

MESSAGE FROM THE BFAAC COMMITTEE CHAIR

March 20, 2026

Dear Mayor Gaskins and Members of City Council,

Thank you once again for the opportunity to review and reflect upon the City Manager's Operating and Capital Budgets. The comments offered by the members of your Budget and Fiscal Affairs Advisory Committee (BFAAC) are once again framed in the context of the uncertainty in the economic environment, both regionally and nationally. As conveyed in previous memos, BFAAC believes the City Manager and City budget staff continue to effectively navigate the economic challenges the City has faced in light of the unprecedented events outside of the City's control, the impact of these challenges on the day-to-day needs of Alexandria residents, and the unpredictable effects they have had on our main sources of revenue: real estate and personal/business property taxes. The uncertainty of the interest rate environment, the impact of debt service, and the future of commercial real estate remain top of mind.

Beyond our comments on the FY 2027 budget, we offer two additional recommendations: first, that BFAAC work in the near term to prepare a memorandum to Council to further explore its recent resolution of intent to change the method of ACPS appropriations; and second, that next year BFAAC consider conducting a refresh of its [now almost 10-year old review](#) of the City's debt policy guidelines. We invite Council reactions and input here, including on the most ideal timing for BFAAC work product.

Finally, we provide a preview of our Memo #4: Guidance for Budget Assessment, Decision-Making. Here, we would like your thoughts on whether the work described will be responsive to Council's prior requests in this area and/or whether any additional, related perspective is sought.

I would like to personally thank the members of BFAAC for their work on this report and this year's efforts. We hope Council will carefully consider our recommendations. We look forward to discussing these and other issues at our upcoming budget work session with Council members on March 25, 2026.

Sincerely,

John Ruthinoski, Chair
Budget and Fiscal Affairs Advisory Committee (BFAAC)

City of Alexandria, Virginia

MEMORANDUM

DATE: MARCH 20, 2026
TO: THE HONORABLE MAYOR AND MEMBERS OF THE CITY COUNCIL
FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)
SUBJECT: MEMO #3 – BFAAC RECOMMENDATIONS AND OBSERVATIONS
RELATED TO THE CITY MANAGER’S PROPOSED FISCAL YEAR 2027
BUDGET

This memorandum provides BFAAC’s analysis on several topics related to the FY 2027 budget, with a focus on managing community expectations on revenue, spending and the CIP, the role of state funding policies on local fiscal pressures, with related observations and recommendations for City Council.

MANAGING COMMUNITY EXPECTATIONS

As BFAAC reviewed in considerable detail in its [fiscal year 2026 budget memo](#), a series of specific policy decisions by Council (examples include collective bargaining, DASH Fare Free policy, and capital project investments) combined with continued economic uncertainty contribute to an especially constrained fiscal environment. This environment considerably reduces Council’s discretionary spending options and could eventually necessitate either revenue increases (i.e., taxes and/or fees) or service or staff reductions to remain fiscally viable. To prepare for this possibility, Council and the City will need to manage community expectations around the level of City services and clearly articulate tradeoffs.

To better understand the constraints on City spending, Alexandria residents would benefit from additional targeted education and/or messaging on the pressures on the City’s financial capacity, similar to the excellent “[How is the Budget Created](#)” video. Topics to cover may include:

- *Collective Bargaining.* In 2021, Council adopted a Public Employee Collective Bargaining [Ordinance](#) and the School Board followed with its own 2024 [Resolution](#) for Collective Bargaining in ACPS. These decisions are often cited as important demonstrations of our community values in how we engage productively with City and Schools staff. At the same time, greater use of collective bargaining agreements creates less year-to-year flexibility

with respect to compensation, which makes up a considerable percentage of both City (71 %) and Schools (88%) funding, and our commitments to certain levels of compensation may place burdens on our capacity to maintain levels of service in a constrained budget environment.

- *Revenue stagnation.* The last five years have seen dramatic shifts in the dynamics surrounding City revenue – from the impact of the pandemic to changes at the federal level that have shifted both individual and community fiscal realities. The community would benefit from a greater understanding of the revenue trends impacting our City and how they impact City spending. Heightened awareness of these realities may also positively impact the community’s openness to proposals aimed at economic growth as a necessary step to maintaining the quality of life they have come to expect in Alexandria.
- *Regional and/or Federal Forces.* The community may also have an incomplete understanding of the impact of regional and Federal policies on our local economic climate, as recently presented by the Brookings Institute to Council. While community members may understand this from their individual or family perspective, the macro effect is important for them to be able to appreciate the impact some of these policies have among all Alexandria residents, including those with different economic circumstances and residency status.
- *Debt on capital project pressures.* Operating budget pressure caused by debt service on capital projects is one of the most impactful factors considered in the development of our City budget and needs to be more broadly understood (More detail is provided on this recommendation in the following section.).

