

City of Alexandria, Virginia

MEMORANDUM

Date: NOVEMBER 3, 2020

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

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: FY 2022 MEMO #3 – RECOMMENDATIONS FOR FY 2022 BUDGET GUIDANCE

As Council develops its budget guidance for FY 2022, BFAAC encourages Council to:

- **Learn from the FY 21 Process:** Many of the budget decisions made last spring were made rapidly in response to a constantly changing and unfolding crisis that impacted numerous areas of both revenue and expenditure in the City budget. Analyze what worked out well; what had unintended consequences; and which uses of emergency grant funds—federal, state, and local—were in highest demand and/or underutilized. Also continue focus on maximizing flexibility and local jurisdiction.
- **Empower Maximum Flexibility:** It is still entirely unknown how the course of the COVID-19 virus will progress in the months ahead, as well as wide variability in how City taxes will be impacted as we head into the winter months and it is harder for small businesses, particularly restaurants, to stay afloat. With that in mind, Council should not take any options off the table, including an increase in the real estate tax rate. While BFAAC has previously cautioned about the residential tax and fee burden, those concerns need to be balanced with the need to maintain core city services as well as prepare for a long-term revenue decline.
- **Strive for Proactive Transparency on Possible Tax Increases:** BFAAC both appreciated and respected the Manager’s approach in the initial pre-crisis budget last year of spelling out a multi-year plan of tax increases needed to support the budget. It goes without saying those plans were abandoned and significantly altered in response to an unforeseen emergency; but that inclination to look ahead and communicate openly about future tax increases should be re-implemented. There is an urgent need to utilize every tool at our disposal to help the City emerge from this current crisis with as much strength as possible to support ongoing priorities, and we should clearly indicate these options to the public early and often.

- **Balance Competing Priorities:** The city is faced with three major spending priorities in FY22 and the immediate years beyond: COVID-19 response, reopening schools safely and promoting ongoing education resilience (while also pursuing already established capacity and modernization projects), and stormwater infrastructure. Each of these things is crucial yet each also requires enormous expenditures, and it may not be possible to treat all three equally and to the full measure necessary to drive the results expected by the public. Charting a course to balance these priorities will involve illustrating the scale of each problem to the public, and transparently articulating and explaining the sacrifices that will need to be made. Pointed effort should be made to develop and analyze varying options on how to address these issues, and then make decisive choices that move us forward. However, these issues should not be endlessly studied and deferred; the moment for action and leadership has arrived.
- **Continue to Emphasize Revenue** – BFAAC has long encouraged Council to pursue options and ideas that would grow and diversify the City’s revenue base; it is clear that this Council has embraced that imperative, and the results show that it is working. Recent data on sales and meals taxes has been in line with or slightly better than expected, which likely indicates a generation base that is wider and more diverse than in the past. Council and staff have been nimble about zoning and regulatory relaxation, AEDP has deployed impactful grant programs, and the business community has shown notable tenacity and inventiveness. But even in the face of this encouraging progress, we must continue to emphasize revenue generation and business retention as the lynchpin of funding core city services over both the short- and long-term. We should also take proactive steps to guard against precarity in both the generation of—and our over-reliance on—any particular source of revenue. The ongoing financial emergency has given us a natural experiment in modeling the precarity and/or resilience of certain sources of revenue, in addition to potentially offering other insights such as revenue sources which declined or behaved in a countercyclical manner and thus warrant increased focus to reduce future shocks. We encourage Council to provide guidance that draws on this data to further support and/or diversify the revenue sources that support our City.
- **Evaluate Balance Sheet Assets:** The urgency of the moment presents an opportunity to examine whether assets held by the City are currently being used to their best and highest purpose. If there are opportunities to convert City holdings or programs to a public-private partnership model that could both generate revenue while relieving the City of ongoing liabilities, this would be the moment to consider such options; while carefully weighing such opportunities against long-term implications including protection of essential services that require government control. Work of this nature was begun by the City in recent years and should be continued.
- **Avoid Broadly Applied Cuts:** Across the board cuts born equally by every department should not be the preferred approach here. Acknowledging that all services have some constituency, certain departments and services are simply more important and their solvency should be prioritized. Additionally, across the board cuts are not able to account for areas that demographic data (race/ethnicity/income) might indicate severely disparate equity effects stemming from cuts to certain programs or services.

- **Focus on Policy Outcomes** – As always, BFAAC reiterates its recommendation that Council guidance focus on achieving policy outcomes, rather than giving the City Manager specific instructions. BFAAC recommends Council avoid giving specific instructions in areas such as: employee compensation, school division transfers, tax rates, number of full-time equivalents in specific departments, etc. and allow the City Manager to present Council a variety of options to meet strategic objectives identified in its guidance.
- **Act Regionally** – We are not the only local jurisdiction in the region fighting to survive this crisis. We encourage you to look for opportunities for cost-sharing or co-investment with neighboring locales on projects related to public health, workforce training and development, affordable housing, and transit improvements; and we recommend that you give budget guidance in these areas that preserves maximum flexibility and does not foreclose on emergent opportunities.