

The City of Alexandria, Virginia

The 2014 Budget and Beyond

What Are Our Priorities? Are We Being Fiscally Responsible?

Introduction: Alexandria has more than \$1 billion in projected operating deficits and capital obligations facing us over the next 9+ years yet much of our focus seems to center on expanding social programs. We prepare detailed operating budgets focused only on the ensuing 12 months, invariably approving the plan within weeks of the fiscal year commencing. Continual analysis and prolonged discussion are not adequate substitutes for addressing the harsh realities and making difficult choices with long-term implications. Deferring focused, responsive funding actions only makes the hill ever steeper and the ultimate resolutions ever more expensive. "Kicking the can down the road" is neither a practical nor a viable path to resolution.

There is a huge disparity between us and our neighbors in terms of proposed FY 2014 capital expenditures per capita: Prince William spends 31% more, Fairfax 45% more, Loudoun 71% more and Arlington 195% more. It's not as though we don't have urgent capital needs and obligations (see below). We are told it's because of the "huge expenditure that we incur...(on) safety net programs." While those programs are clearly desirable, there comes a point where we simply can't afford to do all we'd like to do. Compassion doesn't pay the mortgage, or build schools, or repair infrastructure. Until this community has a clear plan of how we are going to fund the \$1+ billion, we need to be very circumspect about attracting more and more people to move to Alexandria in order for them to benefit from the safety net that our increasingly stretched funds must pay for.

Fiscal Realities: There is little disagreement that we cannot adequately fund all the things the community would like to see addressed over the next decade. Yet the City operating budget only focuses on the immediately ensuing 12 months – hardly a long-term perspective. The FY 2014 budget is ostensibly in balance but we have no plan and appear to have given precious little attention to the \$657 million operating deficit projected over the next nine years. Is that being fiscally responsible?

The capital expenditure challenges are no less onerous yet we seem to be a City long on discussion but short on specific, tangible, meaningful, impactful action:

- The proposed Potomac Yard Metro station is receiving a lot of attention but considerable time and money appears to have been wasted pursuing a site that is, by federal law, not viable. Now we run the risk of developers contributing less than anticipated as a consequence of having to accept what they may view as a secondary location. Some respected individuals continue to question the extent of the City's bonding capacity that this one project will require – in the face of many other urgent capital projects. What contingencies do we have should development (and resultant tax revenues) at Potomac Yards proceed at a pace appreciably slower than currently projected?
- Our school system is projected to need \$129 million in capital expenditures over the coming decade and "(City) staff continues to discuss capital needs with ACPS staff" while "a joint City-ACPS work group is looking into long range enrollment projections." In the meantime who is focused on where the actual dollars – whatever the final amount – will come from?
- Major improvements to our sewer/storm water infrastructure are projected to cost \$350-500 million over the next 25 years. "The City is developing an analysis to help refine costs and narrow the scope...projects will be prioritized..." Again, whatever the outcome of the analysis, the obligation is not going away. Who is focused on how we will fund our obligations?

- The City's obligations to cleaning up Chesapeake Bay are estimated to cost \$135 million over the next 15 years. The public is told that "this will be analyzed on an ongoing basis" and "many projects may likely be developed in such a way as to leverage project scope." Yet again this rhetoric seems to infer a belief that if we discuss and analyze something long enough, the financial obligations will somehow take care of themselves.

The above concerns are only exacerbated by the seemingly imminent and very substantial reductions in federal funding across a wide array of areas. To what extent have those been considered in our financial forecasting?

We are going to have to make many very difficult choices, the consequences of which will frequently be emotionally charged. But our financial planning must not be driven simply by the loudest voices.

"Affordable" Housing: Up to this point the most emotionally-charged (and expensive) "safety net" issue appears to be affordable housing. But what are the human consequences should that focus result in our having insufficient funds to build the schools we need, address the dramatic cuts we face in pre-K education, as school food programs and food stamp support are significantly reduced, as mental health budgets are slashed, as raw sewerage continues to run in the streets of Old Town, as we attempt to develop our BRT system, as we do our part to clean up Chesapeake Bay, as we struggle to retain City employees, as we build a new Metro station...and the list goes on? Different people clearly have different priorities and most, if not all, have very valid concerns. None of the solutions come cheap. Not every "need", much less every desire, can be funded. To the extent affordable/subsidized housing understandably contributes appreciably less than its pro rata share of property taxes, it is those in the middle and upper income levels who will be expected to pay a disproportionately large and ever-increasing portion of the costs of running and maintaining this City – for as long as they can afford it! That is not being critical or mean; that is simply facing and accepting economic reality.

