ARLINGTON
VIRGINIA

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Revised FY 2021 Budget Memorandum

To: County Board of Arlington, Virginia **Date:** April 6, 2020

From: Mark Schwartz, County Manager

Subject: Revised FY 2021 Proposed Budget

Members of the Board: Given the extraordinary circumstances facing our community, I am providing, for your consideration, a revised Fiscal Year (FY) 2021 Proposed budget.

With the COVID-19 virus altering our way of life, we have seen the personal toll borne by countless Americans and many here in Arlington. Our community's physical and mental health has been challenged as never before. The economic impact has been unprecedented.

What was unthinkable two months ago is now in front of us. Businesses have laid off staff, residents have lost jobs, schools have closed and only the most essential functions continue. In over 30 years of my public service, I have seen nothing like this.

Our amazing staff have, in less than two weeks, prepared a new budget for your consideration. These same staff have juggled this work with their own concerns for their health and the need to care for their families. In the pages that follow, we have done our best to assess our anticipated revenues and expenditures. I know that I will be back to you many times in the coming months with revisions to today's proposal. I fear that we are all being too optimistic. As actual receipts and expenses are tallied, we will have a better sense of the choices in front of us.

Under the Code of Virginia, we are still required to submit a budget and the Board must adopt one for the year beginning July 1. To ensure that real estate tax bills can be provided to residents in May, the proposed budget should serve as a good guide through at least the first few months of FY 2021 (July, August, September).

Update on FY 2020

Before moving into my revised proposal for FY 2021, I wanted to give you an update on the COVID efforts made to date and that are on the horizon for the next few days and weeks and the initial budget impacts.

This crisis hit with close to 75% of the fiscal year complete. As described in more detail below, we remain concerned about those economically sensitive tax sources, specifically sales, meals and transient occupancy taxes. We also recognize that we will experience declines in non-tax sources such as parking meter revenues, fees for services, among others. Much of this data is reported on a lagging basis, so we will not have a better sense of these impacts until late April / early May.

That said, we have many levers to address these near-term impacts (and the investments noted below) to ensure that we do not face a shortfall for the last three months of the fiscal year.

- We have instituted a hiring slowdown that will continue into FY 2021.
- We have contingents available:
  - The County Manager's Contingent of which approximately $0.75 million remains unallocated.
  - Stabilization Reserve – while I am proposing that $4.0 million of this reserve be utilized in FY 2021, a balance of $7.8 million remains that could be available in FY 2020 or later in a worst-case scenario.
- Capital projects could be deferred or cancelled beyond what I have already recommended doing for FY 2021 as noted below.

We are monitoring revenues and expenditures on a daily basis and will provide periodic reports as data becomes available.

<u>Initial Investments to Address COVID-19</u>

While mindful of the financial impacts, over the last month, we have taken a series of actions critical to addressing the pandemic:

- Purchase of personal protective equipment (PPE) and additional cleaning supplies for our front-line employees and non-profit partners.
- Invested in technology (laptops, etc.) to move as much of the workforce to telework as possible with a focus on standing up virtual call centers for COVID-19 response and for remote ECC call intake and dispatch and allowing case workers and other services to be provided remotely.
- Provided initial support to front-line non-profits:
  - Set up telehealth capabilities to connect the Virginia Hospital Center and the Arlington Free Clinic.
  - Provided $100,000 for food purchases to the Arlington Food Assistance Center.
- Stood up the COVID-19 testing center with Virginia Hospital Center, including technology, facilities and logistical assistance.
- Identified back-up quarantine housing for congregate care settings.

In the coming days and weeks, I will also be proposing other initiatives:

- Premium pay for those front-line employees who cannot work remotely and must be on-site. The City of Alexandria and the State of Maryland have implemented similar hourly premiums.
- Small business support through a grant program and exploring the possibility of a revolving loan fund. The remaining balance of the Gazelle grant program (approximately $650,000) can be reallocated to at least partially fund this business support.
- Delaying required repayments by recipients of County AHIF loans.

Principles Guiding Reformulation of the FY 2021 Budget:

In preparing this revised budget, I am focusing on shoring up our community's most essential services, supporting the County workforce, and doing the best to maintain our fiscal health. The following principles guided the preparation of this revised budget:

- Preserving, and as needed, increasing, funding for direct life/safety services to our residents: for example, food, health and housing resources.
- Preserving County employee jobs so that when we recover, our staff "infrastructure" is in place.
- Looking at areas of investment that will help our recovery efforts: for example, assistance to our business community and non-profits.
- Creating additional financial flexibility as a bridge to recovery by slowing capital projects where possible, drawing down some of our budget reserves, and postponing new initiatives.

