

City of Alexandria, Virginia

MEMORANDUM

DATE: JANUARY 28, 2021

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

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: FY 2022 MEMO #4 – INITIAL REFLECTIONS ON THE CITY’S 2020 PANDEMIC RESPONSE AND CONTEXT FOR THE MANAGER’S FY 2022 BUDGET

During the November Budget Retreat, Council asked BFAAC to offer insight on the City’s response to the 2020 pandemic, as it relates to the budget process. While the City and the world continue to operate in the midst of an economic and health crisis, this memo will not prematurely offer a deep and broad review. Instead BFAAC offers perspective as Council prepares to consider the Manager’s proposed FY22 Budget.

What Did We Do?

The City’s **response was more about shifting resources than cutting back expenses in areas that would negatively impact the community.** The City’s past attention to maintaining strong cash capital and fund balances was rewarded as it allowed us to meet unexpected and constantly emerging needs while still maintaining important City services, and even continuing capital improvement projects including school construction. The City shifted approximately \$20 million from cash capital to cover immediate operating expenses. While the City has not yet accessed the Fund Balance, BFAAC believes this may soon be necessary and advisable under already established parameters.

In order to respond quickly, **staff focused its efforts on re-allocations that could be achieved using existing authority.** These included: shifting cash capital funding to operating; hiring freeze; withholding merit increases. Both staff and Council are applauded for adeptly re-aligning the FY21 proposed budget mid-process and quickly approving a responsive budget in April. In addition to shifting funds, many City employees have been re-deployed to best utilize their skills and experience, demonstrating both bureaucratic and individual flexibility. For both the City and ACPS, staff has absorbed much of the impact of the crisis, both in terms of unrealized compensation increases and the increased stress of working in a pandemic environment. It should again be noted that this was accomplished without a reduction in services, but in fact by

increasing services in response to emerging needs - BFAAC applauds all City and school employees for this accomplishment.

Critically, **ongoing regular communication between City and ACPS staff and elected bodies** enabled schools to make budget adjustments necessary to continue education and services for all public school children, and to provide meals to all children in the City every school day and during the summer. While the education delivery, meal distribution and service model has changed dramatically, ACPS staff have also demonstrated dramatic flexibility, including teachers delivering content remotely; cafeteria staff preparing boxed meals for bus drivers to deliver to targeted communities; and individual outreach to students with identified risks.

The City also elevated visibility of the Alexandria Health Department (AHD), which has played a central role coordinating efforts to mitigate the spread of COVID-19. **AHD received a transfer of City resources and a significant portion of \$27.8 million in CARES funding received from Richmond thru extensive interagency cooperation.** By re-assigning existing staff, working closely with other City departments, maximizing partnerships with local non-profits, and deploying its volunteer Medical Reserve Corps (MRC), AHD has been able to utilize all funding within its parameters to reach every segment of our community. From assisting restaurants, child care operators, schools and other businesses in meeting guidelines; to contact tracing; offering free community COVID-19 testing; and now distributing vaccines, AHD's leadership is broadly recognized. While the Manager's FY21 budget already recognized the need to increase support to AHD in response to the opioid crisis and other city-wide health concerns, the pandemic has highlighted the central role a local health department plays and AHD will continue to require increased investment as we emerge.

Proud of its local businesses, Alexandria quickly shifted regulations and zoning restrictions, allowing local businesses to operate in an otherwise restricted environment. The **Alexandria Economic Development Partnership (AEDP) played a key role helping smaller businesses** pivot to on-line sales and navigate the numerous relief programs. There continues to be a clear digital divide between those businesses that adapted well and those that will continue to need AEDP support. AEDP can also help the City determine what types of recently implemented rule and regulation changes would remain valuable going forward.

While demands increased, it important to note that the City's revenue has decreased during the pandemic. The twin results of unrealized revenue and the City's decision to delay planned property tax increases have created a significant revenue shortfall that will need to be replaced. As stated in its budget guidance, **BFAAC recognizes the need to consider tax increases among all revenue generating tools at the Manager's disposal to address the multi-year impact** of the pandemic.

BFAAC continues to encourage Council allow flexibility in the budget, enabling management to make on-course changes. Prudent decisions made over the years and the trust built among all segments of our City government, and between the City and the private sector and citizens have enabled us to meet this unique moment of need. The length of our "recovery" is uncertain, and the nature and depth of needs will emerge over time as society begins to operate on a more "normal" level and issues put aside during the pandemic demand attention.

What Does This Mean for FY22?

