
MEMORANDUM

Date: November 20, 2024
TO: THE HONORABLE MAYOR AND MEMBERS OF CITY COUNCIL
FROM: BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)
SUBJECT: MEMO #2 – BFAAC FY 2026 BUDGET GUIDANCE

As Council develops its budget guidance for FY 2026, BFAAC encourages Council, especially our newest Councilmembers, to include both previously recommended and contemporaneous guidance from various sources to prepare for this upcoming budget cycle. The City has a long history of prudent fiscal management,ⁱ a focus on strategic growth,ⁱⁱ identifying sustainable revenue sources and continuous revenue review,ⁱⁱⁱ balancing immediate impacts with long term needs,^{iv} and prudent decision-making. Moreover, understanding the challenges faced and reasoning behind specific budget decisions can help inform future decisions. BFAAC always strongly encourages Council to look to staff for their expert advice and data-driven approach to developing a balanced budget,^v and to continue to working closely with the City Manager regarding revenue sources for the budget.^{vi} BFAAC also recognizes and appreciates that balancing the budget, especially in years with revenue deficits, requires tough decisions, and encourages Council to use its available resources to make the best possible decisions.

To that end, BFAAC shares the following for consideration:

Conferring Institutional Knowledge and Previous Recommendations to Council

BFAAC recently completed a retrospective survey of the past twelve years of memos and recommendations to Council. In summary, over that period we have made over 200 total recommendations. There are four consistent themes that surfaced across these memos that we want to highlight to Council as it considers the FY 2026 Budget. The consistency of this message demonstrates that each Council faces persistent, strategic challenges that require sustained focus and attention across budget cycles.¹

¹ Other recommendation topics mentioned frequently either in the annual guidance, response, and joint BFAAC/BAC memos or in specific topic memos included: employee compensation, collective bargaining, resource management, benefits; community engagement; pandemic response; debt policy and bonds; public/private partnerships; state/federal funding; transportation; tax and fee assessment; uncommitted fund balances; and affordable housing.

1. Supporting Long-Term Revenue Growth, Diversification, and Economic Development (“**Revenue Planning & Diversification**”)
2. Capital Improvement Program Management and Affordability (“**CIP Affordability**”)
3. City & ACPS Coordination on Budget and Capital Planning (“**City/ACPS Coordination**”)
4. Flexible and Outcome-Based Budget Guidance (“**Budget Guidance Flexibility**”)

The following three tables summarize the common themes across the three memos that BFAAC regularly provides Council each fiscal year:

- a) BFAAC’s Annual Fall Budget Guidance Memo
- b) BFAAC’s Annual Spring Budget Response Memo
- c) BFAAC/BAC’s Joint Recommendation Memos on City & ACPS-related issues

The complete memos and associated recommendations are available on BFAAC’s website: <https://www.alexandriava.gov/BFAAC>

BFAAC’s Annual Fall Budget Guidance Memo Recommendations		
Topic	Recommendation Details	Referenced Fiscal Years
Revenue Planning & Diversification	The recommendations often suggest exploring new revenue sources and diversifying the City's revenue base to reduce dependency on residential taxes. Strategies include supporting commercial development and leveraging city assets.	2024, 2023, 2021, 2020, 2019, 2018, 2016
Budget Guidance Flexibility	BFAAC frequently emphasizes providing the City Manager with flexibility in budget development while focusing on broad policy outcomes rather than specific directives. This approach allows the Manager to propose various options that align with strategic goals.	2025, 2024, 2021, 2020, 2019, 2018, 2017
City/ACPS Coordination	Enhancing collaboration between the City and ACPS is a recurring recommendation, focusing on budget alignment, shared resources, and synchronized planning for both operating and capital budgets.	2025, 2023, 2022, 2020, 2019, 2018, 2017