These principles help lay out a framework. As time moves on, we will learn what aid, if any, we will receive from the recently enacted Federal legislation and how the changing fiscal landscape will affect funding received from the Commonwealth.

Estimated Change in Revenues

With no actual data in hand, we are assuming significant drops in specific revenue streams. Meals tax, sales tax, transient occupancy tax, car rental taxes, interest income, recordation fees, and business and professional occupation license (BPOL) taxes are all very sensitive to changes in the economy. Real estate and personal property taxes, our two largest sources of revenue, have historically been slower to respond to economic trends.

The following table summarizes the overall impact of revenue adjustment for County and Schools programs. Pursuant to the revenue sharing principles, Arlington Public Schools shares in 47% of all the County tax revenues.

Adjustments from the February FY 2021 Proposed Budget

Overall revenues are assumed to drop almost $56 million: from $1.396 billion (February) to $1.340 billion (revised in April).

Overall County & School Impacts for Revenue Adjustments ($55.7 million)	
County Taxes	**($24.4 million)**
Non-Taxes	**($ 9.6 million)**
County Total	**($34.0 million)**
Schools Total (ongoing)	**($21.6 million)**

Schools: In the February Proposed budget, Arlington Public Schools would have received $546.3 million in ongoing funding based on the Principles of Revenue Sharing for the split of local tax dollars, an increase of $23.9 million from the adopted FY 2020 level. With that revenue transfer, the Schools proposed a needs-based budget which created a funding gap of over $27 million; however, APS outlined a variety of program and compensation choices to balance the School budget for FY 2021. The revised revenue projections outlined in this memo reduce the projected School transfer by $21.6 million to a total of $524.6 million in ongoing funding. Similar to the County, the Schools will need to make some very difficult choices due to the pandemic crisis.

Comparison to the FY 2020 Adopted Budget

With this revised Proposed Budget, overall revenues are assumed to drop almost $16 million below the FY 2020 adopted totals. The events of this spring are significantly impacting FY 2020 and FY 2021. Updates on the FY 2020 budget, both revenue and expense, will be provided later this month as a part of the 3rd Quarter review.

Revised assumptions for both FY 2020 and FY 2021 assume a variety of impacts on our revenue sources. Depending on the timing of revenue receipts to the County, revenue sources are impacted differently. Generally, for revenue received on a daily or monthly basis (e.g., sales, meals, and transient occupancy tax), drops in anticipated revenue receipts are assumed beginning in mid-March and continuing through June where a recovery period is expected until activity resumes to normal. This impact and curve to recovery varies based on the tax source. It will impact sales, meals, and transient occupancy tax (hotel tax) most immediately. Hotel taxes (Transient Occupancy Tax, or TOT) will see the most significant declines in FY 2020 with up to 75% loss in monthly revenue.

Business license taxes (BPOL) in the spring of CY 2020 (impacting FY 2021 revenue) will see significant impacts with recovery beginning in the first quarter of FY 2021. For other tax revenue received annually or bi-annually (e.g., real estate and personal property taxes) different assumptions are made.

Our expectations of recovery change from day to day. The estimates in this revised budget proposal may be too optimistic and as I mentioned earlier, I will likely be back to the County Board and community with revisions to this proposal.

Revenue	FY 2020 Adopted Budget	FY 2021 Originally Proposed Budget	FY 2021 Revised Proposed Budget	FY 2021 Percent Change (original to revised)	FY 2021 $ Change (original to revised)	FY 2020 Adopted to Revised FY 2021 % Change
Real Estate Tax	$771,036,860	$806,680,276	$795,118,440	-1.4%	($11,561,836)	3.1%
Personal Property Tax	119,052,147	122,252,147	120,052,147	-1.8%	(2,200,000)	0.9%
BPOL Tax	69,020,000	74,860,000	63,000,000	-15.8%	(11,860,000)	-8.7%
Sales Tax	44,700,000	47,500,000	43,127,695	-9.2%	(4,372,305)	-3.5%
Meals Tax	40,900,000	42,310,000	36,772,563	-13.1%	(5,537,437)	-10.1%
Transient Occupancy Tax	26,000,000	26,000,000	19,257,639	-25.9%	(6,742,361)	-25.9%
Car Rental Tax	6,300,000	6,300,000	4,342,881	-31.1%	(1,957,119)	-31.1%
Recordation Tax	5,500,000	6,000,000	4,200,000	-30.0%	(1,800,000)	-23.6%
Other Taxes	29,112,000	30,365,000	30,365,000	0.0%	-	4.3%
Total Taxes	**1,111,621,007**	**1,162,267,423**	**1,116,236,365**	**-4.0%**	**(46,031,058)**	**0.4%**
License, Permits & Fees	12,382,803	14,330,893	13,115,693	-8.5%	(1,215,200)	5.9%
Fines, Interest & Leases	23,663,266	26,354,543	21,542,350	-18.3%	(4,812,193)	-9.0%
Charges for Service	64,252,642	66,035,658	64,231,949	-2.7%	(1,803,709)	0.0%
State & Federal	92,063,641	95,861,629	95,291,629	-0.6%	(570,000)	3.5%
Other	11,153,921	9,342,428	8,096,333	-13.3%	(1,246,095)	-27.4%
Fund Balance	41,108,294	21,978,940	21,978,940	0.0%	-	-46.5%
Non-Tax Revenue	**244,624,567**	**233,904,091**	**224,256,894**	**-4.1%**	**(9,647,197)**	**-8.3%**
TOTAL REVENUE BUDGET	**1,356,245,574**	**1,396,171,514**	**1,340,493,259**	**-4.0%**	**(55,678,255)**	**-1.2%**
SCHOOL TRANSFER (ongoing funding)	**$522,426,668**	**$546,265,689**	**$524,631,091**	**-3.9%**	**($21,634,597)**	**-0.7%**

