

Budget and Fiscal Affairs Advisory Committee

Review of

Watson Wyatt Report on

Pay for Performance, Position Classification and Compensation

Benefits and Compensation Philosophy

October, 2009

I. City's Adoption of Strategic Plan and MFRI Principles and Implementation.

In keeping with its Strategic Plan and Goals, in 2006 the City initiated its Managing for Results Initiative (MFRI) to improve the functioning of government planning, budgeting and program implementation in order to improve results and increase efficiencies. MFRI development and adoption was a logical implementation step flowing from the initial framework of the Strategic Plan.

Many of these actions put in place BFAAC recommendations and the Committee has applauded these steps over the last few years. In its FY 2010 report, the Committee recommended a continued review of the factors used in MFRI, an analysis of the experience to date to continue and improve the process, and that the City move toward a pay-for-performance salary program.

The City contracted last year with Watson Wyatt (WW) to analyze and make recommendations concerning the City's employee position classification system, its employee compensation and benefits package, and its compensation philosophy. WW has completed its evaluation, which included comparisons of the critical items to not only surrounding jurisdictions but also other jurisdictions in the State of Virginia, and has tendered its recommendations.

Earlier this year, City Council, upon receipt of preliminary WW reports, asked BFAAC to review the report and make any appropriate comments prior to Council consideration of the full report in the upcoming budget cycle.

II. Watson Wyatt Comments and Recommendations:

How we compensate our employees, both active and retired, is tremendously important. All forms of compensation, including pay and benefits have been analyzed in this study, and BFAAC will comment on all areas. However important all forms of

compensation are, clearly the lion's share of the analysis, and work to be done, lies in the area of pay, i.e., job classification and salary compensation.

BFAAC will also comment on benefits, both collectively and individually. As BFAAC previously stated, the benefits portion of compensation has not been in keeping with the stated philosophy for some time. In addition, the cost of benefits has become a much more uncontrollable form of compensation over many years, and the City must address this issue. BFAAC has recommended that the City consider total compensation when studying the marketability of City jobs to that of surrounding jurisdictions. As such, it is important to address, and comment on the benefits analyzed in the WW study.

Compensation

Job Classification System: WW recommends that the City embark on the development and implementation of a new City employee job classification system. Moving from the current system towards a "whole-job" classification system will be beneficial in fully utilizing the philosophy of MFRI, specifically bringing transparency and flexibility to the process. WW is recommending that the needs of the City would be best met by developing a competency approach, a variation of the whole-job evaluation in which jobs are compared to descriptions of competencies.

The City already has taken several actions related to this recommendation, starting with a contract with WW to develop a new classification system. Therefore, WW has developed, distributed and collected job analysis surveys from nearly 3000 employees. WW and the City's HR Department are working with a committee of 20 employees on feedback and are reviewing roles, levels and competencies for each of the job levels. The City review of this framework of a competency-based classification system has gone to Senior Staff and will go in a meeting on October 22nd to the Council Subcommittee on Pension and Compensation for review of compensation issues and also to provide an overview of the new classification system.

Benchmarking: With regard to the current benchmarking practice, WW recommends increasing the number of benchmarks, reviewing the class specifications for accuracy and updating them as necessary, increasing the number of benchmark positions, reviewing the definition of competitive position against market, addressing non-benchmark jobs through the chosen job evaluation method, reviewing the process for applying market data to the pay scale, and increasing the number of published survey sources used in the benchmark process. WW recommends that the City first address jobs that have already been assessed through previous benchmarking, adjust where necessary, then revise all classification specifications where necessary; then use the updated material to then conduct the ongoing benchmarks. WW also recommends eliminating the automatic linking of non-benchmark jobs, and instead, slot each non-

benchmarking job using the benchmark jobs as a guide. WW recommends benchmarking occur at least every two years.

The City informs our subcommittee that recent benchmark data is available now for 63 job classes and their linked jobs. This information has been forwarded to the Senior Staff and will be presented to the Council Subcommittee on October 22nd and to the Council on November 7th. HR anticipates another benchmark survey to be conducted in the spring once the new system is in place. It appears that this means three sets of benchmarking, but it is not clear in which fiscal years these results may be utilized or actually implemented.

