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:**	April 4, 2019
From:	Mark Schwartz, County Manager		
Subject:	Mid-Year & Preliminary 3rd Quarter Review of Fiscal Year 2019		

Summary

The latest analysis of the County's revenues and expenses for FY 2019 indicates that the budget will be balanced at fiscal year-end and there is one-time money available for allocation. Additionally, with more information available since the proposal of the FY 2020 budget in February, some additional ongoing resources have been identified.

One-Time Funding: $15.2 million / Ongoing Funding: $285,500

In addition to the County funding shown above, the **Schools would receive an additional $349,500 in ongoing funding in FY 2020**. As outlined in the table on the following page, current estimates for FY 2019 indicate that the County's revenue will be above the budget adopted in April 2018, while expense savings in departments due to vacancy savings and healthcare costs offset unanticipated expenses for a WMATA labor arbitration award.

In February 2019, as part of the proposed FY 2020 budget, many of these revenue and expenditure changes were identified. Real estate taxes are anticipated to be above budget for FY 2019 due to increased assessments ($7.6 million) and the CY 2019 proposed tax rate increase of 1.5 cents ($5.8 million). Because that funding was already included for the County and APS as one-time funding in the FY 2020 budget, it has not been included in the mid-year/third quarter analysis.

The FY 2020 budget already includes a number of these adjustments being realized in FY 2019. The FY 2020 budget includes anticipated increases in ground lease and interest revenue as well as healthcare savings and additional costs related to WMATA arbitration. Full details of the impact of FY 2019 anticipated revenue and expenditures are provided in the table and sections on the following pages.

Adjustments to FY 2020 revenue estimates include refinements to tax estimates based on new information received since the proposed budget was prepared. In addition, one-time monies are also anticipated from the Virginia Hospital Center land exchange and the mid-year analysis recognizes savings that were inadvertently not included in the FY 2020 proposed budget. These savings are from rent abatements received by the County for renewal of the lease on the Bozman Government Center.

Revenue	FY 2019 Incremental Change Over Adopted Budget ($ millions)	FY 2019 Percent Change	FY 2020 Incremental Change Over Proposed Budget ($ millions)	
	ONE-TIME		**ONGOING**	**ONE-TIME**
Real Estate Tax Refunds	(1.4)	(0.2%)		
Personal Property	(1.8)	(1.5%)		
BPOL	2.0	3.0%	1.5	
Sales Tax	0.9	2.0%		
Meals Tax	(1.2)	(2.9%)	(0.6)	
Transient Occupancy	(1.8)	(6.9%)		
Utility Taxes	1.1	7.1%	0.4	
Other Taxes	(1.6)	(6.0%)	(0.65)	
Sub-Total Taxes	**(3.8)**	**(0.4%)**	**0.65**	
Ground Rent	1.5			
Interest	5.5			
Charges for Services	(1.7)			
State & Federal	(1.0)			
Land Swap - Virginia Hospital Center				4.0
Sub-Total Non-Tax	**4.3**		**0**	**4.0 one-time**
Total Revenue	**$0.5**	**0.1%**	**$0.65 ongoing**	**$4.0 one-time**
Expense Adjustments				
Departmental Savings	$4.0			
Healthcare savings	2.5			
WMATA Arbitration Expenses	(2.0)			
Rent Abatement	3.3			2.9
Schools			(0.35)	
Total Expense Adj.	$7.8		($0.35) ongoing	$6.9 one-time
TOTAL AMOUNT AVAILABLE	**$8.3 one-time**		**$0.3 ongoing**	**$6.9 one-time**

Recommendation:

