188

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 20, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: BUDGET MEMO #17: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE REVIEW OF THE FY 2002 PROPOSED BUDGET

ISSUE: Budget and Fiscal Affairs Advisory Committee (BFAAC) review of the FY 2002 Proposed Budget (Attachment 1).

RECOMMENDATION: That City Council receive this report.

BACKGROUND: The Budget and Fiscal Affairs Advisory Committee (BFAAC) has prepared an analysis of the FY 2002 Proposed Budget for Council's consideration. This is in accordance with the Committee's mission to advise and support City Council by forecasting future revenue and expenditure requirements and evaluating comparative tax, revenue, and expenditure levels in Alexandria. BFAAC will discuss this report with City Council at the budget work session on April 25, 2001.

DISCUSSION: Staff will be prepared to respond to questions regarding this report at the April 25 work session.

ATTACHMENT: Attachment 1 - Budget and Fiscal Affairs Advisory Committee Review of the FY 2002 Proposed Budget.

STAFF: Morgan Routt, Analyst, Office of Management and Budget
Mark Jinks, Assistant City Manager

ALEXANDRIA BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE

Report on the City Manager's Proposed Budget For Fiscal Year 2002

Jim McIntyre, Chairman
Lisa Chimento, Vice Chair
Anna Leider, Secretary
Robert Coit
Bruce Johnson
Tim Lovain
Brian Meehan
Sammie Moshenberg
John Renner
Tracy Rickett
Paul Smedberg
Eileen Taylor
Matthew Tallmer

BFAAC Recommends That City Council Consider A One-Cent Reduction To The Real Property Tax Rate

BFAAC believes that an opportunity exists for City Council to provide some tax relief for Alexandria homeowners. We recommend that City Council consider a reduction to the real property tax rate of one-cent per $100 of assessed value. However, some hard spending decisions must be made to reduce spending an equivalent amount.

The City Manager's Proposed FY 2002 Budget holds the real property tax rate constant, but rising assessments result in an effective real property tax increase of significantly more than one cent per hundred dollars in assessed value. These increased assessments will boost the average property tax bill by $320.

Typically throughout the budget process, there are diverse opinions between those who support a reduction in the tax rate, and those who support additional city spending. BFAAC recommends that the City continue a relatively conservative fiscal approach with an eye toward minimizing the individual tax burden.

It appears as if some expected state reductions in funding for public safety will not significantly affect the budget, because City staff took a conservative approach toward projecting state revenues in developing the proposed budget. Current estimates are that $300,000 earmarked to compensate for expected state funding cuts might be available for other purposes.

BFAAC recognizes that despite a strong fourth quarter in 2000 in Alexandria, the economy appears to be slowing on the national and state level. This may yet affect the City's economy and the long-term forecast projections indicate possible revenue shortfalls in the future. Despite this concern about the economy, BFAAC believes that the City's ability to raise revenue either through taxes or the bond market will not be significantly hindered by the slowing economy in the near future.

With all of this in mind, BFAAC recommends that City Council consider a reduction in the real property tax rate of at least one cent per $100 of assessed value, even if the average amount per household is significantly less than the average increase resulting from the increased assessments. Such a tax rate reduction would bolster Alexandria's competitiveness with other jurisdictions. In addition, an equity argument can be made that the City currently has a large reserve fund and current taxpayers should benefit from the reduction and from the currently strong economic climate.

However, if the City Council decides not to enact a tax cut, BFAAC recommends that the Council reserve the savings from public safety and other programs and allocate the savings to the undesignated reserve fund. This preserves the option of using the money for either future tax cuts or to fund capital needs. Consistent with our previously stated fiscal philosophy, we urge Council to avoid funding operational expenditures with budget surpluses, since such expenditures will generate ongoing funding requirements that may be harder to meet in the future.

Expenditure reductions in the proposed budget largely come from reductions in required contributions to the Virginia Retirement System (VRS) (a $1.9 million reduction that is outside the City Council'ᴸF control) and reductions in staff vacancy rates (about $300,000, most of which is under City Council's control). These reductions result in savings of $2.2 million over last year's approved budget. In order to provide a one-cent tax rate reduction, additional spending cuts must be identified.

BFAAC has reviewed the proposed budget and has identified the following items as areas for potential spending cuts. The total proposed FY 2002 spending on these items totals approximately $2.2 million, thereby allowing for a one-cent cut to the real property tax rate.

BFAAC compiled the attached list of potential cuts based on two primary criteria. For operational spending, we looked only at new spending recommended by the City Manager for 2002, so any cuts in this area would have no impact on current city services or staffing levels. For capital spending, we looked only at those items given the lowest priority by the City Manager in his proposed CIP. We do not single out any specific programs for cuts, but only provide this list as a potential source of spending reductions if City Council were to move forward with a tax rate reduction. In addition, this list does not include any potential cuts to the Schools budget, where there may be potential savings based on a recalculation of the City□s contribution to the Virginia Retirement System (VRS).

Attachment 1

Potential Reductions in Spending

Using two primary criteria, BFAAC compiled the following potential reductions in spending. For operational expenditures, only new spending recommendations were included so that any reductions would have no impact on current services or staffing. For capital spending, only those items given the lowest priority by the City Manager were included.

SFY 2001 New Operating Expenditures

Program	FY 2002 Cost
Contingent Reserves – amount beyond standard allocation included as added hedge against State budget uncertainty; no longer necessary	$300,000
Planning & Zoning and Transportation Staffing – phase-in hiring and/or savings due to normal vacancy rates or delay until FY 2003	$125.000
Youth Fund Program – reduce funding for initial year by 50 percent	$50,000
Neighborhood Partnership Fund – reduce funding for initial year by 50 percent	$25,000
Burke Library Operating Funds – defer funding for re-opening to FY 2003	$350,000
Total	**$850,000**

SFY 2001 Capital Improvement Projects Rated "Desirable"

Project	FY 2002 Cost
Bike Trail Construction and Maintenance	$15,000
Tree Planting	$85,000
Median Landscaping	$40,000
Playground Renovations	$60,000
Skate Park Study	$25,000
Human Services Dept. Renovation	$345,000
Union Station Improvements	$170,000
Leaf Site Renovation	$80,000
Dept. Of Human Services Client Info. Access	$25,000
Electronic Government	$150,000
Personnel Systems	$125,000
Cashiering Systems	$93,500
Recreation Systems	$50,000
Intranet	$50,000
Total	**$1,313,500**

Other Alternatives:

1. **Accelerate draw-down of designated fund balance from FY 2003 to FY 2002.**
2. **Additional borrowing in lieu of cash capital appropriation from general fund in FY 2002.**

The Proposed Operating Budget

As in past years, BFAAC recommends that the City Council support continuing efforts to develop a management analysis and information program. BFAAC is extremely pleased to see $15,000 in the FY 2002 budget to begin training City departmental staff on developing performance measures.

BFAAC endorses the 3 percent cost of living adjustment (COLA) and merit increase budget allocation for City employees. BFAAC also supports a number of other budget enhancements that are due to increases in City population and economic development (i.e., one new EMS unit and increased staff in Planning and Zoning, Transportation, and Code Enforcement). However, BFAAC believes that the costs associated with the additional Planning and Zoning and Transportation staff may be phased in over the next few years and/or offset by normal vacancy rates and need not all be expensed in the FY 2002 budget. Several other issues discussed in more detail below include:

1. Fiscal challenges the City will face in the near future;
2. The Youth Fund and the Neighborhood Partnership initiatives;
3. Operating budget implications of issues facing the Alexandria Health Department for FY 2002 and beyond;
4. Library operating funds; and
5. Fiscal concerns regarding the waste-to-energy facility.