Pay Scale: WW recommends improving the competitiveness of the pay scale through the benchmarking process as an area of opportunity. This would address several concerns voiced by the focus groups, i.e. treatment at the top of the range, competitiveness at hiring, and the treatment at promotion. Ensuring that the ranges are aligned to comparators and adhering insofar as possible to a hiring policy that limits pay setting to the first quartile, and if funding is available, paying a lump sum (that does not increase the base pay) to an employee that is at the maximum of the range would address these issues. The City's salary ranges are designed to be competitive at the midpoint, but minimums and maximums also need to be competitive in order to attract and retain employees.

Promotions: WW feels that the installation of a new classification system and setting the ranges to a proper position can address the two major concerns about promotions, namely the hiring of an individual at a higher rate than internal employees, and the disincentive of applying for a supervisory job that pays less than those supervised.

Compensation Philosophy: The City's stated pay philosophy has been that, when compared with surrounding jurisdictions, which had been summarized as "neither a leader nor laggard be." WW believes that updating the compensation philosophy early in the process is necessary. This process is underway concurrent with the job classification activity mentioned in that section above and will be reviewed with the Council Subcommittee as well.

Pay-for-Performance: WW notes that the difference between public and private sector performance management practices is lessening. A 2003 GAO report states "leading public sector organizations use their performance management systems to accelerate change, achieve desired organizational results, and facilitate two-way communication throughout the year so that discussions about individual and organizational performance are integrated and ongoing. Effective performance management systems are not merely used for once or twice yearly individual expectation setting and ratings processes, but are tools to help the organization manage on a day-to-day basis."

WW recommends changing the performance evaluation form to include competencies. The new performance management system must be rigorous and integrated with the new classification system. Highly recommended is that managers, supervisors, and employees be included in communications and trained in the performance management process. Training should emphasize performance planning, coaching and feedback, and performance reviews.

Benefits

Benefits Comparison: The study shows that Alexandria ranks very well in relation to the comparator jurisdictions in regards to benefits for general employees. Benefits include Retirement, Health, Paid Time Off and Security through Life Insurance and Disability Insurance. Collectively it leads all the other jurisdictions, with general employees leading comparator jurisdictions in nearly all categories except paid time off and short term disability. This is not the case for ERT employees (averaging 3 and 4), Police (averaging 3 and 4), Fire (averaging 4 and 5), and Sheriff (averaging 3 and 4) However, the complexity of these comparisons should not be ignored if one chooses to merely look at the resulting comparison number. In some cases, the differences are secondary to the value of the individual benefit being measured, some being more valued than others. And, each employee may personally value these benefits differently.

The objective is to attract and retain talented employees as well as providing compensation that is fair to both the employee and to the City. With this in mind, a great deal of work may be necessary to review individual benefits, and indeed, component parts to that benefit to assess what actions may be necessary to maintain, or adjust that benefit.

The City has designed and distributed an employee benefits and incentive survey that will be completed and will ask for employee response by the end of October. The results will not be known for several weeks but will be forwarded to the City Manager, senior staff, BFAAC and ultimately to Council to be available as the budget cycle consideration for next fiscal year proceeds.

Retirement: Alexandria ranked overall very well in this category, chiefly because of the more generous ways in which the City offers its Defined Benefit (DB) program. WW indicates that enhancing the DB plan can be achieved by reviewing early retirement provisions plans for Sheriff, Police, and Fire to determine if they need to be more competitive with other jurisdictions, and to consider offering a match on the 457 employee savings plan.

WW notes that under a DB plan, these recommended enhancements will represent additional cost to the City and should be thoroughly evaluated before enacting. WW also notes that, in contrast, these costs of changes under a Defined Contribution (DC)

plan would have better predictability and less volatility for the City as investment risk is shifted from the City to the employee.

