

Budget and Fiscal Affairs Advisory Committee

Report on the City Manager's Proposed Budget for Fiscal Year 2022

City of Alexandria, Virginia
April 12, 2021

Jesse O'Connell, Chair
Kathy Stenzel, Vice-Chair
Janet Blair-Fleetwood, Secretary
Chris Ferrara
Amy Friedlander
Karen Graf
Paul Igasaki
Benjamin Klein
Nicholas Lee
Skip Maginniss
Richard McPike
Robert Rapanut
Deb Roepke
Joe Valenti

MESSAGE FROM THE BFAAC COMMITTEE CHAIR

Mayor Wilson and Honorable Members of City Council,

In reflecting on the FY2022 budget, it is viewed within the context of the challenges weathered by the City through the pandemic. Yet, despite those challenges, these budgets deliver on core services, make key investments, and maintain the City's stable financial posture. Enclosed you will find a report from the Budget and Fiscal Affairs Advisory Committee (BFAAC) reflecting on the City Manager's proposed budgets for FY2022.

BFAAC commends the City Manager for delivering a range of budget options. Given the complexity of the tasks before you relative to past budget cycles, BFAAC feels that it was prudent for the Manager to outline the opportunities and tradeoffs inherent in each option. As conveyed in a previous BFAAC memo, the Manager and City budget staff were wise for their past attention to maintaining strong cash capital and fund balances. The result of this diligence is that it allowed the deployment of approximately \$20M from cash capital to meet unexpected and constantly emerging needs, all while maintaining important City services, and continuing capital improvement projects, including school construction.

In response to the proposed FY2022 budget, BFAAC organized this report is by four themes: revenues, expenditures, capital improvement program, and budget process. Each of these sections offers specific thoughts and analysis, along with observations and recommendations.

As an addendum to this report, BFAAC included four memos previously sent to City Council: (1) a review of capital projects reporting, (2) our FY2022 workplan, (3) recommendations concerning the FY2022 budget guidance, and (4) reflections on the FY2021 budget process in the context of the response to COVID-19.

In the remaining two months of our FY2022 term, BFAAC will focus its work on the following additional areas: (1) improving citizen engagement and participation in the annual budget process; (2) offering budget-related insight and perspective on stormwater issues; and (3) monitoring ongoing implementation of the recommendations related to the City-Schools Joint Task Force.

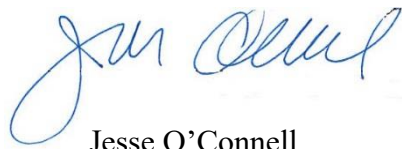
- **Citizen Engagement:** BFAAC offers recommendations on how to distribute citizen engagement more evenly throughout the year to allow feedback and input on budgetary issues. The goal is to allow citizens and staff to gather over a longer and less urgent timeline, as well as provide ways to deliver information and communicate with the public in a predominantly virtual engagement environment.
- **Stormwater:** BFAAC is represented on the Ad Hoc Stormwater Utility and Flood Mitigation Advisory Group established by the City to review and advise flood mitigation activities. This includes monitoring and measuring progress of the City's proposed flood mitigation efforts, serving as a general body for receipt and dissemination of information for the City's flood mitigation implementation efforts, and reviewing and providing recommendations on proposed Stormwater Utility operating and capital budgets. In

addition to our representative participating in those meetings, BFAAC will work with that representative to determine if there are budget-related elements of that work in need of analysis and reporting.

- **Joint Task Force Recommendations:** BFAAC will continue to monitor implementation, especially relating to cooperation and processes of City and Schools.

I would like to personally thank the members of BFAAC for their work on this report. We hope City Council will carefully consider our recommendations. We look forward to discussing these and other issues at our upcoming budget work session with Council members.

Sincerely,

A handwritten signature in blue ink, appearing to read "Jesse O'Connell". The signature is fluid and cursive, with a large initial "J" and "O".

Jesse O'Connell
Chair, Budget and Fiscal Affairs Advisory Committee

REVENUE RECOMMENDATIONS

Maintaining Current Revenue Levels

One of the City Manager's alternative budget scenarios suggests keeping the residential real estate tax rate at the current level. There are several factors that make this a more appealing option than the recommended budget of decreasing the rate from \$1.13 to \$1.11.

Chief among these reasons is that the long-term impacts of COVID-19 on future real estate revenues is still not clear. While it looks like the residential market could continue to grow, the commercial market is still particularly challenging. This source of City revenue has continued to decline since 2009 by 9% and if it represents this smaller share over the next few years during the COVID recovery, the City will need to rely on residential taxes for a steady revenue stream.

The challenges that the City continues to face are upgrading the sewer and stormwater issues, affordable housing, school construction, and potential COVID-19 expenditures above those covered by any Federal Stimulus received. Because real estate taxes make up almost 63% of the City's revenue, until other revenue can grow to a higher percent, residential real estate must not be reduced. While many of the expenses are captured in the capital budget, capital projects and debt service also significantly impact the operating budget as completed projects require staffing and ongoing service.

The City Cash Capital contributions have been depleted due to COVID-19. It is important to rebuild this to a healthy level. The City Manager recommends using the additional funding - if the rate is not reduced - for the Cash Balance.

There is considerable uncertainty regarding the COVID-19 impact on other City revenues and the length of the recovery. It is expected that restaurant meal taxes will bounce back given the COVID-19 fatigue experienced by citizens who are starting to eat out as restrictions are lifted. Local sales tax may not necessarily remain at the current level since part of the higher level of receipts late last year was due to on-line ordering. However, it is likely that local tax levels will decline as people get back to visiting shops and malls in person that are not necessarily in the City of Alexandria, as well as spend money on items and activities that are not subject to City taxes.

Debt service for the CIP budget is expected to increase over the next decade. The current residential tax rate can provide funding that can reduce use of debt service. Given that the stormwater issue only came up as a priority recently, it is reasonable to think that some other unforeseen issues will come up and need to be addressed by the City. Keeping the same rate provides funding for City requirements and offers some relief from higher debt servicing.

