ARLINGTON
VIRGINIA

COUNTY MANAGER'S OFFICE
2100 Clarendon Boulevard, Suite 314, Arlington, VA 22201
TEL 703.228.3120 FAX 703.228.3218 www.arlingtonva.us

Memorandum

To: County Board of Arlington, Virginia **Date:** March 11, 2014

From: Barbara M. Donnellan, County Manager

Subject: Mid-year Review of Fiscal Year 2014

Summary

This report summarizes the status of the Fiscal Year (FY) 2014 budget. Latest analysis of the County's revenues and expenses for FY 2014 indicates that the FY 2014 budget will be balanced at fiscal year-end and there is anticipated one-time money available for County Board action. **The County share of unallocated one-time funding from revenues above budget and expenditure savings is $18.0 million. Based on local tax sharing with the Arlington County Schools, the Schools would receive an additional $9.6 million.** The tables below summarize mid-year estimates of revenues and expenditures.

FY 2014 – Mid-Year Summary

Revenue	**Incremental Increase/(Decrease) Over Budget** **($ millions)**
Real Estate Tax Revenue (at Current Tax Rates & net of Crystal City Tax Increment Financing Area)	25.0
Real Estate Tax Refunds, Penalty & Interest	(1.7)
Other Tax Revenue	(2.2)
Sub-Total Taxes	**21.1**
Non-Tax Revenue	(0.3)
Total Revenue	**20.8**
Expense Adjustments	
Debt Service Savings	3.5
Employee Compensation Contingent (fund balance from close-out FY 2013)	3.3
Unallocated Fund Balance (close-out FY 2013)	3.0
One-Time Funds Included in C.M. Proposed Budget	(0.5)
Healthcare Costs	(2.5)
Total Expense Adjustments	**6.8**
TOTAL MIDYEAR FUNDS AVAILABLE	**$27.6**
Transfer to Schools (45.6% share of tax revenue)	(9.6)
ONE-TIME BALANCE AVAILABLE FOR COUNTY	**$18.0**

As part of the FY 2015 Proposed Budget I identified and recommended allocation for $12.3 million in preliminary FY 2014 excess funds (see table at end of report). After a full analysis of revenue and expenditures there is a total of $18.0 million available to the County identified at this Mid-Year Review. Assuming the County Board accepts my recommendations included in the Proposed Budget, the Board has an additional $5.7 million to allocate to County needs.

Revenues

Fiscal Year 2014 revenues are estimated to be $20.8 million higher than the FY 2014 budget due to:

- $21.1 million increase in tax revenues and
- $0.3 million decrease in non-tax revenues.

The $20.8 million mid-year adjustment represents a 1.7 percent increase in general fund revenues. Excess local tax revenue is assumed to be shared between the County and Schools. Based on Mid-Year projections, Schools would receive $9.6 million using the FY 2014 revenue sharing percentages: County - 54.4%; Schools - 45.6%.

Mid-Year Revenue Summary – Fiscal Year 2014	Incremental +/(-) Over Budget ($ millions)
Tax Revenue:	
Real Estate (at existing tax rate)	25.0
Real Estate Tax Refunds, Penalty, Interest	(1.7)
Personal Property	3.0
Sales	(2.6)
Transient Occupancy	(2.1)
Cigarette	(0.3)
Communications	(0.3)
Total Tax Revenue Change	**21.1**
Non-Tax Revenue:	
License, Permits, Fees, Charges for Service	(0.4)
Fines	(2.0)
State	2.1
Non-Tax Revenue Change	**(0.3)**
Total Projected Revenue Increase *	**20.8**
*** Net of Crystal City, Potomac Yard, and Pentagon City Tax Increment Financing Area allocation**	

Real Estate – Real estate tax revenue is projected to increase $23.4 million. Real estate tax assessments, as announced in January 2014, increased 5.8%, rather than 2% projected for CY 2014 which was built into the FY 2014 adopted budget. At existing tax rates, this creates a revenue increase of $25.0 million in FY 2014. This increase in revenue is offset by higher than budgeted real estate tax refunds projected to date ($2.0 million). In FY 2014 (CY 2013), there were significant assessments reliefs granted to commercial properties. Penalty and interest revenue is also projected to be $0.4 million higher than budget.

The Crystal City, Potomac Yard, and Pentagon City Tax Increment Financing Area (Crystal City TIF) revenue is higher due to the increase in assessed values from the projection for CY 2014. The adopted FY 2014 budget assumed no assessment growth in the district for CY 2014. Actual assessments however increased 3.1%, resulting in a revenue increase from budget of $703,500. (Currently, the TIF receives 33% of all incremental real estate tax revenue generated over CY 2011 in this TIF area. The total projected $3.0 million to the TIF is netted out from the numbers in the above paragraph and in the table on the prior page.)

Other Local Taxes are projected to decrease $2.2 million, driven primarily by lower sales and transient occupancy tax, which decreased with the Federal government shutdown, partially offset by increased personal property taxes, which has seen gains this year as new car sales and strong used car values continue to drive increased tax revenues. Cigarette and communications taxes are also trending slightly lower than budget.

Additional data coming in March will help inform final third quarter projections. Business, Professional and Occupational License (BPOL) taxes are filed by March 1 and by April a more accurate forecast of the County's third largest revenue source will be clearer. The overall mid-year adjustment to other local taxes is equivalent to a less than one percent decrease in the aggregate.