In last year's report, BFAAC expressed concern about DASH. While this continues to be an issue, as the indicators in this year's budget reflect, BFAAC will approach DASH management over the coming year to explore and better understand their revenue and operating expenditure issues.

BFAAC recommends that City Council supports continuing efforts to develop a management analysis and information program.

In the year since the last BFAAC budget review report, BFAAC members have gathered and reviewed information on performance measurement programs. As part of that information-gathering effort, OMB staff arranged for and participated with BFAAC members in a lengthy conference call with Prince William County's Assistant County Executive to discuss that County's system of performance measurement and performance-based budgeting.

As a result, BFAAC is extremely pleased to see $15,000 in the FY 2002 budget for a consultant to train City departmental staff on developing performance measures. We believe that this is an important step in implementing a management analysis and information program and agree that the effectiveness of the current system for measures and indicators is not adequate. In order to maximize this investment, the consultant's departmental training should be based on a vision formulated in advance by the City Manager and OMB.

Adopting a management analysis and information program is a major endeavor. BFAAC proposes that a collaborative approach be taken that involves department heads and staff agencies. Sharing information and using available resources, such as department Boards and Commissions and the wealth of information on performance-based budgeting in other cities and counties, will help define services and measure the impact those services have on department effectiveness in satisfying residents.

When department heads understand the expectation for the outcome of their particular performance measures, the effectiveness of their work with a consultant will be maximized. They can use the ultimate results to more easily achieve department goals such as justifying plans and budgets, getting the funding they seek, and improving operations. We recall what was accomplished and learned, as well as the work involved, with the youth services portfolio report card.

BFAAC remains committed to a management analysis and information program, believing that measuring the demand, cost, effectiveness and efficiency of each City service will:

1. Serve as a powerful tool for the City Manager's departmental oversight;
2. Aid department managers as they direct the growth and effectiveness of their departments;
3. Enhance Council's understanding of City services and their effectiveness in serving residents; and
4. Improve resident participation in the type and level of services, and show residents how their tax dollars are spent.

BFAAC will continue to support the Council, City Manager, and OMB in achieving an effective management analysis and information program. We stand ready to work with City management and staff in reaching this goal.

BFAAC endorses the Manager's proposed 3 percent COLA and merit increase budget allocation for City and School employees.

BFAAC endorses the Manager's proposed 3 percent COLA and merit increase budget allocation for City and School employees. Some groups have voiced support for a 5 percent COLA. The Committee opposes this for the following reasons.

1. It goes against the City's stated compensation policy of neither leading nor lagging behind increases of other jurisdictions in the region.

2. The added cost of such a proposal -- $4.8 million for City and School employees -- would make it much more difficult for City Council to enact the one-percent reduction to the real property tax rate proposed elsewhere in this report.

3. In looking ahead, BFAAC is concerned about building an additional $4.8 million into the base operating budget for future years.

The City faces a number of fiscal challenges in the near future.

Near-term fiscal challenges for the City that are of concern to BFAAC include projected shortfalls in the out-years, and nearly $1 million in expiring grants, some or many of which may need to be be picked up in toto by City agencies.

As a result, BFAAC urges the Council and City Manager to closely examine future operating budget increases, and carefully decide which programs to fund and which not to recommend due to fiscal constraints. A management analysis and information program, such as the one outlined above, would help council and the City Manager decide on spending priorities.

Due to the inability of the House of Delegates and Senate to agree on a spending plan, Governor Gilmore balanced the budget through $60,831,425 in cuts, many of which could have affected City funding and programs. However, because staff used conservative State revenues when preparing the proposed operating budget, the City may actually see an increase in revenues for some key programs (including the Alexandria City Public Schools, for law enforcement and transit). Staff cautions, however, that some the City may see some budgetary reductions affecting the Health Department.

As discussed in greater detail elsewhere in the BFAAC report, even under the mid-growth scenario, the City projects budgetary shortfalls in the out years. Should these shortfalls occur, they inevitably will force the Council and the City Manager to reassess spending priorities, and possibly institute funding reductions in some programmatic areas.

In regards to grant funding, close to $1 million in federal and state grants that are used to fund City services are set to expire during the next two fiscal years. The specific grants are as follows:

- $100,000 to allow DASH to operate a shuttle from the King Street Metro station to the waterfront (expires during the last half of FY 2002);
- $225,000 for community police officers (expires in FY 2003);
- $146,000 in Law Enforcement Block Grants (expires in FY 2002);
- $180,000 for APD mobile computers (expires in FY 2002); and
- $90,000 for AGILE grants to APD (expires during calendar 2001).

If these grants are not renewed, the City will have to assume the responsibility to fully fund these programs, if they are to continue. The extent to which some or all of these programs are continued using General Fund revenues, obviously, will increase the budgetary pressures on the City. Regarding DASH, City staff informs BFAAC that they do not yet know if it would request General Fund revenues to continue that program. Regarding the APD programs, it is also unclear whether General Fund support will be required to continue them, as other grant sources will be sought or the programs may be discontinued.

Several issues and decisions facing the Council and the Alexandria Health Department over the coming year have significant operating budget impacts, both for FY 2002 and beyond.

BFAAC wishes to highlight the following issues related to the Health Department.

1. The risks in the area of intergovernmental revenues, given the uncertainty in the Governor's budget and the anticipated impact on public health services that go beyond those mandated by the State. For Alexandria, this includes key Health Department services such as the entire spectrum of activities operated at the Casey Clinic, which could become heavily reliant on City funding for their ongoing operations.

2. The need for public health services in the City is increasing. The Alexandria Health Department provides health care services and public health activities and the need for both of these functions continues to rise. Alexandria, like most communities, is faced with growing numbers of individuals without health insurance. Approximately 26 percent of low-income children and 39 percent of low-income adults (non-elderly) in Virginia do not have health insurance[1]. Because of the number of uninsured residents, the Health Department acts as the safety net for providing basic preventive and primary health care services to individuals in the City, while more acute needs for specialty, inpatient, and other services may bankrupt uninsured residents[2] or may not be met at all. At the same time, the City also has a growing need for basic public health activities, such as surveillance and protecting the community's health, as evidenced by the recent West Nile virus issue and the increasing number of tuberculosis cases in Northern Virginia.

3. Decisions about the future location and configuration of Health Department activities will significantly impact future operating budgets. The decisions made with regard to the St. Asaph St. site and capital investment for the Health Department will have far-

[1] Virginia's thresholds for Medicaid and State Children's Health Insurance Program are relatively low so that federal cost-sharing for public insurance is not maximized in Virginia.

[2] A recent Tenants' and Workers' Support Committee survey of uninsured Latinos who accessed health care at INOVA Alexandria Hospital in 1999 and 2000 found that there are about 80 uninsured Latinos who owe the hospital $400 to $51,000 in medical bills.

reaching implications for the City's operating budget. Council should carefully consider the balance between the accessibility of services and the relative costs of different delivery options. For example, past discussions about Health Department services focused on the concept of expanding the number of satellite clinics in the City. Such a decision would significantly increase the operating costs of the Health Department beyond what is currently budgeted and projected in the Manager's proposed budget, given the additional costs associated with operating multiple sites. Similarly, the decision to continue with a single main facility could require additional transportation investments if the location is not easily reached via public transportation. Finally, any decision made with regard to the Health Department could result in an increased demand for services if services become more accessible. While this is desirable from a service delivery perspective, the operating budget impacts should be kept in mind as other City funding and planning decisions are made.