Real estate tax increases are hard won with support required from the citizens of the City. To give up such a hard-fought tax increase for a one-year change in fortunes seems premature. Reducing the tax rate by the \$.02 would result in, conservatively, \$86M in lost revenue over ten years that could instead be used for critical City requirements. BFAAC has previously cautioned against further cuts in City services and staff compensations, both of which could be at risk if revenues are lowered while the City constitutes to grow. Given that the full impact of COVID-19 is still

being assessed, it may be too early to reduce the residential real estate tax rate and be comfortable with the outcomes.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages City Council to keep the residential real estate tax rate at the current level to preserve funding amounts for future fiscal years.**
- **BFAAC suggests that City Council remain conscious of long-term revenue goals and weigh the preservation of current revenue levels with that mind; particularly considering ongoing revenue instability from COVID-19 along with increased revenue demand due to the acceleration of critical infrastructure investments.**

Mitigating Revenue Generation Burden

Notwithstanding the points made in the previous section, it is worth acknowledging that revenue generation is often an unequally shared burden. It is important to note that the proposed real estate tax rates remain competitive, maintaining a long tradition of our comparative standing in the region. While it is unknown what decisions other jurisdictions will ultimately make in the coming fiscal year, Alexandria likely remains comparable: higher than Arlington and Loudoun, lower than Fairfax and Prince William. However, average residential tax burden has increased from \$5,632 in FY2013 to \$8,424 in the proposed FY2022 budget.

Yet real estate taxes are not the sole consideration. We have seen in recent budget cycles the increased use of specialized fees to address urgent investments, like the stormwater project. While BFAAC has long expressed concerns about the City's use of set-asides for specific purposes, the stormwater fee addresses a pressing and immediate need, and the purpose of the fee is clearly delineated.

At the same time, the proposed increase of 100% over two stages is significant, and the City needs to use caution when increasing mandatory fee revenue outside of published tax rates in order not to obfuscate costs to residents. If the stormwater fee increases continue as proposed, the City needs to take additional steps to effectively communicate with property owners about the fee. This would include explaining the stormwater fee's purpose, uses, and mitigation options to reduce costs, including mitigation possibilities for condominium owners and those in HOAs.

The same approach might be prudent for the property tax abatement program. The proposed real estate tax rates are reasonable given assessments and the City's operating and capital budget needs. As assessments rise, however, the City needs to examine and communicate its property tax abatement programs for older residents, lower-income residents, and others for whom an increased tax and fee burden may be unsustainable.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages City Council to continue to be mindful of the overall tax and fee burden on residents relative to other jurisdictions in the region.**
- **BFAAC recommends monitoring and mitigating excessive burden of certain forms of revenue generation on the various City populations.**

Revenue Strategy Requires Long-Term Planning

Over the last decade, BFAAC has emphasized the importance of developing a strategy to grow and diversify the City’s revenue base to maintain pace with projected expenses for the City.¹ BFAAC continues to urge the City Council to develop a long-term revenue plan that:

- Provides actionable strategies and metrics to increase revenue.
- Reduces the threat of future budget gaps that force the City Council to make annual decisions on taxes.
- Lessens the risk of spending to close short-term gaps that may have longer term ramifications.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages City Council to develop a long-term revenue plan with concrete goals and strategies to grow the City’s revenue base, including consideration of revenue required to fund the approved capital budget in the out years.**
- **BFAAC encourages City Council and OMB staff to look for avenues to increase transparency into and citizens’ awareness of Alexandria’s longer-term fiscal challenges along with potential actions and tradeoffs needed to close these gaps.**

Maximizing Commercial Economic Development

BFAAC remains unwavering in the opinion of cultivating a diverse revenue base and continuing to reduce the singular impact that the federal government has on our City budget. Over the past five years, Alexandria City has begun to undergo a meaningful evolution into a health and technology hub. The arrival of Amazon HQ2, the Virginia Tech Innovation Campus, and the major INOVA projects at Landmark and Oakville Triangle are significant hallmarks of this change.

The Alexandria Economic Development Partnership (AEDP) remains our key entity in continuing to ensure a thriving commercial market sector that attracts and retains businesses of all sorts, especially those providing complimentary functions and services in the health and technology sector. AEDP deserves continued support and resources, along with a mandate to lead and coordinate efforts among entities, like the Chamber of Commerce and other local business associations. AEDP is an indispensable resource in providing City Council with data-based strategies and policy recommendations to grow commercial development.

Complementing the efforts of AEDP, the City needs to carefully review and develop long-term land-use policies that can optimize our diminishing developable resources and make the commercial entitlement and permitting process faster and predictable.

¹ For example, the FY2013 BFAAC report recommends: “To diversify our commercial base, Council should set a goal for the types of business the City wishes to attract. A strategic plan should be developed that includes the necessary incentives to attract and retain such businesses.” City of Alexandria Budget and Fiscal Affairs Advisory Committee, “Report on the City Manager’s Proposed Budget for Fiscal Year 2013,” available at <https://www.alexandriava.gov/uploadedFiles/budget/info/budget2013/memos/BM27BFAACFY2013Report.pdf>.

BFAAC also encourages City Council to consider how the full spectrum of resources under City control are being leveraged—not only in terms of attracting commerce and generating revenue but asking the question about highest and best use of any particular asset, regardless of past precedent.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages City Council to pursue economic development that further entrenches our status as a technology and health talent hub.**
- **BFAAC encourages City Council to maximize City assets, including capital, land, and expertise, and continue evaluating return on investment and opportunity cost of each asset.**
- **BFAAC urges City Council to provide AEDP with the resources—including experienced personnel to interact with the business community—to accomplish its mission. Their goal and mission is to accelerate its research and analysis of desirability factors for attracting and retaining businesses; and implement policies to reverse the decline in the commercial contribution to the tax base.**

EXPENDITURE RECOMMENDATIONS

Budget Alternatives – Key Areas for Consideration

The City Manager proposed two alternative budget scenarios: (1) a budget that would result in no increase in the average residential real estate bill (alternative scenario 1 - \$741.7M budget) and (2) a budget that would not provide the two-cent reduction in the real estate tax rate (alternative scenario 2 - \$780.6M budget).

