

City of Alexandria, Virginia

MEMORANDUM

DATE: OCTOBER 28, 2022

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

FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)

SUBJECT: BFAAC FY 2024 MEMO #02: RECOMMENDATIONS FOR THE FY 2024 BUDGET GUIDANCE

This memorandum provides information for Council's consideration as it prepares Fiscal Year 2024 (FY 2024) Budget Guidance for the City Manager. As always, the Budget and Fiscal Affairs Advisory Committee (BFAAC) is appreciative of the opportunity to offer these comments in support of the fiscal well-being of the City.

In his August 31, 2022 letter to City Board, Committee and Commission Chairs, City Manager Parajon detailed an extensive list of FY 2023 targeted investment areas of the City. The City Manager's letter also details areas he anticipates will require financial investment in FY 2024 to ensure the public service priorities of City Council continue to be realized in the upcoming fiscal year.

It is the objective of BFAAC to contribute to the discussion of FY 2024 funding priorities in anticipation of City Council's guidance to the City Manager as he prepares his operating and capital budget recommendations. BFAAC's guidance, offered in the following, is generally arranged according to the FY 2024 fiscal challenges noted by the City Manager.

EXECUTIVE SUMMARY

- City Manager's Budget Proposal
 - BFAAC encourages permitting the City Manager the flexibility of proposing a budget which exceeds the current rate of taxation and to include high-level boom/bust scenario analyses, as was included in the FY2023 budget.
- Revenues and Recovery from Fiscal Impacts of Pandemic:
 - The strengthening of key City revenue metrics, notably meals, lodging and sales taxes is encouraging and necessary.
 - Limited Class A Office space has long been a constraint on the commercial portion of the City's tax base, and increased work from home opportunities may further impact the City's ability to attract new office development. Understanding these trends and formulating plans to realize the economic benefits will be critical over the next several years.

- The City’s housing market currently appears robust although inflation and recent significant upward movement in mortgage interest rates warrant caution when developing FY 2024 revenue assumptions dependent on real property valuations, transfer taxes, and other related fees.
- Labor Markets and Pay Competitiveness
 - BFAAC encourages the City to continue to pursue regionally competitive compensation packages for public employees while remaining cautious when negotiating collective bargaining agreements given the multi-year fiscal consequence of substantive changes to overall compensation.
 - BFAAC encourages taking an expansive view of employee compensation and entertain alternative and non-traditional incentives, including non-monetary benefits, to bolster employee retention and new talent attraction.
- Capital Budget Affordability Concerns
 - BFAAC strongly encourages a thorough assessment of the federal funding sources available to assist with the capital infrastructure needs of the City.
 - BFAAC suggests Council guidance to the City Manager include a request to provide information in the recommended FY 2024 capital budget which succinctly details capital projects which are significantly delayed from their prior year project schedule.
 - BFAAC supports the Office of Management and Budget’s plan to include project updates and schedules in the CIP document.
 - BFAAC requests the City Council provide guidance to the City Manager that furthers the effort of comprehensive capital project and funding addressing both ACPS and City Government needs.
- Examine the Community Engagement Process
 - BFAAC supports Council’s priority to improve communications and expand the community engagement process overall, and we specifically encourage its efforts to expand citizen input on budgetary issues and allow discussions to take place over a longer period of time and outside of the budget process.
- Wrap Up
 - BFAAC supports City Council’s efforts to guide staff in the budget process with its established priorities from earlier this year and measuring outcomes based on the associated business plans.

REVENUES AND RECOVERY FROM FISCAL IMPACTS OF PANDEMIC

Easing pandemic conditions have thankfully begun to permit a measure of return to fiscal normalcy. According to recent data from the Department of Finance, key City revenue metrics, notably meals, lodging and sales tax revenues are nearing or in some cases surpassing pre-pandemic levels. *The strengthening of these important revenue sources is encouraging and necessary.*

The pandemic, however, has seemingly brought about a changed working environment where office workers have greater flexibility in their choice of location to accomplish work responsibilities. If this shift is sustained, it may present both challenge and opportunity for the City. ***Limited Class A Office space has long been a constraint on the commercial portion of the City's tax base.*** Increased work from home opportunities may further limit the City's ability to encourage office space construction and consequently cause the City's commercial portion of the tax base to underperform relative to the robust residential property segment. By way of opportunity, the pandemic inspired a shift in work location and allows a re-thinking of commercial space potentially to more flexible spaces, live-work developments, and other similar constructs that more closely meet the needs of workers and businesses. ***Understanding these trends and formulating plans to realize the economic benefits will be critical over the next several years.***

The City's housing market currently appears robust ***although inflation and recent significant upward movement in mortgage interest rates warrant caution when developing FY 2024 revenue assumptions*** dependent on real property valuations, transfer taxes, and other related fees.