The Youth Fund and Neighborhood Partnership allow for a more open and transparent process for determining spending priorities in key areas.

The City Manager proposed two new funds, the Youth Fund and the Neighborhood Partnership, with guidelines for funding projects or initiatives to be determined by Council and others over the coming year. BFAAC commends the move to an open process for determining priorities and funding activities in these key areas and recommends that the guidelines for using these new funding streams support this approach, so that the process remains open and transparent to residents and other interested parties.

In the specific case of the Neighborhood Partnership, BFAAC suggests that Council take the following into account in developing guidelines for awarding funds:

1. Setting due dates for submission of requests and their review (e.g., semi-annually) to ensure funding is available throughout the year, as opposed to on a rolling basis which could result in "first come, first served" awards rather than a considered approach to reviewing requests;
2. Defining the type of neighborhood or residents' group eligible to apply and the sorts of projects that have sufficient public benefit to garner City funds;
3. Conducting sufficient publicity and outreach to residents, so that those individuals or groups who may be less active or informed are made aware of the program and encouraged to participate; and
4. Reviewing the distribution of funds to help ensure equity across the City to the extent possible (for example, reviewing proposals so that investments of public funds are made in both owner-occupied and high rental areas).

Omitting the $350,534 in FY 2002 operating funds to reopen the Burke branch, the City Manager's proposed operating budget increases funding for the Library System by $558,959.

The additional funding will provide more staffing at the Beatley Central Library, personnel for extended Sunday hours and additional materials for the Library System. The Library System arrived at these new expenditures after reviewing the results of an extensive survey of library users. Survey instruments were given to users at all branch libraries, and were sent to all homeowner and civic associations within the City. According to the Library System, the surveys had a return rate of one percent, which is rather high. BFAAC congratulates the Alexandria Library System for making the effort to survey their constituency, which is a key component of a successful management analysis and information program.

Officials of other jurisdictions that rely on a management analysis and information program tell BFAAC that a hallmark of a successful initiative is resident input. For example, Prince William County conducts an annual telephone survey of selected residents as a way of determining funding priorities and ensuring satisfaction with the type and level of services. Some jurisdictions also use management analysis and information programs and resident survey results as a way of shifting funds from programs that are not well used to those that serve more residents.

BFAAC notes that the Library System did not recommend shifting money among programs or budget lines as a result of the survey. In fact, the Fiscal Officer said the Library System was trying to keep funding level while also adding new staff or programs.

BFAAC remains concerned about the operating expense shortfalls at the waste-to-energy facility the City shares with Arlington.

In its FY 2001 budget review, BFAAC recommended that the City address in calendar year 2000 the serious fiscal problem it faces regarding the operating expense shortfall at the waste-to-energy facility. BFAAC remains concerned about operating shortfalls at the waste-to-energy facility the City shares with Arlington.

BFAAC recommends that Council consider employing a number of approaches to address this on-going, major issue. These could include the following:

- Manage all trash collection City-wide to increase trash volume processed at the waste-to-energy facility by using either City crews or franchising collection to independent contractors, either of which would result in the collection of sufficient trash to eliminate the below-cost tipping fee.
- Require newly developed communities to arrange for trash disposal at the waste-to-energy facility.

The Proposed
Capital Improvement Program

BFAAC continues to urge the City Council to hold to the course set over the last few years in the City's Capital Improvement Program (CIP) budget. That course is to meet legitimate, long term capital project needs financed through a combination of responsible levels of borrowing (as established by the City's debt policy guidelines) and an infusion of cash capital from past savings and current revenues, so long as the City's economy remains healthy and robust. We believe the City Manager's proposed CIP in large measure holds to this course and we generally urge its support.

Last year's BFAAC report to Council made the point: "Many pressing needs for capital improvement projects are provided for in the planned CIP." In our last several budget reports, however, BFAAC also has said that the Capital Improvement Program (CIP) has to begin addressing some of the deferred or unfunded capital needs not addressed in previous CIP budgets. The CIP proposed last year by the City Manager and adopted by the City Council began to address many of those unfunded needs, particularly the need for additional school capacity at the middle school and 9th grade level. It also proposed \$8 million in funding for the replacement of the current Alexandria Health Department's main facility on St. Asaph Street, and proposed \$21.8 million for sewer construction, replacement and renovation.

This year's proposed CIP continues to address additional capital project needs, setting forth a six-year program of \$270 million that represents a 22 percent increase over last year's approved CIP. A substantial increase is proposed for the Alexandria City Public Schools to complete the George Washington and Francis Hammond Middle School expansion projects, provide an addition to the Minnie Howard Ninth Grade Center, and add funds for renovating and expanding the capacity of T.C. Williams High School. The St. Asaph Street Health Department replacement project continues to be planned for \$8 million, and the storm and sanitary sewer systems are budgeted to receive \$26.6 million through FY 2007. Some significant projects that were unfunded last year are proposed for funding in this year's CIP, including: correcting the structural settling at the Public Safety Center (\$4.58 million new funding in addition to \$0.465 million prior year funding); phase II of the Market Square renovations (\$2.4 million); and expansion of the Duncan Branch library (\$1.25 million).

Last year BFAAC reported: "The City is in good shape to go to the capital markets for additional borrowing and still keep debt service costs at reasonable levels according to the City's debt policy guidelines while maintaining its double triple A bond rating." This continues to be BFAAC's assessment of the proposed CIP financing plan. The additional borrowing proposed by this plan of \$28 million through FY 2007 is affordable according to our debt policy guidelines.

However, BFAAC noted last year, "Should the City's economic outlook unexpectedly deteriorate, cash capital contributions (as opposed to debt service payments) can be redirected to meet other needs." BFAAC continues to believe that the proposed cash capital contributions are a sound strategy for meeting additional capital project needs without locking the City into high levels of future expenditures in the form of debt service.

A significant increase in expenditures is proposed in this year's proposed CIP compared to last year's approved CIP.

This year's proposed CIP would schedule $197.3 million in expenditures over the six-year period through FY 2007 while last year's approved CIP scheduled $156.2 million over the six-year period through FY 2006. This is a $41.1 million and 26 percent increase in proposed expenditures.

Expenditures in Previously Approved CIP for FY 2001-2006
Compared to Proposed CIP for FY 2002-2007
($ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Previous CIP	$39.1	$35.2	$20.9	$23.8	$19.2	$18.1	NA	$156.2
Proposed CIP	NA	$53.5	$47.7	$34.5	$34.1	$14.8	$12.6	$197.3
Difference	NA	$18.3	$26.8	$10.7	$14.9	-$3.3	NA	$41.1

A significant increase is proposed for the Alexandria City Public Schools.

The most significant increase in capital spending in the City Manager's Proposed CIP is for the schools, which would expend $36.2 million or 63 percent more than in last year's CIP for a total of $93.8. In January, the School Board approved a capital improvement program budget for 2002-2007 in the amount of $114.7 million. The School Board's CIP request represented a $57.1 million (99 percent) increase over the School's CIP approved by City Council as part of the City's adopted CIP. The proposed CIP fully funds the first three years of the School's CIP and, with the exception of the elementary school expansion project, fully funds the last three years of the CIP, as well. According to the City Manager, the $20.9 million difference comes in the out years (FY 2005-FY 2007) and is tied specifically to the "uncertainty of actual future elementary enrollment growth and . . . its effect on the elementary school capacity."