BFAAC's Annual Spring Budget Response Memo Recommendations		
Topic	Recommendation Details	Referenced Fiscal Years
Revenue Planning & Diversification	This recommendation, focused on broadening the city's revenue base beyond residential taxes, is noted frequently. Specific suggestions include developing a long-term revenue plan, supporting commercial development, and exploring alternative revenue streams.	2025, 2024, 2023, 2022, 2020, 2019, 2017, 2016, 2015, 2014
CIP Affordability	Emphasizing efficient management, prioritization of projects, and maintaining financial stability in the CIP is a recurring theme. BFAAC often advises deferring early-stage projects, ensuring project transparency, and considering tax adjustments to support debt from CIP investments.	2025, 2024, 2023, 2022, 2020, 2019, 2017, 2016, 2015, 2014
City/ACPS Coordination	Improved coordination between the City Council and ACPS is frequently recommended, particularly for budgeting and capital planning. BFAAC suggests joint discussions and aligning budget timelines for better collaboration.	2025, 2023, 2022, 2020, 2017, 2016, 2015, 2014

Joint BFAAC/BAC Memo Recommendations		
Topic	Recommendation Details	Referenced Fiscal Years
Revenue Planning & Diversification	The recommendations underscore the need for a long-term revenue plan to support school and City projects, emphasizing the importance of financial sustainability and realistic budget planning for joint capital expenditures.	2025, 2024, 2023, 2022, 2020, 2019, 2017, 2016, 2015, 2014
CIP Affordability	There is a strong emphasis on joint planning and shared capital improvement efforts, advocating for a synchronized approach to CIP, project prioritization, and maximizing shared use of facilities.	2024, 2023, 2021, 2020, 2019, 2018
City/ACPS Coordination	Recommendations frequently encourage empowering staff from both City and ACPS to promote cross-functional projects, enhance service delivery, and optimize resource utilization, particularly for projects like shared transportation and facilities maintenance.	2024, 2023, 2021, 2020, 2019

FY 2026 SPECIFIC BUDGET GUIDANCE

Consistent with our recommended guidance last year, we continue to emphasize the importance of Council's focus on three areas:

- CIP Funding Shortfall
- Personnel & Compensation
- Continued Engagement Between City and Schools Leaders

CIP SHORTFALL

The Council continues to face 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 market challenges, including higher interest rates and inflation have added to the complexity, and anticipated downward pressure on commercial and residential real estate values could create further constraints in the future.

Last year, we recommended that the City Manager include an analysis of various revenue scenarios and the levers available to the City, such as use of cash capital and debt/borrowing strategies, to address potential projected shortfalls, which was included in the budget and used throughout the process. We recommend a similar analysis be performed for this year's budget, especially as the affordability of the long-term capital investment program continues to be of primary concern to BFAAC.

BFAAC appreciates that in the City Manager's September 25, 2024 letter to ACPS and in similar guidance issued to City departments, he has proposed several actions BFAAC has previously recommended be considered, including:

- Making specific funding level recommendations by year according to realistic affordability projections;
- Deferring, spreading out and/or canceling planned CIP projects to keep costs within those annual funding recommendations; and
- Aligning City and ACPS plans to reduce stacking of major projects in the same fiscal years to "smooth out" the CIP cost curve.

BFAAC encourages Council to continue this analysis through the budget process by:

- Asking 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.
- Asking 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

BFAAC continues to highlight the need for Alexandria to remain competitive with compensation amongst its peers in Northern Virginia and the region. We recognize Council made this a priority by including the step increase and 2.0% market rate adjustment increase to pay scales for non-collectively bargained City employees, as well as funding to complete cyclical classification analysis across the organization on a regular basis in the approved FY 2025 Budget.^{vii}

These actions reflect the City's commitment to talent retention, but BFAAC asks that Council remain vigilant and consistent to address sustained competitiveness, especially in comparison to its neighbors. Council should keep in mind the uncertainty of pending collective bargaining with ACPS or other potential eligible but not-yet-organized bargaining units. 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,^{viii} talent attraction and retention for ACPS positions outside of the collective bargaining process remains challenging.^{ix} 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 and provide sufficient funding over the long-term to manage internal processes, including reclassification, to support such efforts.