- One-Time Funding ($15.2 million)
    - Restoration of Cultural Affairs Reductions ($209,834). Restore three elements of the Cultural Affairs cuts as longer-term solutions are explored:
        - Scenic Studio Tech ($108,621)
        - Mobile stage access for user groups ($4,550)
        - Facilities Manager at 3700 S. Four Mile Run ($96,663)
    - Increase the Budget, Economic & Revenue Stabilization Contingent ($2.7 million): In response to bond rating agency concerns about the County's level of reserve funding when compared to other triple A rated jurisdictions, I recommend utilizing one-time funding to increase the Budget, Economic & Revenue Stabilization Contingent to one-half percent of the total General Fund budget as an initial step in a comprehensive review of our reserve and contingent policies. This would increase this contingent by $2.7 million to a total of $6.7 million. Under existing County Board policy, these contingent funds would be used for unexpected events including impacts of the federal government shutdown, unanticipated consequences of the state legislative actions (e.g., near-term Medicaid expansion) and other events such as Metro collective bargaining settlements. This summer, staff and our financial advisors will present a series of recommendations on the County's reserve policies that will be reflective of feedback from this spring's bond issuance.
    - Land acquisition and other Board priorities: The balance of the one-time funding ($12.3 million) should be set-aside for land acquisition and other Board priorities eligible for one-time uses.

- Ongoing Funding ($285,500)
    - As the County Board continues deliberation of the FY 2020 budget, these funds can be used to address ongoing needs. At this time, I recommend the funds be allocated towards increased Metro costs made clear by the recent adoption of the WMATA budget.

Revenues

Fiscal Year 2019 revenues are estimated to be $0.5 million higher than the FY 2019 budget due to a $4.3 million increase in non-tax revenues, partially offset by a $3.8 million decrease in projected tax revenues.

Recommended adjustments to FY 2020 revenues are based on actuals received since the Proposed Budget and reflect refined estimates of these tax sources.

Real Estate – As identified above and in the FY 2020 proposed budget, real estate taxes are anticipated to be above budget for FY 2019 due to increased assessments ($7.6 million) and the 1.5 cent proposed tax rate increase ($5.8 million). Because that funding was included for the County and APS as one-time funding in the FY 2020 budget, it has not been included in this mid-year/third quarter analysis.

Real estate refunds are anticipated to be $1.4 million higher than budgeted, reducing revenue available in FY 2019.

Personal Property – Both vehicle personal property and business tangibles revenue are trending lower than the FY 2019 budgeted levels. This tax revenue is forecasted to be $2.2 million (2.5%) below budget by fiscal year-end, partially offset by lower than anticipated refunds ($0.4 million).

Business, Professional and Occupational License Tax (BPOL) – As BPOL taxes are due in March, this is an early and conservative estimate of total BPOL. Currently, it is expected that BPOL will be approximately $2.0 million higher than budget. Because BPOL is primarily received in February and March, a $1.5 million increase to the FY 2020 level of BPOL is suggested after realizing more revenue than anticipated in FY 2019.

Sales – Sales tax revenue has grown slightly more than anticipated and is expected to be $0.9 million above budget.

Meals – The FY 2019 budget had anticipated four percent growth in meals tax; however, growth has been slower than expected. Additionally, revenue based on January receipts was lower than last year likely due to the federal government shutdown; it is estimated that the shutdown lowered revenue by approximately $150,000. Total meals tax revenue is now expected to be approximately $1.2 million lower than budget. Based on this lower estimate of FY 2019 revenue, it is also expected that FY 2020 revenue will be lower than the proposed budget by $600,000.

Transient Occupancy (TOT) – TOT revenue is trending both lower than the FY 2019 budget and slightly below the total FY 2018 revenue. For the fiscal year to date compared to last fiscal year through January, both occupancy and average room rates are trending slightly lower with occupancy averaging 0.9 points lower and rates 1.1% lower. Additionally, revenue reflecting January receipts was seven percent lower than last year, primarily due to the federal government shutdown. In addition to federal uncertainty that ran well into February, other factors contributing to lower-than-expected Arlington occupancy, rates and TOT revenue include increasing competition from new D.C. hotels (specifically waterfront properties at The Wharf) and fewer D.C. citywide conventions that push bookings to Arlington and beyond. Overall, total TOT is expected to be $1.8 million below budget.

