

**City of Alexandria Budget and Fiscal Affairs Advisory Committee (BFAAC)  
Testimony on FY2003 Proposed Budget  
Public Hearing, April 8, 2002**

Good evening Mayor Donley, Members of Council, City Manager Sunderland. I am Lisa Chimento, Chairperson of the City's Budget and Fiscal Affairs Advisory Committee (BFAAC), and I am here on behalf of BFAAC to present our initial comments on the Manager's Proposed Budget for FY2003. Our formal written report will be submitted shortly following the last budget work session on April 18<sup>th</sup> and discussed at our work session on April 29<sup>th</sup>.

BFAAC believes that the fiscal outlook for the City of Alexandria in FY2003 is good, but also wishes to highlight some areas of potential concern that will require continued attention and contingency planning over the coming fiscal year and beyond.

First, we would like to note that we believe that the current fiscal situation remains good – even with the recession and impact of the events of September 11<sup>th</sup>. Revenues, increasingly derived from the real property tax, continue to exceed expectations. The value of the real property tax base rose by 11.2 percent last year, due to a combination of appreciation and new construction. The City Manager has been cautious in estimating the rate of growth for FY2003, with a projected rate of growth in the real property tax base of 5 percent. BFAAC would not be surprised if growth in real property assessments exceeds that level next calendar year.

In looking at the long-range scenarios presented in the budget, BFAAC notes that the rates of expenditure growth assumed seem reasonable given the possible future revenues available to the City. The high rates of annual increase in the real property tax that the City currently enjoys are unlikely to be sustained each and every year, but the likely rate of increase in tax revenues should be sufficient to support the forecasted rate of growth in expenditures contained in the scenarios. I should note that the revenue projections presented in the budget document do incorporate the proposed reduction in the real property tax rate. BFAAC urges the Council to continue looking beyond FY2003 in making fiscal decisions that will affect the City's fiscal condition in the future. BFAAC will present additional analyses of the long-range revenue forecasts in light of the proposed reduction in the real property tax rate in our report to Council.

At the same time, BFAAC wishes to note that the state aid component of the City's revenue picture is uncertain, particularly as it relates to important capital needs, such as transportation (roads and public transit). Not only is the state aid critical to meeting current planned projects, the transportation area presents future challenges, including the projected City share of the Washington Metropolitan Area Transit Authority (WMATA) capital program dedicated to infrastructure renewal total \$41.7 million over the next 6 years. \$21.5 million of financing for these costs is currently not available to the City. This issue will be further discussed in our report.

Second, the proposed budget fully funds the operating budget requirements of the City, maintaining current services, meeting the schools' operating budget request, and investing additional resources in the public safety arena with the addition of uniformed officers to meet the needs of our growing population (resident and day-time).

Third, the capital improvement plan meets legitimate long-term capital project needs financed through a reasonable mix of proposed borrowing, realistic contributions of cash capital from both past operating budget savings and current revenues, and anticipated state and federal grant funds. As we'll report later this month, the proposed CIP would keep the City within all of its debt-related policy guidelines designed to ensure maintenance of the City's double triple A bond rating.

BFAAC would have no objection to the acceleration of planned borrowing to take advantage of the current favorable interest rate environment, provided that this can be done in accordance with applicable debt policy guidelines and all legal parameters. We also assume that suitable projects are ready for funding. Of course, it is speculation whether interest rates have truly bottomed out and are likely to increase soon or may remain at their current (and possibly lower) levels in the near-term. City staff will have to review the potential in conjunction with their financial advisors and make recommendations to Council as to what the most beneficial course of action is. BFAAC understands that the staff analysis is being finalized and will review it and include further recommendations on this topic in our final report.

Yet even though the current CIP meets the City's pressing needs, there are still other significant potential capital spending needs that can be readily foreseen, many of which will be required to maintain and support the basic infrastructure of the City. Some of these identified, but as yet unfunded, areas (beyond the WMATA issue described earlier) include the following.

- Sewers: Substantial uncertain remains in correcting the infiltration/inflow problems of our sewers during wet weather. While additional funding has been provided in the proposed CIP for sewers, additional funding is likely to be required beyond 2008.
- Schools: The need for a new elementary school continues to be assessed and the school superintendent has raised the possibility of more extensive changes in the high school facility plans beyond the \$29 million already budgeted for T.C. Williams.
- Public safety: Because of space constraints and some security concerns, an additional or replacement public safety site may be required.
- Fire station: Changes in population size and development in new areas (e.g., Potomac Yards) will likely necessitate construction of a new fire station.

BFAAC's report to Council will address each of these items in more detail. The magnitude of these needs will require the City to continue to make a substantial ongoing fiscal commitment to capital needs.

BFAAC also wishes to compliment the City Manager and staff on their efforts to review the development fees in place, including planning and zoning and sanitary sewer connection fees, as well as support for affordable housing, and identify changes that will benefit the City's fiscal condition and better align the City's planning and zoning and sanitary sewer connection fees with those of neighboring jurisdictions. These proposed fees will be further discussed during the April 18<sup>th</sup> budget work session and will be included in BFAAC's report.

Other areas that BFAAC is reviewing as part of its work include:

- compensation and benefits issues;
- performance measurement;
- affordable housing Task Force recommendations and their potential fiscal impact on current and future budgets;
- other sources of revenue, such as the restaurant and meals tax;
- proposed reduction in the real property tax rate; and
- long-term revenue and expenditure forecasts.

The Committee looks forward to submitting our report to you later this month and discussing it with you at our work session on April 29<sup>th</sup>. Thank you.

Submitted by:

City of Alexandria's Budget and Fiscal Affairs Advisory Committee

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