CONTINUED ENGAGEMENT BETWEEN CITY AND SCHOOLS LEADERS

As noted above, a consistent BFAAC theme is open communication and close coordination between City and Schools. Several recent developments should set the stage for a productive budget dialogue between the bodies:

- The City Manager provided specific guidance in his September 2024 letter to the Superintendent to inform joint budget conversations, including the level of funding that he believes can likely be provided to ACPS in his proposed operating and CIP budgets.
- Staff developed a unified budget calendar infographic, building on a shared desire for more coordinated messaging on the City and Schools respective roles in budget development to promote community understanding.
- City and Schools leaders have recently modeled productive, data-driven dialogue around ACPS capacity needs, particularly with respect to middle school.

We expect City and Schools leaders to face a series of difficult conversations and hard choices on how to square the Schools' anticipated budget needs on both the capacity and operating side with the City's limited projected financial capacity to meet them. The community will expect our elected leaders to approach this joint work together in the productive manner described above - looking at the data, understanding the tradeoffs, setting

priorities, providing clear and specific guidance, and using shared guiding principles to navigate the choices together in a fiscally responsible manner.

Capital Improvement:

- In his budget guidance to ACPS, the City Manager stated that there “will be nearly no capacity to increase School capital investments beyond previously approved levels,” that the “Schools’ capital program should be maintained at existing or lower levels,” and directed against any new design/construction funding before FY2034.
- At the same time, ACPS’ upcoming redistricting effort, a renewed approach to middle school capacity, its ongoing assessment of enrollment trends, and the functional needs of its aging facilities,^x will continue to strain the City’s current capital and debt service capacity. Even with recently completed and planned capital investments, current and projected capacity utilization rates at many ACPS schools hover close to or above a suboptimal 100%.^{xi}
- This reality will lead to hard choices for our Schools and City leaders. The Superintendent’s Proposed FY25-FY35 CIP budget reflects these demands and is in excess of the City Manager’s budget guidance, including projections for middle school capacity.

The upcoming Joint City-Schools CIP Work Session on November 25 will be the next in a series of opportunities for our elected leaders to face these challenges together. BFAAC urges City and Schools leaders to create a productive environment for these conversations:

- City and Schools leaders can work together to ensure that discussions are data-driven by framing the discussion around relevant inputs, such as enrollment data, educational specifications, K-8 analysis (including updated research on utilization rates), functional building assessments, debt service limits, etc.
- In an environment of diminished financial capacity, choices and tradeoffs should be clear to our elected leaders and to the community, who will be observing these discussions in real time. Priority setting will be required to ensure these choices are clear to both Schools and then City leaders throughout the budget process.
- Decisions should be made in the context of the City’s long-term planning efforts. City and Schools leaders (especially ones new to their roles) might benefit from a reorientation to guiding documents created to help our leaders navigate priority-setting around city-wide capital investments and the inputs that drive decision-making: the Joint City-ACPS Facilities Master Plan (incl. October 2022 joint meeting presentation and roadmap), the work of the Ad Hoc Joint City-Schools Facility Investment Task Force (final report issued in 2018), and the Joint ACPS/City Long Range Educational Facilities Plan (adopted in 2018). Longer term, BFAAC and BAC could potentially play a role in reviewing these guiding documents to assess the need for cyclical review and to ensure they are effective tools for City and Schools leaders.

Operating Budget:

- In his budget guidance to ACPS and “in light of low anticipated revenue growth,” the City Manager asked ACPS to “limit funding increases to no more than two percent over the current budget” and to “evaluate existing base budgets to find efficiencies (1% of base) that can create some future savings.”
- In past years, a comparable increase has been insufficient to meet the Board’s proposed investment in staff compensation, which constitutes the vast majority of its operating budget, let alone other programming needs beyond staffing – leading to requests beyond the budget guidance.
- As discussed above, the City faces similar staffing pressures and the same desire to stay competitive in the market.
- City and Schools leaders should build on these shared goals and not delay discussions around pay philosophies and the foreseeable realities of the current budget environment in order to avoid surprises during the height of the budget season.
- City and Schools leaders must also anticipate the budget implications of ACPS collective bargaining efforts. As the ultimate appropriator, defining a productive role for the City to play in the Schools’ collective bargaining process is critical to supporting joint budget planning. BFAAC urges City and Schools leaders to come together, and right away, to set parameters for the City’s role in ACPS’ bargaining process to ensure full coordination, potentially learning from past City involvement in other bargaining efforts like DASH.

