

Budget and Fiscal Affairs Advisory Committee
City Hall Room #3008
August 25, 2015

Present: Dak Hardwick, Jean Sun Kim, Patrice Linehan, Skip McGinniss, John Renner (BFAAC Chair), Clarence Tong, Mike Wenk
City Staff: Morgan Routt, Alex Braden, Whitney Harris

Budget Advisory Committee Guests: Steven Berbeco, Michael Brookbank, Michael Carrasco, Gina Gargano-Amari, Patrice Linehan (also BFAAC member), Eric Williams
ACPS Staff: Andrew Hullinger

OMB Report – Morgan Routt

- Gearing up for FY 17 budget
- Internal process of preparing the budget is underway
- In the process of developing the plan with senior staff
- Civic engagement component expected to be expanded in the summer

When residents received the report of their property tax, there was a breakdown of how much of the payment went to each of the major focus areas of spending in the City. A question was asked about how the City determined the categories that were displayed as part of this reporting process. For example, ACPS falls under the “Healthy and Thriving Residents” focus area for the City, but it was not factored in with the other spending toward this goal. The staff clarified that the budget reporting categories generally correspond to the main areas of spending paid for through the collection of property taxes.

Ranking of CIP projects – Some of the members asked questions about priority ranking and the influence that the Council has in adding or suggesting changes to the CIP ranking. Staff responded that the City has strategic goals and outcomes and it is easier to determine some of the projects in a more quantitative way than others, which may require more description or have interim goals that are not always as easy to link to outcomes.

There was some general discussion of changes that have occurred to the CIP, and examples that demonstrated the link between the CIP and general fund spending (e.g., staffing connected to a CIP decision).

The participants tabled any further in-depth discussion on the CIP in order to welcome members of the Budget Advisory Committee who attended the meeting as guests.

The Chair described the composition of the BFAAC Committee:
2 members designated by the Chamber Of Commerce
3 citizen representatives, described as members-at-large

1 member designated by the Alexandria School Board
7 members appointed by each member of the Council

BFAAC is an independent body that sets the direction for the work and has independent decision-making authority. The Chair outlined some of the main activities of BFAAC:

- Inform the budget process and how it's developed
- Look into the budget and make recommendations to Council
- Submit reports; Prepared 3 reports last year
- Attend work session with Council
- Review the ACPS as a part of the larger budget
- Look at the budget in relation to other major City initiatives – e.g., *Results Alexandria*, which encourages the use of model performance measures

BFAAC structures the reports around three major sections:

- Operations
- Revenue
- CIP

A major role of BFAAC is paying attention to how the City is spending money and how it's raising money. As a City, we spend a lot of time looking at the way the City spends money, but far less time thinking about how the City generates revenue. The City has lots of expenditures, such as public safety, schools and the Capital Improvement Program (CIP). So, we try to look for synergy in the budget process (e.g., schools and general services) and make suggestions to the Council. This leads to some real changes sometimes. *Results Alexandria* is a good example because the application of performance measures allows for an evaluation of the expenditure. Through the work of the committee, we learned:

- Only 65 percent of the budget was using *Results Alexandria*
- 35 percent of the budget does not report to the City Manager

Since much of the budget authority falls outside of the City Manager, the City needs to ask the question: How do we get better results without using the *Results Alexandria*?

While every entity that is funded by the City may not use the same mechanism for evaluating the results of our investments, there should be some way of measuring performance. Alexandria City Public Schools, the Sheriff's Department, Washington Area Metropolitan Transit Authority (WMATA) and other sources of funding are all expenditures that fall outside of the City Manager's authority but receive City funding. So, it will be important to come to agreement on how we can measure the results of these investments in order to make better budget decisions.

Some of the funding entities are accountable to federal, regional and/or state agencies, and have to submit a number of reports on the results of their spending. For example, the schools are accountable to the state and have to submit increasingly detailed evaluation reports despite declining state investments in schools over the years.

In response to BFAAC input on the budget process, the City also started using more graphics and flow charts to make it easier to convey important information. Strategic Planning is another area the committee has influenced, along with considering long-range expenditures. These topics are inter-related. The focus on performance measures through Results Alexandria has the potential to inform long-range planning and make corrections along the way based on evaluation data. Some budget topics have had more visibility than others, such as transportation (e.g., WMATA and DASH), but BFAAC tries to consider a broad range of issues over time.

The City released a 5-year Financial Plan that clearly demonstrates that we cannot continue to operate at current spending if revenue remains stagnant. Over the next 5 years, there will need to be a tax increase or reduction of existing service levels unless the City can raise revenue through other sources (e.g., commercial growth, increased density). One of the BAC members noted that long range financial planning can be especially difficult for the school system because the City's criteria for allocating funds is not clear. The allocation can change from one year to the next without a clear understanding of how the City Manager decided on the amount dedicated to schools. There was some discussion about how funds could be allocated to the schools:

- ACPS could receive a specific percentage
- There could be a set increase across the board
- The City could allocate funds based on the major budget areas outlined in state policy
- Provide a range of funding tied to a particular criteria
 - If we don't have a solid number because of a lag in data, or difficulty validating projections, we could consider a funding range.
 - If you go with the lower number this is what will happen [to services] and if you go with the higher number than it will be a different situation [based on the results of specific service levels].

Funding alternatives can be discussed but the staff would have to prepare the proposals and present them to the City and Board before the committee members comment on the various options.

Scheduling is an important consideration in how budget decisions are made.