As stated in our FY22 Budget Guidance, BFAAC encourages the City to **avoid across the board cuts in City departments**. Frankly, the depth of cuts required to compensate for the anticipated gap would be unnecessarily painful, and it would be difficult for departments to return to pre-pandemic spending levels once City revenues bounce back (BFAAC's March 2018 memo on the long term impact of the 2008 recession illustrates that peril). Instead of resorting to such disruptive cuts, **BFAAC recommends the City attempt to use some of the Spendable Fund Balance (SFB)**. Currently the SFB is at 17.5%, giving the City roughly \$18 million to use, which is in excess of its 15% goal. This would still allow the City to hit the 15% goal for the SPF level and thus the funding would not need to be paid back. Utilizing the SFB for both FY21 and FY22 would provide some cushion, and also would meet the two successive years limit. The purpose of this fund is for use in extraordinary times, and Council is encouraged to trust management to determine the right moment to access the SPF, and more importantly to put the funds to work properly. It should also be noted that any future CARES III funding for state and local governments could potentially be used to replace lost revenue and offset some expenses, but even if approved those funds would come with restrictions.

BFAAC reiterates the need to emphasize revenue in both short term and long term, and repeats our budget guidance message applauding the Manager's approach in the pre-crisis budget of spelling out a multi-year plan of tax increases needed to support the budget. While the final budget approved in April 2020 did not include a tax increase, **BFAAC recognizes that increasing property taxes is the most expedient means of ensuring the City is able to meet the needs of our community but also encourages Council allow the Manager flexibility to consider other tax and fee options**. As noted during the December retreat, there is an urgent need to utilize every tool at our disposal to help the City emerge from this crisis in a position of strength, and we should clearly indicate these options to the public early and often.

As we focus on re-building our base, it is important that the City prioritize staff as well as the more obvious "bottom line" goal of replenishing cash capital. As stated, staff has borne the bulk of the stress of the pandemic, both in terms of compensation and extenuating work requirements. BFAAC encourages management to **ensure departments are fully staffed and fully compensated**. While not all positions lost to natural attrition will require replacement in a changed environment, overall personnel numbers should not be constrained.

ACPS is continuing to analyze its compensation approach by comparing how overall compensation for different categories of employees compares to neighboring jurisdictions. This study already has identified categories with significant gaps, as well as potential broader issues for improvement in both pay scale and overall compensation structures. As staff expenses account for 86-88% of its budget, ACPS is acutely aware that the success of its mission is largely dependent upon its ability to recruit and retain top professionals in a very competitive regional market. **ACPS will continue this process over several years, and Council should expect step increases and perhaps some more targeted adjustments in the Superintendent's budget.**

How Does This Impact Future Needs?

When life gets back to “normal” our community will be anxious to return to already established, and in some cases languishing, priorities. However it will be important to resist the urge to rush back to February 2020 – but instead to **utilize the perspective the past year has provided and focus as well on new or newly magnified priorities**. Again, maximizing flexibility will serve the City well.

A drive around the City is illustrative – sewers and schools are high in residents’ priorities. **Flooding is a critical issue, in terms of risks to both life and property**. Deferred infrastructure investments combined with the increase of extreme weather events present economic threats to our City. Consequently, Alexandria should continue its investments – the City’s new Flood Response Strike Team as well as flood and climate change mitigation efforts defined in Alexandria’s Environmental Action Plan – in order to increase the City’s resiliency and avoid greater costs. We recommend maintaining budget allocations for and commitment to meeting the target of reducing community-wide greenhouse gas emissions by 50% by FY30.

COVID-19 has made clear the **critical importance of access to modern, affordable broadband**, and the cost to our students and workers when it does not exist. The City of Alexandria is building a municipal fiber backbone that will connect to every public building (including schools) that will, when completed, move its data traffic off commercial networks. This will ultimately reduce expenses and also increase internet capacity. The City is currently in the RFP stage of hiring an engineering firm to build this infrastructure and BFAAC recommends those plans continue.

COVID-19 has also brought close to home the global truth that poverty and disease go together. Alexandria is uniquely positioned to support its most vulnerable populations and has done so with precision by meeting daily emergency needs magnified by the pandemic. Increased **diligence to recognizing and mitigating the underlying elements of poverty in our community** will require removal of barriers to and investments in health, education and training, affordable housing and business development that generates local jobs at all levels, that ultimately will improve quality of life for all Alexandrians.

While the pandemic response has contributed to the increase in commercial building vacancy, the opportunity to attract new long-term business development remains. The City’s efforts at Landmark and INOVA’s multi-billion dollar development investment there show what we accomplish when partnering across sectors. BFAAC urges Council to **continue its support for AEDP** so that the agency can build on its recent achievements, such as the Potomac Yard Innovation District. AEDP’s business development resources are critical to help the City build on the impressive successes so far in attracting business anchors. BFAAC also encourages creative use of excess commercial space to fulfill public needs, as well as continuing analysis of City properties to ensure we are maximizing our investments.

Conclusion

BFAAC appreciates the opportunity to comment on the current crisis, and is proud to be part of a community that has shown exemplary cooperation among government, schools, businesses, the non-profit community, and individual citizens under strong and careful leadership. We look forward to providing additional analysis when the crisis is truly behind us. **While the landscape continues to shift, it is important to begin re-building our base in a way that positions the City to emerge stronger.** This will be achieved by balancing competing needs; resisting the urge to “re-set”; realizing that some changes are worthy for the long term; encouraging transparency and community engagement; and allowing management maximum flexibility.