

Budget and Fiscal Affairs Advisory Committee

Report on the City Manager's Proposed Budget for Fiscal Year 2024

City of Alexandria, Virginia
April 3, 2023

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MESSAGE FROM THE BFAAC COMMITTEE CHAIR

Mayor Wilson and Honorable Members of City Council,

Thank you once again for the opportunity to review and reflect upon the City Manager's FY2024 Operating and Capital budgets. The comments offered by the members of your Budget and Fiscal Affairs Advisory Committee (BFAAC) are offered in the context of the City's continued recovery from the COVID-19 pandemic and the economic uncertainties we now face given a potential downturn. We appreciate the complexities that the City Manager and City staff are navigating and commend them for proposing a budget without shortfalls. However, we caution that it is not unlikely that this will become more and more challenging to achieve in coming years without tough choices and strongly urge Council to keep this reality in mind as the budget is reviewed.

BFAAC's comments on the Proposed Operating and Capital budgets are organized in three major themes: revenues, expenditures, and the capital improvement program. Each of these sections offers specific thoughts and analysis, along with observations and recommendations for your consideration.

As it relates to the budget process and to address recent events, in last year's FY2023 budget memo, BFAAC made several recommendations for ways that both Council and School Board elected leaders and City and ACPS staff to show leadership and establish a shared vision. This would mean outlining ways to strengthen their relationship and align internal procedures to contribute to a smoother budget process.

In the coming months, BFAAC and the School Board's BAC will deliver a more in-depth memo to both Council and School Board expanding on these recommendations, including the description of possible annual practices, such as meetings outside of the budget cycle, to help the Council and School Board strengthen a joint culture of communication and community engagement.

BFAAC encourages all elected leaders (Council and School Board) with City and ACPS leadership and key staff to participate in a facilitated retreat this summer to review these recommendations. This would serve to inform the public of the collective intent and a joint long-term vision for Alexandria City resources and capital projects.

I am grateful for the strong engagement and impressive efforts made by the members of BFAAC on this report and our work this year. We appreciate Council's consideration and look forward to the opportunity to discuss our recommendations with you at our worksession.

Sincerely,



Amy Friedlander

Chair, Budget and Fiscal Affairs Advisory Committee

REVENUE ANALYSIS

Revenue from Real Property Taxes

The City Manager proposes in the FY2024 budget a fourth year of consistent residential real estate tax rates. Given the real property tax revenues are estimated to grow an average of 4.1 percent (from \$492M to \$533M), these figures demonstrate continued growth in assessed property values (property values are expected to increase 3.9 percent).

That said, while real property tax revenue is expected to grow 3.4 percent in FY 2024, this is a decline from last year’s growth rate of 4.7 percent. Residential real property tax revenue growth declined from 5.8 percent to 4.4 percent while non-residential real property tax revenue growth declined from three percent to two percent.

Real Property Tax Revenue (millions)	FY22 Actual	FY23 Projected	FY24 Proposed	FY22- FY23	FY23- FY24	2 Yr Avg Growth
Residential	\$ 287	\$ 304	\$ 318	5.8%	4.4%	5.1%
Non-Residential	\$ 205	\$ 211	\$ 215	3.0%	2.0%	2.5%
Total Real Property Tax	\$ 492	\$ 515	\$ 533	4.7%	3.4%	4.1%
<i>% Residential</i>	58.4%	59.1%	59.6%	1.1%	0.9%	1.0%
<i>% Non-Residential</i>	41.6%	40.9%	40.4%	(1.6)%	(1.4)%	(1.5)%

In last year’s Memo #3 responding to the City Manager’s proposed budget, BFAAC expressed concern over the escalating residential values and the relatively flat commercial valuations, and the further balance of real estate revenue towards the residential sector. The FY2024 proposed budget continues that trend, with residential revenue growing from 58 percent in FY2022 to 60 percent in the FY2024 budget. Further focusing efforts to develop improved commercial real estate growth should, in theory, return some relief from escalating residential values to the residential taxpayer. BFAAC suggests Council continue to support the budgetary recommendations of the City Manager that offer the potential to expand the commercial base.

This continued trend in real property tax revenue mix shift also leads BFAAC to renew the discussion around exploring implementation of the transportation add-on tax for commercial properties and its impacts on revenue. We acknowledge there are existing limitations to this potential direction, and efforts would be needed to model the impact of potential options, particularly with the Transportation Improvement Plan (TIP) taxing authorities. However, a study like this could be timely in the event the rate of real property values slows or flattens.