- 95 percent of the funding decisions are made in the fall (e.g., tax rate increase, City priorities the Council wants to address, department input)

- Revenue projections take place around October or November
- Priorities have to be announced by the School Board

City and ACPS leaders have done some initial work exploring budget decision points and talking about the implications (e.g., timing, joint planning, integration of budgets, public input). ACPS leaders have made adjustments to the budget calendar in order to be responsive to the City budget process. For example, the school CIP planning and budget process is starting much earlier than it has in the past. However, the budget calendar conversation has been fairly one-sided, based on the City perspective. The conversations are often limited to the CIP, without consideration for the way the operating budget contributes to overall City goals. There are some similarities between the City and ACPS in terms of cost-drivers, such as personnel and the need to attract and retain quality staff in a competitive region.

A point was made that the City has many different budget items to consider, and BFAAC doesn't just worry about the schools. BFAAC's biggest push for years has been expanding the base. The City needs to expand the base and attract positive business development in order to raise the capital needed to meet City goals.

Participants agreed that the five-year financial plan provided a good place to start a deeper conversation about the long-term outlook for the City. From the BAC perspective, the City's five-year financial forecast leaves some unanswered questions related to the City's commitment to education. The City's five-year forecast only considers growing enrollment projections and current services. It does not include adjustments related to the rising costs of personnel (e.g., compensation increases). The ACPS budget staff is going to present a five-year fiscal forecast at an upcoming Board meeting, which could provide a good opportunity for the City and ACPS to review the two financial documents in a more holistic way. Together, they might find some more creative ways to deal with the projected budget shortfalls.

The meeting participants added some brief comments about personnel topics that have been discussed jointly in the past (e.g., Compensation, Health Care, Benefits).

Some of the budget topics related to personnel are similar (e.g., staff retention in competitive region, cost of living in Alexandria) and some are different (e.g., type of jobs, benefits and career ladders). The participants realized that there could be some opportunities to learn together. The schools may want to present some information about the ACPS budget process and content, which can be discussed further once the Board votes on the BAC scope of work.

Some BFAAC members said they would like to learn more about the structure of BAC and the way the City and School leaders interact in relation to the budget process:

- Not sure how independently BAC operates

- How do you advise the Board?
- Is there a focus on early planning and leveraging key points in the budget process?
- It would be helpful to understand where the budget drivers intersect
- Looking at the CIP together earlier in the process might surface and eliminate problems earlier (e.g., Patrick Henry CIP plans involving the Recreation Division and ACPS)
- There needs to be more attention to generating revenue (e.g., City and School partnering on grants; Business leaders and school leaders working together)

With limited space for development, the CIP will be one of the biggest budget issues in the future. Patrick Henry is the last piece of land that is owned by the city and schools. So, land use and development issues are a potential area of collaboration that could benefit both groups. The early exploration of Alexandria and Arlington on aquatics is a regional example of joint benefit, and demonstrates the City's openness to seeking creative CIP solutions. As the value of land goes up, development in other areas of the City could become contentious unless we begin to plan now and engage the public in the process (e.g., implementing Alexandria's Public Engagement process in Eisenhower West, etc.)

The participants generated some ideas about how City and school assets could complement one another. And, the CIP topic led to a brief but lively discussion about treating all building, including school buildings, as community assets.

- All constituents should encourage the City to expand the base
- The City and schools could expand services into the community (e.g., childcare, preschool or out of school time services in empty commercial space)
- Patent and Trade Office (PTO) revenue generation is equivalent to 5 cents in taxes
- Attracting a large agency like PTO could lead to \$25 million over 15 years
- Increasing the revenue base allows the City to invest more in schools
- Advocates for the schools should be promoting more business revenue or commercial revenue in order to fund any budget increases they seek
- The schools benefit the business community because Alexandria needs an educated workforce and well-paid workers support local business
- City career clusters for attracting business aligned with the goals of the strategic plan and ACPS career paths
- Superintendent's Business Round Table and Chamber of Commerce, etc.

In the last budget cycle, funding for schools was tied to enrollment. If ACPS presents a solid justification about the needs of the schools, the public will likely entertain one or two cents more in property taxes to fund the schools. However, there should be no "surprises" at the end of the budget cycle, meaning ACPS leaders should not request additional funding late in the process. It is important to have clear picture of the need from the beginning. This is an important part of the trust-building process

and it [clarity in expressing the budget needs and confidence in budget projections] cannot be underestimated. The topic of building trust between the City and schools stimulated some comments and questions:

- Only 12 percent of the families in Alexandria have school age children
- A portion of the 12 percent send their children to public schools and others attend private schools
- How can ACPS make our budget more accessible to the general public, especially given the fact that many do not have a direct connection to ACPS?
- Public education about the City and ACPS budgets relates back to the setting of the tax rate (e.g., education is needed; no surprises late in the process)
- There is too much emphasis on the “add/delete process” at the end of the budget cycle, when there is very little flexibility
- Transparency of the add/delete process is important but the add/delete process is not very helpful in a strategic sense (i.e., long-range, joint planning earlier in the process is more productive from a strategic perspective)
- It changes the budget base for the next year, when ACPS decides to build something new [in the CIP planning].

There is a population growth and we will need more resources to address growing enrollment, both in terms of the building infrastructure and staffing requirements. In this regard, ACPS supporters may be the victims of their own success. A BAC member noted that programmatic committees oversee a lot of the program components of the plans. For example, there are state-mandated advisory committees that work with ACPS on programmatic considerations (e.g., Special Education, Talented and Gifted, Career and Technical Education, Health and Wellness). There are also state-[mandated funding requirements](#), such as the local cost sharing that is determined based on the local jurisdiction’s ability to pay. So, staffing requirements for the City of Alexandria are comparatively high in relation to other areas of the commonwealth (see Virginia Department of Education’s [Standards of Quality](#) and [School Board Compliance Reporting](#) for more detailed information.)

At the end of the meeting, participants agreed to go back to their full committee and discuss next steps.

The meeting was adjourned at 8:35pm.