Health: WW does not recommend any changes to the City's medical benefits. Taken as a whole, the City's medical and prescription plan benefits are in line with comparator jurisdictions. The City's number 1 ranking in this area is chiefly driven by the relatively low percentage employee contribution towards the cost of medical benefits. If the City wishes to make adjustments to this benefit, it is this area that could receive the majority of attention. The City could also continue to address and promote health-related programs and activities, and assist employees to understand just where health care costs occur. Each employee is an investment. Good health maintenance is an investment in productivity.

The City's dental plan ranks at the bottom of the comparator jurisdictions. WW recommends that an employer contribution toward a basic dental plan could be made available, with the ability of the employee to buy up.

Paid -Time Off: The City ranks last in this benefit. However, the City must look at the actual difference between ranked first and last within an individual Paid Time Off category. Since the analysis, the City has added an additional paid day of annual leave, effective 7/1/2009. WW has no specific recommendations other than reviewing the sick leave and its relation to Long Term Disability.

Security (Life Insurance and Disability): The City ranks in the top three in this area of benefits. These require little or no cost to the City, and are perceived as valuable by employees. In addition to these benefits, WW recommends that the City may want to look at similar types of benefits, e.g., Long Term Care, which also will not cost the City much, and could be paid by the employee who would benefit in a lower cost due to a group buying process. WW also recommends that the City evaluate the current disability program, to ensure that it is providing adequate income protection in the gap between sick leave (8 days) and long term disability coverage (4 months). In addition, WW recommends that the City also consider offering Long Term Care insurance.

III. BFAAC Recommendations:

BFAAC has previously supported budget modernization including: strategic planning, instituting the Managing for Results Initiative (MFRI), and a re-examination of the salary and performance review process that has been in place for several years. BFAAC has recommended a new performance management system based in part on a pay-for-performance approach to employee evaluation and salary.

In reviewing the Report, we agree with the view of WW and many managers and employees that the current approach to compensation is outdated and needs to be changed. We believe that the approach it proposes is in keeping with the direction and

improvements in budgeting and management for results instituted in recent years and mentioned above.

In recent months, the City has begun the process of revising the approach to performance and compensation. Steps that are now underway, directed by the newly reorganized Human Resources Department and involving a broadly representative cross-section of management and various levels of employees, generally seem to be the right approach.

To aid in that endeavor, we offer these comments on what we believe are some key elements in performance management:

- The process itself and its implementation must be clearly understood and believed to be fair, so that managers and employees have trust in the system.
 - To build trust, employees must have knowledge of the system, how it works, and how it may affect individual employees, specific departments and/or job categories.
 - After a system is developed with significant employee involvement, training for managers and employees becomes a strong component to achieve the trust mentioned above.
 - A key component of maintaining a trusted system is for top management and HR to develop and apply a review system of performance evaluation, see that principles are consistently and fairly applied, and include ongoing review of performance evaluation decisions.
 - A check on fairness in the system may involve development of an appeal procedure.
- Terminology should be clear; some terms in the WW report do not seem to be the ones currently used in regular City parlance; management should be sure that everyone is “talking the same language,” with the same meaning applied.
 - There should be well understood definitions of standard terms such as: performance management system, pay-for-performance compensation, market rate adjustments, COLAs, benefits, benchmarking, salary compression, job descriptions vs. job categories across departments, etc.
 - Market rate adjustment: An example of a terminology problem is the City’s change two years ago from “cost of living adjustment” (COLA) to “market rate adjustment” (MRA) to describe increases at that time to salaries of all employees; the terms may seem synonymous, but they are not, relying on different baseline data. MRA actually is based on salaries or salary averages in comparator jurisdictions.

- The subcommittee believed that further clarification of the term “market rate adjustment” was needed. As used now the City has applied such an adjustment to all employees on the current schedule. With the changes now underway in the City system, the question arises as to whether in a performance management system, that the term and its current impact is compatible with a “pay-for-performance” approach. Must MRA apply to all employees as has been done in recent years, and in effect has an impact similar to a COLA, or should it be applied only to specific jobs or categories of jobs to make compensation for those jobs more competitive in the region or for equity within the City’s compensation system?

The committee asked for clarification from the HR Director and it appears that market rate adjustment and COLA are viewed similarly and when applied will be applied to all or nearly all City jobs and the employees who currently hold those positions.