The School Board identified secondary school expansion to meet the demands of a growing student population as the most significant priority in the CIP. According to the Board, the middle schools will be beyond their capacity by fall 2003, the ninth grade center by fall 2004, and T.C. Williams by fall 2006. The Board's CIP also highlighted the school's renovation and maintenance requirements, specifically the need for HVAC and electrical equipment replacement, roof replacement, and renovation necessary to become compliant with the Americans with Disabilities Act. The bulk of the funding for new construction projects is at the secondary level, which, as noted above, is forecasted to face rising enrollment and capacity concerns in the next few years. The projects include: $13.4 million for renovation and expansion at Francis Hammond Middle School (of which $10.3 million is in FY 2002); $13.3 million for renovation and expansion at George Washington Middle School (of which $12.8 million is in FY 2003); $7.2 million for additional classroom and related space, HVAC, and renovation at Minnie Howard School (of which $4.8 million is in FY 2003 and 2004); and $26.9 million for additions, modernization and renovations to T.C. Williams High School, including HVAC replacement and construction of a central kitchen and food court to replace the existing cafeteria (of which $10.8 million is in FY 2004 and $10.8 million in FY 2005).

The elementary school expansion project requested by the School Board called for "funding for the expansion of existing elementary schools and/or the construction of a new elementary school on a site to be selected." The City Manager's proposed budget retains $250,000 of the School Board's request for architectural services in FY 2002, but withholds $20.9 million, of which $1.9 million was for architectural services in FY 2005, $9.5 million for construction in FY 2006 and $9.5 million for construction in FY 2007. The City Manager's proposed budget reserves the right to reevaluate the need for elementary expansion in the context of the 2003 to 2008 CIP.

Some pressing storm and sanitary sewer capital improvement needs are funded.

In the proposed FY 2002 – 2007 CIP, storm and sanitary sewer projects costs would grow by $4.8 million (from $21,820,000 to $26,041,500), an essential increase if Alexandria is to implement its planned citywide sewer upgrade program. BFAAC feels it is important to keep this program on track, and the City should be prepared to expedite projects or further increase funding if necessary to compensate for overdue past maintenance and make sure the city complies with stiffening state and federal environmental mandates.

Alexandria is not alone in its efforts to play "catch-up." According to the EPA, after decades of neglect, aging municipal sewers across the country are faltering at an increasingly rapid rate resulting in serious health and environmental challenges; for example, overflows now cause more than one million illnesses each year. The EPA estimates that curbing sewer overflow problems nationwide will cost $80 - $100 billion.

The City has re-organized the line items in its sewer budget to differentiate more clearly (1) ongoing efforts to maintain and rehabilitate the City's sanitary and storm sewers and (2) special projects that are essential to bring the City into compliance with federal and state environmental regulations.

- The budget for more routine maintenance projects has increased 71 percent from \$3,800,000 to \$6,511,500. As the City continues to evaluate its sewer rehabilitation needs, these numbers are likely to settle, but extend well beyond the scope of the FY 2002-2007 CIP.

- The budget for pollution abatement projects (including the Oronoco Outfall) has increased 11 percent from \$18,020,000 to \$20,130,000. Many of these projects are scheduled for completion during the FY 2002-2007 CIP; however, OMB emphasizes that the exact cost and timing will be refined after staff analysis of various consultants' reports.

For a more complete understanding of the City's storm and sanitary sewer capital improvement needs, please see Attachment Two. It also includes a chart that makes it easier to see how current CIP requests compare to prior years.

The City share of funding for traffic and transit capital projects declines as a result of the ability to reprogram state funds for the King Street underpass.

The proposed city share of the CIP budget for traffic and transit would decline by \$11.8 million (52 percent) largely as a result of the ability to reprogram \$21 million of \$24 million freed by the cancellation of the King Street underpass project and reduce the city's share of other traffic and transit capital projects. The net city share of DASH Transit capital costs is \$2.2 million less due to an expected increase of \$7.25 million in state contributions as a result of the reprogrammings from the King Street underpass project. The net city share of WMATA Bus and Rail Capital Replacement and Improvement costs declines by \$12.4 million due to the ability to reprogram \$13.75 million from the King Street underpass project and issuance of \$4.4 million in Northern Virginia Transportation District (NVTD) bonds previously authorized by the General Assembly. (The remaining \$3 million in savings from the cancellation of the King Street underpass project is directed toward King Street Metro Station Area improvements.) The proposed budget notes, however, "Funding in FY 2007 of \$1.592 million from State urban funds, transportation taxes (if authorized), and new regional bonds will need to be identified and secured. If not, this \$1.592 million funding would need to come from City sources."

The information technology capital budget would increase substantially.

The information technology capital budget would increase by \$6.1 million or 49 percent (including the rescheduling of \$2.7 million from prior year unallocated funds previously approved for the Radio Systems project). Other than this rescheduling, the remaining increase of \$3.4 million is largely attributable to the need to replace file servers and other components if the city government's network, development of the City's geographic information system, replacement of the Real Estate Assessment System, replacement of the Library's automated catalog system, implementation of a storage area network, and continuing development of the Permitting system to include mobile operation capabilities.

The public buildings capital budget would increase by $3.4 million or 19 percent.

Major increases in this category are for Phase II of the Market Square renovation to eliminate leakage into the subsurface garage ($2.4 million) and the repairs to the Public Safety Center to correct structural settling ($4.58 million). These increases are partially offset by decreases for other public building projects.

The costs to replace the St. Asaph Street facility of the Alexandria Health Department remain uncertain.

The replacement of the City's Health Center is a need that has been acknowledged for a number of years and was addressed in last year's CIP. The estimated replacement cost is $8,000,000. The FY 2001 CIP budget provided $2 million to begin the three-year project plus an additional $0.480 million in prior year funds. An additional $5.0 million is provided in the proposed FY 2002 budget, with an additional $520,000 projected in the FY 2003 CIP budget.

The estimated cost is truly an estimate. A significant factor in determining the actual cost will be the decision of the City Council as to the location or locations of a replacement. The replacement facility could be built at the current location on St. Asaph Street. This option would require relocating the Health Center while the current building is being demolished and construction takes place. Additional funds for the temporary relocation would be required.

Another option would be to build the new facility at another location. This would allow the Health Center to remain at its current location while construction takes place, necessitating only one move. A final option would be to build several satellite locations. Either of the latter two options would require the purchase of land for the new facility or facilities. However, this cost could be offset by the sale of the St. Asaph Street property. It is unknown whether the land transaction costs would net revenue or require an additional outlay.

Inasmuch as a report from an outside study now being finalized will address the different options, BFAAC has not attempted to analyze the options or make a recommendation as to which option is preferable.

A number of capital projects were not recommended for funding by the City Manager.

