

Budget and Fiscal Affairs Advisory Committee

Report on the City Manager's Proposed Budget for Fiscal Year 2020

City of Alexandria, Virginia
April 5, 2019

Jesse O'Connell, Chair
Kathy Stenzel, Vice-Chair
Janet Blair-Fleetwood, Secretary
Paul Igasaki
Benjamin Klein
Nicholas Lee
Skip Maginniss
Richard McPike
Gregory Parks
Robert Rapanut
Deb Roepke
Joe Valenti

MESSAGE FROM THE BFAAC CHAIRMAN

Mayor Wilson and Members of Council,

Enclosed you will find a report from the Budget and Fiscal Affairs Advisory Committee (BFAAC) reflecting on the City Manager's proposed budget for FY 2020. There have been notable successes this past year related to our budget, including the move to the priority-based budget system and increased alignment and partnership with Alexandria City Public Schools (ACPS). Challenges do remain, however, and this report will particularly highlight the continued need to forecast and diversify revenue, as well as make planning and policy changes that will improve stakeholder engagement.

The City Manager should be commended for delivering a budget that emphasizes providing a range of services, while minimizing additional tax and fee burden on residents. Efforts to provide oversight of the operating budget in search of inefficiencies should never be abandoned. It is clear that most City departments and functions have done the necessary scrutiny to reduce extraneous costs to a point where additional reductions will start to diminish the quality of services provided. Given that observation, BFAAC continues to voice the need to grow and diversify the City's revenue base. We recommend conducting a revenue forecast in conjunction with establishing revenue goals. This process will inform actionable strategies to grow the City's revenue base, particularly on the commercial side.

Our report also looks at key process issues, including a continual assessment of how to improve the budget process and timeline. The following are our key recommendations, which are outlined in more detail in the report:

Revenue Recommendations

- **BFAAC encourages Council to develop a long-term revenue plan with concrete goals and strategies to grow the City's revenue base.**
- **BFAAC encourages 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.**
- **BFAAC would welcome the opportunity to have a focused discussion with Council and staff to identify strategies to address future budget deficits through projected revenue planning and other mechanisms that look beyond the current fiscal year.**
- **BFAAC encourages Council to continue to leverage Alexandria's appeal to maximize economic development, while fully engaging the business community in delivering the capabilities visitors and residents require.**
- **BFAAC encourages Council to maximize City assets, including capital, land and expertise, continually evaluating return on investment and opportunity cost of each asset.**

- **BFAAC urges Council to provide AEDP with the resources to accomplish its mission; 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.**

Process and Policy Recommendations

- **BFAAC applauds the City Manager for taking steps to ensure Council has more time to consider the CIP budget.**
- **BFAAC recommends Council and OMB staff develop a process within the Council's annual calendar to consider information on the City's projected longer-term fiscal condition and the impacts of policy options.**
- **BFAAC commends the City for the successful execution of the priority based budgeting process.**
- **BFAAC suggests the 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.**
- **BFAAC encourages Council to use the Ten Year Budget History report, which shows the aggregate impact of budget reductions, to be mindful of the previous cuts and impacts on City services.**
- **BFAAC urges 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.**
- **BFAAC encourages Council to examine the feasibility of including information with the tax bill that shows how the dollars are allocated, essentially providing residents with the results that would otherwise be available online using the real estate tax receipt calculator.**
- **BFAAC commends the City Manager for looking at creative approaches to increase transparency and funding to meet ongoing school CIP needs. BFAAC recommends further analysis before the separate school capital and debt service tax rate is formally proposed or adopted.**
- **BFAAC applauds Council and ACPS for more closely coordinating their respective budgets for FY 2020.**
- **BFAAC encourages Council to ensure any changes to the budget timeline, including decoupling consideration of the operating and CIP budgets, is closely coordinated with ACPS.**

As an addendum to this report, attached please find two memos that BFAAC already sent Council: (1) our FY 2020 workplan, (2) recommendations concerning the FY 2020 budget guidance; as well as a status update of our affordable housing memo.

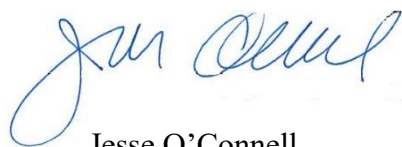
In the coming months, BFAAC will focus its work on the following additional areas: (1) the budget's readiness to support affordable housing goals and exploring opportunities to maximize

resources for affordable housing; (2) implementation of the Ad-Hoc Joint City-Schools Facility Investment Task Force recommendations; and (3) potential new and future revenue opportunities.