Pay for performance: Further comment reveals an understandable emphasis by the City upon reclassification and setting up the performance management system. It is not clear how or when performance-based pay will be integrated into the new system. Our view is that pay for performance should be an essential element in the comprehensive performance management system now being rolled out and implemented as soon as feasible.

Other Recommendations:

The City’s total compensation package needs to be competitive with surrounding jurisdictions in order for the City to attract and retain the caliber of employees needed to provide productive excellence within the workplace. Therefore:

- Benchmarking to compare City salaries and benefits with surrounding jurisdictions should be ongoing to maximize competitive advantage. A gap of two years between benchmark reviews is probably too long from both a data collection perspective and the need for retraining of those involved.
- We agree with WW that revising the City’s current compensation philosophy is critical and needs to be addressed and instituted early in the process, preferably in concert with the development of the new compensation system.
- Once again BFAAC states, as it has in previous reports, the City should look at both salary and benefits combined in assessing its ability to attract and retain quality employees. The City’s compensation philosophy should also be rewritten or reformulated to guide actual practice. With major change in the approach to compensation of all types and formulation of a performance management system, this is the time for such a review. This “cost to the City” approach should also be utilized in appropriate budget analysis, and presented in a transparent form.

Focus should be on instituting the new performance management system, not on changing benefits.

- Management and HR staff time and emphasis of the message to all staff should be on reorganizing the performance management system and related compensation and performance measures, not on restructuring benefits.
 - Having stated the above premise, some change may be in order to improve linkages between sick leave and short- and long-term disability to make a smoother transition and to improve linkages for employees facing the need for such benefits.
 - The City may choose to explore development of a plan allowing employees' to purchase Long Term Care policies at more favorable rates through a City sponsored group.
- Absent in the WW report and this analysis is any mention of ACPS. Since the City is a major source of funding for the schools, addressing similar, but appropriate studies on a school performance management system including elements moving toward a pay-for-performance system should be recommended to ACPS and then undertaken by the School Board.

IV. Conclusion: The City's FY 2011 budget, based on strategic goals, needs to focus on identifying and quantifying the value created from the efficient and effective provision of City services. Implementation of many of the recommendations outlined in the WW report is underway, and moving in a positive direction in the view of our Committee. If properly implemented, these changes will significantly help the City in attaining that goal.

Council should provide ongoing monitoring of these significant changes. Council should be assured that they lead not only to an improved management system based on greater efficiency, effectiveness and increases in performance, but also builds trust of management and employees in each other. A system that is fair, properly applied and effective throughout the City workforce should be the achievement for which we all strive.

**City of Alexandria Budget & Fiscal
Affairs Advisory Committee**

**Report on the City Manager's Proposed
Budget for FY 2010**

Staff Response

11/07/2009

BFAAC FY09 SUMMARY OF RECOMMENDATIONS

The following is a summary of the Budget & Fiscal Affairs Advisory Committee's FY 09 budget report recommendations with staff responses. Staff responses are bulleted below each recommendation and highlighted in italics.

1 THE BUDGET PROCESS

- 1.1 BFAAC recommends a continued review of the factors used in MFRI and an analysis of the experience to date to continue to improve the process. This review should be supplemented by movement toward combining an enhanced and revised City Council Strategic Plan, based on broad citizen input, and detailed planning by programs and activities, over a longer time horizon, that links the Strategic Plan, performance measures, program evaluation efforts and the annual budget process.

- *The City's strategic plan is being revised and linked to the programs and activities as part of the FY 2011 budget process.*

2 THE OPERATING BUDGET

- 2.1 BFAAC commends the City's Manager's willingness to make hard personnel choices, including a salary freeze, and to employ MFRI for the value-added delivery of services.

- *No response needed.*

- 2.2 BFAAC supports the intent of the Compensation and Classification study now moving toward implementation and looks forward to seeing the results, with implementation as quickly as possible.

- *No response needed.*

- 2.3 BFAAC supports the concept of performance-based compensation and encourages the City to continue to move toward implementing it.