BFAAC praises the City Manager's creativity in providing these alternative scenarios and outlining the tradeoffs of the different approaches. Members of Council have each noted and championed City programs that have seen reductions or elimination in past budgets; the provision of a higher budget scenario could ease the restoration of some of these programs should Council desire to. In evaluating the alternative scenarios, BFAAC makes the following observations.

OBSERVATIONS AND RECOMMENDATIONS

Alternative Scenario One:

- **BFAAC is concerned about the option to eliminate merit pay increases for City staff for a second year in a row - particularly at a time when staff are facing greater workloads due to the COVID-19 pandemic. In addition to the short-term financial impact on City staff, this proposal may make it harder for the City to attract and retain staff, creating additional costs in the long-term.**
- **BFAAC is also concerned about the proposed reduction of \$1.5M for the schools. As ACPS is seeking to move from virtual to hybrid learning models, BFAAC recognizes ACPS operating costs may be rising at a rate faster than the overall City budget.**
- **BFAAC urges City Council to carefully consider the service reductions, as well as the impact of the cash capital reduction. Many avenues typically used to identify needs in our community have been reduced or prevented due to the pandemic's impact. BFAAC feels that most of these services, specifically in health and human services, such as mental health services, will surge again once the pandemic is under control this coming summer.**

Alternative Scenario Two:

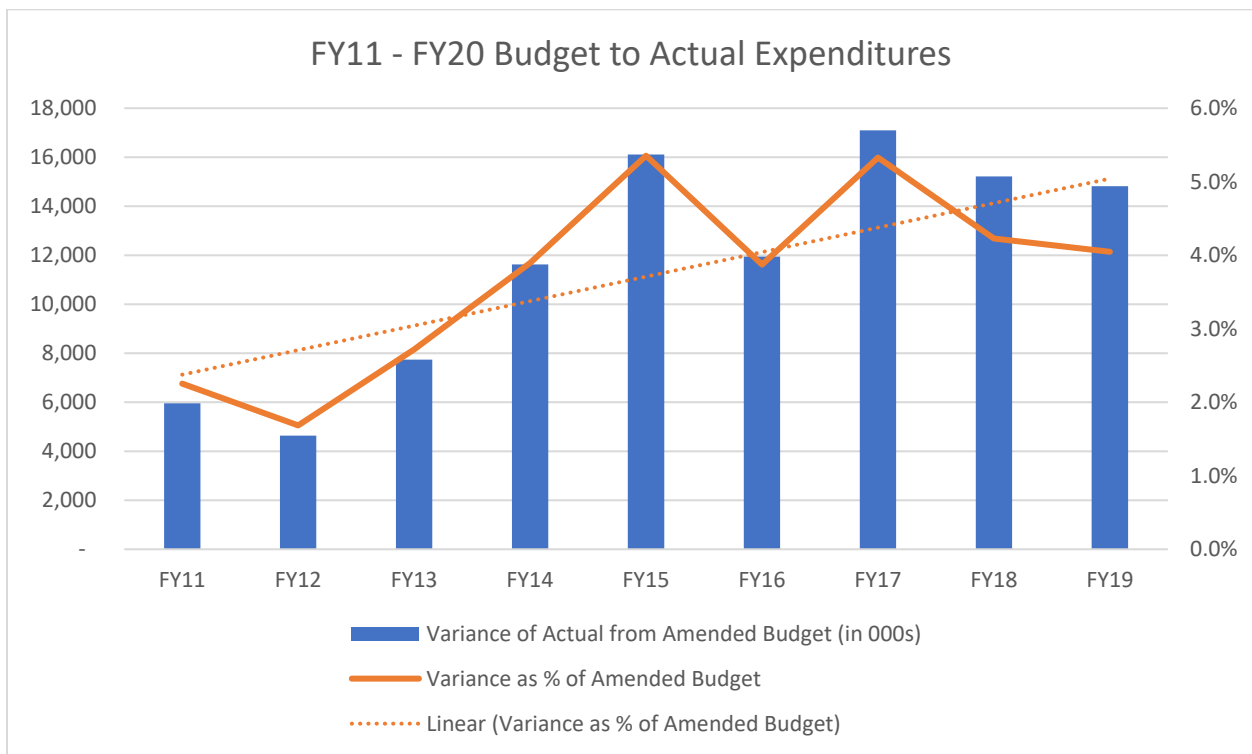
- **BFAAC encourages City Council to carefully evaluate the proposed one-time bonus in addition to merit increases, particularly in recognition of the challenging circumstances the City's workers have endured over the past year and the ongoing pressure to do more with less.**
- **In this moment of ongoing response and recovery and likely continued property tax revenue growth, BFAAC encourages City Council to consider whether prioritizing increasing cash-capital reserves for the CIP in the immediate-term outweighs other needs across the City's budget.**

Budget Forecasts Continue to Outpace Actual Spending

BFAAC applauds the City for taking a conservative approach to budgeting. However, looking back at prior years, BFAAC notes a substantial and growing gap between departmental budget forecasts and actual expenditures.