The term "affordable housing" connotes different things to different people. To the extent it can be self-sustaining and economically viable in its own right, few people have difficulty with the concept. This is not about the homeless. This is about the extent to which we can (for example) provide \$1,500-a-month apartments to people who can only afford \$1,000 a month.

The point is sometimes made that developers are expected to make an "affordable housing contribution" as a price of developing in Alexandria, with the suggestion being that this funding comes cost-free to the community. On the contrary, to the extent the developer is profit-motivated and does not view this as an affordable charitable donation, that contribution simply increases the "market rates" of the units he is renting or selling to unsubsidized renters/buyers, making those units ever less "affordable". One should not overlook the fact that those proffers could alternatively be earmarked to address pressing financial challenges in our City (e.g. schools, infrastructure).

There is much more that could be written and debated about affordable housing but the focus of this paper is intended to be fiscal responsibility (or the shortage thereof) in our City.

The Dollar Cost: Over the next 30 years it will cost the taxpayers of this City an estimated \$203 million to develop and retain the 800 units of affordable/workforce housing called for in the Beauregard Small Area plan. That equates to \$253,750 per unit. The (draft) Housing Master Plan projects that over the next 17 years (by 2030) there will be a shortage of 14,687 "affordable" rental housing units in the City. At the Beauregard rate of \$254k each, it would cost more than \$3.7 billion to meet this demand. Perhaps one should consider the possibility that we are setting expectations (in some minds) that we have no chance of meeting?

One also needs to recognize and acknowledge the demographic realities of affordable/subsidized housing and the resultant fiscal impacts. A recent study by ACPS indicates that the average subsidized residence generates 4.7 times as many ACPS students as do all other residences in Alexandria. At the same time, given the assessed value of these residences, they understandably contribute a disproportionately low percentage of the City's tax revenue. In CY 2013, residences assessed at less than \$250,000 represent 26.53% of the City's total housing units but only 9.95% of the total assessed value (and resultant real estate taxes collected).

What Will We and Won't We Fund?: It seems clear that many Federal programs are about to be dramatically reduced. For sake of example, what will be our response be if SNAP payments (food stamps and free/reduced food in schools) are substantially reduced? What is to become of the 4,800 Alexandria families on food stamps? Many of those are the same people who reside in affordable/subsidized housing and whose children get free or subsidized school meals (as 56% of students in the ACPS system do). The City cannot come close to filling all those "funding gaps" so what are we prepared to forgo? Forgo building new schools? Eliminate support for pre-K education? Cut back on public safety? Continue to reduce health services? Allow our infrastructure to continue to deteriorate as the costs of deferred maintenance continue to escalate and raw sewerage continues to run through the streets of Old Town?

Conclusions:

- We need to plan more than 12 months in advance.
- We need to make some very difficult decisions (choices) about our priorities.
- We need discussion and analysis that directly address how we are going to fund the fiscal challenges that confront us – more than \$1 billion in operating needs and capital obligations that we are already aware of.
- There comes a point at which we must take a hiatus from pursuing additions to our affordable housing stock.
- Proffers need to stop focusing on developing ever more affordable housing and rather be dedicated to the needs of the housing/residents we already have – things like infrastructure and schools.
- City Council needs to lead the effort in addressing these issues.

It is time for our City government to confront the fiscal realities of running and maintaining a City of this size in the current economic environment. Our ability to successfully do so should not be compromised by any suggestion that we spend an inordinate amount focusing on any one issue to the material detriment of many others. We need to weigh all the calls on City funding and find ways to establish and agree priorities.

Finally, we must consider if we are prepared to continue to force out middle income residents of our community who are genuinely concerned about the financial contributions that they will be required to make in order to address our capital obligations and all the various programs the City appears reluctant to constrain. At a minimum, residents deserve a clear understanding of their City government's intent.