City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 16, 2005

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: JAMES K. HARTMANN, CITY MANAGER

SUBJECT: BUDGET MEMO #51: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC) REVIEW OF ECONOMIC DEVELOPMENT ACTIVITIES IN THE CITY

City Council requested that the Budget and Fiscal Affairs Advisory Committee (BFAAC) conduct a review of the City government funded economic development activities at their December 14, 2004 meeting. The BFAAC report on economic development activities is attached. The December 14th Council request is also attached. BFAAC will be available to discuss this report at the April 27, 2005 work session.

Attachments

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EXHIBIT NO. 1

14
12-14-04

City of Alexandria, Virginia

MEMORANDUM

DATE: DECEMBER 9, 2004

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER ps

SUBJECT: CONSIDERATION OF REQUESTING THE BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE TO CONDUCT A REVIEW OF ECONOMIC DEVELOPMENT ACTIVITIES IN THE CITY

ISSUE: Economic development related budget requests for FY 2006.

RECOMMENDATION: Request that the Budget and Fiscal Affairs Advisory Committee conduct a review of the City government funded economic development activities in the City.

BACKGROUND: One of the topics covered at the November 20 Council Retreat was that of the various economic development activities in the City carried out by over a dozen private non-profit organizations and governmental offices in the City. Some of these organizations are privately funded and operated, but many of these organizations receive large portions of their budgets from the City. For FY 2005, the City will spend over $3 million dollars on these activities, including $2.7 million for the Alexandria Economic Development Partnership (AEDP), the Alexandria Convention and Visitors Association (ACVA), the Small Business Development Center (SBDC), the Eisenhower Partnership (EP), the Marketing Fund and the Holiday Marketing Program. Other City funds will be expended on planning studies (such as the Mt. Vernon Avenue Plan), for the Business Facilitator function, as well as in various City operating programs. For FY 2006, the budget requests from three of the economic development-related non-profit organizations which the City funds (AEDP, ACVA, SBDC), as well as the new West End Business Association (WEBA), total some $3.1 million, which represents a record $636,000 or 26% budget request increase for these organizations.

In light of the major City funding of economic development groups, and in light of the major City development and retail studies currently underway, several questions have been raised by residents, the business community and Council members about the extent, coordination and effectiveness of economic development activities in Alexandria. During the Council's visioning sessions and more recently at the Council's Retreat, you received a briefing from City staff that highlighted not only budget information, but also the varying missions, organizational structure, financial support and performance measures of the public/private organizations and City offices and departments engaged in economic development.

Councilmen Smedberg and Krupicka have recently proposed that the Budget and Fiscal Affairs Advisory Committee (BFAAC) conduct a more detailed review of the organizations and City departments and offices engaged in economic development activities in Alexandria. The proposed review would specifically look at the missions and major goals, organizational structure, financial support and performance measures for each organization and the degree to which the organizations and offices work together to achieve clearly defined City economic development priority goals. They believe, and I agree, that an impartial BFAAC review would help put the varied economic development activities in context as we prepare for important policy and budget discussions related to the Fiscal Year 2006 budget. Ideally, Councilmen Smedberg and Krupicka recommend that BFAAC report back to Council by early April 2005 – or sooner if feasible – so there is ample time to review and assess the report's findings prior to budget proceedings.

A second part of the follow up to the City Council Retreat discussion on economic development and to Council's Strategic Plan will be to prepare, for Council consideration, an outline for the planned future retreat on the topic of the future of the City's economic health. A retreat proposal (topics, participants, desired outcomes) will be developed and brought forward by City staff, working with the economic development organizations, for Council consideration in January. BFAAC's work will need to be structured so as to consider the actions of this retreat in their analysis.

City of Alexandria Budget and Fiscal Affairs Advisory Committee

Report on Economic Development Activities

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EXECUTIVE SUMMARY

In view of the record amount of FY2006 requests for funding for economic development activities, totaling more than $3 million, City Council asked BFAAC to undertake a review of economic development activities in the City. Specifically, BFAAC was asked to look at missions and major goals, organizational structure, financial support and performance measures for organizations engaged in economic development activities and the degree to which the organizations work together to achieve clearly defined City economic priority goals. BFAAC was asked to put the varied economic development activities in context and to report by early April for consideration in FY2006 budget proceedings.

We focused on the organizations and funds covered in the City Manager's FY2006 budget proposal for economic development activities. The City Manager's budget proposes to fund the organizations and funds at FY2005 levels and to set aside a $500,000 designator in the Fund Balance, pending our report and later consideration by City Council.

Based on the information we gathered, the following are some of our main observations:

- City funding for economic development activities will have increased three-fold over the past 10 years from under $900,000 in FY1997 to more than $3 million in the current request. The current requests, taken together, total $541,139 in new funding, representing a 21.8 percent increase over funding in FY2005, on top of a 20.1 percent increase in the previous year.

- The FY2006 budgets of the organizations requesting City funds show that revenues from City sources represent nearly 90 percent of their total funding. AEDP at 100 percent and ACVA at 93.6 percent are in the highest ranges of City funds percentages.

- In 1995, a Mayor's Task Force recognized that the City needed to consolidate economic development functions in order to reduce duplication of expenses and to provide a more comprehensive and coordinated economic development program, policy and budget guidance for economic development activities, and direct oversight of City-funded economic development initiatives. The Council approved a plan along these lines in 1996; however, the Board that was to perform the economic development planning and oversight functions never became fully functional and at some point was abandoned.