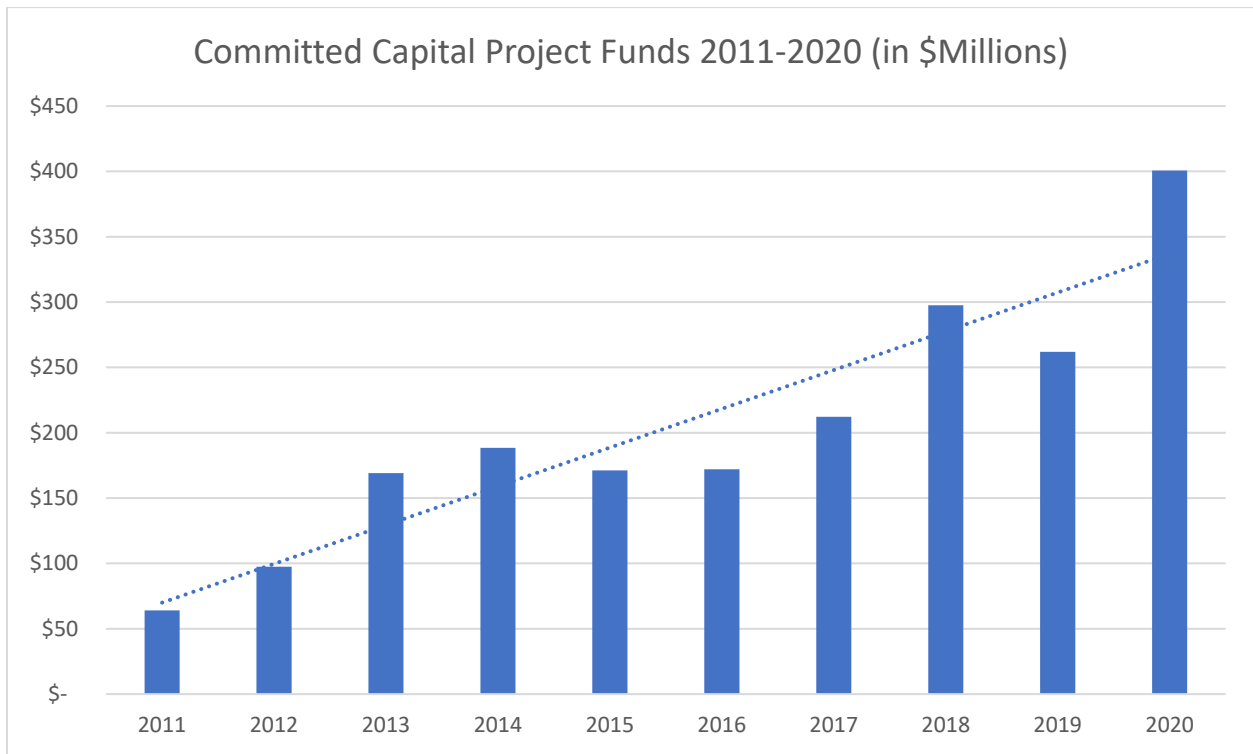
BFAAC reviewed Exhibit XIII of the City’s Comprehensive Annual Financial Report documents from FY11 to FY20 (the last year available). Exhibit XII is the Budget Comparison Schedule for the General Fund. It contains information about revenues, expenditures, inter-fund transfers, and fund balances in a standardized format. For the purposes of this analysis, BFAAC isolated the Expenditures section of each year, excluding Non-Departmental spending (including debt service), allowing us to focus solely on budgeted vs actual expenditures by department for the years in question and ignore variances “above and below the line” in revenue or inter-fund transfers.

BFAAC notes the City’s expenditure surplus has increased steadily over the last ten years, both in absolute dollars and as a percentage of the budget. In FY11, the City ended the year with a 2.3 percent surplus. In FY19, the surplus doubled to 4 percent, or in actual dollars, \$14.8 million. In FY20, the surplus grew to 6.6 percent (\$24.6 million), but given FY20 is an outlier due to COVID and the fact that it made sense to slow spending since tax revenues underperformed in the later part of the fiscal year, we have excluded it from the chart below.



When there is an expenditure deficit, staff must go to the City Council with a budget amendment. However, when there is an expenditure surplus, there is not a similar method for explaining the

causes of the surplus. Identifying these growing surpluses is not intended to criticize the merits of the budget plans that are adopted each year. Often, there are unknown issues that arise, such as hiring issues, acts of God, and material delays that are outside of the power of the City staff. However, developing an annual report or some form of analysis that explains the reasons for expenditure surplus could help transparency with the community, staff could develop more informed predicting of budget needs and constraints, and to strengthen departments or projects that need more oversight or resources to succeed.



Indeed, review of the CIP Fund Balance—a line item included in the Comprehensive Annual Financial Report: “All Other Governmental Funds – Committed (Capital Projects)” —indicates a growth trend that BFAAC suggests should be investigated further by Council and staff. BFAAC notes that the last two years of the chart below include appropriations for Potomac Yard Metro, and the fund balance trend should be reviewed with this in mind.

As City Council considers plans to close the gap between revenue and spending, it is important to ensure the budget forecast is as accurate as possible. In the future, this analysis would help the City Manager and City Council carefully consider whether priorities need to be shifted, if distinct programs are not being implemented effectively, and if more resources are needed to help strengthen the productivity and goals of the departments or projects.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC recommends City Council and staff examine the root causes of the growing gap between departmental budget forecasts and actual spending.**
- **BFAAC encourages City Council and the City to discover through an in-depth analysis about why in previous years some City departments were not able to spend the full budget, along with clarifying what factors drove different spending decisions from what was forecasted in the budget.**
- **BFAAC suggests the establishment of a formal “after-action” process for post-fiscal year review of budget plan implementation.**

American Rescue Plan Funding

The City is expected to receive \$59.4M under the recently enacted federal American Rescue Plan (ARP). The funds will be allocated in two equal allotments in May 2021 and May 2022 and can be used between March 2021 and December 2024. The federal legislation does not place strict limitations on how the City can use the funding. Permitted uses include responding to COVID-19 and its negative economic impacts; maintaining City services that would otherwise be cut due to declining revenues; and investing in infrastructure including water, sewer, and broadband.

Given the significant infusion of federal funding, BFAAC encourages the City Manager and City Council to examine and prioritize the City Manager recommendation against the need for short-term and long-term investments. As a starting point, BFAAC encourages the City Council to identify unmet needs in the current budget proposal. For example, the City Manager’s budget proposal includes several reductions in mental health services attributed to a reduction in services providing during the COVID-19 pandemic. While the volume of services may have gone down, the need has likely increased.