- *This was part of the Watson Wyatt study. A first step of performance management evaluations for members of the senior management group is underway and further steps are now being evaluated by the City.*

2.4 BFAAC supports efforts to reduce the emphasis on benefits, as is being proposed this year in relation to new employees. BFAAC also believes in a "total compensation" approach with an appropriate balance between salary and benefits as the means to attract and retain competent employees.

- *This approach will be evaluated as part of the City's review of its compensation policies and in the context of the FY 2011 budget.*

2.5 BFAAC supports and encourages the City to work with departmental managers and the Executive Safety Committee to implement the City's enhanced efforts to improve safety, reduce risk and attempt to lower workers' compensation claims and costs.

- *A high level Risk Management Oversight Committee (chaired by the City Attorney and Fire Chief) has been formed and is focusing on efforts to improve risk management policies, procedures and practices.*

2.6 A system should be established to provide for monitoring the status and employment history, if any, of those on full disability retirement.

- *We provide disability benefits through three defined benefit plans:*
 - I. Disability Benefits in the Fire fighters and police Officers Pension Plan are offset by Workers Compensation benefits. By and large: employment earnings decrease workers Compensation. A Reduction in Workers Compensation benefits increases Disability Benefits.*
 - II. Substantially all full time permanent city employees not covered by the Fire & Police Plan are covered by the Virginia Retirement System (VRS). VRS monitors benefits provided through their plans.*
 - III. Most City general employees are also participants in the Supplemental Retirement Plan. The Supplemental Retirement Plan requirements for disability benefits include a standard based on an award of Social Security Disability benefits. This is one of the most rigorous standards in existence for disability. Continued employment is very unlikely.*

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- 2.7 In view of recent reports in other jurisdictions of misuse of the disability retirement option afforded public employees, the City should provide a more transparent review of the disability retirement program. BFAAC also recommends that a study be made of the efficacy of the current system for both the City and affected employees.
- *Transparency may be in the eye of the beholder. Some would seek to understand the process. Others would seek a detailed listing of each disability payment. The disability provisions are found in the plan document. This includes the criteria as well as the benefit formula. These are on line. The actuarial valuation with the assumed rates, gain and loss experience, and financial history of the plan are also in the public domain and can be posted on-line as well. We would not recommend releasing names (or addresses, amounts, or SSN'S).*
 - *The City has created a Risk Management Oversight Committee (RMOC). The RMOC membership is composed of the many of the City's most high profile managers (General Administration, Human Resources, Finance, Sheriff, Fire and T&ES departments along with the City's CFO).*
- 2.8 The City should further examine the possibility of moving toward a 5-year financial forecasting approach tying the significant positive changes in recent years of budgeting by programs and activities, MRFI, to longer term financial planning.
- *OMB is developing a more robust 10 year financial forecasting model that enables policy makers and interested members of the public to understand (1) the long-term impacts on the budget of current fiscal decision, and (2) the range of uncertainty in budget projections caused by factors largely outside of the City's control. The model is also designed to be interactive to permit anyone to explore the long-term effects of changes in fiscal policies and different assumptions about the future.*
- 2.9 As the City intends to "wind down" AHOP, BFAAC believes it needs to make this process more transparent and further recommends that AHOP be reevaluated within 3 years to see if reactivation is needed.
- *AHOP has been discontinued in FY 2010. If the need resurfaces and the real estate market returns to a period of explosive growth in values, the City will reevaluate the need for this program.*
- 2.10 City staff should continue efforts to prepare maintenance cost estimates when open space acquisition is under consideration.
- *Will continue to prepare estimates.*
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2.11 We understand that RPCA uses non-City funds to reimburse civic organizations. Nevertheless, BFAAC urges the City to review the relationship, possibly reengineering the process or seeking alternative solutions that would provide for adequate open space maintenance in a constricted budget environment.

- *RPCA applies for and receives a Litter Control Grant from the State each year that it uses to reimburse various civic associations for litter mitigation work performed throughout the year. The City's use of these grant revenues falls within the bounds of the grant. If the grant was not sought by the City, RPCA employees would need work overtime hours in order to provide the same level of service, likely costing much more than the grant award. If at some point in the future these State revenues become unavailable, the City will need to identify a new method for accomplishing the work. At this time, RPCA is comfortable continuing the relationship as is.*

2.12 ACPS and City staff should continue to closely monitor student populations throughout the system, paying particular attention to the demographic trends that may impact the school population.