- Since the mid-1990s, the City has appropriated monies to various outside groups involved in economic development activities based on their requests made directly to Council through the City's Office of Management and Budget. During this time, Alexandria has had no overall City plan or strategy for economic development and funding decisions may be said to have been made on an ad hoc basis.

- There has been no effective oversight of the way City economic development funds are spent and no real accountability on the part of recipients of the funds.

- There appears to be considerable duplication of effort among the groups receiving funds. For example, AEDP, ACVA, Eisenhower Partnership and WEBA all have

marketing functions. ACVA is extending its marketing efforts to neighborhoods in the City, many of which are already covered by area business associations with their own marketing activities. The City has appropriated money to these organizations for marketing and, in addition, has set up specific marketing funds that end up with the organizations.

- There seems to be no standard for City support of private business groups. Some such groups request funds for special projects while others ask for operational funds. We question whether City funding of day-to-day core business operations of private membership groups provides good value for City economic development dollars, especially where such funding may primarily benefit the organization's members.

- Other jurisdictions in Virginia and elsewhere do not handle economic development in the way Alexandria does. The cities/counties we reviewed generally have some form of centralized economic development body; most have departments or offices as an integral government function.

As we explain more fully in our report, we believe that a comprehensive and coordinated approach to managing economic development activities would produce better economic development results for the City and perhaps lead to efficiencies and cost savings that could be devoted to tax relief or other City priorities.

We have the following recommendations:

- The City should take prompt action to develop an overall economic development strategy and, within that strategy, provide for necessary planning, policy guidance and oversight of City spending on economic development activities. We encourage City Council and the new City Manager to make this a priority.

- Economic development planning, policy guidance and oversight should be a City staff function, reporting to the City Manager, so that economic development activities are subject to the same type of management, control and budgetary review as are other important City functions.

- A close look needs to be taken at the funding of outside economic development organizations to assure that the City is getting an appropriate benefit for the costs incurred. We urge caution in considering any increase in appropriations for these groups for FY2006, as has been requested.

- The City should consider using a portion of the $500,000 recommended as a set aside for economic development activities to determine how best to proceed in developing an overall economic development strategy, whether by assigning/hiring professional staff or seeking advice from outside consultants.

- To the extent that Council may wish to increase economic development spending for FY2006, we recommend additional appropriations to the City's Marketing Fund for specific projects.

I. INTRODUCTION

In view of the record amount of FY2006 requests for funding for economic development activities, totaling more than $3 million, then-City Manager Philip Sunderland recommended, by memorandum of December 9, 2004, that BFAAC undertake a review of economic development activities in the City. The City Council approved the recommendation on December 14, 2004. Specifically, BFAAC was asked to look at missions and major goals, organizational structure, financial support and performance measures for organizations engaged in economic development activities and the degree to which the organizations work together to achieve clearly defined City economic priority goals. BFAAC was asked to put the varied economic development activities in context and to report by early April for consideration in FY2006 budget proceedings.

We have focused here on the organizations and funds covered in the City Manager's FY2006 budget proposal for economic development activities. The City Manager's budget proposes to fund the organizations and funds at FY2005 levels and to set aside a $500,000 designator in the Fund Balance, pending our report and later consideration by City Council.

In gathering information for this report, we reviewed publicly available information regarding economic development in other jurisdictions and contacted officials in those jurisdictions as necessary for clarification; interviewed City staff from the Office of Management and Budget; requested and received additional information from the organizations that have requested City funds and followed up with interviews of the Alexandria Convention and Visitors Association, Alexandria Economic Development Partnership and the Small Business Development Center. We also reviewed the City's Strategic Plan adopted by Council last fall, listing as a goal "a strong local economy that is growing in varied small businesses and job opportunities," as well as various City documents, including those listed in the Appendix. We have not reviewed activities of the City Planning and Zoning Department or other City offices that may also have economic development-related functions.

In this report, we review the recent background and history of funding for economic development activities, describe the organizations and funds seeking funding, survey other jurisdictions, and summarize City cash support for economic development activities over the last ten years and the FY2006 requests for funding. We include a number of observations and conclude with recommendations for a comprehensive and coordinated approach for managing economic development activities within the City.

II. BACKGROUND/HISTORY

The Alexandria Economic Development Program was started in the early 1980s to facilitate the attraction of new business operations and promote desirable development in targeted areas of the City. In December 1991, the City entered into an agreement with the Chamber of Commerce and the Industrial Development Authority to create the Economic Development Board of Directors (EDBD) to oversee the operation of the Alexandria Economic Development Program. The EDBD held its first quarterly meeting in February 1992. The EDBD had the responsibility to

set goals, objectives and priorities for the City's Economic Development Program. The Economic Development Program sponsored quarterly economic roundtable meetings.

In January 1993, then-Councilman Donley proposed a comprehensive business development plan, to include creating a marketing plan to be developed by the City's Alexandria Convention and Visitors Bureau (ACVB) and a marketing fund under ACVB direction. The proposal suggested that ACVB functions may be more properly suited for the private sector, with public investment providing a stimulus for business activity, with eventual implementation of a public/private partnership. The proposed Marketing Fund was established in 1993 as part of the FY1994 budget.