- **Sustainable City Support for Affordable Housing:** BFAAC recognizes the negative impact a strained supply of affordable housing has on the City, including the ability of those who serve and work in our City affording to live here, and consequences on general quality of life for all residents as well as costs to numerous City departments. We applaud the efforts of the City Council, City staff, and numerous other local partners and stakeholders rising to the urgent challenge of this issue. We plan to produce a memo that will assess opportunities in the budget and budget process to support housing goals, as well as ways to maximize resources toward these ends.
- **Ad Hoc Joint City-Schools Facility Investment Task Force:** BFAAC continues to work with the ACPS Budget Advisory Committee (BAC) to monitor implementation of the Task Force recommendations. Representatives of BFAAC and BAC recently met and noted that staff at all levels are adopting both the mechanics and spirit of the Task Force recommendations.¹ This was particularly evident in the FY 2020 budget process, and BFAAC applauds the City Manager and Superintendent for their cooperation and leadership. BFAAC and BAC will issue a joint memo to Council and the School Board shortly outlining other observations.
- **New Revenue Opportunities:** BFAAC plans to prepare a memo that reflects on the range of possible revenue sources that could result from a changing political climate in Richmond, as well as various other federal, state, non-profit and public-private opportunities.

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

Sincerely,



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

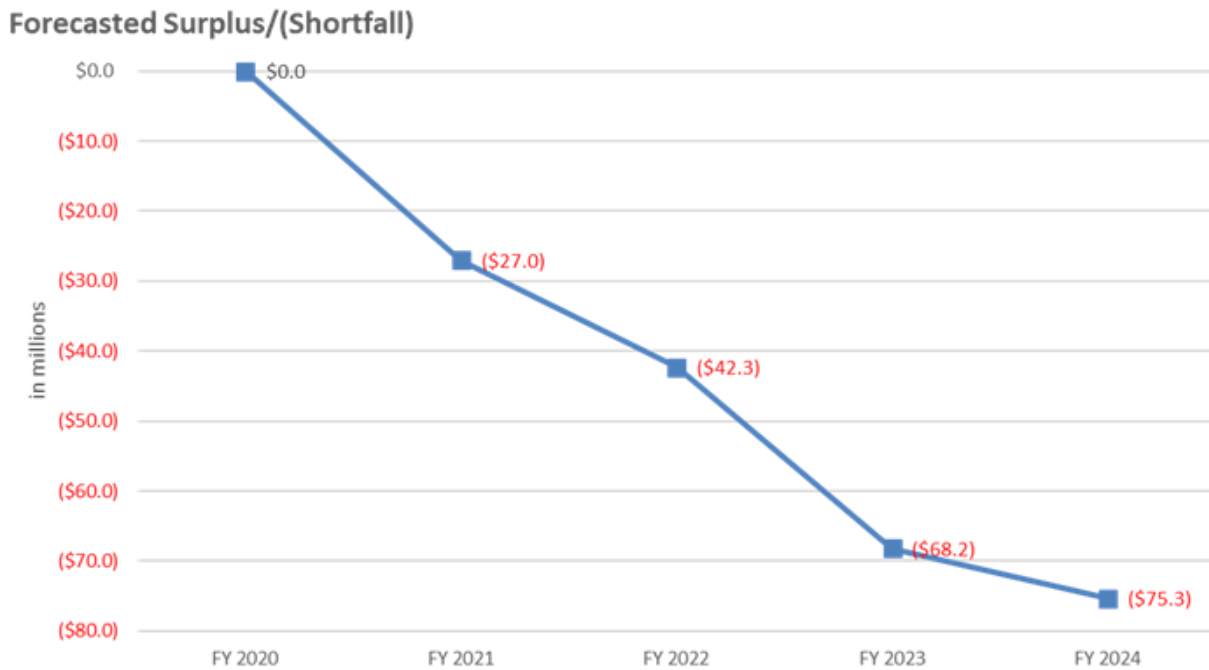
¹ The joint BFAAC-BAC meeting took place on March 14, 2019.

REVENUE RECOMMENDATIONS

Growing Revenue Gap Requires Long-Term Plan

Over the last decade, BFAAC has consistently 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.² Absent a concerted effort to increase revenue, the City Council will be faced with substantial and growing budget gaps over the next five years. BFAAC continues to urge the City Council to develop a long-term revenue plan with actionable strategies and metrics to increase revenue and reduce the threat of annual budget gaps that force the City Council to make annual decisions on taxes and spending to close short-term gaps that may have longer term ramifications.