- *The City is working closely with ACPS on a number of fronts to address short and long-term school needs.*
 - *P&Z is working with school staff to analyze recent and future trends in school enrollment and to better estimate student generation from new development. P&Z is also working jointly with ACPS staff to facilitate the review of relocatable classrooms in time for the 2011-2012 school year.*
 - *ACPS is now more closely involved in small area planning, including the Potomac Yard plan and the Beauregard plan.*
 - *ACPS has included City staff on their Long Range Facilities Planning Work Group, which is looking at all aspects of future school needs. Both P&Z and RPCA are members of the work group, which provides a forum for coordinating school, land use and park/recreation issues.*

2.13 BFAAC commends the City Manager for taking prompt and necessary action to ensure the City is in compliance with regulations concerning take-home vehicles. In light of the recent changes made by the Police Department with regard to take-home vehicles, BFAAC recommends that the City reevaluate the take-home vehicle limitations set by Administrative Regulation 7-3, to ensure consistency with MFRI and the recommendations set forth in the Matrix study.

- *The draft AR developed this spring has not yet been issued. The take-home limits in the final draft's appendix will reflect the post-recission total (126) take-homes for the Police Department, and some other minor corrections in the other departments.*
- *The FMIT is preparing an options paper for the City Manager to consider whether to impose user fees or some level of cost recovery from employees who are assigned take-home vehicles out of the city.*

2.14 BFAAC commends the Chief of Police for taking prompt and appropriate action consistent with MFRI to address the discrepancy between the Department's take-home vehicle policy and the Matrix study recommendations.

- *No Response Needed*

2.15 The City should review the take-home policies of Alexandria's surrounding jurisdictions and consider the provision of take-home vehicles as part of a total compensation package.

- *Staff have reviewed policies of Arlington and Fairfax police, although Fairfax had only a draft policy last year. Staff is not aware of any jurisdictions that include take-home vehicles in the determination of an employee's compensation. This would be extremely unpopular with the affected employees, and it could cause inequities in pension calculations for officers in the same pay grades.*
- *What we have found from additional research of jurisdictions not in this region is that some charge law enforcement employees up to \$200 per month for their assigned take-homes. This practice seems to have increased in popularity during the gasoline price crisis of 2007-08. Special IRS rules allow law enforcement personnel to exclude the value of take-home vehicles from their taxable income.*

3 THE CIP

3.1 We recommend that the CIP clearly identify and rank all projects; that there be a list of projects that will clearly be funded and a separate list of projects that may have been considered but did not make the cut.

- *The current staff direction for the FY 2011 CIP is to expand to a 10-year plan (from the current 6). This 10-year plan will contain no unfunded or TBD amounts, and will assume annual funding levels that the City anticipates are realistic. Projects that cannot be funded within these 10 years will be listed and briefly described in an appendix to the CIP, but will not be programmed in any year.*
- *Because of the sheer number of capital projects (200+), and the fact that the CIP will feature 10 years of planned projects, an individual ranking of all projects is simply not feasible given limited time and staff resources. Details of the prioritization methodology for the FY 2011 CIP will be presented at the City Council Retreat in November*

3.2 We recommend that the CIP Steering Committee require managing departments to provide a cost/benefit justification for each CIP maintenance/improvement project, and use these justifications to rank projects individually rather than by project groups.

- *Departmental submissions to the CIP Steering Committee include detailed justification about the costs of doing or not doing specific projects. The benefits of projects are also laid out in these submissions. It is this information that informs the Steering Committee's decisions of when, or if, to program projects.*
- *The City has a ranking system that is effective and allows a vast number of informed decisions to be made in a relatively short period of time. When comparing the benefit of performing an individual ranking of all projects compared to the amount of staff time necessary to complete such an exercise, staff has determined that the current ranking system is sufficient.*

3.3 The City should develop a cash capital policy similar to the one it has successfully utilized with respect to debt policy.