OBSERVATIONS AND RECOMMENDATIONS

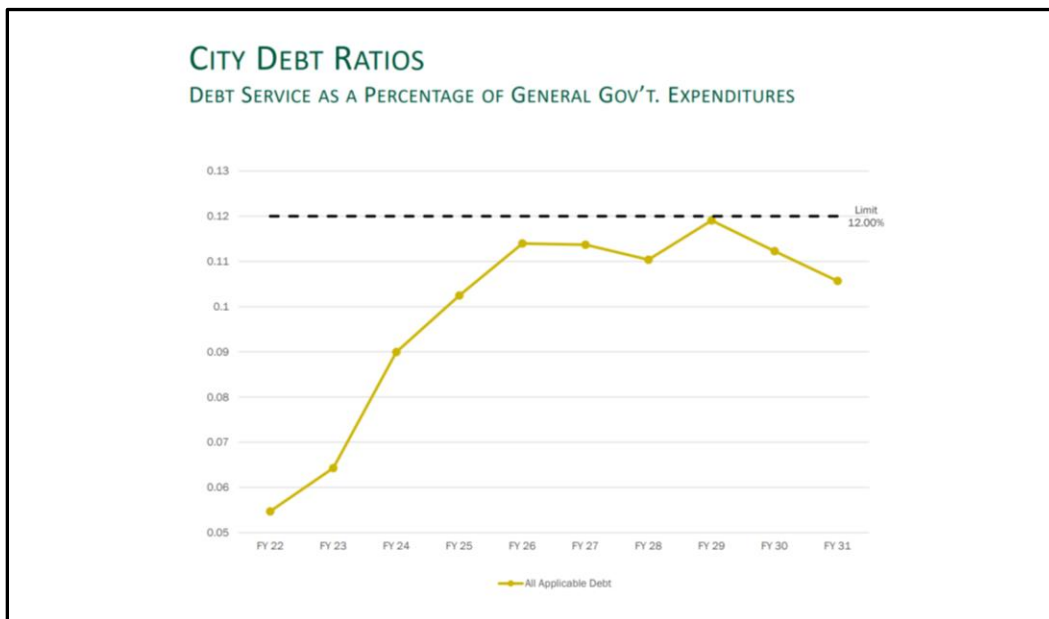
- **BFAAC encourages City Council to use ARP funds to meet acute short-term unmet needs.**
- **BFAAC encourages City Council to also consider targeted and strategic one-time investments, recognizing ARP funding will be temporary and must be obligated by December 2024.**

CAPITAL IMPROVEMENT PROGRAM (CIP) RECOMMENDATIONS

Predictability and Stability

BFAAC admires the City Manager’s efforts to balance operating cash contributions and borrowing costs to ensure the City’s AAA bond rating in the near-term. Our key recommendation focuses on projecting reasonable predictability and stability in future years as the CIP expands to meet a growing city population. The challenge remains putting a price on the unknowns including cultural and society changes, global climate change, and inequality. Building resiliency means being aware of assumptions and transparency that could affect tomorrow’s costs.

BFAAC seeks to avoid steeper capital and operating pressures by flattening the debt service curve and suggesting a better balance of cash contributions and borrowing. The annual increases of this magnitude may become difficult to manage, even considering the most optimistic growth scenarios and a favorable municipal bond market. That said, BFAAC supports city staff objectives of balancing planning priorities including our AAA bond rating, aging infrastructure, and need to expand service capacity.



OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC applauds the City Manager efforts to balance operating cash contributions and borrowing costs to ensure the City’s AAA bond rating in the near-term.**
- **BFAAC encourages efforts to flatten the debt service curve through a refined balance of cash contributions and borrowing.**

Program Management and Public Engagement

A key element of ensuring costs meet public expectations include building strong program management principles into city planning and construction as overseen by the Department of Project Implementation (DPI). This process can track progress and standardize reporting as an important first step in managing the overall development. As Alexandria City grows in the next decade and complex projects are added, cost overruns, quality control, and delays can be minimized through program management oversight and project timing.

The City needs to encourage a holistic CIP approach and practice (as mentioned in our BFAAC FY2019 CIP recommendation²) with our departmental, and public and private partners including Alexandria City Public Schools (ACPS) utilizing the Joint Capital Management Council. While mitigating or minimizing overhead costs is a public expectation, BFAAC agrees that the existing staff may be stretched in managing these complex projects without adequate program management standard operating procedures.

The City has an opportunity to influence other partners by building rigor into the assumptions and transparency for capital projects and CIP processes. DPI can help assure this influence when given continued support. As Alexandria Economic Development Partnership and Alexandria City attracts new businesses from Amazon HQ2 and ACPS increases our school capital needs to match growing population, the City needs to engage partners early in long-term capital planning process to capture accurate and transparent costs to help shape public expectations and perceptions. Alexandria City is developing plans today that will be paid by CIP in the future.

BFAAC applauds the City Manager's FY2021 commitment to a renewed look at the public engagement practices. In order to alert the community to projects that may have impact on their neighborhood, business, or workplace, BFAAC supports a clear process that incorporates the public needs early and throughout the CIP project and development cycle. The Committee would advise to make it clear in the process which factors can change, and which ones are not negotiable through public input.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages the City Manager to track progress and standardize reporting through the Department of Project Implementation (DPI).**
- **BFAAC recommends that public engagement begins early and give time for any unforeseen effects on the project costs or timelines.**

Schools

ACPS has rising concern related to potential higher-than-expected project costs, due to mandates around environmental goals (net zero) and impact of co-location goals. Between the City and

² [https://www.alexandriava.gov/uploadedFiles/budget/info/BFAAC/MEMO%201905%20-%20BFAAC%20Report%20on%20the%20Proposed%20FY%202019%20Budget%20\(FINAL\).pdf](https://www.alexandriava.gov/uploadedFiles/budget/info/BFAAC/MEMO%201905%20-%20BFAAC%20Report%20on%20the%20Proposed%20FY%202019%20Budget%20(FINAL).pdf)

Schools, there is a need to establish clear definitions and expectations around net zero objectives, including timeline and cost increase recognition.

ACPS and the City could benefit from developing a shared set of expectations regarding the scope and breadth of co-located services that are appropriate for school construction projects. Without consistent priorities and expectations, each project becomes subject to public confusion, which detracts from the central objective of expedient design-and-build progress and the wonderful benefits to a community of having new school buildings. To not undermine the shared goals of co-location for services and/or affordable housing, it is imperative tht the City and Schools develop a shared vision. In 2015, both City Council and the School Board approved educational specifications, which act as a guide for planning and design of the optimal learning environments. Adding possibilities for co-location to these documents or developing a similar specification for co-location would help the City and the School leadership efficiently negotiate which options would work on the many future school projects.