Additionally, BFAAC is encouraged that the total Real Property Tax estimate for FY2024 has been reduced by approximately \$6.5M to reflect the costs of the tax relief programs for the elderly and disabled, and tax exemptions for disabled veterans and surviving spouses. This is an expansion of the FY2023 approved budget and in line with recommendations made by BFAAC in last year’s guidance.

Lastly, BFAAC notes that FY2024 investment in the Alexandria Economic Development Partnership (AEDP) has shifted from outreach and business attraction efforts (\$44K reduction) to staff and rent increases (\$97K increase). BFAAC encourages continued support of the AEDP even as the commercial office industry adjusts to post-pandemic conditions and is looking forward to its final study and recommendations on attracting new small businesses.

Other Revenue Considerations

BFAAC also notes the expected revenue increases from other major categories such as “Charge for Services” and “Use of Money and Property.”

The FY2024 proposed revenue from Charge for Services is set at \$15.0M, in line with the FY2023 ‘Proposed’ Budget of \$14.9M, however the current projected FY2023 revenue from Charge for Services is \$13M or \$1.9M / 13 percent lower. While the overall level of risk may be minimal to the total revenue, BFAAC encourages the City Manager to evaluate the reason for the FY2023 variance and underlying assumptions on use of City Services driving the significant increase in the FY2024 proposed budget.

Other Revenue Categories (millions)	FY22 Actual	FY23 Projected	FY24 Proposed	FY22- FY23	FY23- FY24	2 Yr Avg Growth
Charges for Services	\$ 15.2	\$ 13.0	\$ 15.0	(14.4)%	15.0%	(0.8)%
Use of Money and Property	\$ 0.9	\$ 14.4	\$ 18.8	14.5x	30.4%	350.3%

The FY2024 revenue from Use of Money and Property is also expected to grow by 350 percent over two years. This category includes the rental of city-owned properties and the interest on General Fund investments. BFAAC cautions the Council on assuming these revenue sources are permanent to the extent that the higher revenue expectation is driven by investment interest rate increases.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC is encouraged that the City meets budgeting needs with no increase in the personal property tax rate for the fourth year in a row.**
- **BFAAC recommends the Council continue to support and expand programs that grow the commercial base and curb the rising ratio of revenue from the residential sector.**
- **BFAAC recommends Council renew discussions on establishing a percentage goal for residential real estate revenue and methods of achieving a higher contribution including using existing Transportation Improvement Plan (TIP) taxing authorities to offset general fund programs.**
- **BFAAC supports continued investments into Alexandria Economic Development Partnership as a catalyst and looks forward to AEDP’s study results/outlook & recommended strategy.**
- **BFAAC suggests additional evaluation of expected revenues from Charge for Services and Use of Money and Property to ensure underlying population and assumptions are current.**

EXPENDITURE ANALYSIS

Cost Demands and Efficiencies

For the past several years the proposed budget included the operating budget process -- how departments reduce costs through efficiencies or reductions, without affecting the delivery of services. As proposed, the total expenditures are growing 4.3 percent, with general fund debt service growing 17 percent. This trend is likely to continue given Council's desire to respond to residents' requests for expanding programs and services, together with the pressure of added costs to maintain capital improvements planned over the next 10 years.

Moreover, Council entered into two collective bargain agreements with a possibility for at least one more agreement. Taken with other long-term spending agreements there appears to be a growing number of term-fixed spending commitments that may restrict the City's flexibility. Without an adjustment, the City may find it increasingly difficult to find cost reductions and efficiencies at the rate of past years sufficient to avoid reductions in the delivery of services or increasing property taxes.

American Rescue Plan Act of 2021 (ARPA)

The American Rescue Plan Act of 2021 (ARPA) established a Coronavirus State and Local Fiscal Recovery Fund, which resulted in the City being allocated a total of \$59.6M in one-time federal relief with nearly \$9M unallocated.