Also in 1993, the City and the Alexandria Hotel Association contracted for an assessment of the ACVB's structure and activities. The assessment was presented in April 1994 to the EDBD and at that time a Mayor's Advisory Task Force was established, with EDBD concurrence, to provide options for organizational structures for ACVB, including authority, accountability and funding within a framework of the City's overall economic development initiatives. The Mayor's Task Force reported in April 1995. Recommendations included:

- Privatization of the ACVB, with a one-year transitional period during which time a Transitional Board of Governors would develop a specific plan for privatization.
- The EDBD would become the Alexandria Economic Development and Tourism Board, which would review the privatization plan.
- The City would contribute $370,823 in FY1996 to the ACVB and the privatized ACVB would identify private sources of revenue to match or exceed the City's contribution.
- Economic development functions would be consolidated under one Board as a way of reducing duplication of expenses, providing a more coordinated and comprehensive program, emphasizing the City's commitment to economic development and leveraging the City's financial commitment to ACVB, the Economic Development Program and the Marketing Fund.
- The EDBD would be renamed the Alexandria Economic Development and Tourism Board and expanded to include representatives of ACVB. The new Board would provide policy and budget guidance and oversight of City-funded economic development initiatives.
- The new Economic Development and Tourism Board would have direct oversight of the ACVB, the Economic Development Program and the Marketing Fund.

The Council received the report of the Mayor's Task Force and approved the concept of privatizing the ACVB on April 11, 1995, and at the same time created a Transitional Board of Governors of the ACVB. The Alexandria Economic Development Board of Directors became the Alexandria Economic Development and Tourism Board, recognizing the need to streamline and combine the City's economic development activities into one organization.

The Transitional Board thereafter prepared a plan for the privatization of ACVB. Under the Plan, ACVB would be separately incorporated and renamed the Alexandria Convention and Visitors Association, Inc. (ACVA). The plan was consistent with the recommendations of the Mayor's Task Force in terms of structure of the new ACVA. The plan contemplated that an annual appropriation by the City to ACVA would be contingent upon ACVA periodically reporting to and participating in the Alexandria Economic Development and Tourism Board, which would provide broad policy oversight of all City-funded economic development initiatives as originally recommended by the Mayor's Task Force. The plan envisioned that ACVA would seek private sector funding to match or exceed the City's contribution. In a meeting on January 24, 1996, the Council considered the plan prepared by the Transitional Board of Governors. The Council, by unanimous roll call vote, approved the plan for privatization and renamed ACVB as ACVA.

The City held three Economic Summits between 1996 and 1999, setting priorities for the City's economic development efforts. Organizational matters, such as the role of the Economic Development and Tourism Board, do not appear to have been discussed. The City's Annual Reports for 1995, 1997 and 1998 contain references to this Board and the City Manager's budget proposals through FY2004 recite that ACVA reports to the Economic Development and Tourism Board on a quarterly basis as a condition of its annual appropriation by the City. Notwithstanding these references and the intent that this Board would provide policy and budget guidance and oversight of all City-funded economic development initiatives, it appears that the Alexandria Economic Development and Tourism Board never functioned in this way and at some point was abandoned. Therefore, contrary to recommendations of the Mayor's Task Force and the plan approved by Council in 1996, there has been no organization in the City providing policy guidance and oversight of City economic development funds. Instead, groups seeking such funds request them directly of Council through the Office of Management and Budget.

In January of 2004, the City, at the urging of the Alexandria Chamber of Commerce, among others, created the position of Business Facilitator in the City Manager's office. The Business Facilitator serves as the City's principal liaison assisting small and medium-sized businesses in navigating the regulatory and tax requirements of the City.

III. ECONOMIC DEVELOPMENT ORGANIZATIONS/FUNDS

Alexandria Convention and Visitors Association (ACVA)

ACVA was established in 1996 as the privatized version of the City's Convention and Visitors Bureau. See Background/History section above. The ACVA is a not-for-profit business association that has qualified as a tax-exempt business league under section 501(c)(6) of the Internal Revenue Code. Its mission is to generate tourism and conventions that increase revenues and promote the City and its assets.

ACVA is the proponent of the slogan, "The Fun Side of the Potomac." The organization operates from a strategic marketing plan and annual marketing and business plans. Marketing plans and programs include seasonal programs, such as Fall for the Arts and Historic Holiday

Planner; USO Weekend; Ghostly Alexandria; Paint Alexandria; and Fun Side Culinary and Cooking Experience. ACVA produces and distributes the "Official Visitors Guide" and has recently launched an interactive City map for visitors on the internet. ACVA is expanding its marketing efforts to increase tourism in City neighborhoods other than Old Town.

ACVA has over 250 members. These members are featured in the Official Visitors Guide and on the ACVA interactive map. ACVA is governed by a 15-member Board, which includes the Mayor (or designee) and City Manager designee, and members representing hotels, retail establishments, restaurants and associations. The Board chooses its own members and they are confirmed by the City Council.

ACVA tracks its performance by measuring increase in hotel occupancy, average daily room rates, and revenue per available room; increases in revenues from hotel taxes, food taxes and retail sales taxes; visitor inquiries; web site hits; event attendance; and responses to surveys.

ACVA works with other economic development organizations and community groups.

Number of employees: 11 full time; 15 part time.

FY2006 request: $1,875,000. This is an increase of $239,786 (14.7%) over FY2005 funding that would go for operational expenses. Note that ACVA also requests that $125,000 separately proposed for the Holiday Marketing Program be appropriated to ACVA for a total of $2,000,000 in FY2006, an increase of $364,786 (22.3%).

Estimated percent of revenues represented by requested City funds: 93.1 percent. Including requested Holiday Marketing Fund monies and City in-kind contribution of office space, the percentage increases to 93.6 percent.