BFAAC supports keeping the building reserve fund in place, which is maintained by City at the recommendation of the Joint Task Force. Given the likelihood that commercial space may become available that meets the needs of school project requirements, this remains a prudent practice.

ACPS remains increasingly confident in the processes they have in place to manage projects and has included staffing models in its CIP planning, like the process and methodology used by the City. ACPS is currently in the process of re-naming a representative to the CIP steering committee – a vacancy left by staff departure. BFAAC continues to recognize the benefits of early cooperation among elected leaders and staff at all levels in capital project planning.

BFAAC advises that the City and ACPS continue to tackle some of the larger policy issues that are cross cutting. The City Council/School Board subcommittee could be an environment that sets the agenda for staff to present issues to both bodies that crosscut City Council and School Board. In the past, there have been City Council and School Board work sessions that brought forward topics like citywide pre-K or the needs for crossbody representation for capital projects. Having work sessions outside of the budget process, allows staff to work on advancing the work throughout the year and incorporating any needs into fiscal year budgets. Another method could be to task current commissions, workgroups, and committees to work through some of the timelier issues that the City and Schools need to solve together.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC urges Council and ACPS to establish and publicly communicate clear priorities and expectations regarding the types of suitable co-located services in school construction projects.**
- **BFAAC encourages City to maintain their building reserve fund.**
- **BFAAC encourages Council and ACPS to establish methods to discuss topics that cross both entities to allow for better planning and coordination, such as employing already established committees and commissions or work sessions.**

Anticipating Future CIP Pressures

Infrastructure needs have become a greater cost and that will not change in the future. As our city grows and faces unknown cumulative events, such as climate change, getting to a “state of good repair,” and emerging Artificial Intelligence/Machine Learning technologies, future budget planning and periodic review of long-term and maintenance plans will be critical.

For example, our assumptions in meeting transportation needs require a careful review of assumptions, which includes post-pandemic ridership demands and employment patterns. We recognize that DASH and WMATA have an aggressive “state of good repair” program to replace existing facilities or equipment. At the same time, the City needs to be aware of the transit agencies future realignment vision, including DASH Transit Vision Plan³ or WMATA’s “Keeping Metro Safe, Reliable and Affordable (FY2019-FY2028)”⁴. These plans change transportation capacity that may affect the CIP as their visions are implemented annually.

We also recognize the operating budget pressures when CIP projects are initiated and completed requiring increased flexibilities. Operating costs after a large project is constructed and completed., such as when the new Potomac Yard Metro Station, need to be worked into future operating budgets. This prevents lack of staffing or resources once the project is ready for use. These annualized costs are not factored into the CIP but need to be balanced as it affects operating cash contributions into the CIP.

Additionally, large city investments, such as Inova and Landmark Mall redevelopment, are assumed to be paid for by future tax revenues. The City must continue to be cautious in assessing cost-benefits when prioritizing and accelerating capital projects or new developments, such as Virginia Tech’s Innovation Campus at Potomac Yard, as it will increase the borrowing burden. The public perceptions are shaped by the past success or failure of tax subsidies funding large projects, such as convention centers or sports and entertainment stadiums.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC suggests that City Council continually revisit assumptions inherent in our CIP planning, to account for new knowledge of hard to project hazards such as climate change and pandemic health risks.**
- **BFAAC encourages City Council to consider annualized costs are not factored into the CIP but will need to be balanced as it affects operating cash contributions into the CIP.**

³ <https://www.alexandriava.gov/tes/default.aspx?id=104193>

⁴ <https://www.wmata.com/initiatives/strategic-plans/upload/KMSRA-Strategic-Plan-Jan-2019.pdf>

BUDGET PROCESS AND POLICY RECOMMENDATIONS

Priority-Based Budgeting Process

BFAAC was encouraged by the results of the priority-based budgeting process deployed starting with the FY2019 budget cycle.⁵ Allowing City departments to articulate their highest areas of critical function, as well as need, and then socializing those results across a variety of staff stakeholders brings nuance and reflection to a difficult process, while still retaining important elements of departmental choice and autonomy. BFAAC observes that given the existing survey of City residents on their services priorities,⁶ this information could also be leveraged during this priority-based budgeting process, to reflect an additional stakeholder perspective.

While priority-based budgeting is a superior approach to managing a budget shortfall compared to broad, organization-wide cuts, this selection of reductions based on priority, cost and impact is still an exercise in reductions.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC commends the City for the ongoing use of the priority-based budgeting process.**
- **BFAAC suggests the City Council adapt and reconsider the resident survey process so that future priority-based budgeting efforts are not just internally driven processes, but also account for the services and the level of services that meet the City residents' expectations.**

Revenue Set Asides

BFAAC has historically opposed the use of budgetary set-asides.⁷ Set-asides restrict flexibility and discretion in determining annual budgets. This may ultimately lead to specific programs and services receiving regular funding levels that are lower or higher than optimal relative to setting levels annually. At a minimum BFAAC suggests that City Council should establish that all budget set-asides have a sunset, to enable City Council to regularly deliberate the merits of each one. BFAAC is concerned—particularly in this budget climate outlined in the opening section of this report regarding the growing revenue gap—that any automatic designations of revenue outside the general fund and CIP budget processes runs counter to the transparency and flexibility City Council is seeking to achieve.

⁵ City of Alexandria Office of Management and Budget, “Fiscal Year 2020 Proposed Budget.”

⁶ National Research Center, “The 2018 National Citizen Survey™ Community Livability Report: Alexandria, VA,” April 24, 2018, available at <https://www.alexandriava.gov/uploadedFiles/performance/Community%20Livability%20Report.pdf>.

⁷ For example, City of Alexandria Budget and Fiscal Affairs Advisory Committee, “Report on the City Manager’s Proposed Budget for Fiscal Year 2019.”