ARPA funding, a critical fiscal support mechanism for the City during the pandemic will conclude in FY 2024. While the City has proactively worked to minimize the fiscal consequence of reduced federal funding by generally not utilizing these monies to support on-going programmatic needs, FY 2023 targeted social support programs (ie. rent relief, housing protection, food assistance), ***may now require local investment to be sustained.*** Other sources of federal funding including the Bipartisan Infrastructure Law and the Inflation Reduction Act present new opportunity for the City to leverage resources, particularly in support of capital program efforts.

Perhaps the most critical aspect of Council's annual budget guidance to the City Manager is the direction offered regarding real estate tax rates. For purposes of budget development and in light of the significant uncertainty in both revenue and expenditures for the upcoming fiscal year, ***BFAAC would encourage permitting the City Manager the flexibility of proposing a budget which exceeds the current rate of taxation.*** In past years, Council's guidance has sought a budget proposal from the City Manager that incrementally graduates the tax rate above current level with an accompanying list of additional funding priorities should Council elect to increase the rate. This approach seems particularly prudent as guidance for the upcoming fiscal year.

LABOR MARKETS AND PAY COMPETITIVENESS

Constrained labor markets, staffing vacancies, and inflationary pressures on pay are significant headwinds for the City's ability to deliver public services in FY 2024. The narrative included in FY 2023's budget guidance remains very much relevant to conditions in FY 2024. ***BFAAC encourages the City to continue to pursue regionally competitive compensation packages for public employees.*** It is noted, however, that FY 2024 is anticipated to be the first fiscal year in which collective bargaining agreements are enacted. As has been advised in previous

memoranda, *it is appropriate to be cautious in negotiation of such agreements given the multi-year fiscal consequence of any substantive change to overall compensation.*

As the City considers how to best address employee compensation, ***BFAAC encourages taking an expansive view of the issue and entertain alternative and non-traditional approaches to reward those who serve the citizens.*** The traditional approach to compensation which offers a balance of salary and complementary benefits including healthcare and retirement may not adequately represent the requirements of a workforce seeking flexibility in their working condition, subsequently affecting employee retention and new talent attraction. Discussion of options and assessment of compensation approaches most conducive to attracting and retaining quality employees is appropriate.

CAPITAL BUDGET AFFORDABILITY CONCERNS

As noted previously, ***BFAAC strongly encourages a thorough assessment of the federal funding sources available to assist with the capital infrastructure needs of the City.*** The affordability of the long-term capital program remains an area of concern for BFAAC as critical infrastructure needs, including those specifically related to public school facilities, continue to expand. The projected expense of the current Capital Improvements Program, already significant, may be further exacerbated by inflationary pressures.

Ensuring the City's capital funding needs are well articulated, establishing clear and attainable timelines for capital projects, ensuring overall fiscal decision-making remains sound so as to maintain the most advantageous credit rating for the City, and applying a critical eye to new capital funding requests are in total, prudent considerations for both the FY 2024 capital budget and the 10-year capital plan. ***BFAAC suggests Council guidance to the City Manager include a request to provide information in the recommended FY 2024 capital budget which succinctly details capital projects which are significantly delayed from their prior year project schedule. BFAAC supports the Office of Management and Budget's plan to include project updates and schedules in the CIP document.*** Projects utilizing bonds as a source of revenue whose funding schedule is significantly altered due to projected cost adjustments or scheduling changes should also be highlighted. ***It is critical that funded projects have clear and attainable timelines with an accompanying process to ensure accountability.***

BFAAC requests the City Council provide guidance to the City Manager that furthers the effort of comprehensive capital project and funding addressing both ACPS and City Government needs. BFAAC suggests that recommendations offered by the Joint Task Force and the Long-Range Educational Facilities Plan serve as the basis for cooperative development of the comprehensive planning approach. Lastly, BFAAC emphasizes the need for public discussion both in development of a plan and of the resulting prioritizations.

EXAMINE THE COMMUNITY ENGAGEMENT PROCESS

BFAAC supports Council's priority to improve communications and expand the community engagement process overall, and we specifically encourage its efforts to expand citizen input on budgetary issues and allow discussions to take place over a longer period of time and outside of

the budget process. Additionally, we suggest exploring the use of new tools to communicate and interact with the public to ensure that all voices in the community can be heard in the spirit of the All Alexandria Racial and Social Equity Policy. Ensuring inclusive community engagement that deepens and expands public participation also presents an opportunity to educate the public more thoroughly on the budget's relationship to Alexandria's Strategic Plan. Debates regarding funding decisions should occur within a context that recognizes that these decisions strategic and interconnected.

WRAP UP

BFAAC supports City Council's efforts to guide staff in the budget process with its established priorities from earlier this year and measuring outcomes based on the associated business plans.

The members of BFAAC appreciate the opportunity to engage with City Council in the preparation of budget guidance to the City Manager. Likewise, we appreciate in advance the efforts of City Manager Parajon and his exceptional staff who will in the coming months make many decisions on how best to propose the City's FY 2024 financial and operational direction. The budgetary guidance of Council, while not dispositive, certainly sets the tone for the upcoming fiscal year. BFAAC is of course available to assist the City in whatever manner required.