Figure 1. Projected Budget Gap by Fiscal Year (\$ in Millions)³



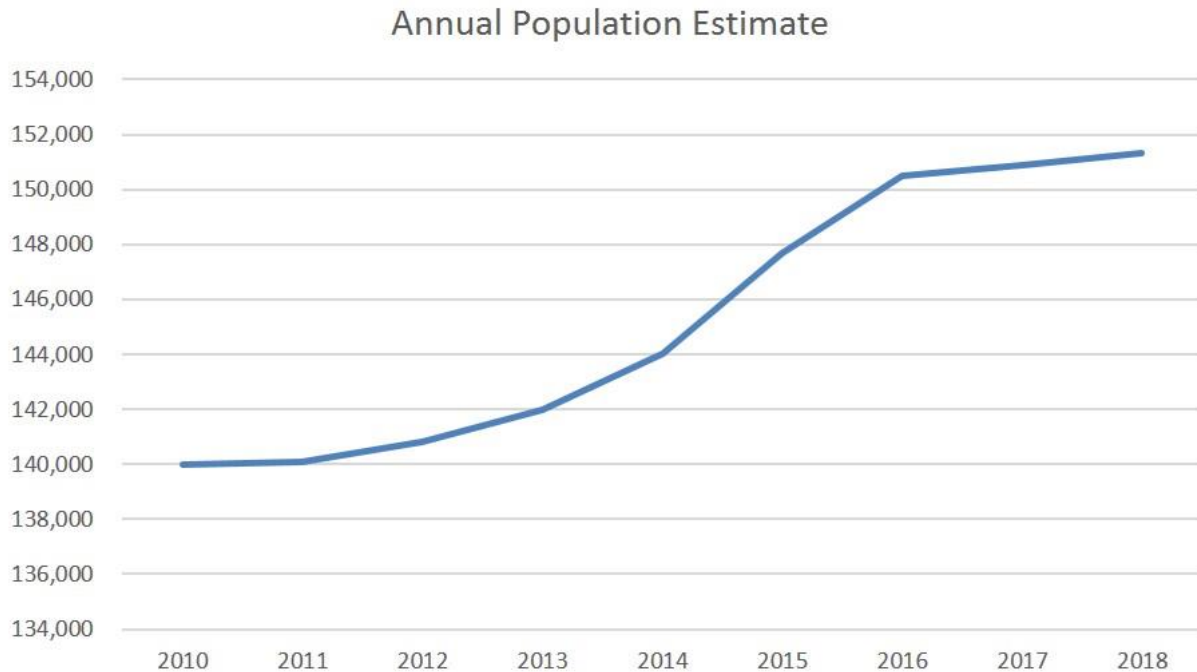
This is not the first year Council was forced to make difficult decisions. Over the last decade, the annual revenue-expenditure gap has consistently put Council in the difficult position of reducing or curtailing a range of City services and actions. Each year when the budget is unveiled a deficit is identified, and work proceeds to eliminate that deficit through a combination of expense

² For example, the FY 2013 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>.

³ City of Alexandria Office of Management and Budget, “Fiscal Year 2020 Proposed Budget,” February 19, 2019, available at <https://www.alexandriava.gov/108135>.

reductions and revenue increases.⁴ Further compounding this challenge, during the same period City population and demand for services has steadily increased while the City’s workforce contracted.⁵

Figure 2: Annual City of Alexandria Population Estimate⁶



Source: City of Alexandria estimates.

The community has grown in population, development, and service needs, and yet the City is now operating with 17 percent fewer staff positions per capita than a decade ago.⁷ Meanwhile, we face growing capital needs—especially transit, aging City infrastructure, public school facilities renewal and capacity expansion as well as competitive employee compensation pressures from the regional labor marketplace.⁸ The pace of population growth has exceeded a largely stagnant or nominal growth of tax revenue. Further, that same population growth has driven an increase in school enrollment which stands at 15,795 in the 2018-2019 academic year, up from 13,124 in FY

⁴ City of Alexandria Office of Management and Budget, “Ten Year Budget History FY 2009-2018,” April 4, 2018, available at [https://www.alexandriava.gov/uploadedFiles/budget/info/budget2019/memos/BMQ%20-%2051%20-%20TEN%20YEAR%20BUDGET%20HISTORY%20\(FY%202009%20-%20FY%202018\)%202.pdf](https://www.alexandriava.gov/uploadedFiles/budget/info/budget2019/memos/BMQ%20-%2051%20-%20TEN%20YEAR%20BUDGET%20HISTORY%20(FY%202009%20-%20FY%202018)%202.pdf).

⁵ Ibid.

⁶ City of Alexandria, Department of Planning and Zoning.

⁷ City of Alexandria Office of Management and Budget, “Ten Year Budget History FY 2009-2018.”

⁸ For example, two-thirds of city facilities had a grade of “C” or lower per a 2018 facility condition assessment.

“Overview of 2018 Draft Strategic Facilities Plan,” presentation to the Alexandria City Council Retreat, November 10, 2018, available at

[https://www.alexandriava.gov/uploadedFiles/budget/info/budget2020/Retreat%20Presentation%20FY%202020%20\(Final\).pdf](https://www.alexandriava.gov/uploadedFiles/budget/info/budget2020/Retreat%20Presentation%20FY%202020%20(Final).pdf).

2012-13, and including increases in subgroups of students with additional needs.⁹ BFAAC has repeatedly stated that incremental and year-by-year strategies will not address long-term fiscal realities.¹⁰

Table 1: City of Alexandria Selected Economic Indicators

<u>Selected Economic Indicators</u> (from City Dashboard unless denoted below)	CY 2014	CY 2015	CY 2016	CY 2017	CY 2018
FY Active Employees	2,551	2,538	2,543	2,552	2,566
Local GDP	\$10.1B	\$11.5B	\$11.0B	\$11.0B	\$11.5B
Jobs	105,009	106,638	104,750	104,409	TBD
Office Vacancy	13.7%	14.3%	15.5%	15.0%	15.3% (est)
Unemployment Rate	3.4%	2.7%	2.9%	2.6%	TBD
Value of Approved New Development	\$368M	\$339M	\$750M	\$210M	\$166M
Population	144,000*	147,650*	150,500*	150,900*	151,300*