Alexandria Economic Development Partnership, Inc. (AEDP)

AEDP is a non-profit business association, originating as the Alexandria Economic Development Program. It has qualified as a tax-exempt business league under section 501(c)(6) of the Internal Revenue Code. The name was changed to the Alexandria Economic Development Partnership, Inc. in 1994. AEDP is described as a public/private partnership between the City and its business community. Its mission is to market the City as a premier business location in order to expand economic activity and enhance the business environment. Its efforts are directed at recruiting new businesses and developing existing ones. It promotes the City through exhibitions, marketing missions and events, direct mail campaigns, business networking and media outreach. AEDP targets certain industries to keep the City's economic base diversified. Current targets include technology companies, associations, and retail establishments. AEDP received the 2005 Award of Excellence from the American Planning Association Economic Development Division for its role in recruiting the U.S. Patent and Trademark Office to the City.

AEDP is governed by an 11-member Board that includes the City Manager, a member of City Council and the Mayor as Chairman. The Board chooses its own members and they are

confirmed by City Council. The organization operates from a Three-Year Strategic Plan for FY2005-2007 setting forth specific goals and related strategies. AEDP measures its performance by tracking, among other things, the number of companies attracted or retained, jobs impacted and estimated tax revenues.

In addition to revenues from the City's general fund, AEDP also draws on funds from the City's Industrial Development Authority (IDA). (IDA monies are accumulated through fees collected on City bond issues.) AEDP would like to undertake a City-wide façade improvement grant program using IDA funds.

AEDP has "Strategic Alliances" with partners that include ACVA, SBDC, Eisenhower Partnership, WEBA, Potomac West Business Association, King Street Metro Enterprise Team (now merged with Old Town Business Association) and the Alexandria Hotel Association.

Number of employees:	4 full time; 1 summer intern.
FY2006 request:	$735,475. This represents an increase of $201,353 (37.7%) over FY2005 funding. Increased funds would be used for operating expenses and a new program manager position. AEDP also proposes to draw on $193,787 in funding from IDA fees, which would include $100,000 for the proposed façade improvement grant program.

Estimated percentage of revenues represented by City funds: 79.1 percent. Including requested IDA funds, the percentage increases to 100 percent.

Small Business Development Center (SBDC)

The SBDC is a non-profit educational organization that has qualified as a charitable organization under section 501(c)(3) of the Internal Revenue Code. Originally established in 1996, its mission is to strengthen small businesses and promote economic growth by providing quality services such as management consulting, educational programs and access to business resources. Business services provided are confidential and free of charge. The SBDC is part of a statewide network of Small Business Development Centers funded in part by the U.S. Small Business Administration (SBA). SBA funds must be matched with funds from other sources. The SBDC received a federal grant after September 11, 2001 in the amount of $116,845 to promote recovery of business and the local economy. That grant is now depleted. The State is no longer providing SBDC funds.

The SBDC is governed by a 13-member Board of Directors, six of whom are appointed by the Alexandria Chamber of Commerce. The Chamber also hosts the SBDC offices.

The SBDC measures its performance by collecting client information that is reported to the Virginia Small Business Development Centers (VSBDC) and the SBA. The data reported reflects number of clients, number of training events, hours provided in counseling and numbers of attendees. In addition to this requirement, the SBDC collects economic impact data such as: increased sales, increased payroll, jobs created/retained and new loans/capital investment. This data is collected via client survey annually and then forwarded to the VSBDC and SBA.

The SBDC is accredited by the Association of Small Business Development Centers and undergoes a performance review by VSBDC annually to ensure compliance with SBA and VSBDC policies and procedures.

The SBDC works with the City's Business Facilitator, AEDP and business groups including Eisenhower Partnership and West End Business Association.

Number of employees: 2 full time; 1 part time.

FY2006 request: $120,000. This is an increase of $60,000 (100%) over FY2005 funding. The requested increase would replace in part lost federal and state funds and permit the reinstatement of a part-time small business specialist position.

Estimated percentage of revenues represented by City funds: 51.1 percent. Including in-kind contribution of office space by the Alexandria Chamber of Commerce, the percentage of City funds decreases to 45.8 percent.

Eisenhower Avenue Public Private Partnership (EAP)

EAP (or the Eisenhower Partnership) is a non-profit business corporation that has qualified as a tax-exempt business league under section 501(c)(6) of the Internal Revenue Code. It was formed in 1994 with seed money from the City and private development companies to promote economic development and quality of life along the Eisenhower Avenue corridor. It is a membership organization that serves as a source of information and sponsor of community forums, promotes quality development, provides leadership on issues that impact development in the Eisenhower Valley and provides business networking opportunities. The Partnership worked with the Alexandria Chamber of Commerce and other business and civic associations to promote the relocation of the U.S. Patent and Trademark Office to Eisenhower Avenue. For 2006, the Partnership plans a new marketing initiative to attract businesses to Eisenhower Valley and is organizing a Residential Advisory Board to facilitate involvement of residents living in and near the Eisenhower Valley in the planning and development process.

EAP is governed by a 16-member Board of Directors that includes the Mayor and a member of Council. There are over 100 dues-paying members. Among other benchmarks, EAP tracks the number of new businesses moving to the area and estimates tax revenues these businesses will generate.

The Eisenhower Partnership works with the Chamber of Commerce, ACVA, AEDP, and WEBA to promote Alexandria and foster business relationships.

Number of employees: Executive Director and Assistant are part-time independent contractors.

FY2006 request: $30,000. This is an increase of $5,000 (20.0%) over FY2005 funding. EAP will use City funds for special marketing projects.