Because of the need to "balance capital needs with available funding for capital projects" a number of projects continue to be deferred. BFAAC is pleased to see that the City Manager's Proposed Capital Improvement Program budget contains a list of these deferred projects (pp. 5/6) because it helps to indicate the pent up demand that still exists for additional spending. Some of the more significant projects include: funding for elementary school expansion in fiscal years 2005 to 2007 (mentioned above); open space funding beyond the $1.2 million already in the budget; additional funding for recreation center construction projects, particularly the "West End" community center at Cameron Station (See February 9, 2001 "Staff Recommendation Regarding the Planning Process for a Community Center at Cameron Station"); possible additional funding for street and sewer reconstruction (described in more detail below); possible additional funding for the renovation of the Department of Human Services facility; and funding for a new City Visitor's Center.

The proposed increase in expenditures would be financed largely by a combination of additional borrowing, the draw down of additional designated fund balances, bond interest earnings and recaptured funds from prior projects.

The proposed CIP budget funds capital expenditures from a combination of borrowing and cash capital contributions. The following table shows how the proposed CIP would be funded:

Sources of Funding for the Proposed CIP
($ in millions)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Cash From Fund Balance	$7.5	$9.2	--	--	--	--	$16.7
Bond Interest Earnings	$0.5	$0.5	$0.5	$0.4	$0.02	$0.03	$2.0
Recapture from Prior Projects	$3.0	--	--	--	--	--	$3.0
General Fund Appropriations	$12.0	$14.0	$14.0	$15.2	$14.8	$12.6	$82.6
General Obligation Bonds	$30.5	$24.0	$20.0	$18.5	--	--	$93.0
Total	$53.5	$47.7	$34.5	$34.1	$14.8	$12.6	$197.3

Changes in financing from the last approved CIP include:

- The availability of $16.7 million from fund balances designated for capital projects is a result of surpluses in past operating budgets (due to higher than expected revenues and lower than expected spending.) At the end of FY 2000 (June 30, 2000) a total of $17,451,193 was designated for future capital projects as a result of such savings in prior years. Last year's approved CIP envisioned using $10 million of such designated funds.

- The addition of $2.0 million to CIP financing in this year's proposed multi-year plan from bond interest earnings is a result of the change last year from a "reimbursement" mode of borrowing to a "prospective" mode of borrowing for capital projects. Under this new prospective method, the timing of borrowing occurs more or less simultaneously with construction activity, but some interest earnings are available to the City from reinvesting the debt proceeds before they are needed for construction. (BFAAC concurred in this change in approach in its report to City Council last year.)

- The availability of $3.0 million as a recapture of funds previously intended for prior projects is a new source of financing in this year's CIP.

- Over the six-year period covered by the two CIPs cash capital contributions are only modestly higher ($3.1 million). However, cash capital contributions from general fund appropriations in FY 2002 are dramatically reduced by $10.6 million.

- The City's financial situation has continued to be robust, as the locally assessed real property tax base has increased at a 10.4 percent rate from calendar year 2000 to 2001. With the additional revenues available largely from increasing real property tax revenue (which will constitute approximately 47 percent of general fund revenue in FY 2002), the City can continue to provide additional cash capital contributions to finance its CIP on a year-to-year basis.

- The following table shows how planned cash capital contributions have changed from last year's approved CIP to this year's proposed CIP.

Cash Capital Contributions from General Fund Appropriations in the Previously Approved CIP for FY 2001-2006
Compared to Proposed CIP for FY 2002-2007
($ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Previous Plan	$9.8	$22.0	$11.9	$11.9	$11.9	$11.9	NA	$79.5
Proposed Plan	NA	$12.0	$14.0	$14.0	$15.2	$14.8	$12.6	$82.6
Difference	NA	-$10.0	$2.1	$2.1	$3.3	$2.9	NA	$3.1

- The proposed CIP increases borrowing by $28 million over the six-year period ending FY 2007. The proposed CIP schedule of borrowing is dictated by two circumstances: (1) the availability of cash capital from prior year designations of surplus funds and contributions from current city revenues and (2) the schedule of construction activity for approved projects.

Bond Issues in Previously Approved CIP for FY 2001-2006
Compared to Proposed CIP for FY 2002-2007
($ in millions)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Previous Plan	$25.0	$40.0	--	--	--	NA	$65.0
Proposed Plan	$30.5	$24.0	$20.0	$18.5	--	--	$93.0
Difference	$5.5	-$16.0	$20.0	$18.5	--	--	$28.0

The proposed CIP would keep the City within all of its debt-related policy guidelines designed to ensure maintenance of the City's double triple A bond rating.

The City's debt-related policy guidelines include several benchmarks against which the magnitude of borrowing can be assessed for its likely impact on the City's fiscal condition. These debt-related policy guidelines were developed with an eye on what it will take to maintain the City's double triple A bond rating. Budget Memo #5 (March 16, 2001) from the City Manager points out, Alexandria's overall debt level and debt service compares very favorably to other cities and counties rated AAA by Standard and Poors (S&P).

Meeting the debt-related policy guidelines provides several necessary assurances:

1. The City's net borrowing does not exceed our fiscal capacity as measured by the wealth of our city (as measured by fair market real property values) and the income of our city residents (as measured by the per capita income of our residents);
2. Debt service costs do not impose too great a burden on our future operating budgets (as measured by debt service as a percentage of total expenditures); and
3. Adequate fund balances are available to cope with unexpected financial problems or emergencies (as measured by fund balances as a percent of total revenues).

The proposed CIP budget on pages 9 and 10 contains graphs showing compliance with two debt-related policy guidelines: Debt Per Capita as a Percent of Per Capita Income and Debt as a Percentage of Fair Market Real Property Value. Proposed debt levels are below the 2.25 percent target for debt per capita as a percent of per capita income which means that each Alexandrian's share of the city's general obligation bond debt is no more than 2.25 percent of each Alexandrian's annual average per capita income. Proposed debt levels also are below the target that total general obligation debt be no more than 1.1 percent of the total fair market real property value in Alexandria.

As the two graphs indicate, the City would remain comfortably below the target range on these two benchmarks. Debt per capita rises to no more than 2.0 percent in fiscal years 2003 through 2005 and declines thereafter to 1.6 percent in fiscal year 2007. Debt as a percent of fair market real property value rises to no more than 0.9 percent in fiscal years 2003 through 2005 and declines to 0.7 percent in fiscal year 2007. Indeed, compared to last year's approved CIP, the City would be in better shape. The decline in borrowing proposed in FY 2003 keeps the City below the target rate in that year, whereas in last year's approved CIP the total debt outstanding would have equaled the target rate on both of these benchmarks in FY 2003.

The City's Debt-Related Financial Policies also establish that the cost of debt service as a percent of general government expenditures should not exceed 8 percent as a target and 10 percent as a limit. The reason for this guideline is to prevent the City's budget from becoming dominated by a high level of debt service costs for the mandatory repayment of principle and interest charges that would limit its flexibility to adjust to changing fiscal circumstances. The long-range forecasts provided in the proposed operating budget estimate that future debt service costs would run well below the target level.

Debt Service Costs in the Proposed CIP
($ in millions)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Debt Service	$15.5	$19.2	$19.9	$20.1	$19.5	$18.1
Debt Service as % of Expend.	3.6%	4.3%	4.3%	4.1%	3.8%	3.4%

The Debt-Related Policy Guidelines also specify that the unreserved fund balance remain at least equal to 10 percent of the general fund revenues and that the undesignated fund balance remain at least above 4.0 percent and preferably above 5.5 percent of general fund revenues. The chart below shows the current fund balances as a percent of general fund revenues remain above both the limits and the target percentages specified in the guidelines:

Estimates of Fund Balances Compared to Debt-Related Policy Guidelines

	June 30, 2000	June 30, 2001	June 30, FY 2002
Unreserved Fund Balance	17.3%	15.7%	12.2%
Undesignated Fund	6.5%	6.1%	NA

Balance as % of Expenditures			

Although well within the debt-related policy guidelines, the proposed CIP would have a more pronounced impact on the City's future operating budgets. Even so, the impact is still tolerable.