* City of Alexandria, Dept of Planning and Zoning

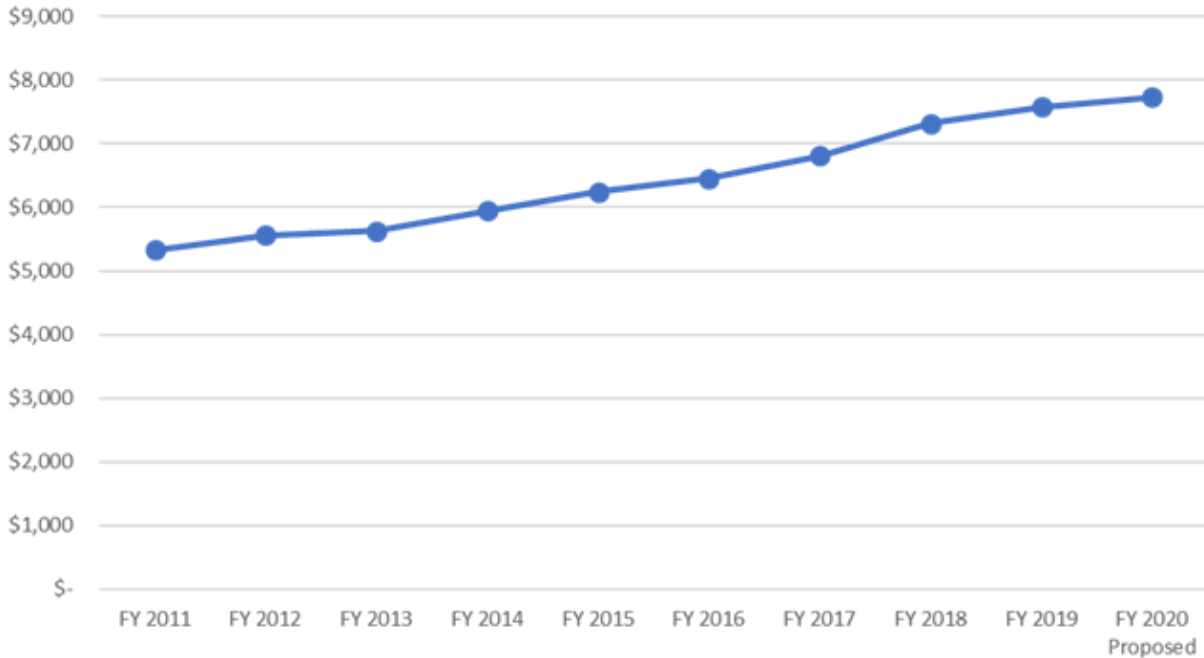
Moreover, a structural budget imbalance remains for the next 5-year period, limiting the opportunity to grow the tax base, expand City services, and promote City Strategic Plan values. These annual budget gaps force Council to cut City services and/or increase taxes and fees, while simultaneously limiting our ability to enhance services as well as our competitive position as an employer. To put the future shortfall into context, assuming no changes in the level of services provided by the City, the funding gap projected for FY 2021 (\$27.0 million) would require raising the real property tax rate by 6.6 cents (+5.9% over the current rate). By FY 2024 this projected gap would rise to \$75.3 million, necessitating an increase of 18.5 cents (+16.3% over the current rate) if fully funded via real property tax proceeds.

⁹ Data provided by Alexandria City Public Schools.

¹⁰ As noted by BFAAC in 2015: “The upcoming budget year demonstrates the City’s continuing need to correct annually for deficits. BFAAC commends the Acting City Manager and Staff for the development of the Five-Year Financial Plan (“the Plan”), which provides needed analysis of policy and operational decisions designed to achieve short-term balanced budget requirements. The Plan will provide Council with a greater ability to make policy decisions understanding true, multi-year lifecycle investments... With this more complete ‘total cost of ownership’ picture, Council will be able to make more informed tradeoffs across investments as well as better gauge the need for additional debt and/or cash capital for specific capital investments.” City of Alexandria Budget and Fiscal Affairs Advisory Committee, “Report of Observations and Recommendations on the City’s FY 2016-2020 Five-Year Financial Plan,” February 13, 2015, available at <https://www.alexandriava.gov/uploadedFiles/budget/info/BFAAC/Report%20on%20Five-Year%20Financial%20Plan%20from%20BFAAC.PDF>.

In 2018, at the request of BFAAC, City staff completed a comprehensive review of the cumulative impact of budget cuts over the last decade.¹¹ The challenge articulated by this report, absent new revenue sources, is clear – the impact of further budget cuts will affect the level of services the City provides and the residential tax and fee burden has already steadily increased in recent years.

Figure 3: Residential Tax and Fee Burden Steadily Increases¹²



Under the Manager’s proposed budget for FY 2020, the annual tax and fee burden will rise by an average of \$152 per homeowner. Nearly the entire increase (\$118 of \$152) is due to rising real estate assessments.

¹¹ City of Alexandria Office of Management and Budget, “Ten Year Budget History FY 2009-2018.”