Estimated percent of revenues represented by requested City funds: 35.0 percent.

West End Business Association (WEBA)

WEBA is a non-profit business association formed in 2004. WEBA plans to file an application for tax exemption as a business league under section 501(c)(6) of the Internal Revenue Code. Its mission is to unify, strengthen and serve the business community in Alexandria's West End by providing marketing opportunities for its members and publicizing the area as a developing, progressive business district. Mayor Euille and the AEDP facilitated WEBA's formation. Major programs include: networking nights, monthly luncheons, special interest group meetings, orientation of new members, quarterly meetings/annual meetings, WEBA Online WebSite, and WEBA and the City (giving members a greater voice in key political issues).

WEBA is governed by an 11-member Board of Directors chosen from the membership. There are currently 70 member businesses and 8 corporate sponsors.

WEBA works with SBDC and has ex-officio relationships with AEDP, ACVA, Eisenhower Partnership and other business groups.

Number of employees:	None, at this time.
FY2006 request:	$35,000. This is WEBA's first request. Funds would be used to pay a part-time Executive Director, purchase office equipment and supplies.

Estimated percent of revenues represented by requested City funds: 52.4 percent.

Alexandria Marketing Fund

First introduced in Alexandria's FY1994 budget as part of then-Councilman Kerry Donley's business development plan, the Alexandria Marketing Fund is designed to increase revenues within the City by fostering public/private partnerships that promote Alexandria as a destination for visiting, shopping, dining and doing business. City Council has appropriated $100,000 to the Marketing Fund each fiscal year since that time.

To administer the Fund, the City Council created the Alexandria Marketing Fund Committee, a public/private group with representatives of:

City Council
City Manager
Alexandria Chamber of Commerce
Alexandria Convention and Visitors Association
Alexandria Economic Development Partnership
Alexandria Hotel Association
Alexandria restaurants (to be appointed by the Marketing Committee)
Eisenhower Avenue Partnership
King Street Metro Enterprise Team
Landmark Mall
Old Town Business Association

Potomac West Business Association
Torpedo Factory Artists Association

In 1994, the Committee conducted a survey of Alexandria businesses and developed an initial marketing plan to identify the goals of the Marketing Fund. Since that time, these goals have been adapted to enhance the long-range marketing plans of ACVA and AEDP as approved by their respective boards of directors and the Alexandria City Council.

Pursuant to the Guidelines established by the Council, the Alexandria Marketing Fund Committee receives applications and grants funds for promotion of selected special events (not operational costs). The events must advance the plans of ACVA or AEDP and City funding must be matched on a 1:1 basis. Examples of grants include support for First Night, Art on the Avenue and various holiday advertising programs. City staff and officials of ACVA and AEDP agree that the Marketing Fund works well.

Number of employees:	None. Alexandria Marketing Fund Committee is staffed by the City Office of Management and Budget.
FY2006 request:	$100,000. Amount is the same as in previous years.

Estimated percent of revenues represented by requested City funds: 100 percent (with equal match of funds from other sources).

Holiday Marketing Program

In FY2001-2004, the City offered free holiday parking, generally from Thanksgiving through New Year's Day in Old Town and on Mount Vernon Avenue for metered spaces and in City-owned garages in the evenings and all day on weekends and holidays. The estimated cost of the free parking program was estimated at approximately $76,000 to be partially offset by increased sales and restaurant meal tax revenues. In the FY2005 budget, the City replaced the free parking program with $125,000 in funds set aside for a Holiday Marketing Program to be coordinated by the ACVA.

In FY2005 (for the 2004 holiday season), ACVA applied the Holiday Marketing Program to promotion of "Alex, the official spokes-Scottie of the Alexandria holiday season." Visitors could register at participating merchants to win an Alexandria shopping spree, with the winner to be announced at First Night Alexandria on December 31st.

Number of employees:	None. The Holiday Marketing Program was coordinated by ACVA in FY2005. ACVA has requested that funds for this program be included in the ACVA budget appropriation beginning in FY2006.
FY2006 request:	$125,000. Amount is the same as in FY2005 (the first year of funding).

Estimated percent of revenues represented by requested City funds: 100 percent.

IV. SURVEY OF OTHER JURISDICTIONS

We reviewed the way that other jurisdictions in Virginia, Maryland and the District of Columbia handle economic development functions. Nearly all nearby jurisdictions in Virginia and Maryland have departments or offices of economic development as a part of the City or County budget with staff hired by the jurisdiction. The results are shown in the table below.

Economic Development Agencies: Virginia, Maryland & D.C.

City or County	Annual E.D. Budget	% of Total Budget	Total Staff of Dep't. or Office	Business and/or Citizen Advisory Group & Size	2004 US Census Bureau Pop.
VIRGINIA					
ALEXANDRIA*	$2.48 Million	<1%	0	None citywide	128,923
Arlington County**	$3.86 million	<1%	8 full–20 FTE	Yes – 16	187,873
Fairfax County	$7.1 million	<1%	33	Yes – 7	1,000,405
Falls Church	$371,915	<1%	3	Yes – 7	22,031
Chesapeake***	$5.1 million	<1%	13	No	210,834
Norfolk	$1.9 million	<1%	20 FTE	No	241,227
Roanoke	$675,450	<1%	7	No-regional only	92,863
Richmond*	$1.7 million	<1%	13	None citywide	194,729
MARYLAND					
Annapolis*	$361,000	< 1%	4	None citywide	36,178
D.C.					
Washington, DC ****	$1.04 million	< 1%	10 FTE	No	563,384

* These jurisdictions have business-related advisory groups but these groups do not oversee the entire economic development activity program in the jurisdiction.