Utility Taxes – Utility tax revenues are trending $1.1 million above budget with $0.8 million in additional commercial utility tax and $0.3 million from residential. The FY 2020 estimate for commercial utility can be increased by $0.4 million, for total forecasted revenue of $11.0 million. As part of the FY 2019 budget process, the residential utility tax was increased to the legislatively-mandated maximum, resulting in an increase in forecasted revenue from $1.9 million to $5.2 million. This increase was shared with Arlington Public Schools and the balance allocated to the Affordable Housing Investment Fund.

Other Local Taxes:

- Car Rental tax revenue is projected to be $1.1 million below budget in FY 2019. FY 2020 revenue should be reduced by $0.2 million.
- Cigarette and Communications taxes are trending lower than budget ($0.45 million), so an adjustment of this amount is recommended for both FY 2019 and FY 2020.

County Non-Tax revenues are projected to be $4.3 million higher than budgeted. Highlights include:

- **Interest is** anticipated to be $5.5 million above budget due to increased interest rates and investment earnings as well as the impact of mark to market, which resulted in significant unrealized losses in FY 2018 that have not been seen to date in FY 2019.
- **Ground Rent** is expected to be $1.5 million above budget due to an increase in ground lease rent for the Courthouse Plaza parcels.
- **Charges for services revenue** includes lower ART bus, ambulance fee, and parking meter revenues, partially offset by higher than anticipated engineering fees.
- **State and Federal Revenue** are expected to be $1.0 million lower than budgeted due to human services revenue that reflects actual services provided and will not have a bottom line impact on the budget.

Expenditures

Most County departments and programs are projected to spend at or below their FY 2019 authorized levels. The Sheriff's Office continues to experience budgetary pressures due to required over-time costs in the detention center. In addition, several smaller departments (e.g. Clerk of the Circuit Court) may be impacted by leave/severance payments due to long term employee retirements and proposed staff reductions this spring for the FY 2020 budget.

Adjustments for FY 2020 expenses are based on rent abatement and proceeds from the Virginia Hospital Center land swap that the County will receive.

Expenditure Adjustments

- Departmental Savings – As noted above, most County departments are projected to spend at or below their FY 2019 authorized levels. We estimate net savings of approximately $4.0 million will be available at the end of the fiscal year. These savings are primarily due to a slowdown in hiring as the FY 2020 budget process considered staffing reductions. Several departments will experience higher than normal non-personnel savings due to a variety of factors.

- Health Care – As noted in the FY 2020 proposed budget, healthcare costs for the County are currently trending lower. For FY 2019, $2.5 million in savings is projected this fiscal year. It should be noted that these savings can be impacted by significant individual healthcare events.

- Early Retirement Buyout – The County Manager authorized an early retirement buyout program in January 2019 for employees in the Deferred Retirement Option Plan (DROP). These costs, and savings, have been incorporated into the departmental savings described above.

- Metro (WMATA) - As outlined in the FY 2020 proposed budget, a one-time payment is due to WMATA in FY 2019 totaling $2.0 million. These labor costs relate to an arbitration decision in favor of Local 689, WMATA's largest union and a new collective bargaining agreement entered into with Local 2, WMATA's Office and Professional Employees

International Union. This additional costs is an increases FY 2019 Metro obligation by an additional 5% to the General Fund in FY 2019.

- Rent Abatement – One-time savings from rent of the Bozman Government Center is available in both FY 2019 and FY 2020 due to the rent abatement in the lease renewal.

- Land Swap with Virginia Hospital Center – The County will receive a payment for the difference between the value of the parcels that will be swapped currently owned by the County next to VHC and currently owned by VHC on Carlin Springs Drive. The funding included is an early and conservative estimate of that payment.

Schools

Expense Transfers – The revenue sharing agreement with Arlington Public Schools (APS) results in 46.6% of local tax revenue being transferred to APS. As previously noted, Business, Professional, and Occupational License tax is an early estimate with potential additional revenues possible in FY 2019. Any nominal adjustments to the School transfer amount can be reconciled as a part of the FY 2019 close-out process in the fall of CY 2019.

For the FY 2020 budget, this memo identifies several proposed changes in tax revenue that would be split with APS in line with the revenue sharing agreement and will increase the ongoing funding to Schools by $350k.