

**TESTIMONY ON FY 2006 PROPOSED BUDGET
BUDGET AND FISCAL AFFAIRS ADVISORY COMMITTEE (BFAAC)**

Mr. Mayor and Members of Council, BFAAC appreciates this opportunity to present some preliminary views on the City Manager's proposed FY2006 budget. We are still completing our analysis and writing of our report, which we will discuss with you in the Work Session scheduled for April 27th.

We are taking a somewhat different approach in our report this year. Based on input from the Mayor and Members of Council, we are focusing our efforts on key issues and budget drivers. We will also submit our findings much earlier in the budget process – by April 19th at the latest – well in advance of our work session.

We want to preview tonight some of our thoughts. You will not be surprised to know that we continue, as we have in the past, to emphasize the need to establish and adhere to sound financial policies and procedures and the importance of keeping a long-term perspective.

Revenue and Tax Relief Measures

- BFAAC supports a decrease in the real property tax rate and believes that it is the broadest way for City Council to provide tax relief for all its residents and businesses. BFAAC, however, cautions City Council against over-reliance on any long-term assumptions about real property values and the taxes they would generate. Interest rates and real estate markets are notoriously volatile and there are clear indications that the Commonwealth may take action to curb real property tax increases.
- Although a general tax rate decrease is the broadest tool to keep Alexandria affordable, more targeted tax relief efforts as proposed by the City Manager can help advance the City's strategic objective to keep Alexandria affordable for low- and medium-income families, seniors and persons with disabilities at a lower cost to the City.
- BFAAC has repeatedly stressed the importance of diversifying City revenues and reducing the City's dependence on real property taxes. We recently submitted our study and recommendation to adopt an admissions tax. We will address other diversification proposals in our report.
- If Council wishes to consider further reductions in the real property tax rate over what the City Manager has recommended, Council should look first to fund any such reduction by reducing the operating budget of the City and Schools or finding new, on-going revenue sources. While it may be tempting to fund a tax rate reduction using cuts in cash capital or other "one-shot" approaches, such schemes would not help the City next year when it comes time to pay for ongoing and recurring expenditures.

- With respect to the affordable housing issue, BFAAC understands the importance of funding affordable housing initiatives, but questions the use of the mechanism of a dedicated funding stream to accomplish policy objectives. If City Council chooses to set aside spending for affordable housing programs, either from the tax rate or the recordation tax, BFAAC recommends that the City Council place a “sunset” on that set-aside. When the open space acquisition tax rate set-aside was proposed two years ago, BFAAC described some of the advantages and disadvantages of such an approach. Many of those same advantages and disadvantages apply to creating a dedicated funding source for affordable housing, whether it is a set-aside from the tax rate or from local recordation tax revenue.

Employee Compensation and Benefits

- BFAAC supports the Manager’s proposed COLA and merit increase for City and Schools employees. With respect to the operating budget, we note that employee compensation (salaries and benefits) comprises the bulk of the City and ACPS budget and the percentage is increasing. As in the past, we urge Council to look at the costs of new hires and health insurance benefits when considering spending reductions. For example:
 - The City is a regional leader with regard to the benefits it provides employees. It will cost the City an additional \$581,698 to make the health insurance option comparable for City and Schools employees. We have recommended that the City look for way to decrease, not increase, health insurance costs.
 - We note that the proposed budget includes a net increase of 39 City staff positions and 39 ACPS positions. Because of the significant additional financial commitment the City assumes with each new employee, Council should closely scrutinize the new hires in both the City and Schools budget proposals especially at a time when there appears to be no overriding explanation (e.g., large increase in school enrollment or City population) for such a significant increase in staffing.

Capital Improvement Projects and Debt Financing

- Over the last six years, the City has made substantial investments in the City’s infrastructure through new construction, rehabilitation, restoration and replacement. The proposed Capital Improvement Program (CIP) would continue on that course.
- While BFAAC believes that the proposed CIP budget meets legitimate long-term capital project needs, BFAAC wishes to raise a significant warning. The rebuilding of T.C. Williams, the construction of a new public safety center, the

increased contribution to transit costs, the renovation and expansion of Chinquapin Recreation Center and construction of an All-City Sports Facility put the CIP on the verge of becoming unaffordable, as defined by the City's debt-policy guidelines. Even once the debt-policy guidelines are adjusted (in accordance with BFAAC's recommendation last year), the City will be near target borrowing capacity through FY 2009, and above target levels in FY2008.

- The City share of the CIP has grown again this year despite substantial down payments on several "big ticket" projects, primarily the construction of a new T.C. Williams High School and the new public safety center (both of which are scheduled for completion by 2008). Furthermore, the City has a long list of unfunded capital needs, which are not included in the current CIP. It will be difficult to sustain a growing CIP and remain within the City's debt policy unless the City is careful to set reasonable priorities among competing projects and establish a realistic funding timetable.
- Cash capital contributions have been critical to expanding the CIP, however, they have remained at very high levels for several years and may have reached a point where today's taxpayers are paying more than their share for benefits that will also be enjoyed by future residents. Unlike past years, we urge City Council to reduce planned cash capital contributions to the CIP and spread the burden out more equitably to future generations of Alexandrians. To do this, the City may need to defer several projects, such as Chinquapin or the All City Sports Facility, until 2010 or beyond, when the City would have more flexibility in borrowing money to pay for these projects.

Economic Development Activities

At the end of last year, in view of the record requests for funding for economic development activities, Council asked BFAAC to review the organizations and funds that receive City appropriations for economic development-related activities and to put these activities in context. We have undertaken this review and, while we have not yet finalized our recommendations, we do have some observations:

- City funding for economic development activities has increased nearly three-fold over the past 10 years.
- Other jurisdictions generally have some form of centralized economic development body. Most have departments or offices of economic development as an integral government function to provide planning, policy guidance, and budget oversight, which Alexandria currently lacks.

Our recommendations on this matter will be included as part of our report on the budget.