Budget Outlook

By nearly all measures, the City's economy is healthy and growing. As of June 1999, the City's unemployment rate was 2.5%, compared to the State's rate of 3.2%, and the national rate of 4.5%. The City's monthly unemployment rate consistently has remained approximately twice as low as the National rate. The number of jobs in the City, at 87,424, has hit the highest point in the City's history with many of those new jobs in the high-tech arena. New commercial construction in the City is trending ahead of last year through the first quarter of 1999, and both the number of residential properties sold in the City and the average price for residential property (including new residential construction) have increased compared to last year.

While the City's current revenue projections assume that the real property tax base will continue to grow in the near future, the fundamental challenge for the City is that our projected revenue growth will not provide sufficient new revenues to fund all of the City's expenditure demands, particularly in light of looming additional capital funding requests, such as up to $21 million to address middle school capacity issues in the Alexandria City Public Schools.

Much of the projected new revenue growth in FY 2001 already has been earmarked to fund the additional operating budget costs that will result from current projects, such as the new elementary school, the new Charles E. Beatley, Jr. Library, and the increased costs for repayment of the principal and interest on the new borrowing the City has undertaken to fund capital projects. As a result of these additional immediate expenditure demands, City Council will face significant challenges in the coming year to identify funding sources for other new initiatives, such as expanded capital improvement program funding for the Schools and for other City operating and capital projects.

Located in the West End, Landmark Mall is the City's major retail shopping center. Retail sales for CY 1999 increased 6%, on top of a 7% increase in CY 1998.

Local Government Revenue Long Term Issues

The City remains heavily dependent on the tax on the value of real property for the majority of the revenue necessary to finance local government services, with real property tax revenues currently providing 47% of the local revenue used for City and School services. Despite the new construction that has occurred over the last decade, our real property tax base has grown by less than one-half of 1% since 1991. This is because the drop in values in the 1990s was so large that it took five years of growth in the late 1990s just to gain this small overall net growth of less than one-half of 1%. The stagnation in existing real estate values during most of the 1990s has focused attention on the role new commercial and residential growth plays in sustaining the fiscal health of the City.

As a small City of less than 16 square miles that is almost entirely developed, Alexandria has limited opportunities to count on a growing real property tax base to help address the City’s future funding needs. Development decisions that are made in the near future, with regard to key vacant land sites — the Carlyle site and Potomac Yard, in particular — will have long term impacts on the fiscal health of the City and the expansion of the City’s tax base. While the potential revenue from new development may be significant, it is important to note that it will take many years before the City actually reaps the benefits. Full build-out at Potomac Yard, for example, is estimated to take up to 20 years. As a result, the development decisions facing City Council at this time are key to the future economic health of the City, but will do little to alleviate immediate funding pressures for the FY 2001 budget.

In addition, depending upon the outcome of State legislative initiatives, the City’s revenue base could be impacted more immediately. The Virginia General Assembly has approved a study of the State and local tax structure, and the relationship between State and local taxing authority and service responsibilities. Although this study is not yet underway, proposals have been discussed by State elected officials that could limit local taxing authority, but no offsetting reduction in local service responsibilities has accompanied these early tax relief discussions at the State level. It remains unclear at this time whether the State would forward new State aid to localities to compensate localities for lost revenues under some of the proposals. Also, there are proposals to share State income tax revenues with localities as a way of diversifying local revenue sources.

In July, Washington Real Estate Investment Trust completed a $2.2 million renovation of Bradlee Shopping Center. The shopping center features several new tenants, including the Washington Sports Club and Chicken Out.

Capital Improvement Program Issues

With the City’s current plans to borrow an additional $80 million by FY 2003 for capital projects, maintaining the Aaa/AAA ratings from Moody’s and Standard & Poors is important to ensure that the City is able to borrow this money at the lowest possible interest rate. While additional borrowing is necessary to finance the current $118 million program of capital projects for the City and the Schools, repayment of this new debt will have a significant impact on future annual operating budgets. As a result of additional borrowing already planned, the projected annual cost for debt service payments will increase from $8.9 million in FY 2000 to approximately $14.6 million in the FY 2004 budget.

However, the current $118 million six-year capital program leaves unfunded many projects that have been requested or discussed by the community. The largest of these unfunded projects is the School Board’s request for $21 million to address capacity issues at the City’s two middle schools, but many other unfunded costly capital projects also have been discussed in recent months, including transportation improvements to the Monroe Avenue Bridge on U.S. Route 1; a new community center at Cameron Station; a new Visitor Center; renovations to aging City facilities, including the Health Department; infrastructure maintenance, including sewer systems; capital costs for transit — both the City’s local bus system, DASH and the regional Metro bus and rail systems.

With the City already embarking on more borrowing for capital projects than it has in more than a decade, the City and the Schools must prioritize capital requests to ensure that the City is able to abide by the City’s adopted financial policies, as well as manage the annual increasing cost to repay this debt from future operating budgets. The City simply cannot afford to fund all of the capital requests within a six-year time frame and, as a result, some projects will need to be deferred or phased into the capital program over a longer time frame to ensure that available funding sources are targeted toward essential maintenance and infrastructure needs.

Another strategy to consider for funding capital projects is to aggressively pursue non-City sources of funding, including federal and State aid for capital projects, grants and private funding. The City is currently considering a City-sponsored development office that may be able to assist with pursuing private support for capital projects, perhaps in exchange for naming opportunities; however, this effort may require a longer start-up period before it becomes effective in helping the City meet its capital needs.

Given the longer time frames that may be required to address all of the capital requests, the City Council will need to review carefully the costs and benefits of pursuing continuing periodic bond issuance after FY 2004. Any additional borrowing will need to be accommodated within the financial policy debt ratios so that additional debt service would not burden future operating budgets. This approach would require a sound presentation to the municipal credit rating agencies, ensuring that the City’s tax base can sustain additional tax-supported debt and that the City can manage an increased overall debt burden, ultimately maintaining the City’s bond ratings.

The Pride II of Baltimore, Maryland's goodwill ambassador, is the only existing example of an 1812-era Baltimore Clipper Topsail Schooner. The schooner was on display at Alexandria's Founder's Park in May. Attractions like these play an important role in drawing tourists to Alexandria.