



OFFICE OF THE CITY MANAGER

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September 25, 2024

To Dr. Melanie Kay-Wyatt:  
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The purpose of this letter is to provide initial guidance on the level of funding that can likely be provided in the City Manager's Proposed FY 2026 Operating Budget and Proposed FY 2026 – FY 2035 Capital Improvement Program (CIP).

Revenue Forecast

The majority of the City's revenue is generated from the real estate tax base. In 2024, high interest rates and inflation contributed to a decline in the City's commercial tax base, which offset the residential growth rate and kept the City's tax base virtually flat. In 2025, limited inventory is expected to help push growth in the residential tax base, but the City will likely see further declines in the value of commercial properties, including office and multi-family properties. In addition, high inflation rates are tempering consumer spending, resulting in lower increases in sales tax and restaurant meals tax revenue. Finally, as interest rates are lowered, the City's revenue from interest on investments will decline significantly.

Operating Budget

In light of low anticipated revenue growth, my guidance to city depts, Alexandria City Public Schools (ACPS), and other agencies receiving city funding is to limit funding increases to **no more than two percent over the current budget** so that we may produce a responsible, sustainable budget in FY 2026. I am also requesting all departments and agencies funded by the City evaluate existing base budgets to find efficiencies (1% of base) that can create some future savings.

Capital Improvement Program

Over the last ten years, the City has significantly increased its use of debt financing for capital projects. This increase in debt has allowed the City and Schools to accomplish many critical projects, including the Minnie Howard High School and Douglas MacArthur Elementary School projects. Previously issued debt, along with debt amounts contemplated in the Approved FY

2025 – FY 2034 CIP has resulted in historically high levels of outstanding debt for the City. Current outstanding debt, along with forecasted issuances over the coming years will result in the utilization of almost all debt capacity allowed under the City Council's adopted debt management policies.

The significant amount of debt already planned, pressures in the operating budget that will hinder the ability to increase pay-as-you-go cash capital, and the need to address critical funding gaps in underway City capital projects, means there will be nearly no capacity to increase School capital investments beyond previously approved levels. City departments will be receiving similar guidance to what is provided below.

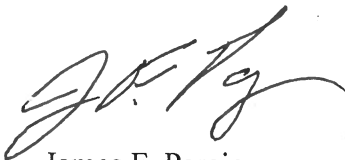
For the Proposed FY 2026 – FY 2035 CIP, the City is recommending the following guidance regarding the Schools' capital program:

1. Amounts included for FY 2026 – FY 2034 in the Approved FY 2025 – FY 2034 CIP for the Schools' capital program should be maintained at existing or lower levels (with the exception of guidance item #4 listed below).
2. If additions or cost increases are being considered in the School's CIP, this needs to be addressed via repurposing existing Schools' capital project balances and/or by reprioritizing within funding levels planned for upcoming projects.
3. For Year 10 (FY 2035), plan for Non-Capacity/capital maintenance funding levels similar to what was programmed in FY 2034 in the currently approved CIP.
4. Funding contemplated for the Transportation Facility in FY 2026 (\$6.0 million in the Approved CIP) should be rescheduled to FY 2030 or later. Near-term capital maintenance funding needs that may be required at the transportation facility until the larger renovation can take place should be reprioritized within currently planned Non-Capacity/capital maintenance funding levels. I strongly encourage ACPS to consider an alternative model to busing, one that utilizes DASH more intentionally and rethink the centralized bus facility model that drives up capital and maintenance costs of the facility that may not be needed under a different approach. Our staff is very willing to fully assist you in the evaluation.
5. If an additional major school renovation or replacement is under consideration, design funding should be budgeted no earlier than FY 2034 and construction funding should occur beyond the FY 2026 – FY 2035 capital planning window.

The table below illustrates the recommended funding levels for the Schools' capital program, based upon guidance above.

<b>Fiscal Year</b>	<b>Overall Recommended Funding Level</b>
2026	\$22.8 M
2027	\$22.6 M
2028	\$33.3 M
2029	\$101.9 M
2030	\$22.1 M
2031	\$16.4 M
2032	\$17.6 M
2033	\$17.4 M
2034	\$17.3 M
2035	\$17.8 M
<b>10-Year Total</b>	<b>\$289.2 M</b>

Sincerely,



James F. Parajon  
City Manager

cc: Emily Baker, Deputy City Manager  
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