¹² City of Alexandria Office of Management and Budget, “Fiscal Year 2020 Proposed Budget.”

Table 2: Average Residential Tax and Fee Burden FY 2012-19¹³

	<u>FY</u> <u>2012</u>	<u>FY</u> <u>2013</u>	<u>FY</u> <u>2014</u>	<u>FY</u> <u>2015</u>	<u>FY</u> <u>2016</u>	<u>FY</u> <u>2017</u>	<u>FY</u> <u>2018</u>	<u>FY</u> <u>2019</u>	<u>FY</u> <u>2020</u> Proposed
Real Estate Tax	\$4,523	\$4,571	\$4,815	\$5,115	\$5,318	\$5,593	\$5,989	\$6,154	\$6,272
Personal Property Tax	\$353	\$380	\$457	\$445	\$464	\$505	\$523	\$533	\$534
Trash Removal Fee	\$336	\$336	\$328	\$337	\$337	\$363	\$373	\$373	\$406
Decal Fee	\$57	\$55	\$56	\$55	\$55	\$56	\$58	\$58	\$66
Utility tax on Natural Gas	\$23	\$23	\$25	\$25	\$24	\$24	\$24	\$22	\$25
Utility tax on electricity	\$30	\$30	\$33	\$36	\$35	\$36	\$36	\$33	\$34
Utility tax on water	\$24	\$27	\$26	\$30	\$29	\$29	\$30	\$27	\$25
Communication Sales and Use Tax	\$144	\$143	\$136	\$134	\$129	\$126	\$123	\$119	\$111
Sanitary Sewer System Capital Investment & Maintenance Fee	\$68	\$68	\$68	\$68	\$68	\$76	\$98	\$123	\$123
Storm Water Utility Fee							\$70	\$140	\$140
Total	\$5,558	\$5,632	\$5,944	\$6,245	\$6,458	\$6,807	\$7,324	\$7,583	\$7,735

As the Council considers future tax and fee increases, BFAAC encourages Council to be mindful of the rising residential tax and fee burden and continues to urge Council to seek to diversify the City’s revenue by increasing commercial development.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages Council to develop a long-term revenue plan with concrete goals and strategies to grow the City’s revenue base.**
- **BFAAC encourages 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.**
- **BFAAC would welcome the opportunity to have a focused discussion with Council and staff to identify strategies to address future budget deficits through projected revenue planning and other mechanisms that look beyond the current fiscal year.**

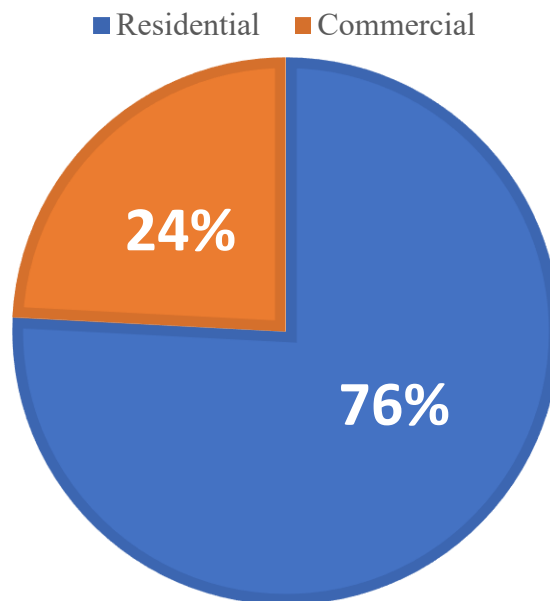
¹³ Ibid.

Maximizing Commercial Economic Development

In CY 2019, it is projected that less than 25 percent of the City’s property tax receipts will come from the commercial sector.¹⁴ Commercial receipts have remained flat since 2016. Without a renewed focus on commercial development, the City will be forced to cut services or continue to increase the residential tax burden.

Figure 4: Real Property Tax by Type

CY 2019 (Multi-Family Considered Residential)¹⁵



In addition to being heavily dependent on the residential real estate tax, BFAAC remains concerned about how closely the city’s economy is connected to the federal government. In our FY 2019 memo¹⁶, BFAAC said the following:

The traditional approaches to generating revenue should be reexamined for relevancy in light of the “new normal” economy that has emerged over the past 10 years. While the Washington Region is rebounding from the 2007 economic downturn, which was exacerbated by Sequestration, our 2.1 percent current estimated GRP growth is below the national GDP growth rate of 2.3 percent. A sharp reduction in government spending in the region in recent years impacted Alexandria, as well. In 2008, Department of Defense procurement spending

¹⁴ Ibid.

¹⁵ Ibid.

¹⁶ City of Alexandria Budget and Fiscal Affairs Advisory Committee, “Report on the City Manager’s Proposed Budget for Fiscal Year 2019,” April 18, 2019, available at <https://www.alexandriava.gov/budget/info/default.aspx?id=103872>.

accounted for 52.0 percent of federal procurement spending in the Washington region. By 2016, it had decreased to 38.7 percent. Consequently, the growth in local revenue among Virginia jurisdictions has fallen from as high as 8 percent in FY 2007, to an average rate hovering around 1.5 percent in FY 2018. Even if federal spending in the region recovers, BFAAC remains concerned about relying on federal spending to grow our economy and tax base.