** Arlington County FY2005 budget provides for $2.71 million for Econ. Dev. and $1.16 million for travel and tourism promotion.

*** Chesapeake includes Econ. Dev. at $1.6 million and $3.6 million for Chesapeake Conference Center; staffing includes 10 positions in Econ. Dev. and 3 positions in Conventions and Tourism.

**** Washington, DC has a combined Planning & Economic Development function under a Deputy Mayor with several functions and a budget of $22.3 million. It contains an Office of Local Business Development within it. The Office does not operate to attract new business in the traditional manner, but helps foster economic development and job creation by providing contracting opportunities for businesses with the private sector and District government agencies. The budget shown is for the Office of Local Business Development. Much tourism promotion is provided by the private sector.

Sources: Websites, direct contact with cities or counties in March, 2005, and February, 2004 survey by John H. King, Director, Economic Development, City of Bowie, Maryland.

In addition, the following Maryland cities have economic development offices with the following number of city employees: Westminster – 1; Cumberland – 1; Frederick – 3; Bowie – 3; Gaithersburg – 4. Rockville has a private corporation for economic development with 2 employees.

V. CITY CASH SUPPORT FOR ECONOMIC DEVELOPMENT ACTIVITIES*

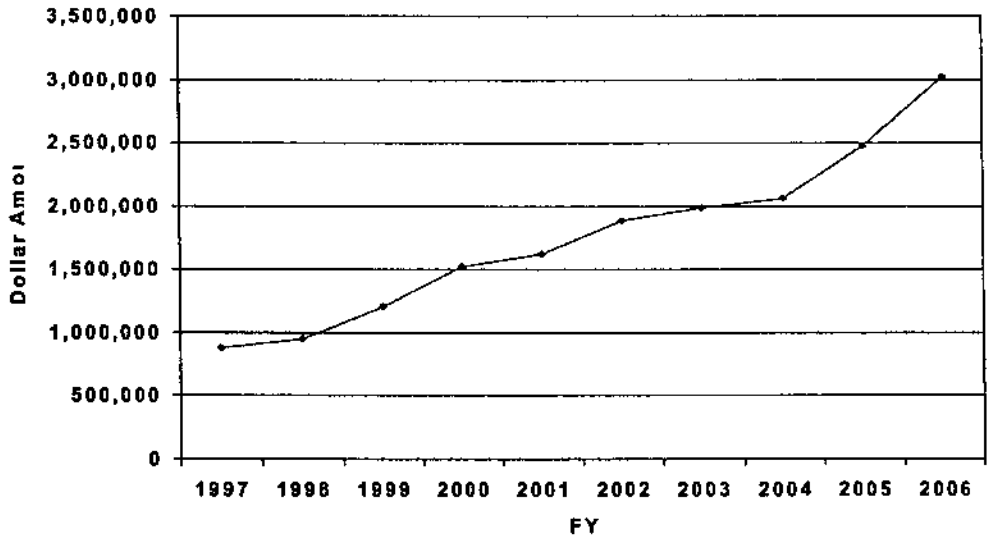
	FY1997 Approved	FY1998 Approved	FY1999 Approved	FY 2000 Approved	FY 2001 Approved	FY 2002 Approved	FY2003 Approved	FY2004 Approved	FY2005 Approved	FY2006 Requested
ACVA**	380,413	380,413	580,413	956,378	985,069	1,242,069	1,339,052	1,392,614	1,635,214	1,875,000
AEDP	373,144	450,732	450,732	447,266	479,264	476,304	487,560	506,828	534,122	735,475
SBDC			25,000	25,000	25,000	40,000	40,000	40,000	60,000	120,000
EAP***	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000	25,000
WEBA										35,000
Mt. Vernon/ Potomac West Revitalization			25,000	25,000						
Marketing Fund	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000	100,000
Holiday Marketing Program****									125,000	125,000
Totals	**878,557**	**950,845**	**1,205,845**	**1,528,611**	**1,624,333**	**1,888,373**	**1,991,612**	**2,064,442**	**2,479,336**	**3,020,475**

* Source: Approved Operating budget, Other Planning and Economic Development Activities FY1998-FY2005.

** Does not include annual in-kind contribution of office space, currently valued at $45,000.

*** For FY2001 Approved, includes $10,000 supplemental funding for signage.

**** Coordinated by ACVA in FY2005; ACVA requests to have these funds appropriated to ACVA in FY2006.



VI. FY2006 REQUESTS

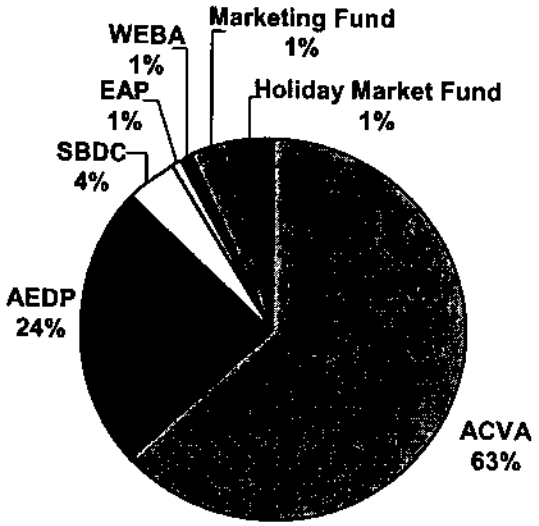
Organization	City Funds	Other Sources	Total Funds	% City Funds
ACVA	2,045,000 *	140,000	2,185,000	93.6
AEDP	929,262 **		929,262	100.0
SBDC	120,000	141,860 ***	261,860	45.8
EAP	30,000	55,738	85,738	35.0
WEBA	35,000	31,792	66,792	52.4
	3,159,262	369,390	3,528,652	89.5

* Includes $125,000 for Holiday Marketing Fund; $45,000 in-kind office space.