If the planned cash capital contributions from current operating revenues are added to the debt service costs, one can get a more complete picture of the impact of the CIP on the operating budget. The proposed CIP increases the costs to the City's operating budget by $19.8 million over the six-year period, an 11.4 percent increase. Most of the increase is in debt service costs reflecting the cost of an additional $28.0 million in borrowing over this period. The change in cash capital contributions from current operating revenues planned for this period is only $3.1 million or 3.9 percent.

The following chart shows how the impact of the CIP on the operating budget has changed from last year's approved CIP budget to this year's proposed CIP budget.

Cost of the CIP on the Operating Budget:
The Previously Approved CIP for FY 2001-2006
Compared to Proposed CIP for FY 2002-2007
($ in millions)

	FY 2001	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007	Total
Previous Plan Total	**$21.5**	**$36.8**	**$27.7**	**$29.5**	**$28.5**	**$29.0**	**NA**	**$173.0**
Cash Capital	$9.8	$22.6	$11.9	$11.9	$11.9	$11.9	NA	$79.5
Debt Service	$11.6	$14.8	$15.8	$17.6	$16.6	$17.1	NA	$93.5
Proposed Plan Total	**NA**	**$27.2**	**$31.9**	**$33.8**	**$35.2**	**$34.2**	**$30.5**	**$192.8**
Cash Capital	NA	$12.0	$14.0	$14.0	$15.2	$14.8	$12.6	$82.6
Debt Service	NA	$15.2	$17.9	$19.8	$20.0	$19.4	$17.9	$110.2
Difference Total	**-$21.5**	**-$9.6**	**$4.2**	**$4.3**	**$6.7**	**$5.2**	**$30.5**	**$19.8**

To give a complete picture of the CIP's impact on the City's operating budget, the chart below examines the combined debt service and cash capital expenditures as a percentage of the total operating budget.

Cost of CIP Including Cash Capital and Debt Service as a Percentage of Total General Fund Expenditures ($ in millions)

	FY 2002	FY 2003	FY 2004	FY 2005	FY 2006	FY 2007
Total Operating Budget Cost of Proposed CIP	$27.2	$31.9	$33.8	$35.2	$34.2	$30.5
Forecast Total Exp.	$429.4	$451.2	$468.6	$489.3	$508.4	$525.6
% of Total Exp.	6.3%	7.1%	7.2%	7.2%	6.7%	5.8%

Because the total cost of both cash capital and debt service is below the 8 percent share of total City expenditures, the guideline for debt service costs alone, we conclude that the impact on the operating budget is tolerable.

<u>Proposed Capital Development Office</u>

Last year BFAAC recommended: "expanding opportunities for private donations to City programs including the formation of a City-sponsored capital development office." We noted: "Private donations may be especially valuable as a way to finance cultural or aesthetic improvements such as open space land acquisition and museum renovation."

BFAAC continues to endorse the concept of establishing a mechanism for the City to seek and accept gifts for the purpose of building, enhancing, and maintaining capital assets. Numerous other cities have successfully obtained private support for their programs, but the City is currently lacking a mechanism to actively seek such support. A task force chartered by Council recently released its recommendations on the formation of an independent entity that would be provided with $500,000 in seed money over a five-year period.

It is beyond the expertise of BFAAC to recommend the precise structure for such a mechanism or the precise bounds in which it would operate. However, BFAAC believes that should a capital development structure be designed and operated, it must be in a manner that engenders the trust of potential donors and the public.

For example, potential donors must be confident that donations will be used in the manner that they were intended. Individual dedicated trusts funds could be used to ensure continued support for programs in accordance with donors' wishes, such as the one that already exists for the library. Furthermore, the structure must contain safeguards to avoid even the appearance of receiving favorable treatment by the City in exchange for a donation. At the same time, BFAAC believes that to ensure that the City remains accountable for the expenditure of City funds, the structure must allow for the elected and accountable representatives of the City to determine the City's capital projects. An umbrella Development Office could be structured to meet these objectives.

Finally, BFAAC believes the concerns of Alexandria's nonprofit organizations must be addressed. Specifically, how such an office and its activities would impact their fundraising efforts. The public must "buy in" to the program from the outset. It is important that civic and community associations understand the program (the concept and its implementation) and be encouraged to participate in it.

Attachment 2

City's Storm and Sanitary Sewer Capital Improvement Needs

The City is responsible for the construction and maintenance of about 250 miles of sanitary sewers, 175 miles of storm sewers and 6 miles of combined sanitary-storm sewers. Like many communities across the country, Alexandria is now working conscientiously to address its (costly) wastewater infrastructure problems. The changes in the proposed CIP related to storm and sanitary sewer needs is detailed on the following page.

Sanitary Sewer Reconstruction and Extension

The CIP includes $2,520,000 spread evenly over six years for ongoing construction, reconstruction and relining projects, an increase of $1,080,000 over last year. This increase will all go toward sanitary sewer reconstruction needs, particularly in the Rosemont and Del Ray areas. Currently, there is no change in the amount the City plans to spend on its regular program of sewer relining.

Storm Sewer Reconstructions and Extensions

The CIP includes $3,991,500 over the next six years for ongoing storm sewer construction and channel restoration, an increase of $1.63 million over last year. This increase represents a near doubling of the City's annual storm sewer construction budget (from $110,000 per year to $203,000) plus an extra million for specific projects (itemized on page 159 of the CIP) designed to improve drainage and relieve flooding at various spots across the City.

Sewer Rehabilitation and Pollution Abatement Including Oronoco Outfall

The CIP includes $20,130,000 for a variety of specific projects described below designed to either control sewer overflow or expand sewer capacity, an increase of $2,100,000 over last year. The most costly of these projects are budgeted for completion by the end of FY 2006; however, funding needs could increase during these years as consultant studies and engineering reports indicate the full scope of the City's needed infrastructure improvements.

Ground Contamination at the Oronoco Sewer Outfall

The City has a longstanding contamination problem caused by the discharge of coal tar at the Oronoco Street outfall. While some action has been taken since the leakage of oily substances was first noticed 25 years ago, none of the City's previous efforts have resulted in a permanent solution. An environmental science and engineering firm is now studying the problem and the City expects to begin