- *Assuming the City's availability of funds continues each year in the approved CIP for FY 2010 to FY 2015. A policy may be helpful as a guideline for measuring those efforts and describing circumstances under which variations may occur.*

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- 3.4 When considering cash capital contributions to the CIP, Council should consider the equities between current and future taxpayers that are inherent in funding the CIP budget.
- *Staff agrees with this philosophy and will work to facilitate such discussion to the degree possible. The concept of generational equity has been brought up in past Council discussions of the CIP funding.*
- 3.5 The timing as to receipt of stimulus funding by whatever method is uncertain; therefore the Council should not rely on the availability of stimulus funding to make budgetary decisions for the FY 2010–2015 CIP.
- *The FY 2010 – FY 2015 CIP was built and approved assuming the City would not receive any stimulus funds.*
- 3.6 Consistent with state and federal regulation, stimulus funding should first be applied to projects scheduled for FY 2010 and FY 2011; the next priority should be programs funded in the out-years that can be accelerated, thus potentially reducing cash capital and debt loads.
- *The City acted in accordance with state and federal regulations when applying for stimulus funding and prioritized “shovel ready” projects above projects that cannot be started until the out-years.*
- 3.7 Any new starts made possible by stimulus funding should be subjected to the rigorous process recommended by BFAAC with respect to project prioritization.
- *Stimulus projects will be considered within the CIP project prioritization in at least two capacities. First, receipt of stimulus funding may negate the need for other City capital money for a certain project, and free up funds for the next higher priority project on the list. Second, a funded-stimulus project may reduce the City staff capacity to manage another capital project and accordingly reduce the ranking of that project.*

4 REVENUES AND OUTLOOK

- 4.1 The percentage of per capita income that goes to pay the residential real property tax should continue to be monitored and Council should be especially cautious, particularly in the current economic environment, in setting tax rates that that would result in ratios significantly above historic ranges.

- *This is a useful indicator but as BFAAC itself indicates, while caution is required, the ratio is not a hard and fast limit.*

- 4.2 If real estate values continue to fall as projected, this indicator may prove helpful in setting the tax rate in future years inasmuch as it is an indication of the taxpayers' ability to pay.

- *This statistic, included on page 7-7 of the Budget Document has remained relatively flat over the last several years. The City will continue to monitor this number and include it in the budget document.*

- 4.3 BFAAC believes that the established debt policy guidelines have served as an important tool for fiscal discipline. We strongly support efforts to remain within all of the guidelines.

- *The City includes debt policy guidelines on Page 23-28 of the budget document. The debt ratio limit graphs are included on page 20-23 through 20-25 of the budget document. The guideline regarding debt per capita as a percent of per capita income was raised in June, 2008. The City's FY 2010 debt service costs of borrowing remain below the maximum limit for all guidelines. The only limit exceeded at the time is the 10% limit for unreserved fund balance as a percent of GF revenues (at the end of FY 2009, the City was at 9.3%).*

- 4.4 Any additional borrowing should be analyzed against the debt policy guidelines and with consideration of the effect that increasing debt service payments will have on future operating budgets.

- *Debt service information is detailed in the operating overview and CIP document.*

- 4.5 Borrowing in excess of the targets should be temporary and undertaken only with the most careful deliberation, and only in circumstances where the projects to be funded are essential under the strategic goals and result in significant long-term benefits to the City, or represent the City' commitment to fulfill a prior obligation, (e.g., Metro).