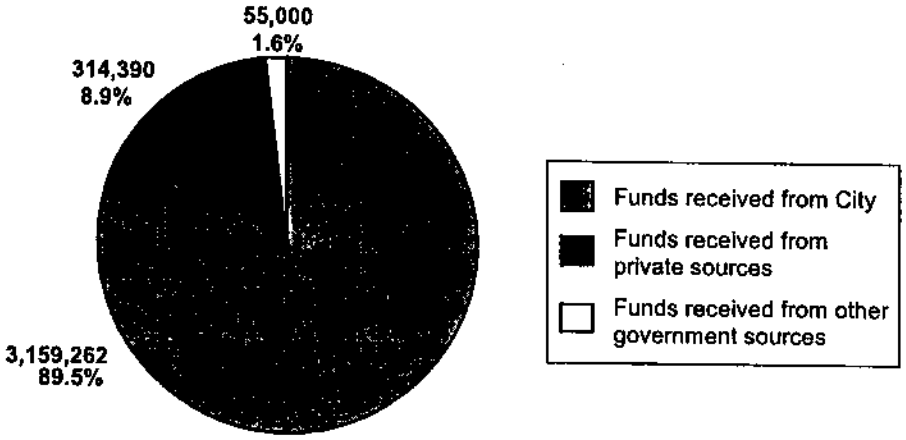
** Includes $193,787 in Industrial Development Authority fees.

*** Includes $26,860 Alexandria Chamber of Commerce in-kind office space contribution.

FY2006 Request, By Organization



FY2006 Request, All Organizations, By Source



VII. OBSERVATIONS

- City funding for economic development activities will have increased three-fold over the past 10 years from under $900,000 in FY1997 to more than $3 million in the current requests. The current requests, taken together, total $541,139 in new funding, representing a 21.8 percent increase over funding in FY2005, on top of a 20.1 percent increase in the previous year.

- The FY2006 budgets of the organizations requesting City funds show that revenues from City sources represent nearly 90 percent of their total funding. AEDP at 100 percent and ACVA at 93.6 percent are in the highest ranges of City funds percentages.

- In 1995, a Mayor's Task Force recognized that the City needed to consolidate economic development functions in order to reduce duplication of expenses and to provide a more comprehensive and coordinated economic development program, policy and budget guidance for economic development activities, and direct oversight of City-funded economic development initiatives. The Council approved a plan along these lines in 1996; however, the Board that was to perform the economic development planning and oversight functions never became fully functional and at some point was abandoned altogether.

- The Mayor's Task Force and the Council envisioned that a privatized ACVA would eventually be supported by private sources of revenue that would meet or exceed the funds provided by the City. Substantial private funding for ACVA has never materialized and today City money accounts for more than 90 percent of funding for this private membership organization.

- Since the mid-1990s, the City has appropriated monies to various outside groups involved in economic development activities based on their requests made directly to Council through the City's Office of Management and Budget. During this time, Alexandria has had no overall City plan or strategy for economic development and funding decisions may be said to have been made on an ad hoc basis.

- There has been no effective oversight of the way City economic development funds are spent and no real accountability on the part of recipients of the funds.

- While some City Council members and/or City staff sit on the boards of groups receiving funds, this does not appear to have produced any substantial oversight of the individual groups or significant coordination among the groups. City representatives make up a small minority of the Boards (usually one to three members of Boards of 10 persons or more).

- There appears to be considerable duplication of effort among the groups receiving funds. For example, AEDP, ACVA, Eisenhower Partnership and WEBA all have marketing functions. ACVA is extending its marketing efforts to neighborhoods in the City, many of which are already covered by area business associations with their own

marketing activities. The City has appropriated money to these organizations for marketing and, in addition, has set up specific marketing funds that end up with the organizations. In this regard, the Guidelines for grants from the City's Marketing Fund require that proposed marketing projects advance the plans of AEDP or ACVA. The Holiday Marketing Program also provides special marketing funds, which funds were coordinated by ACVA in FY2005.

- Salaries of staff of the groups receiving funds appear to vary widely for similar positions. For example, salaries of top full-time positions range from approximately $50,000 to more than $110,000.

- With the exception of the SBDC, the groups receiving funds generally are not subject to external performance requirements or measures. Instead, they have developed their own performance indicators (including data on theoretical return of investment or "ROI"), which do not appear to have been validated in many instances.

- Other jurisdictions in Virginia and elsewhere do not handle economic development in the way Alexandria does. The cities/counties we reviewed generally have some form of centralized economic development body; most have departments or offices as an integral government function. For example, Arlington recently named a new Director of the Department of Arlington Economic Development. The Department has responsibilities for conventions and visitors, business investment and real estate development, with a staff of 20 full-time equivalents and a budget of $3.86 million.