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC urges City Council to sunset set-asides or automatic designations of revenue, except when used to fund state or federal matching fund requirements. Every dollar in the budget should be prioritized based on common criteria.**

City of Alexandria, Virginia

MEMORANDUM

Date: OCTOBER 7, 2020

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

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: FY 2022 BFAAC MEMO #1 – CITY OF ALEXANDRIA CAPITAL PROJECTS QUARTERLY REPORTING

The Mayor of the City of Alexandria asked BFAAC to review the processes surrounding City of Alexandria capital project status reporting. He felt that a good “quality gate” process is an important tool for the Council to monitor City projects’ value versus the planned investment.

Executive Findings:

Based on the research and discussions with City staff, BFAAC recommends a two-pronged focus to enhance the City’s project management oversight.

- **Management** - City Council and City staff leadership are recommended to provide oversight and support to Department of Project Implementation (DPI) as they develop standardized project management procedures as well as the implementation of off-the-shelf enterprise-wide project management tools for the City’s projects.
- **Processes and Procedures** –DPI continue efforts to develop standardized project management procedures and processes across all City project management projects. The intent will be for all projects to approach project development, review, and reporting in a standardized manner as identified by DPI so that scope, cost, schedule are up-to-date and risks factors are identified early to allow for adjustments as needed.

Detailed recommendations are provided below.

Background:

The Quarterly Capital Project Status Report. Currently, the City of Alexandria Office of Management and Budget (OMB) compiles the Quarterly Capital Project Status Report. It is a public report that provides:

- summary details and updates on all active City Capital Category 2 and 3 projects, which are projects that are large periodic or cyclical renovations (Category 2) or new or expanded facilities or level of service projects (Category 3);
- Detailed status reports for selected Category 2 and 3 projects; and
- Summary financial information for all Category 1 (ongoing maintenance for an existing asset) or Capital Facilities Maintenance Program (CFMP).

The report does not include updates on Category 1 projects nor Alexandria City Public Schools capital projects.

The financial information for the report, including for individual projects comes from the OMB financial system. It includes the approved budget, what is currently on contract, and what is still to be put on contract. It also includes planned funding requirements beyond funds currently approved, but these do not reflect information as the project is proceeding through the planning, design, and construction phases of the projects.

The report also includes very high-level project status for the last quarter, expectations for current quarter progress, project timing and cost, and history. As currently constructed the report may not highlight changes in scope, budget, and schedule. It is really a rearview mirror representation of the project, without a reference to the initial project approved or the changes since that approval. Up until now, except for the Mayor's questions, there hasn't been feedback as to whether the report is useful or if it is read or utilized for project review. Project managers are asked to attend Council meetings in case projects are discussed, but usually the quarterly report is approved for the docket without discussion. OMB has developed guidelines to be used by projects providing input to the quarterly report. However, there isn't an established, repeatable review of the projects to determine changes in scope, budget, or schedule since approval.

Project Management Institute. The Project Management Institute has established a Project Management Professional (PMP) certification. It is a rigorous process that requires specific education, real world project management, and a certification exam that rivals other professional certifications. The globally recognized Project Management Professional (PMP) certification tells employers, peers, and the world that the holder knows project management. Just like a CPA validates expertise for accountants, the PMP recognizes certified project managers' ability to manage projects.¹ Further, PMI global standards are the foundation of the profession. These standards are established by consensus and approved by a recognized body, which provides for common and repeated use, rules, guidelines or characteristics for activities or their results, aimed at the achievement of the optimum degree of order in a given context. Developed under a process based on the concepts of consensus, openness, due process, and balance, PMI standards provide guidelines for achieving specific project, program and portfolio management results.²

City of Alexandria Department of Project Implementation (DPI).

The City of Alexandria established the DPI in July 2013, with the intent of centralizing and standardizing project management across the City projects. The City recognized that there had not been a consistent approach to developing and implementing projects. As a result, different approaches to development of project planning, design, and construction prevails with no mechanism to evaluate such efforts. DPI helped established standard processes for development of CIP cost estimates. Although there is more work to be done, standards for escalation were established. The challenge is that budgets prepared before this year did not include our current escalation and contingencies. This can cause serious cost overruns once projects begin

¹ Project Management Institute, <https://www.pmi.org/certifications/types/project-management-pmp>.

² Project Management, Institute, <https://www.pmi.org/pmbok-guide-standards/about>

implementation. Further, there has been no standardized approach to monitoring projects against approved baselines as the project progresses through planning design, and construction. Such a standard, consistent, and regular monitoring is critical to identifying scope, schedule, budget, and risks associated with City capital projects.

DPI is currently working to identify standards by which capital projects are developed and implemented. It plans to utilize PMI standards and encourage PMP certified projects managers be responsible for City capital projects. Once DPI establishes a baseline for project standards for the City, it will then identify an enterprise-wide off-the-shelf system to develop and implement projects. This will include dashboard status reports to monitor project progress and identifying risks and deviations from the original approved plans. This will establish a standardized reporting process to inform the City Council, City Managers, and Department leads as to how projects are proceeding through development and implementation. To save on wasted cost and effort, DPI is going to start moving DPI's project database over to a project management system. It was initially just set up for data tracking but will then be able to build out our project management standards and tools into this system. Although the timing is not ideal, DPI decided to pilot the system, while continuing to work across departments to define the standards. Licenses were just procured, but work has not yet begun.

Interviews with the City of Alexandria Council. BFAAC members interviewed the City Council members they represented about the current Quarterly report as well as reviews of current City capital projects. The following are the key points the City Council members provided.

- The current communication of project status and implementation activities is insufficient. Currently, only projects that have high visibility get any noticeable review.
- Reports should be streamlined and provide an executive-level dashboard status.
- Monthly reports to the City Council would be helpful to keep the City Council up to date on on-going City projects; and
- Policy reviews of projects should be done regularly (perhaps every 2-5 years) to ensure projects are still deemed worthy by the City Council

Recommendation:

Management:

- BFAAC congratulates the City for establishing the DPI. Further, the City is recommended to continue hiring project management professionals for DPI and across the City. Current leadership has the right approach to establishing a centralized and standardized project management program for the City. DPI's utilization of PMI standards and processes is the right approach because it is the gold standard in project management. DPI development of standard operating procedures for City capital project management will be a significant undertaking. But the rewards will be better stewardship of taxpayer funds for such projects.
- BFAAC recommends the City Council, City Manager, and Department leadership provide oversight, encouragement, and provide top cover for DPI centralization and standardization efforts. This means getting the appropriate buy in from all levels of the

City. This is the primary reason such standardized and centralized efforts fail, so this strong support and buy in is critical.