While we remain unwavering in our opinion of the need to have a diverse revenue base and continually seek to diminish the singular impact that the federal government has on our City budget, a notable change has occurred in one year's time: the arrival of Amazon HQ2 in Northern Virginia as well as the announcement of the Virginia Tech Innovation Campus in Alexandria's Oakville Triangle area.

In that light, it is more important than ever to ensure a thriving commercial market sector so as to attract and retain businesses of all sorts, but especially those providing complimentary functions and services in sectors related to both Amazon and Virginia Tech. BFAAC observes that the Alexandria Economic Development Partnership (AEDP)—as a result of leading the recruitment of Virginia Tech to Alexandria and participating in the regional recruitment of Amazon—has significant insight and research in this regard. With additional support and cooperation and a mandate to lead and coordinate efforts among such entities as the Chamber of Commerce and local business associations, AEDP will remain an indispensable resource in providing Council with data-based strategies and policy recommendations to grow commercial development.

Complementing the efforts of AEDP, the City should 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 more predictable.

BFAAC also encourages 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 Council to continue to leverage Alexandria's appeal to maximize economic development, while fully engaging the business community in delivering the capabilities visitors and residents require.**
- **BFAAC encourages Council to maximize City assets, including capital, land and expertise, continually evaluating return on investment and opportunity cost of each asset.**
- **BFAAC urges Council to provide AEDP with the resources to accomplish its mission; 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.**

BUDGET PROCESS AND POLICY RECOMMENDATIONS

Budget Consideration Timeline

Last year BFAAC recommended Council re-examine the budget process and timeline.¹⁷ BFAAC expressed concern that the current timeline is too short and does not allow Council to fully consider the operating budget, which represents annual needs, and the capital improvement program (CIP), which represents long-term needs. BFAAC encouraged Council to decouple this process to allow for adequate consideration of short- and long-term needs.¹⁸

BFAAC applauds the City Manager and Council for considering a new approach. Unfortunately, the budget timeline does not allow the City to fully decouple consideration of the operations budget from the CIP. Moving either the operations or CIP to the fall would not align with the school budget timeline. Instead of formally decoupling the operations and CIP budgets, the Manager proposed holding a series of work sessions in the fall on the CIP.¹⁹ This will allow the Council to dedicate more time to the City's long-term needs while maintaining a budget timeline that is coordinated with the schools.

Additionally, the annual budget timeline and its necessary focus on incremental action can often be an insufficient vehicle for considering and confronting long-term challenges; those that even fall outside the existing five-year financial planning window. It will be necessary at times to contemplate long-term policy options and their associated tradeoffs for Council consideration. Consideration of how long-range planning exercises can influence the regular budget process—and in conjunction with the adoption of a longer-term revenue plan as explained earlier within this memorandum—will ensure that critical information and options for action are made available to Council and the public to sharpen our focus on the future and drive towards thoughtful action.

BFAAC believes that it is also important to consider how the City's budgetary process looks from the perspective of residents who are not involved with the process and consider ways to communicate with them regarding the scope of the City's challenges.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC applauds the City Manager for taking steps to ensure Council has more time to consider the CIP budget.**
- **BFAAC recommends Council and OMB staff develop a process within the Council's annual calendar to consider information on the City's projected longer-term fiscal condition and the impacts of policy options.**

¹⁷ City of Alexandria Budget and Fiscal Affairs Advisory Committee, "Report on the City Manager's Proposed Budget for Fiscal Year 2019."

¹⁸ Ibid.

¹⁹ City of Alexandria Office of Management and Budget, "Fiscal Year 2020 Proposed Budget."

Priority Based Budgeting Process

BFAAC was encouraged by the results of the priority based budgeting process deployed since FY 2019.²⁰ 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 priorities²¹, this information could also be leveraged during this priority based budgeting process, to reflect an additional stakeholder perspective.

To be sure, the need for this exercise is a result of the revenue gaps detailed in an earlier section of this report. 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.

OMB previously developed a thorough report titled “Ten Year Budget History FY 2009-2018,” demonstrating that a number of City departments have experienced steady funding declines, resulting in services cuts.²² Per capita expenditures from FY 2009-2018 have been reduced for the following service areas: Accountability, Effective and Well Managed Government (-16.6%); Healthy and Thriving Residents (-23.6%); Living, Green and Prospering City (-9.5%); and Safe, Secure, and Just community (-0.8%).

Some of the reductions are attributed to transfers between various accounts, but the aggregate impact of these reductions remains striking. It is clear that an ongoing need to use expenditure reductions to balance the budget has negatively affected delivery of some services.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC commends the City for the successful execution of the priority based budgeting process.**
- **BFAAC suggests the 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.**
- **BFAAC encourages Council to use the Ten Year Budget History report, which shows the aggregate impact of budget reductions, to be mindful of the previous cuts and impacts on City services.**

²⁰ City of Alexandria Office of Management and Budget, “Fiscal Year 2020 Proposed Budget.”