- There seems to be no standard for City support of private business groups. Some such groups request funds for special projects while others ask for operational funds. We question whether City funding of day-to-day core business operations of private membership groups provides good value for City economic development dollars, especially where such funding may primarily benefit the organization's members. We are concerned that the City's funding of operations for some of these groups provides an incentive for others to seek similar support. In this regard, we note that the City Manager's budget proposal assumes that another private group, King Street Metro Enterprise Team, recently merged with Old Town Business Association, may also be requesting funds and we were advised that Potomac West Business Association would likely also request funding.[1] At the same time, the Alexandria Chamber of Commerce is involved in economic development efforts for the entire City and has not sought City financial support.

- Leveraging City funds by providing grants for specific projects that have matching funds from other sources seems to be a sound approach. This is how the Marketing Fund operates and the Marketing Fund Committee, which oversees the Fund, follows guidelines established by the City Council and has an established process for reviewing project applications and managing the available money. City staff and officials of ACVA and AEDP all agree that the Marketing Fund works well.

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[1] Potomac West Business Association submitted a request on March 31, 2005 for $35,000 in City funding for its operations.

- Establishing the new position of Business Facilitator in the City Manager's office seems to have been a good move. The Business Facilitator has been helpful in problem-solving for individual businesses. This job does not, however, have any responsibility for economic development policy, budget or oversight.

- Budget Memo #29 (Subject: Regional Restaurant and Sales Tax Growth) shows that Alexandria is lagging behind the Northern Virginia region and the state as a whole with respect to growth in taxable restaurant food sales and taxable retail sales. Moreover, Alexandria's share of taxable restaurant meals and taxable retail sales in the region has declined. Economic indicators such as these suggest the need for the City to take a stronger, more proactive role in directing and managing economic development activities.

VIII.CONCLUSIONS AND RECOMMENDATIONS

Alexandria is unique in the region in its lack of an economic development staff. Perhaps as a result, the City also lacks an overall plan or strategy for economic development. The City has been appropriating funds for economic development activities on an ad hoc basis to certain outside organizations. The amount of funds going to these organizations has been growing steadily and substantially. Some of the organizations have little or no private sector financial support. There has been no effective oversight of the way City funds have been spent and no real accountability on the part of the recipients. There appears to be considerable duplication of effort among the groups receiving City funds.

We believe that a comprehensive and coordinated approach to managing economic development activities would produce better economic development results for the City and perhaps lead to efficiencies and cost savings that could be devoted to tax relief or other City priorities.

We have the following recommendations:

- The City should take prompt action to develop an overall economic development strategy and, within that strategy, provide for necessary planning, policy guidance and oversight of City spending on economic development activities. We encourage City Council and the new City Manager to make this a priority.

- Economic development planning, policy guidance and oversight should be a City staff function, reporting to the City Manager, so that economic development activities are subject to the same type of management, control and budgetary review as are other important City functions.

- A close look needs to be taken at the funding of outside economic development organizations to assure that the City is getting an appropriate benefit for the costs incurred. We urge caution in considering any increase in appropriations for these groups for FY2006, as has been requested.

- The City should consider using a portion of the $500,000 recommended as a set aside for economic development activities to determine how best to proceed in developing an overall economic development strategy, whether by assigning/hiring professional staff or seeking advice from outside consultants.

- To the extent that Council may wish to increase economic development spending for FY2006, we recommend additional appropriations to the City's Marketing Fund for specific projects.

APPENDIX: REFERENCES

January 21, 1993, Memorandum to Mayor and Members of City Council from Vola Lawson, City Manager, Subject: Report on Economic Development Activities in the City.

January 21, 1993, Memorandum to Mayor and Members of City Council from Vola Lawson, City Manager, Subject: Business Development Plan.

September 23, 1993, Memorandum to Mayor and Members of City Council from Vola Lawson, City Manager, Subject: Establishment of a Permanent Committee to Administer the City's Marketing Fund and Approval of the Marketing Fund Guidelines and the Marketing Plan.

March 31, 1994, Memorandum to Mayor and Members of City Council from Vola Lawson, City Manager, Subject: Budget Memo #7: FY1995 Proposed Budget for the Alexandria Economic Development Program.

April 4, 1995, Memorandum to Mayor and Members of City Council from Vola Lawson, City Manager, Subject: Consideration of Mayor's Advisory Task Force Report on the Recommendations for the Privatization of the Alexandria Convention and Visitors Bureau.

January 18, 1996, Memorandum to Vice Mayor and Members of City Council from Vola Lawson, City Manager, Subject: Consideration of the Report from the Transitional Board of Governors on the Plan for the Privatization of the Alexandria Convention and Visitors Bureau.

City Council Meeting Minutes, January 24, 1996, with attachments.

May 31, 2002, Memorandum to Mayor and Members of City Council from Philip Sunderland, City Manager, Subject: Proposed Parking Fee Changes for City-Owned Parking Garages and Lots.

April 15, 2004, Memorandum to Mayor and Members of City Council from Philip Sunderland, City Manager, Subject: Budget Memo #48: City Funding of Economic Development Activities.

December 9, 2004, Memorandum to Mayor and Members of City Council from Philip Sunderland, City Manager, Subject: Consideration of Requesting the Budget and Fiscal Affairs Advisory Committee to Conduct a Review of Economic Development Activities in the City.

March 21, 2005, Memorandum to Mayor and Members of City Council from James K. Hartman, City Manager, Subject: Budget Memo #4: Economic Development Related Spending.

April 7, 2005, Memorandum to Mayor and Members of City Council from James K. Hartman, City Manager, Subject: Budget Memo #29: Regional Restaurant and Sales Tax Growth.

City of Alexandria Annual Reports, 1995--2003.