City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 24, 2001

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: PHILIP SUNDERLAND, CITY MANAGER PS

SUBJECT: BUDGET MEMO #34: ALEXANDRIA CONVENTION AND VISITORS ASSOCIATION (ACVA) RECOMMENDED BUDGET FOR FY 2002 (COUNCILMAN SPECK'S REQUEST)

This is in response to Councilman Speck's inquiry regarding the recommended funding level for ACVA for FY 2002.

The FY 2002 Proposed Budget provides ACVA with a $175,000 (18%) increase over its FY 2001 City-funded budget. ACVA had requested an increase of $366,341 (37%). With the proposed increase, the recommended ACVA City-funded budget for FY 2002 totals $1,160,069. The ACVA budget materials provided to City Council discuss the impact of the "budget reductions" for FY 2002. This phraseology articulates ACVA's view that its budget has decreased $191,341 from its FY 2002 request, rather than increasing $175,000 from its existing FY 2001 budget.

Because ACVA has moved into private office space from its overcrowded space in the City-owned Ramsay House, a lease amount of $64,000 was considered as an automatic increase to their base budget. Since this was a fixed cost and represented a lease that the City had negotiated, there was no question that this cost addition should be funded in FY 2002. The addition of this amount did not detract from the consideration of the $302,341 balance of the ACVA budget addition request. Setting aside the rent, the ACVA budget level that is recommended in the FY 2002 Proposed Budget represents an 11% increase over FY 2001 (with the rent increase, ACVA's budget increases 18%).

The elements that were used to develop the overall funding in the ACVA budget are detailed below. While these are the building blocks used to reach the recommended City increase, unless City Council directs otherwise, ACVA will have the flexibility to use the City funding level to meet its mission in the manner it deems appropriate.

The cost element increases funded with the $175,000 were:

- Lease amount ($64,000) for office space
- 6% merit increases ($30,550) for existing staff
- Marketing and communication initiatives ($75,000)
- Miscellaneous non-personnel expenditures ($5,500)

The cost element increases of $191,341 not funded were:

- New staff position for product development and film office ($60,000)
- 10% year-end staff bonus pool (45,900)
- Marketing and communication initiatives ($76,400)
- Miscellaneous non-personnel expenditures ($9,041)

The rationale for not funding these supplemental elements of the ACVA budget request is similar to the reasons why many supplementals for nearly every City department were not funded. This relates to a limited pool of financial resources available during the budget process compared with the volume of supplemental requests. This situation is not unique in governmental or corporate budgeting. The imbalance of income and expenditure demands creates a need to prioritize and to make difficult decisions on what gets funded and what does not.

The $175,000 recommended budget increase allows ACVA to keep its salaries moving upward with a merit/inflation related increase, as well as provides $75,000 to increase its marketing and communications efforts. Increasing the marketing and communication budget further at this time did not seem warranted; nor did the relative benefits articulated for the new position for the product development and film office function. The staff bonus pool of 10%, on top of the 6% planned merit increases, seemed out of line with City and School, and many non-profit organization, compensation practices.

While there certainly is a positive economic impact and return on investment on ACVA activities, it is less than what has been articulated in the ACVA budget materials provided to you. For example, while ACVA efforts do result in increases in the number of hotel rooms rented in the City, it is difficult to draw a direct cause and effect relationship between ACVA's efforts and <u>all</u> tourist and business traveler tax income the City receives from the hotel tax. Not all, but only some portion of rented hotel rooms are rented as the result of ACVA efforts. As a result, the $15.13 direct tax return per City $1.00 allocated to ACVA calculated by AVCA likely overstates the actual cause and effect return.

There are a number of ways to fund the ACVA budget in future years. The current method is one that seeks to weigh the merits of the ACVA budget request, in a similar manner to how the merits of other City department and agency budgets are analyzed. A second method would be to link ACVA's annual City-funded budget to the revenues generated by taxes from tourism and business travel. Some convention and visitors organizations are funded this way - such as with a dedicated hotel tax. While this provides such organizations with budget increases that track increases in related tax revenues, it also reduces funding when those taxes decrease. So the dilemma that this funding method creates is that during an economic slowdown, when it is probably the time to increase tourism marketing efforts, the tax revenues to support such efforts decrease. All in all, while the current merit based budget process has its faults, overall it has worked well.

In conclusion, although the ACVA budget for FY 2002 does not provide for all the supplemental requests made by the Association, ACVA did receive a budget increase that was larger in percentage terms than that received by almost all other City departments. This level of increase, while less than what ACVA would have wished, does recognize the importance of ACVA and its fine work in promoting the City.

cc: Mark Jinks, Assistant City Manager
Carol Moore, Acting Deputy Director, Office of Management and Budget