CONCLUSION

BFAAC recognizes and appreciates the challenges City Council faces during this budget process (and every budget process). We look forward to discussing our guidance at the Budget Retreat.

ⁱ FY 2016: BFAAC encouraged the Council to educate the community that the budget is a means to fulfill the City's Strategic Plan and not an end in itself. FY 2022: BFAAC highlighted the necessity of prudent fiscal management to ensure the success of Alexandria's recovery and long-term growth. FY 2016: The Committee urged a focus on aligning the budget with Alexandria's Strategic Plan, prioritizing essential services and infrastructure. FY 2019: BFAAC emphasized the importance of strategic cuts, ensuring non-essential services that do not align with Council priorities are addressed.

ⁱⁱ In our FY 2017 Budget Guidance Recommendations, BFAAC highlighted the need for strategic investments: "BFAAC encourages Council to consider all options to plan and fund the Alexandria City recovery... BFAAC supports providing maximum flexibility to the City Manager regarding revenue sources for the budget." In our FY 2020 memo, "BFAAC encourages Council to be alert to long term revenue needed to fund our operating budgets as well as the significant capital projects needed to modernize and add needed capacity to the City's infrastructure." In FY 2021, BFAAC's Budget Guidance Recommendations highlighted the need for strategic investments: "BFAAC encourages Council to consider all options to plan and fund the Alexandria City recovery... BFAAC supports providing maximum flexibility to the City Manager regarding revenue sources for the budget."

ⁱⁱⁱ As discussed in our FY 2017 report, BFAAC believes a Revenue Master Plan framework can be devised that establishes an actionable, agile, long-term revenue strategy and implementation roadmap, with outcome-based metrics.

^{iv} FY 2018 memo: "BFAAC encourages Council to be alert to long term revenue needed to fund our operating budgets as well as the significant capital projects needed to modernize and add needed capacity to the City's infrastructure." FY 2020 Budget Guidance Recommendations, BFAAC emphasized sustainable growth over temporary fixes: "BFAAC recommends that the City consider providing resources to AEDP to commission external experts to develop strategies for a thriving, vibrant workforce, and business environment." In our FY 2021 memo, BFAAC discussed the necessity of addressing both short-term challenges and long-term objectives: "BFAAC encourages Council to be alert to long term revenue needed to fund our operating budgets as well as the significant capital projects needed to modernize and add needed capacity to the City's infrastructure." We have also discussed the necessity of addressing both short-term challenges and long-term objectives. In our FY 2023 Budget Guidance Recommendations, we noted: "BFAAC encourages Council to be alert to long term revenue needed to fund our operating budgets as well as the significant capital projects needed to modernize and add needed capacity to the City's infrastructure."

^v BFAAC has highlighted the need for scenario planning and data-informed choices. In our FY 2022 Budget Guidance Recommendations, we noted: "BFAAC continues to support Priority Based Budgeting and encourages analyzing how effective our budget execution has been in the past."

^{vi} In our FY 2022 Budget Guidance Recommendations, we recommended: "BFAAC encourages Council to consider all options to plan and fund the Alexandria City recovery...BFAAC supports providing maximum flexibility to the City Manager regarding revenue sources for the budget."

^{vii} City of Alexandria, Approved Budget-in-Brief, https://www.alexandriava.gov/sites/default/files/2024-06/fy_2025_approved_budget_in_brief_v2.pdf

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

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

^x Page 11 of the [Superintendent's Proposed FY26-35 CIP Budget](#) shows that 11 of the 18 ACPS buildings shown are over 50 years old.

^{xi} The Appendix of the K-8 analysis discussed at a recent City-Schools Subcommittee meeting includes research on how the impact of overutilized schools even below 100% is felt academically and social-emotionally by students.