Changes in Funding Requests for Storm and Sanitary Sewer Needs

	New Funding Requests					Including Unallocated Prior Year Funds				
	2000-2005	2001-2006	2002-2007	1-yr change	%	2000-2005	2001-2006	2002-2007	1-yr change	%
San.Sewer Recnstrct'ns/Ext.										
Construction	440,000	240,000	1,320,000	1,080,000	450%	580,000	620,000	1,340,000	720,000	116%
Relining	1,200,000	1,200,000	1,200,000	-	0%	1,400,000	1,600,000	1,800,000	200,000	13%
Subtotal	1,640,000	1,440,000	2,520,000	1,080,000	75%	1,980,000	2,220,000	3,140,000	920,000	41%
Storm Sewer Recnstrct'ns/Ext.										
Restoration	1,200,000	1,200,000	1,200,000	-	0%	1,400,000	1,600,000	1,800,000	200,000	13%
Construction	1,260,000	1,160,000	2,791,500	1,631,500	141%	1,570,000	1,680,000	3,421,500	1,741,500	104%
Subtotal	2,460,000	2,360,000	3,991,500	1,631,500	69%	2,970,000	3,280,000	5,221,500	1,941,500	59%
Oronoco Outfall	-	1,000,000	2,935,000	1,935,000	194%	-	1,400,000	3,185,000	1,785,000	128%
Rehab/Pollution Abatement										
CSO Mitigat'n/Testing	750,000	600,000	2,800,000	2,200,000	367%	2,270,190	2,370,190	4,610,190	2,240,000	95%
Infiltration/Inflow	-	1,500,000	2,400,000	900,000	60%	-	1,500,000	2,400,000	900,000	60%
Environ. Restorat'n	-	-	300,000	300,000		-	-	300,000	300,000	
Leaf Site	-	-	80,000	80,000		-	-	80,000	80,000	
Holmes Run Trunk Sewer	-	9,005,000	7,205,000	(1,800,000)	-20%	-	9,005,000	9,005,000	-	0%
Sewer Map Update	-	1,515,000	1,010,000	(505,000)	-33%	-	1,515,000	1,515,000	-	0%
Royal Street Relief	-	4,400,000	3,400,000	(1,000,000)	-23%	-	4,400,000	4,400,000	-	0%
Subtotal	750,000	17,020,000	17,195,000	175,000	1%	2,270,190	18,790,190	22,310,190	3,520,000	19%
Total Costs	**4,850,000**	**21,820,000**	**26,641,500**	**4,821,500**	**22%**	**7,220,190**	**25,690,190**	**33,856,690**	**8,166,500**	**32%**
Offsetting Revenue										
Connection Fees	-	-	600,000	600,000			-	-	-	

2/13

clean-up work in February 2002. The CIP currently includes $2.935 million spread over the next two years, an increase of nearly $2 million. However, until the consultant study is complete, the total cost of the remediation will not be known, and could be as much as $5 or $6 million higher. The City has asked for federal support to cover a portion of these costs.

Mitigation of Combined Sewer Overflows (CSOs)

Like many older communities, much of Old Town Alexandria (c. 500 acres) is served by a combined sanitary and storm sewer system. Eliminating overflows from these combined sewers is a long standing objective of the EPA since they can result in untreated waste being discharged directly into the nation's lakes and rivers.

To avoid the costly expense of separating sewer lines (once estimated at $90 million), Alexandria must continue to demonstrate to the Virginia Department of Environmental Quality (DEQ) that its Combined Sewer System (CSS) does not violate water quality standards and can meet the EPA's "Nine Minimum CSO Controls." Based on results from extensive annual monitoring (for example, sampling the overflows and receiving waters at each of the City's four CSO discharge points), the DEQ will determine the need and extent of additional controls. Furthermore, as new end-of-pipe technology becomes available for solids and floatables control, the DEQ is expected to require the City to upgrade its existing controls.

The CIP includes $2.8 million to pay for annual monitoring and anticipated new control requirements, an increase of $2.2 million. In addition, the City must use these funds to continue to investigate dry weather overflows at Hooffs Run under Duke Street, and remove or re-route connections that contribute to overflows at this CSO discharge point. Funding needs will continue beyond FY 2007.

Royal Street Relief Sewer

The CIP currently includes $4.4 million for the construction of a relief sewer to alleviate periodic flooding (under some storm conditions) at the intersection of Pitt and Gibbon streets, $3.4 million in the current CIP, plus $1 million in unallocated prior year funds. This represents no change in project costs; however, studies are being completed to identify capacity restraints in the existing sewers that cause or contribute to the flooding. The cost of the actual relief measures may change, based on the final results of this study.

Correction of Infiltration/Inflow to Control Sanitary Sewer Overflows (SSOs)

Through TV and visual inspections (in the Four Mile Run, Commonwealth and Holmes Run sewer service areas) the City is proceeding efficiently with a street-by-street effort to pinpoint places where storm water is able to infiltrate the City's sanitary sewer system causing Sanitary Sewer Overflows (SSOs) and basement backups. These overflows are prohibited under the Clean Water Act, and new rules being promulgated by EPA would cover basement backups as well.

The CIP includes $2.4 million spread evenly over six years to continue these inspections and begin remediation efforts, for example, relining old sewers, disconnecting downspouts from sanitary sewer system, repairing manholes and sealing pipe joints. The exact cost and timing of implementation will be redefined as field inspections are completed and analyzed. Currently, project funding represents a $900,000 increase over last year and will likely extend beyond FY2007.

In addition, as field work is completed, the City will have to decide whether to seek expanded authority to require that problems on private property be corrected, and what to do if the property owner cannot afford the repair (in general, property owners are responsible for the area from the street curb to the back of their property line).

CSOs and SSOs are receiving an increasing amount of national attention because the potential environmental hazards are serious, yet control costs can be prohibitive for many communities. Congressional leaders have authorized a new, two-year $1.5 billion matching grant to assist communities that are trying to comply with federal water quality mandates. For FY 2002, President Bush has recommended funding this Sewer Overflow Control Grant program at $450 million (but by taking that amount away from the Clean Water State Revolving Fund). Funds will be allocated to the states using the same formula that is used to allot Clean Water SRF Funding. A new allocation method will be developed for 2003.

The City has already requested $1.4 million in federal assistance to help construct a bypass sewage line from Four Mile Run Pumping Station to the Potomac Yard Interceptor Line to help eliminate sewage overflows into Four Mile Run Creek. The City should investigate the Sewer Overflow Control Grant Program as well.

Holmes Run Trunk Sewer

This sewer serves the Eisenhower Valley and areas outside the Beltway. It was constructed in the early 1950s before the service area was rezoned for current (more residential) development, and now several reaches of the sewer do not have capacity to handle presently planned and future flows—residential development places a larger burden on sewer systems than commercial development.

The now-completed engineering study presents several alternatives for increasing capacity, and is under staff review. Because most of the reaches requiring relief are in parkland, disruption during construction is a major consideration. The relief construction will be planned in phases.

The CIP currently includes $9.05 million for design and construction of capacity relief, $7,205,000 in the current CIP, plus $1.8 million in unallocated prior year funds; however, OMB emphasizes that the exact cost and timing will be refined after final staff analysis of the engineering study. Last year, BFAAC recommended that the City try to recapture some of these costs from Fairfax County, since Fairfax utilizes this line, as well. Unfortunately, this is no longer an option, as Fairfax needs no additional capacity.

Offsetting Revenue

The City plans to increase sewer connection fees and dedicate the revenue to sewer expansion, repair and rehabilitation. BFAAC noted in last year's report that Alexandria's development fees are relatively low in comparison with neighboring jurisdictions, and encouraged the City to act as quickly as possible to increase these fees, so as not to miss out on any additional revenue. The CIP includes $600,000 in revenue from sewer connection fees, spread evenly over six years, but notes in Budget memo #4 that the income stream could be much higher.

Long-Term Projections

Alexandria is a city well positioned to manage its financial future as it enters a period of exciting change and growth. Managing this change and growth will likely present challenges along the way particularly as certain long-term trends emerge in the city and the surrounding region. Many of the challenges will focus on financial considerations, which BFAAC believes could have a significant impact on the city budget. Addressing these challenges might also require building consensus in the community, as certain budget priorities require different emphasis and attention.