County Non-Tax revenues are projected to decline by $0.3 million. Significant revenue sources to highlight include:

- **Licenses, permits, and fees and charges for service** are anticipated to be $0.4 million below budgeted amounts. This is primarily due to lower parking meter revenue.
- **Fines** are projected to fall below budget by $2.0 million, due to parking ticket revenue declines.
- **State** revenue is expected to be $2.1 million over budget, due to higher than budgeted highway aid.
- **Federal** revenue is anticipated to meet budget amounts.

Expenditures

Most County departments are projected to spend at or below their FY 2014 authorized levels. Several departments are experiencing specific expenditure pressures due to employee leave payouts for retiring employees and overtime costs. The following departments may exceed appropriation by the close of the fiscal year:

- Fire Department – due to overtime, callback pay, and leave payouts;
- Sheriff's Office – due primarily to overtime costs;
- Treasurer's Office – due to full staffing (not meeting assumed vacant position budget savings) and increased printing expenses;
- Environmental Services – overage due to abnormally high number of weather events affecting overtime and snow removal operating costs and anticipated pot hole paving repairs expected to be required in the spring 2014.

Expenditure Adjustments

- Departmental Savings – As noted above, most County departments are projected to spend at or below their FY 2014 authorized levels. At this time, no operating department savings are being identified for allocation to other uses.
- Debt Service savings of $3.5 million are due to refinancing outstanding bonds last summer and updated cashflow projections for previously approved capital projects and refinancing of debt.
- Employee Compensation Contingent – This account, established at FY 2013 close-out, was funded with $3.3 million. The County Board set-aside $3.3 million for the FY 2015 budget if employee step increases were not able to be included in the FY 2015 budget. Since the County Manager was able to include steps in the FY 2015 Proposed Budget she recommended that the funds be utilized for various one-time funding recommendations (see following pages for summary of recommendations).
- Unallocated Fund Balance from FY 2013 - $3.0 million was set aside by the County Board during the close-out process of FY 2013 to allow for a contingency depending on potential decisions the Board would have to make as a part of the FY 2015 budget adoption process. At that time it was uncertain how the January real estate assessments would affect the budget development for FY 2015. As real estate assessments were higher than anticipated, this unallocated fund balance is available for Board consideration.
- One-Time Funds included in the County Manager's Proposed Budget – The County Manager included $0.5 million in the base FY 2015 Proposed Budget for certain one-time expenditures. Examples of these one-time expenditures included non-personnel costs associated with the Police COPs grant, Fair Housing study funds, and project management for aspects of the new permitting system.
- Healthcare Costs – Included in the County Manager's Proposed Budget is a 7.5% increase in the cost of healthcare projected for employees and the County. In FY 2014 the cost trend has been increasing and the anticipated budget for healthcare this fiscal year is expected to exceed the budget by approximately $2.5 million.
- Additional Contingent Funds – There is approximately $8 million in the Economic Stabilization Contingent that are **not recommended** for allocation at this time. I will provide an update at 3rd Quarter review for potential allocation of these monies.

Snow Related Expenditures – With the greater than normal weather events this year, expenditures for snow related events exceed the budgets in various operating departments. Not only are the budgets of the Departments of Environmental Services and Parks & Recreation affected by snow events but also overtime costs incurred in other departments such as the Office of Emergency Management and public safety agencies. At this time the actual over expenditure is not known for this fiscal year due to recent weather events; but overall County departmental savings will be adequate to cover the costs in this fiscal year.

Schools

Expense Transfers - The Arlington County Schools would receive an additional $9.6 million due to the increase in local tax revenue (at current tax rates). This transfer is in addition to the FY 2014 adopted School transfer of $415.7 million and $3.9 million in unanticipated one-time funds transferred to Schools resulting from FY 2013 close-out. Total local tax funding to Schools in FY 2014 through Mid-Year is $429.2 million.

School Funding Summary (Tax Revenue)	FY 2013 ($ millions)	FY 2014 ($ millions)
Adopted School Transfer (ongoing)	$400.4	$412.6
Adopted School Transfer (one-time)	6.2	3.1
Close-Out Carryover (one-time)*	1.4	3.9
Mid-Year Review (one-time)	2.9	9.6
Total Funding to Schools	$410.9	$429.2
* Does not reflect School expenditure savings carried over from prior year		

Recommendations on One-Time Funding Included in FY 2015 Proposed Budget

I highlighted $12.3 million in one-time funds in the Proposed FY 2015 Budget. These funds were from an estimate of increased real estate tax revenue and the compensation contingent funds carried over from FY 2013.

County Manager Recommended Allocation of One-Time Funds in the FY 2015 Proposed Budget	
Real Estate Assessment Increase	9,000,000
Compensation Contingent Carryover	3,300,000
Total One-Time Funds	12,300,000
Recommended Allocation of One-Time Funds	
Affordable Housing Investment Fund (AHIF)	2,800,000
Paving	3,000,000
Facilities Maintenance Capital	1,000,000

County Manager Recommended Allocation of One-Time Funds in the FY 2015 Proposed Budget	
Parks Maintenance Capital	1,000,000
Transportation Maintenance Capital	1,000,000
Technology Capital Investment	1,500,000
Parks Land Acquisition	1,500,000
One-Time Allocations Included in County Manager's Proposed Budget	475,000
County Manager Allocation Recommendations	12,300,000

I will update the Board on any additional savings or expenditure pressures during 3rd Quarter review and may include additional funding recommendations. A final analysis for FY 2014 will be provided with closeout in the fall of 2014.