Based on the FY2024 proposed budget, BFAAC notes the continued support of programs or investment in services initially funded by one-time ARPA funds. Broadly, the City expanded investments into managing IT and social service priorities and identified revenue replacement opportunities. The following nine programs and positions were identified; however, this list is likely incomplete:

- Performance analyst position
- Relocation advisor position
- Housing analyst position
- Non-technical project manager position
- Four broadband implementation positions
- DCHS rental assistance
- Library tools and equipment lending
- Digitization of court records
- CERT Volunteer Program

We are encouraged that the City has recently published a more comprehensive analysis on the full use of ARPA funds. Analysis can be found at the following link

- [Budget Question #43: "Can staff provide a summary of ARPA funding?"](#)
- [Budget Question #44: "Please provide a comprehensive list of ARPA projects, remaining balances, and project statuses."](#)

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC is encouraged by the additional transparency and detail provided on total use of ARPA funds, programs or investments, and ARPA or the general fund source. This information helps to assess broader city operating fund impacts caused by these one-time investments.**

Capital Improvement Program (CIP)

The City Manager's *Proposed Fiscal Year 2024-2033 CIP* totals \$2.4B in major capital projects including planned commitments for Alexandria City Public Schools (ACPS), stormwater management, renewal of City assets (or state of good repair), renovations, new construction, CIP and information technology planning, and affordable housing. A comparison of pre-COVID-19 projections and today's needs illustrated the City's growing infrastructure and related capital demands even as the US Census' American Community Survey estimates population fluctuations rather than a population rise between 2019 and 2021 due to the pandemic.

BFAAC identified the four CIP categories showing notable trends (figures exclude inflationary adjustment and rounded to the nearest millions):

- CIP Development and Implementation Staff value nearly doubled from \$55M in FY2019-2028 to \$115M proposed for FY2024-2033. (Due to larger project scope and complexity)
- The maintenance of aging City assets rose more than 1.5 times in project value from \$520M approved in FY2019-2028 to \$896M proposed for FY2024-2033.
- New facility construction projects and new services rose more than 1.25 times from the \$448M approved in FY2019-2028 to the \$590M value proposed for FY2024-2033.
- Alexandria City Public Schools decreased from \$407M approved in FY2019-2028 to \$367M proposed from FY2024-2033. (Due to conversion from planning to construction phase of larger school projects)

The City Manager and OMB highlighted in the FY2024-2033 CIP that the forecasted CIP general fund support of a 6.6 percent annual average rate growth **exceeds** the general fund revenue growth at current taxing levels ([CIP Overview](#), page 2.25) that balances our highest AAA/Aaa Standard and Poor's and Moody's bond ratings and remain within the City Council adopted debt management policies. The CIP also forecasted outlays one percentage lower than the 12 percent Council limit of debt service from FY2029-2033 as a percentage of general government expenses ([CIP Overview](#), page 2.18) for the second time since last year's report. Lastly, while significantly less than yearly appropriations, the pre-pandemic direct operating fund impacts approved in the FY2019-2028 CIP forecasted nearly \$10M baseline each year between FY2023-2028. In this year's proposed CIP, the operating impact forecast rose to nearly \$14M each year starting in FY2029 up to \$18M in FY2033.

From a CIP revenue perspective, the Council reserved 2.2-cents of the base property tax rate for the City's Transportation Improvement Program in the FY2012 budget. Subsequent support for CIP investment in the FY2017 and FY2018 approved budgets totaled a 5-cent property tax increase. A one-percent increase in the restaurant meals tax was approved in FY2019 for affordable housing projects. The Council deferred

a 2-cent property tax increase planned in FY2021 and \$140M in CIP projects responding to immediate budget shortfalls from the March 2020 onset of the COVID-19 emergency.

OBSERVATIONS AND RECOMMENDATIONS

- **BFAAC observes rising CIP needs on aging infrastructure, 80 percent funding of ACPS School Board capital request, and out-year debt service impacts to existing city service levels excluding sewer/stormwater debt funded by user fees.**
- **BFAAC applauds the effectiveness of the Department of Project Implementation and project management cost principles. Key performance indicators (KPIs) should show the operating and capital fund capacity burden on the general fund.**
- **BFAAC encourages the Department of Project Implementation to provide an analysis on the rising costs of previously approved CIP projects in comparison to the proposed budget. This effort will help to provide clarity and analysis on whether the rising CIP costs are related to new or existing efforts.**
- **BFAAC recommends long-term fiscal resiliency that adjusts to post-pandemic macro-economic and real estate conditions, unanticipated situations such as worsening climate change conditions, and minimizing future property tax impacts from debt repayment by prioritizing CIP projects, descoping CIP projects and/or dedicating property tax increases.**
- **BFAAC recommends that next year's CIP budget proposals detail the potential increase in property tax rates needed to service the current year's debt. The range for potential tax increases will increase taxpayer confidence and the need to flatten the debt service curve.**