Local, State, and National Outlook

As the City Manager noted in the February 2001 monthly financial report, there is "the consensus opinion of a slowing national regional economy," and that some economists are using the phrases "recession growth" and "soft landing" to describe economic activity this calendar year. In fact, the City already is seeing signs of slower local growth.

Economic indicators for the 4th Quarter of 2000, released by the Alexandria Economic Development Partnership, Inc., show figures "which are generally lower than other quarters." The Delta Associates' report *"Trendlines 2001: New Economy; New Challenges"* anticipates a slow economic performance hitting the retail sector particularly hard. The report cites an annual survey of industry leaders, 40percent of whom believe economic conditions will be worse in 2001 than they were in 2000. Further clouding the economic picture, a recent national poll indicated that a large plurality of Americans planned to curtail making large purchases such as a home or new car, as well as cut back their level of dining out and entertainment. If those survey results are echoed at the local level, the City may see a decrease in economically sensitive taxes (i.e., transient lodging, restaurant meals and recordation).

Changing Demographics

As the 2000 Census figures are released over the next months, a current statistical portrait of the City of Alexandria will emerge. The first Census information released, detailing the racial and ethnic make up of the City, serves as an example of how changing demographics provide an indicator for future budget trends. Minority groups accounted for at least 70 percent of Northern Virginia's population increase in the recent Census. In Alexandria, the Hispanic population increased 75 percent, with Hispanics now comprising 15 percent of the city's population -- a 50 percent increase from the 1990 Census.

While it is difficult to generalize about this community which is diverse in terms of age, family situation, immigration status and income, there are some overarching factors that may well have an impact on the future of our city.

This is a community of working people contributing to building the region's economy by assuming essential, low-wage jobs in the hotel and tourism industry, the construction industry vital to development, as well as providing domestic household help that, in many cases, provides child care that is largely unavailable and unaffordable for many city families. Low-wage jobs may require increased investments in health care, education, social services and housing.

For example, according to a recent study done by researchers from the University of Massachusetts Medical School in conjunction with the Tenants and Workers Support Committee, 80 percent of Hispanic immigrants living in Arlandria had no personal health insurance and 56 percent were told by their employers that they had no workers' compensation insurance. These residents depend on city-run clinics but, more often, on emergency room care at Inova Alexandria Hospital.

The City recognizes that there is a pressing need for affordable housing, including rental units, which are a dangerously shrinking commodity in the city. The current city budget suggests that the Housing Trust Fund, built by contributions from developers, will provide sufficient funds for affordable housing. Whether those funds are sufficient or not, without affordable housing, low-income families will be forced to move further and further from the city, beyond the reach of affordable transportation and, hence, local jobs.

Clearly, these concerns do not just apply to the Hispanic population. Rising property and housing costs have exacerbated the income gap in the city, raising real concerns about future city expenditures in the areas of health, housing, education, and social services. This may also have a significant impact on the diverse character of Alexandria.

Another example is the increasing population of elderly residents. Although Census figures detailing population by age are not yet available, it is clear, based on information from city staff, that the number of elderly (aged 60 and older) has grown. This trend has translated into a greater demand on city services for the elderly, such as more home-health care aides, increased emergency medical services, specialized transportation and housing. Add to this the fact that "baby boomers" are now in their fifties, indicating the possibility of an even greater need for services for the elderly within the next decade

Impact of Development and Redevelopment

BFAAC recognizes that land use planning, particularly development and redevelopment issues, will be topics of significant financial importance in the city for the foreseeable future. Given limited vacant land for development. This creates significant redevelopment opportunities and the need to balance residential, neighborhood, and commercial interests. Land use decisions should be balanced and based on the interests of the property owners in the affected neighborhood and the social and economic benefits to the city as a whole. Achieving a balance between appropriate commercial development and neighborhood plans will only strengthen Alexandria's position as a desirable livable city, which is well positioned to manage its finances and neighborhood quality of life. Several opportunities exist for the city to assess development and redevelopment priorities to best achieve this balance and strengthen the city's tax base.

BFAAC wishes to highlight the following land use issues and long-term budget considerations:

1. **Master Plan Review** - Beginning with the review of the Master Plan in 2002 the city has a unique opportunity to build consensus and carefully review important long-term land use priorities. City Council, the Planning Commission, neighborhood associations and residents have a responsibility to develop a plan that recognizes the need for zoning and land uses that are realistically achievable and economically viable for the city.

2. **Planning and Transportation & Environmental Services (T&ES) Department Resources** – BFAAC encourages the City Manager and City Council to monitor the needs of the Planning and T&ES Department staff. The Planning Department must have sufficient qualified staff and resources to carefully review development and redevelopment proposals and monitor development projects. The T&ES Department must have the appropriate staff to plan, execute and monitor infrastructure improvements.

3. **Infrastructure** – Large-scale development and area redevelopment will likely highlight the need for extensive infrastructure repair, maintenance and investment. Without proper attention to all aspects of the city's infrastructure such as sewers, roads, and schools future benefits from development and redevelopment may not be fully realized.

City Fees

BFAAC encourages City Council and the City Manager to study the city's fee structure, particularly those fees associated with the Planning Department and development projects. Some city fees are low in comparison to surrounding jurisdictions and do not fairly compensate the city for its time and services rendered. BFAAC believes that the city should study the fee structure of surrounding jurisdictions and modify their fee structure where appropriate.

Regional Taxing Authority

Another long-term uncertainty is the potential impact of a Northern Virginia taxing authority for education and/or transportation. Governor Gilmore recently signed into law a bill to create a Northern Virginia Transportation Authority, which will plan long-range regional transportation projects. This entity, which does not currently have taxing authority, will become effective July 1, 2002.

Efforts to create a regional authority with taxing powers were unsuccessful in this year's Legislature. If an authority with taxing powers is created, it could help address some of the City's long-term needs for school construction and rehabilitation and transportation improvements and free up City funds for other purposes.

Even an authority set up to fund only transportation projects could help meet City needs, depending in part on the breadth of eligible expenditures. Such an authority could potentially help fund highway improvements in the Route 1 corridor near Potomac Yard and elsewhere in the City, but it might also be able to help fund such diverse needs as a new Metro station at Potomac Yard, traffic management improvements to expedite through-traffic flows on major arterials, traffic-calming projects in City neighborhoods and the City's share of anticipated new Metro capital assessments.

Although such an authority might relieve the City of some spending needs, it would also increase the tax burden on Alexandria residents and possibly reduce their tolerance for City taxes. At this time, BFAAC takes no position about whether such a taxing authority is desirable or in the City's best interests.

City Staffing and Employee Retention

As noted elsewhere in this report BFAAC supports the City Manager's recommendation of a 3 percent cost of living adjustment. BFAAC urges City Council to continue to work closely with the City Manager and School Board to address another long-term financial consideration – maintaining a well-qualified and compensated city and school staff. Competition for qualified employees in the Metropolitan Washington area is increasing and is a difficult problem in both the public and private sectors. There is also the issue of retaining qualified, competent and knowledgeable staff.

The rising cost of medical insurance, benefits, and cost of living adjustments are all factors the City must weigh when addressing this continuing challenge in the years to come. City staff needs to be recognized as a valuable resource with fair and appropriate compensation and benefits.