City residents also need to better understand the tradeoffs that are required under current economic circumstances. The City can no longer “do more with less” and still keep taxes stable, even with increased efficiencies. Some of these tradeoffs include:

- Exploring tax increases (i.e., real estate, personal property, sales, etc.) or increased or new fees (e.g., recreational facilities or programs) while revenues remain relatively flat vs. keeping tax rates flat or reducing services to which they have grown accustomed (e.g., fare-free DASH).
- Maintaining competitive compensation within collective bargaining agreements vs. staff reductions or adjustments in per capita calculations (e.g., reduction in force among first responders, reduced class sizes, etc.)
- Eliminating FTEs to recoup savings to sustain the cost of bargained compensation commitments – even if those positions are currently vacant – may create longer-term negative impacts.

- The City and community must be open to exploring how new technologies, including AI, may bring efficiencies and performance improvements to internal or administrative functions.
- At a time when public-facing staff or programs are often deemed the first priority, a recognition that administrative or support positions are also necessary to ensure our government continues to work effectively and efficiently

As Council considers how to capture these dynamics for City residents, it should also build strategies to better understand them internally and then translate them out to the community. This is something we hope to explore more fully in Memo #4, described below. These strategies may include:

- Funding or other fiscal models to plan and project over time.
- Budgeting exercises that demonstrate the tradeoffs between priorities
- Deeper analysis of the long-term impact of budget efficiencies (i.e., move to contractors v. in-house staff) or loss of FTEs over time.
- Renewed assessment of spending limitations set by our current debt and fiscal policies.

COMMUNITY UNDERSTANDING OF CAPITAL INVESTMENT

BFAAC has spent considerable time over the last several years discussing the impending impact of the City’s capital program on operating needs and overall fiscal health. A typical example is this excerpt from the [FY 2023 Budget Memo](#): “The City may find it difficult to balance its financial needs without significant operating cash contributions especially in the out-years of FY2029-2032.” We urge Council and the City to ensure that the continued and long-term challenges presented by capital investments are more universally understood in the community.

These include:

- Acknowledging the short- and long-term implications of capital investment:
 - The CIP is the most salient example of the City planning ahead about what it wants to look like 5 to 10 years into the future. However, many of these investments won’t see benefits for some time, even if the costs are more immediately incurred.
 - Most Alexandrians likely don’t realize how long it takes the city to pay off capital projects. In conducting community education, it may be helpful to draw an analogy to something more residents understand (i.e., home, car, or other loan) while talking about Figure 1 below, which demonstrates the long tail of debt-related costs associated with capital projects.

- One common suggestion to address the cost of debt services is to defer projects in the existing CIP. However, delaying replacements/upgrades can increase operating and maintenance costs (e.g., old facilities, vehicles, etc.). Assets may deteriorate to the point where emergency repairs or full replacements cost more than the planned capital work, sometimes requiring taking on unplanned debt for a building that will still need to be replaced. Also, given that construction and materials costs typically rise faster than general inflation, delaying a project may increase the amount that must be borrowed; thereby further increasing debt service.