²¹ 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>.

²² City of Alexandria Office of Management and Budget, “Ten Year Budget History FY 2009-2018.”

Revenue Set Asides

BFAAC has historically opposed the use of budgetary set-asides.²³ Set-asides restrict flexibility and discretion in determining annual budgets. This may ultimately lead to particular 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 Council should establish that all budget set-asides have a sunset, to enable 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 Council is seeking to achieve.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC urges 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.**

School Capital and Debt Service Tax Rate

In the proposed budget, the Manager highlighted a new tool available to the City—one not yet used by any other jurisdiction in Virginia—to increase transparency and potentially raise additional money for school CIP and debt service.²⁴ As the City Manager notes, a separate school capital and debt service tax rate for ACPS capital expenditures would provide greater transparency into its capital needs as a share of the City budget and would better inform residents of the respective long-term challenges that ACPS and the City each face. While Virginia localities' school boards do not have independent budget or taxing authority, this change would also shift greater public responsibility and accountability to the School Board with regard to its capital budget.

BFAAC met with the City Manager to discuss the proposed school capital and debt service tax rate, which is still in its early stages of consideration. According to the City Manager, if adopted, the schools would submit a proposed rate with its annual CIP budget submission.²⁵ Council would ultimately set and notice the rate and residents would see two separate rates on their biannual real estate tax bills.

BFAAC supports efforts to provide residents with more transparency about how their tax dollars are allocated. While adding the separate school capital and debt service rate for school construction on the tax bills would provide residents with more information, BFAAC notes there are alternative approaches that may be better suited to provide transparency about how tax dollars are allocated. The City currently maintains an online calculator tool that allows residents to see how their tax bill is allocated across City services.²⁶ BFAAC encourages Council to examine the feasibility of including information with the tax bill that shows how the dollars are allocated, essentially

²³ For example, City of Alexandria Budget and Fiscal Affairs Advisory Committee, “Report on the City Manager’s Proposed Budget for Fiscal Year 2019.”

²⁴ City of Alexandria Office of Management and Budget, “Fiscal Year 2020 Proposed Budget.”

²⁵ Per discussion between the City Manager and BFAAC at its meeting on March 19, 2019.

²⁶ City of Alexandria Office of Management and Budget, “Real Estate Tax Receipt Calculator,” available at <https://www.alexandriava.gov/budget/info/budgetcalc/default.aspx?id=84833>.

providing residents with the results that would otherwise be available online using the real estate tax receipt calculator.

BFAAC commends the City Manager for looking at creative approaches to increase transparency and funding to meet ongoing school CIP needs. In terms of whether this separate tax rate is the right tool to fund the ACPS CIP, BFAAC recommends further analysis to determine the viability of this strategy.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC encourages Council to examine the feasibility of including information with the tax bill that shows how the dollars are allocated, essentially providing residents with the results that would otherwise be available online using the real estate tax receipt calculator.**
- **BFAAC commends the City Manager for looking at creative approaches to increase transparency and funding to meet ongoing school CIP needs. BFAAC recommends further analysis before the separate school capital and debt service tax rate is formally proposed or adopted.**

Improved Coordination with ACPS

BFAAC observes that the Joint City/Schools Task Force report was both broad-reaching and very direct in its recommendations, including its warning that leadership not allow the momentum of the process and positive reception of the recommendations to fade over time.²⁷ It was encouraging then to see that progress as already been made regarding establishing processes that will support the cooperation required to implement the report's recommendations.

Among the progress made this past year that BFAAC feels is important to highlight: cooperation and respect between the City Manager and Superintendent have set a tone for trust among both staffs; key staff from both the City and ACPS have been working together to identify areas for collaboration as well as prioritizing deliverables, with an eye on proactively planning for the City's future; and a Request for Proposal has been issued to study the feasibility of a combined maintenance and management system (CMMS).²⁸

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC applauds Council and ACPS for more closely coordinating their respective budgets for FY 2020.**
- **BFAAC encourages Council to ensure any changes to the budget timeline, including decoupling consideration of the operating and CIP budgets, is closely coordinated with ACPS.**

²⁷ City of Alexandria Joint City-Schools Facility Investment Task Force, "Task Force Final Report," January 26, 2018, available at <https://www.alexandriava.gov/uploadedFiles/planning/info/JointTaskForceFinalReportTextOnly01252018.pdf>.

²⁸ The Joint BFAAC-BAC meeting took place on March 14, 2019.

City of Alexandria, Virginia

MEMORANDUM

DATE: NOVEMBER 7, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: MEMO #1 - BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE
FISCAL YEAR 2020 WORK PLAN

Again this year, BFAAC plans to provide Council with memos throughout the year rather than delivering one comprehensive report in the spring. Last year, in addition to a work plan and budget guidance, BFAAC delivered two memos jointly with the School Board's Budget Advisory Committee (BAC) commenting on the recommendations of the Ad Hoc Joint City Schools Facilities Investment Task Force, which primarily addressed budget process, broad City planning and facilities maximization. BFAAC also provided memos addressing the ten-year cumulative impact of budget cuts on core City services, and recommendations related to the City Manager's proposed FY 2019 budget. The latter memo also included a recommendation to plan for long term revenue needs.

