent publications of the Plan, and detail how the Plan has evolved since its prior publication.

**The Need for a Multi-Year Revenue Strategy and Plan**

BFAAC's FY 2013, FY 2014, and FY 2015 reports noted the continued and growing imbalance between residential and commercial property tax revenues. In CY 2014, commercial assessments accounted for only 25.9 percent of total real estate assessments, which means the primary burden to fund the City's operations falls on residents. As noted in the Plan, assuming no changes in City services and limited commercial growth, the average tax per household will increase from approximately $5,100 in 2015 to $6,200 in 2020.[14] BFAAC is concerned this trend is not sustainable and urges Council to take action to grow the commercial base. Even a small boost in commercial activity can have a major impact. It is estimated that a one percent increase in economic growth above the baseline would cut the five-year financial gap by more than half by FY 2020.[15]

For all of its benefits, BFAAC notes the Plan, in its current form, is in fact a necessary component of a fiscal strategy, and builds the foundation for such a strategy through a revenue and expenditure forecast and an analytical framework used to assess the revenue and cost

[14] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 5.2 – Revenue and Expenditure Forecast.
[15] Ibid.

impacts of two specific policy and operational decisions (the recommendations of the Business Tax Reform Task Force and financing of stormwater sewer upgrades). A "Plan" in its truest sense would articulate a vision, strategy, and goals, along with associated performance metrics designed to measure success against outcomes. While the Plan produced by City Staff is a good first step and provides a valuable snapshot of the City's fiscal health, the document does not include long-term revenue goals or recommendations for actions Council can take to boost the commercial base.

As stated in our FY 2015 report, BFAAC recommends Council direct the Acting City Manager and Staff to develop a multi-year, long-term revenue strategy and plan.[16] In developing this strategy and plan, BFAAC recommends Council set five-year and ten-year revenue goals and work with City staff to develop an action plan that evaluates the costs and benefits of various actions the City could take to boost the commercial base, including reducing the business license tax, otherwise known as the BPOL tax; investing in transportation and other infrastructure projects; identifying strategies to develop additional class A office space; promoting Alexandria as a business-friendly city; and targeting specific industries where the City may have a competitive advantage.

BFAAC recognizes any action Council takes to boost the commercial sector will likely incur a significant cost in the short-term. For example, the current Plan's analysis of the Business tax Reform Task Force's recommendations estimates the cost of reducing BPOL tax rates to one cent below Arlington County's rates over two years would cost the City $21 million in lost revenue over the next five years.[17] If the BPOL tax rate reduction results in significant commercial growth, the policy may raise revenue in the long-term, but Council lacks sufficient data to make an informed decision.

The Plan notes that Council could decide to request a review of a range of tax incentives that may be more likely to trigger business growth in the City. BFAAC encourages Council to request this review and consider implementing pilot programs in FY 2016 and FY 2017 to test out various strategies. For example, Council could consider a targeted BPOL tax rate reduction for certain types of businesses or look at the feasibility of reducing BPOL tax rates for businesses that move into targeted areas of the City. The cost of a pilot program would be substantially less than implementing the full policy and may provide Council valuable data to inform long-term efforts.

Before looking at the policy options, BFAAC encourages Council to set long-term revenue goals. What is the ideal split between commercial and residential real estate tax revenue? Is the goal still a 50-50 split? Is Council willing to consider policies that incur a cost in the short-term in order to improve the long-term revenue picture of the City? BFAAC encourages Council to start to address these issues and solicit feedback from residents. The bottom line is if action is not taken now, Council will be forced to significantly scale back city services or ask residents to bear an even greater tax burden.

[16] FY 2015 BFAAC Report to City Council, p. 13.

[17] City of Alexandria, "Five-Year Financial Plan FY 2016 – FY 2020," Section 6.2 – Business Tax Reform Task Force Review.

**Staying the Course to Address the City's Fiscal Challenges**

BFAAC encourages Council to make a public commitment to addressing the City's longer-term structural fiscal challenges. The Five-Year Financial Plan provides the data and analysis to make better-informed decisions, particularly for those short-term decisions with longer-term impacts. The BFAAC-proposed Multi-Year Revenue Strategy and Plan will articulate a critically necessary revenue strategy with an action plan and metrics. But the City will only realize the benefits of these efforts if the political will is there to stay the course.

SUMMARY OF OBESERVATIONS:

- **BFAAC commends the Acting City Manager and City Staff on the development on the Five-Year Financial Plan FY 2016 – FY 2020. The Plan will provide Council with a greater ability to make policy decisions understanding true, multi-year lifecycle costs. The Plan also offers a more complete picture of the true cost of capital investments, including often poorly-understood associated operational costs.**

- **BFAAC cautions Council not to rely on the Plan for a quantification of the human costs of certain service reductions.**

- **BFAAC observes that the Plan's Revenue and Expenditure Forecast reflects the most-likely scenarios that can be reasonably expected, and recommends that the Forecast be updated on an annual basis to refine estimates and assumptions.**

- **BFAAC observes that the Plan, in its current form, is in fact a necessary component of a fiscal strategy, and builds the foundation for such a strategy through a revenue and expenditure forecast, with an analytical framework used to assess the revenue and cost impacts of two specific policy and operational decisions. While the Plan is a good first step, the document is an assessment of the City's financial health, rather than a plan that outlines goals and recommends specific actions.**

SUMMARY OF RECOMMENDATIONS/ACTIONS:

- **BFAAC recommends that the Council direct the Acting City Manager to develop a complementary compensation and benefits strategy to further inform policy and operational decisions and better understand impacts on employee retention and morale.**

- **BFAAC recommends that Council direct the Acting City Manager to conduct a service reduction impact any policy or operational decisions made that would affect vulnerable populations.**

- **BFAAC recommends that Council direct the Acting City Manager to identify additional areas for potential regional cooperation to assist in addressing structural fiscal challenges.**

- **BFAAC recommends that the forecasting model be further enriched by the increased use of benchmarking data from similar municipal jurisdictions across the United States to reduce the level of analytical uncertainty.**

- **BFAAC recommends that the Acting City Manager and ACPS leadership work together to agree on most-likely school enrollment scenarios.**

- **BFAAC recommends Council, the Acting City Manager, and Staff to develop a communication plan to engage with City stakeholders.**

- **BFAAC recommends Council, the Acting City Manager, and Staff to make a commitment to communicate the Plan to key constituencies (e.g., boards, commissions, and City stakeholders) in an effort to develop broad support for potential policy changes and receive feedback on how to address fiscal challenges.**

- **BFAAC recommends Council, the Acting City Manager, and Staff constructively engage with citizens in an effort to expand awareness of fiscal challenges and gain support for policy changes.**

- **BFAAC encourages the Acting City Manager and Staff to not only obtain feedback from boards, commissions, and City stakeholders, consistent with policy in the City's Civic Engagement Handbook, but also communicate general themes back to these stakeholders and to citizens at large. The City should also include these general feedback themes in subsequent publications of the Plan, and detail how the Plan has evolved since its prior publication.**

- **BFAAC recommends that Council direct the Acting City Manager and Staff to develop a multi-year, long-term revenue strategy and plan, with specific long-term revenue goals, an action plan to achieve the goals, and a set of metrics.**

- **BFAAC recommends Council request a review of a range of tax incentives and other actions that will be likely to trigger business growth in the City.**

- **BFAAC encourages Council to consider implementing pilot projects in FY 2016 and FY 2017 to test different approaches to grow the City's commercial base.**

- **BFAAC encourages Council to make a public commitment to addressing the City's long-term structural fiscal challenges.**

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