Proposed FY 2027 – FY 2036 CIP

Long-Term Debt Service Impacts

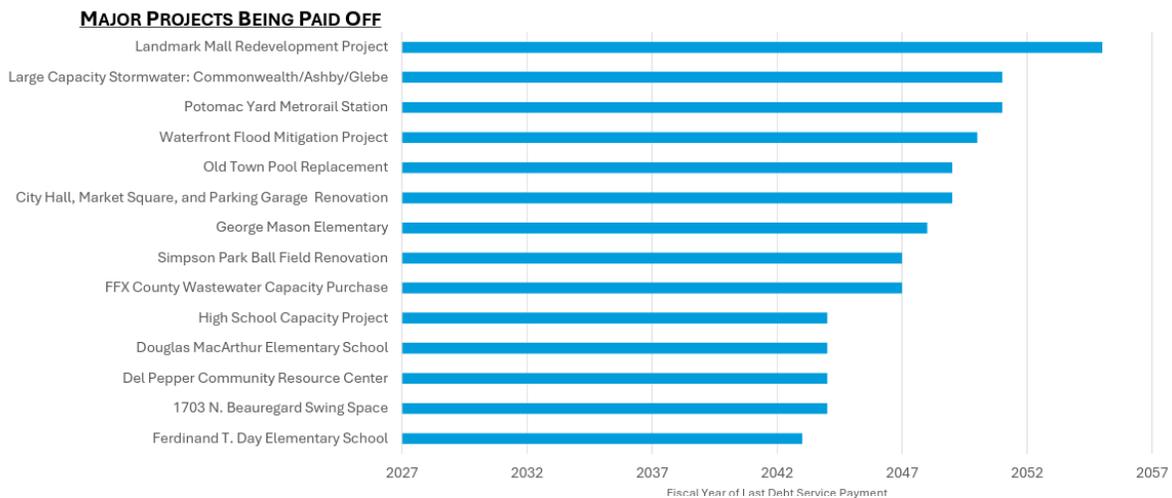


Figure 1 – Long Term Debt Service Impacts of Current and Past Capital Projects

- The role of sound fiscal policies is also important to understand. The City maintains an AAA bond rating, which has numerous positive effects for city residents and businesses, like lower borrowing costs (interest rates). Even a small rate difference (e.g., 0.25–0.50%) on the interest rate for a large bond issue can mean millions in savings over 20–30 years. Those savings free up money for services, capital, or taxpayer relief rather than debt service. In order to maintain this rating, it is important that the City, among other policies:
 - Maintain manageable debt and pension burdens with clear policies.
 - Exhibit high-quality, forward-looking financial management with credible long-term planning.
 - Have flexibility and willingness to adjust revenues and spending when conditions change.

- While making short-term adjustments to free up funding for the current fiscal year may seem appealing, in the long term these changes could jeopardize the City's bond rating and result in higher long-term costs. With that in mind, the BFAAC agrees with the City Manager's recommendation that if additional revenue were to be raised by increasing the real estate tax by one penny, additional revenue should go towards paying down debt service on the CIP in FY 2027. Doing so would have additional benefits beyond FY 2027, as future projections have the City coming uncomfortably close to the 2.5% ceiling on debt as a percentage of fair market real property value, a guardrail that enables the City to withstand possible future economic downturns and continue to meet its debt obligations. BFAAC recognizes there are other needs that remain unaddressed in the proposed FY 2027 budget, and doing so would require appropriate messaging for the community. However, this recommendation is consistent with BFAAC's historical position on the importance of addressing the growing cost of previously approved capital projects.
- The BFAAC applauds the recent joint City-ACPS staff work in developing a process to update its Long-Range Educational Facilities Plan (LREFP). Proactively addressing CIP planning is critical, as are efforts to do this in a partnership between City and Schools.

THE ROLE OF STATE FUNDING POLICIES ON LOCAL FISCAL PRESSURES

There is a growing community awareness of the impact of State funding and fiscal policies on our local resources. This is particularly acute with respect to school funding but applies broadly across the City's entire budget. BFAAC continues to encourage Council to focus on the importance of a proactive and coordinated fiscal legislative agenda in cooperation with ACPS and regional partners. Council should build on [this year's legislative strategy](#) that advocated for both greater State revenue and changes to State fiscal policies that disadvantage Alexandria and its Northern Virginia neighbors.

State revenue and policy opportunities that should continue to be prioritized include:

- Schools or education related funding - Continue to advocate for the state to fund the true cost of K-12 public education (i.e., JLARC, Cost of Competing Adjustment (COCA), Local Composite Index recalculation, etc.) and ensure standards for school construction, maintenance, and operations reflect the realities of each locality and provide equitable access to funding.
- Continue advocating for increasing the state's share of funding for employees in our health department, courts, Clerk of the Circuit Court, Sheriff's Office, and the Commonwealth's Attorney, whose vital services are required by the state, but underfunded by nearly \$40 million per year in Alexandria due to outdated funding formulas that do not consider cost of living differences.

In addition, future Legislative packages could dive deeper into the following issues:

- For both City and Schools, revising State norms for staffing that the City traditionally exceeds (i.e., Standards of Quality). The City should quantify for the State how it exceeds the minimum standards for these positions and the positive outcomes that result from adequately funding them.
- Conveying a deeper understanding that some State support creates additional City financial burdens (i.e., a State bonus for teachers still may require a City match, and City may be entirely responsible for bonuses for staff that exceed State minimums if there is a wish to distribute equitably to all staff)
- Advocating for a greater direct investment by the State in City and Schools operations (i.e., at-risk add on funding.)