- The City Council giving this attention and officially recognize the importance of such efforts. The Council can communicate that these efforts will inform the Council on capital projects scope, budget, and schedule deviations from originally approved projects.
 - Part of this effort should include regular reports to the City Council on project status led and coordinated by DPI. DPI's department head should be the lead on this to the Council. This will show the Council interest, show DPI as the recognized leader of this effort, and provide needed insight if projects deviate from the initial approval baseline. One challenge that should be addressed is ensuring information provided to the Council is informative, but also that it does not undermine the City's negotiating position with contractors.
- The City Manager and his Department leadership are recommended to provide meaningful oversight and encouragement for the use of such DPI standards across City capital projects. This would include ensuring such DPI standards are utilized when all projects are first developed and used to monitor project implementation on an on-going schedule until completion. City leadership utilizing the standards, processes and procedures in oversight of City projects will help establish the legitimacy of such efforts.

Processes and Procedures

- Project managers must be required to use the DPI standards and they should not be punished for identifying project problems such as changes in scope, schedule, and risk. If project managers are punished for identifying issues, there will be a chilling effect on future problem identifications.
- DPI should be given the responsibility to review development of project plans. Further, it should be responsible for monitoring project implementation and to help identify project deviations from scope, schedule, and cost, as well as providing guidance to help resolve and communicate these types of deviations. The relationship between City capital project managers and DPI should be a partnership that ensures the best value and implementation of City capital projects.
- Implementation of the enterprise-wide off-the shelf system should be integrated with the City financial system with a focus on automate input and reporting. The system should also have the capability to provide dash board reports that can be tailored to all levels of the organizations: high level status reports for the Council, more specific status reports for the City Manager and Department leads, and detailed reports that can help DPI and project managers identify project status and implementation efforts.
- This process will take time to implement and there will be hurdles and setbacks but continued focus on PMP-driven guidelines as projects are reviewed and implemented will have long-lasting positive impact for the City.

The City is commended for recognizing the need for standardized and centralized project management within the City. The above efforts will help ensure building on the successful efforts to date by the City in Capital Project implementation.

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: MEMO #2 – BFAAC FISCAL YEAR 2022 WORK PLAN

As we have done in recent years, the Budget and Fiscal Affairs Advisory Committee (BFAAC) will plan to provide Council with shorter tactical memos throughout the year rather than delivering one comprehensive report in the spring. Last year our work, as well as the work of many city boards and commissions, was disrupted and halted by the COVID-19 public health crisis. We expect to start this year by picking up the remaining threads of work from last year’s work plan—including our feedback on capital projects reporting (submitted October 2020 and noted as Memo #1 below—but should acknowledge that the ongoing health crisis and its financial fallout likely necessitate a shift in our interests and priorities; the only remaining memo from FY2021 would be to identify improvements to public engagement and communication related to the city budget and we look forward to feedback from Council on the usefulness of that exercise versus emerging priorities that also require Committee and staff input to pursue.

MEMO #1: CITY OF ALEXANDRIA CAPITAL PROJECTS REPORTING (October 2020): At the request of the mayor BFAAC reviewed the processes surrounding City of Alexandria capital project status reporting, with the objective of establishing recommendations related to developing a “quality gate” process, as this is anticipated to be a necessary tool for Council to monitor the ongoing value of City projects versus the planned investment.

MEMO #2: BFAAC FISCAL YEAR 2022 WORK PLAN (October 2020): BFAAC will outline for Council our intended workplan for the year, to better facilitate transparency and provide an opportunity for feedback and guidance.

MEMO #3: RECOMMENDATIONS FOR THE FY 2022 BUDGET GUIDANCE (November 2020): BFAAC will provide recommendations for Council to consider as it develops FY 2022 budget guidance. This memo, along with Memo #2, will be the foundation for BFAAC’s briefing to Council at its November 7 retreat.

MEMO #4: ANALYSIS AND LESSONS LEARNED FROM THE FY21 BUDGET PROCESS AND EMERGENCY RESPONSE TO THE COVID-19 HEALTH AND BUDGET CRISIS (March 2021): BFAAC will work with City staff and other key fiscal stakeholders to develop an after action report on the budget actions taken during the spring of 2020 in response to the financial emergency sparked by the COVID-19 public health crisis,

including an assessment of the long-term revenue impact of necessary emergency public health measures and costs, both current and anticipated, of supports necessary for populations most impacted by the crisis.

MEMO #5: STATUS UPDATE ON THE ONGOING WORK AND COORDINATION OF THE JOINT TASK FORCE (March 2021): BFAAC will continue to work with the School Board's BAC to monitor the implementation of the Joint Task Force recommendations.

MEMO #6: RECOMMENDATIONS AND OBSERVATIONS RELATED TO THE CITY MANAGER'S PROPOSED FY 2022 BUDGET (April 2021): BFAAC will provide Council a memo with recommendations regarding major issues facing the City in FY 2022. The memo will follow up on revenue and process recommendations made in previous budget response memos.

MEMO #7: IMPROVING CITIZEN ENGAGEMENT AND PARTICIPATION IN THE ANNUAL BUDGET PROCESS (May 2021): As noted above, if desired, BFAAC will offer recommendations on how to distribute citizen engagement more evenly throughout the year, to allow feedback and input on budgetary issues can be gathered over a longer and less urgent feeling period of time, as well as ways to use to deliver information to and communicate with the public in a predominantly virtual engagement environment.

ADDITIONAL MEMOS TBD – BFAAC will be available to support Council throughout the year as matters may arise, welcoming requests from Council on matters where guidance can be helpful.

BFAAC appreciates Council's support of its work and will endeavor to continue to provide the best recommendations possible on the budget and fiscal affairs of the City of Alexandria.

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.

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 born 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.