- *Agree*

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- 4.6** It is imperative that the City increase its efforts to identify a financially capable developer to proceed expeditiously with the redevelopment of Landmark so that, at such time as redevelopment of Landmark becomes viable, the City has positioned itself well to attract the desired development as a result of the City's adoption of the flexible design guidelines.
- *This remains a priority for the City. As part of its FY 2010 budget, the City set aside \$65,000 in contingent reserves to the AEDP for a Landmark Mall Area promotion and investment program. Investment capital for development remains scarce in the current economic climate.*
- 4.7** BFAAC commends AEDP, ACVA and SBDC for their progress in the adoption of performance measures, and we urge the City to be proactive in assisting all economic development entities in the establishment of appropriate indicators to assist in the measurement and evaluation of economic development benchmarks.
- *As a requirement to release its supplemental appropriation, the City is requiring the AEDP, ACVA, and SBDC to execute performance contracts for FY2010.*
- 4.8** BFAAC urges the City to make implementation of the Economic Sustainability Work Group a priority with increased focus and resources for the necessary planning, policy guidance, oversight and control of City spending on economic development activities.
- *An implementation Group was formed, consisting of 2 council members, 3 members of the original work group and one individual involved with the small business task force, to ensure the continued focus and implementation on the economic sustainability recommendations.*
- 4.9** Implementation of the economic sustainability recommendations requires, as a priority, the assignment of a qualified City employee economic development professional to coordinate economic development planning, policy guidance and oversight
- *Tom Gates was hired in March of 2009 as the Assistant City Manager for Management Improvements to spearhead the initiatives above.*
- 4.10** The City should ensure that regularly scheduled/periodic status reports covering the progress of implementation of the economic sustainability recommendations are produced to provide progress accountability and transparency.
- *The Implementation Group meets once a month with City staff as well as outside organizations responsible for the Recommendations set forth by the Work Group. The Committee also receives quarterly updates on the status of the entire body of recommendations.*
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4.11 The City should take immediate steps to identify and prioritize the desired projects that may be undertaken pursuant to the economic stimulus legislation.

- *City Council formed a Subcommittee and the City formed an Executive Committee and several smaller committees related to strategic planning and accountability when the stimulus funding first became available to ensure that the City was ready to pursue available funding, as well as prepared to track and report on awarded funding as required. Each committee meets as needed to discuss and respond to stimulus funding issues. In addition, staff reports to Council as needed to keep them apprised of opportunities and awards for the City related to Stimulus Funding.*

4.12 The Commercial Real Estate Add-On Tax remains a viable option to address the City's transportation needs and should be evaluated annually in the context of market conditions.

- *Agree*

4.13 In setting the BPOL tax rates, we recommend that the City evaluate the effect of the rate in retaining and attracting commercial activity to expand the tax base.

- *Agree, but since no quantitative studies are available on this subject, this evaluation is subjective at this time.*

4.14 An increase in the cigarette tax may be warranted at this time.

- *In the FY 2010 Approved Budget, the City Council increased the cigarette tax from 70 cents per pack to 80 cents per pack.*

4.15 BFAAC recommends that the City Manager's Proposed Annual Budget Document set forth the maximum tax rate permitted by law for each revenue option.

- *Page 7-42 of the Approved Budget document includes the maximum tax rate allowed by the State for major City revenues.*

4.16 Council should approve as part of its regular budget adoption the normal recurring grants received by the City.

- *Grants procedures were revised in FY 2010 so that recurring grants are approved in the initial budget adoption.*

4.17 The City should continue to explore grant sources to supplement other City tax revenues.

- *Department staff continues to pursue grant opportunities as they become available. The aforementioned ARRA subcommittees are also pursuing any available and appropriate stimulus funding opportunities.*

4.18 Recurring grant applications should be submitted to Council in a single monthly docket item.

- *As noted above, recurring grant applications (for the most part) were approved as part of the budget process. ARRA reporting is presented periodically to council at their legislative meeting.*

4.19 The City should formulate a uniform grant application policy whereby agencies must demonstrate to the satisfaction of OMB and the Manager that each grant meets the agency's core mission, as defined by the City's Strategic Plan, and is consistent with the City's implementation of MFRI.

- *All new grant applications reviewed by both OMB (from a fiscal perspective) and staff in the City Manager's Office (from a policy perspective).*

4.20 Recurring grants that are no longer economically sustainable in future years because of reduced grantor funding, or increased operating costs, should be eliminated unless the accepting agencies are able to absorb additional cost within their own budget.

- *Grant meetings with departments to identify program costs and estimate future revenue were conducted in early September. All departments were notified that the general fund support of grant programs was frozen for FY 2011. If revenues were not sufficient to maintain the same level of service, the department would need to find the additional general fund support within their existing general funds, or submit a supplemental request to compete with all requests for general fund increases in FY 2011.*