RECOMMENDATION: MEMO ON ACPS FUNDING APPROACH

On March 10, 2026, Council passed a resolution of intent to appropriate funding to Alexandria City Public Schools (ACPS) from the current lump-sum approach to a classification-based approach as delineated by the Code of Virginia § 22.1-115 beginning in fiscal year 2028. As the Mayor suggested in her remarks introducing the resolution, BFAAC may be able to play a helpful role in providing an objective overview and analysis of this proposal to promote broader community understanding of its implications, including:

- Outlining the objectives Council is trying to achieve through this process change
- Delineating the practical implications of this approach for the budget process, including the staff resources required to implement it
- Researching if other jurisdictions have shifted to this type of funding approach
- Exploration of history of Council using this type of approach to appropriate ACPS funding
- Recommending a process for Council and the School Board to work together to collectively implement this new process.

We look forward to Council's reactions to this proposal and if in agreement, thoughts on the most appropriate timeline for work product delivery as the resolution proposes to begin this new process for the FY 2028 budget.

RECOMMENDATION: MEMO ON CITY DEBT POLICY

In April 2017, BFAAC presented a [memo to Council](#) reviewing its then-current debt service policies. The memo included a survey of other AAA/Aaa jurisdictional debt policies with an eye towards assessing where Alexandria's policies stood in comparison. In light of the significant impact this issue plays in our current fiscal environment, BFAAC believes that after almost 10

years, the time may be appropriate to review this past research to inform Council of alternate approaches and, if appropriate, present recommendations for any adjustments to current City policy. We look forward to Council's reactions to this proposal and, if in agreement, thoughts on the most appropriate timeline for work product delivery.

PREVIEW: BFAAC MEMO #4: BUDGET FRAMEWORK

BFAAC is currently working on its Memo #4. We'd like to use this opportunity to preview our current thinking on the substance of the memo to ensure it will meet Council expectations and needs:

- The BFAAC researched several sources on best practices on budget development, such as the Government Finance Officers Association's "Rethinking Budgeting" curriculum and concluded that Alexandria is currently implementing most of the best practices identified. Council has a set of priorities that guide budget development, has an excellent working relationship with OMB, and has developed a process that fosters an environment for making wise budget decisions.
- However, the concern over how to more efficiently make budget decisions persists. BFAAC believes that while the Council's decision-making framework is sound, the decision-making process may be made easier by understanding the underlying alignment challenges:
 - Strategic Alignment: While Council has a set of strategic priorities, each Council member has their own individual priorities, which may not be static. The decision-making process might be facilitated by Council members having an understanding of the differences between their collective strategic priorities and the individual priorities each Council member may bring into that year's budget process to facilitate candid discussion throughout its budget deliberations.
 - Decision Alignment: For most of the budget, there is likely general agreement on and among Council priorities. However, for a limited set of the most difficult budget decisions, hard choices will sometimes have to be made. Here, a priority-based decision-making budget exercise might be helpful to gain consensus on how to choose among those priorities.
 - Communication Alignment: The City already does an excellent job in communicating budget information. These efforts should be expanded and should incorporate the Council's strategic priorities and its process for making difficult choices to promote both a deeper understanding among community members and more consistent messaging.

- BFAAC is exploring tools that might be available to serve as models to facilitate alignment. One promising example, BFAAC has learned of is a model that accomplishes many of these goals used by the City of Tempe, Arizona. Its structured prioritization exercise called Strategic Targeted Alignment & Resource Tool (START) provides early policy directions before the annual budget is developed. START is designed to connect council priorities, performance measures, and budget decisions in a transparent, performance-led budgeting framework.
 - Council members participate in a structured exercise in which they individually rate strategic priorities and also develop a collective ranking of priorities before that year's budget development process.
 - Importantly, the START exercise does not directly allocate funding. The results provide early strategic guidance to staff about which outcomes and performance measures are most important to Council members and can be revisited once budget deliberations commence.
 - This process could also be paired with a parallel exercise for community members, allowing council members a picture of the community's priorities while simultaneously educating the public on the tradeoffs necessary in the budget process.
- BFAAC is also exploring examples of how local governments are incorporating emerging technologies such as generative AI into their budget processes. Use cases include data analysis and pattern detection, forecasting and budget projections, spending prioritization and resource allocation, policy scenario modeling, financial monitoring and accountability, risk detection and early warning. We will also be exploring guardrails and ethical AI policies that guide AI use in the public setting, as well as costs, benefits, and how AI pilots and enterprise rollouts are being balanced against other priorities in a constrained fiscal environment.

Please let us know if this approach fulfills the brief given to the BFAAC regarding budget decision-making and/or if there are any of these areas you would like to see the BFAAC explore further.

CONCLUSION

BFAAC thanks Council for this opportunity to share its observations about the proposed Fiscal Year 2027 budget and looks forward to discussion during the March 25, 2025 Work Session.