Recognizing a new Council will be seated in January, BFAAC proposes the following preliminary work schedule for 2020, largely continuing work already in progress. We also invite requests from Council during the course of the year to address other topics of concern.

RECOMMENDATIONS FOR THE FY 2020 BUDGET GUIDANCE (November 2018) – BFAAC's first memo will provide recommendations for Council to consider as it develops FY 2020 budget guidance. The memo, along with this one, will be the foundation for BFAAC's briefing to Council at its November 10 retreat.

SUSTAINABLE CITY SUPPORT FOR AFFORDABLE HOUSING (Q1 2019) – BFAAC recognizes the negative impact of a dwindling supply of affordable housing on quality of life for residents, economic development, and our ability to house providers of key City services within Alexandria, and applauds the efforts of Council, City staff and local partners to address this need. BFAAC will issue a report assessing the budget's readiness to support affordable housing goals and exploring opportunities to maximize resources for affordable housing including creative or alternative approaches to financing.

RECOMMENDATIONS OF THE JOINT TASK FORCE (Q1 2019) – BFAAC plans to work with the School Board’s BAC to monitor the implementation of the Joint Task Force recommendations.

RECOMMENDATIONS AND OBSERVATIONS RELATED TO THE CITY MANAGER’S PROPOSED FY 2020 BUDGET (April 2019) – BFAAC will provide Council a memo with recommendations regarding major issues facing the City in FY 2020. The memo will follow up on revenue and process recommendations made in BFAAC’s FY 2019 Budget memo. BFAAC continues to recommend the creation of a Revenue Master Plan and identifying actionable strategies to grow the City’s revenue base with a focus on increasing the commercial contribution to the tax base. In this memo BFAAC also intends to address employee compensation (both general schedule and public safety), and the costs of recruiting and maintaining staff.

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 7, 2018

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: MEMO #2: RECOMMENDATIONS FOR THE FY 2020 BUDGET GUIDANCE

As Council develops its budget guidance for FY 2020, BFAAC encourages Council to:

- **Focus on Policy Outcomes** – BFAAC reiterates its previous recommendation that 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.
- **Implement the Ad Hoc Joint City Schools Facilities Investment Task Force** – BFAAC encourages Council to use the guidance to reiterate its support for implementing the Task Force recommendations.
- **Set a Five-Year Revenue Target** – BFAAC encourages Council to set a five-year revenue goal and direct staff to develop an actionable plan with strategies to grow and diversify the City's revenue base.
- **Examine the Budget Timeline** – BFAAC encourages Council, as part of this guidance, to ask staff to develop a process, starting with FY 2021, to separate the consideration of the CIP, which represents long-term needs, from the operating budget, which represents annual needs. Likely this would involve Council setting the CIP budget in the fall, and the operating budget in the spring. BFAAC recognizes that City and ACPS budget staffs have begun exploring this change, which also was recommended in the Joint Task Force report, and encourages both to make necessary process adjustments to implement the separation beginning in FY 2021.
- **Consider Regional Uncertainty** - BFAAC encourages staff, to the best of its ability, to address safeguards for uncertainty in our region including federal funding and employment; and Metro service and support, which make Alexandria vulnerable to both expense and revenue shifts outside our control.

City of Alexandria, Virginia

MEMORANDUM

DATE: APRIL 5, 2019

TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: MEMO #4: STATUS UPDATE ON BFAAC'S EXAMINATION OF CITY AFFORDABLE HOUSING FINANCE CHALLENGES

In this year's work plan, BFAAC acknowledged the negative impact of a dwindling supply of affordable housing on quality of life for residents, economic development, and our ability to house providers of key City services within Alexandria. The work plan also noted an upcoming report assessing the budget's readiness to support affordable housing goals and exploring opportunities to maximize resources for affordable housing including creative or alternative approaches to housing.

While this report remains under development, it will be provided to Council following this year's budget cycle, instead of during the first quarter of 2019 as anticipated. To the extent that particular findings relevant to the report are available more quickly, these additional materials will be communicated to the City Council in a timely manner.

As part of this effort, we are in the process of contacting a number of city experts and stakeholders to obtain their input. The following general questions are guiding this work:

1. Does the city's housing affordability challenge impose costs on the people you serve and consequently, on your agency or program (e.g. students, clients, residents)? Have you attempted to quantify these costs in some way?
2. Does the city's housing affordability challenge affect your ability to recruit or retain qualified staff for your agency or program?
3. What are areas that [your jurisdiction/your program] does well to address housing affordability? In what areas do you see room for improvement?
4. What approaches that other jurisdictions are pursuing would be potentially valuable for Alexandria? What are the roadblocks for implementing these approaches?
5. What additional research by the city or other entities would be helpful to better target housing affordability needs and strategies?

These consultations include multiple city agencies, city boards and commissions, and regional entities such as the Metropolitan Washington Council of Governments. We anticipate providing a report by the end of 2019.