

CITY OF ALEXANDRIA, VIRGINIA

MEMORANDUM

Date: NOVEMBER 3, 2023
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)
SUBJECT: MEMO #2 – BFAAC FY 2025 BUDGET GUIDANCE

As City Council develops its budget guidance for FY25, BFAAC shares the following suggestions for consideration.

Our guidance focuses on three areas:

- CIP Funding Shortfall
- Personnel & Compensation
- Coordination with ACPS

CIP SHORTFALL

The Council faces significant cost pressures to its Capital Improvement Program (CIP) over the next decade. General fund support for the CIP (cash capital and debt service) is consistently growing at nearly twice the rate of revenue growth, with much of this expenditure growth projected to occur in the next three years due to projects in advanced stages of design or implementation. Recent interest rate increases, and continued inflation have added to the complexity, and anticipated downward pressure on commercial and residential real estate values could create further constraints in the future.

As noted previously, BFAAC recommends that Council direct the City Manager to create scenarios for each of the levers available to the City to address this projected shortfall. The affordability of the long-term capital investment program continues to be of primary concern to BFAAC as the City continues to grapple with long-deferred needs, impacting a broad range of the City Manager's priorities, including school facilities.

Among the levers that should be considered are:

- Cash Capital. How much cash capital from the operating budget should be allocated to the CIP budget in FY2025?
- Debt Service Management. With the current interest rate environment, what will be the debt service impacts for additional borrowing to address CIP needs?
- Project Deferral or Cancellation. What are the options for “smoothing out” CIP project schedules to stabilize future year debt service increases?

Given the realities of market trends and our concerns about the continued affordability of the CIP, we recommend Council:

- Consider spreading out future CIP projects, using a transparent and methodical approach to those timing decisions, and being realistic about cost escalation resulting from such deferral.
- Ask the City Manager to establish clear financial goals for each year of the CIP and work with Alexandria City Public Schools (ACPS) to align plans to reduce stacking of major projects in the same fiscal years to “smooth out” the CIP Cost Curve.
- Ask the City Manager to increase the various thresholds and/or requirements that proposed projects need to meet to be officially added to the CIP before completing those projects already included in the plan; or if a project needs to be added, consider removing/replacing a future project from the CIP in exchange.
- Ask the City Manager to add the requisite tax rate increase (i.e., +\$0.0X on the tax rate) to cover the projected shortfall in each year of the Five-Year Financial Planning Model to help illustrate in simple terms the budgetary impacts of current decisions in the out years.

PERSONNEL & COMPENSATION

Compensation for City staff appears to lag behind other parts of Northern Virginia.¹ The proposed FY 2024 budget includes a 2.0% increase to pay scales for General Scale employees and Sheriff's Deputies.² Despite this increase, the City as an employer remains below two of our neighbors in Northern Virginia.³

The City's compensation philosophy states that if an average salary falls below market averages to the extent that attracting and retaining qualified employees may be jeopardized, the City will take action to align the position or classification with the competitive marketplace.⁴ Nevertheless, BFAAC remains concerned about the City's sustained competitiveness for talent and retention, especially in comparison to its neighbors. The situation is exacerbated by current vacancies within the City's human resources and compensation departments. That is why

¹ GovSalaries, Virginia Salaries - data extracted for Arlington, Fairfax, Alexandria, Prince William, and Loudoun by state county or city employer. Alexandria ranks below Arlington and Fairfax, and Alexandria is right above Prince William and Loudoun, <https://govsalaries.com/state/VA?page=1> (2022).

² City of Alexandria, Personnel and Compensation Summary, FY2024 Introduction and Highlights, <https://www.alexandriava.gov/sites/default/files/2023-02/Section%2010%20Personnel%20%26%20Compensation%20Summary%20FY%2024.pdf>

³ Also see Alexandria City: Employee Compensation: <https://govsalaries.com/salaries/VA/city-of-alexandria>; Arlington County: Compensation and Benefits: <https://www.arlingtonva.us/Government/Careers/2-Employee-Benefits>; Falls Church: Salaries and Benefits: <https://govsalaries.com/salaries/VA/city-of-falls-church>; Fairfax County: Compensation and Benefits: <https://www.fairfaxcounty.gov/hr/fairfax-county-benefits-summary>; Loudoun County: Compensation and Benefits: <https://www.loudoun.gov/5010/Employee-Benefits>.

⁴ City of Alexandria, Compensation Philosophy, February 2, 2023. <https://www.alexandriava.gov/human-resources/compensation-philosophy>

BFAAC urges the Manager to prioritize filling these vacancies as soon as possible and/or supplementing them with external consultant support.

The upcoming budget season and pending collective bargaining with ACPS also present an area of concern for BFAAC. Balancing the anticipated expense of collective bargaining with addressing retention, recruitment, and other compensation concerns could have significant budget implications. For example, although Alexandria remains one of the highest-paying employers for teachers in the region,⁵ ACPS is currently grappling with filling critical faculty positions outside of the collective bargaining process.⁶ Since ratified agreements with unions made by ACPS will ultimately be fulfilled through the City's budget, Council should expect full coordination and transparency between City and Schools throughout every step of this process.

BFAAC continues to encourage the City to continue to pursue regionally competitive compensation packages for public employees. More importantly, BFAAC urges the Council to (1) reconcile the City's goals for retention of talent amid looming budget constraints, and (2) establish strong succession planning processes and policies for the human resources department so that roles directly impacting the City's budget process can be backfilled quickly in the event of staff departures.

COORDINATION WITH ACPS

Since the school portion accounts for over 30% of the City's budget, it is imperative to establish clear guidance for working with ACPS elected leaders and staff on the upcoming budget season. To that end, we recommend revisiting the recommendations outlined in our joint memorandum with the School Board's Budget Advisory Committee (attached). The BFAAC urges Council and City staff to set the standard for a collaborative culture of transparent communication, empowering staff, and promoting respectful community engagement. Specifically, we recommend that the City take the initiative during the budget process by:

- Reinforcing the daily efforts of City and ACPS staff to improve, identify, and align processes, policies, and outcomes.
- Coordinating or sharing budget guidance for operating and capital budgets with ACPS, accompanied by check-in points for joint staff discussions.
- Encouraging joint ownership of revenue and spending goals for capital projects with continued guidance of joint plans, such as Joint Task Force and Long-Range Educational Facilities Plans.
- Setting shared expectations for CIP development and ongoing project monitoring/reporting.

⁵ Washington Boards of Education Guide, FY2023: https://www.fcps.edu/sites/default/files/media/pdf/FY-2023-WABE-Guide_0.pdf.

⁶ ACPS Employment Opportunities, Job Openings & Online Application: <https://acps.tedk12.com/hire/index.aspx>

- Proactively sharing resources in high budget impact areas including collective bargaining, focusing on the provision of data-driven outcomes for compensation and retention, which will ensure that Council's decision-making at the time of appropriation is clear, collaborative, and meets the needs of ACPS to remain a competitive employer in the region.
- Reflecting and incorporating what we learned during the pandemic about the underserved in our community and collectively utilizing all sources to increase and target service accessibility.