Fiscal Year 2021 revised proposed revenues are estimated to be $56 million lower than the originally proposed FY 2021 budget and $16 million lower than the Fiscal Year 2020 adopted budget due to the lingering impacts of social distancing and state-imposed business restrictions amid the COVID-19 outbreak, along with the greater macroeconomic effects from the global pandemic and potential future waves of the virus.

Real Estate – Real estate tax revenue is forecasted to be $11.6 million lower than originally budgeted due to changes in assumptions related to the growth of the County's real estate assessment tax base in January 2021. The original proposed budget assumed a three percent growth rate for property values for CY 2021. The current revision assumes no growth in the tax base.

Personal Property – Personal property tax revenue is composed of vehicle personal property and business tangibles. A slightly lower assumption is being made to business tangible revenue as a result of slower business equipment purchases through the remainder of the calendar year. Total tax revenue is forecasted to be $2.2 million (1.8%) lower than originally budgeted.

Business, Professional and Occupational License Tax (BPOL) – BPOL tax revenue is expected to see a significant decline in FY 2021. BPOL tax is calculated based on gross receipts from the previous calendar year. For FY 2021, these will include the business receipts from this spring and summer (CY 2020), significantly impacted by the slowdown of business operations. The original estimate was based on a trend of steady growth in revenue receipts, including an 11 percent increase in FY 2019. The revised lower tax projection is almost a $12 million decrease from the originally proposed projections.

Sales – Business closures and social distancing measures have also impacted the sales tax revenue estimate as in-person purchases begin to slowly recover while online sales remain relatively more stable. Revised sales tax revenue is forecasted to be $4.4 million lower than the original estimate.

Meals – Meals tax receipts are expected to follow a similar pattern to sales tax but decease slightly more as restaurants begin to build back up from temporary partial or full closures. This tax revenue is forecasted to decrease $5.5 million from the original estimate.

Transient Occupancy (TOT) – TOT is expected to see the most significant impact from the COVID-19 outbreak due to sudden decreases in both business and personal travel. Hotel occupancy rates have plunged since the beginning of March. So, while receipts for FY 2021 are expected to rebound some, they are forecasted to remain well below FY 2020 levels. This tax revenue is forecasted to decrease $6.7 million from the original estimate.

Car Rental – Car rental tax income is in large part related to travel and tourism. With the decline in travel and tourism expected to continue into the fall of CY 2020, this revenue tax source has been reduced $2.0 million from the original proposed budget projections.

Recordation – Recordation taxes are received by the County on the transfer and refinancing of residential and commercial properties. With the uncertain economic environment, sale transactions, specifically large commercial properties, is expected to slow. This tax revenue is forecasted to decrease $1.8 million from the original estimate.

Other Local Taxes – The remaining tax categories (utility taxes, communication, cigarette, bank stock) are expected to remain at the original FY 2021 budget projection levels.

County Non-Tax revenues are projected to be $9.6 million lower than originally proposed. Highlights include:

- **License, Permits & Fees:** There are a variety of fees that deal with development related activity which are expected to slow during the beginning of the fiscal year. They include, among others, right of way fees, highway permits, site plan fees, and assembly permits.

- **Fines, Interest, and Leases:** Fine revenues that will be impacted include parking tickets and photo red light due to changes in traffic patterns. Interest income may see a decline due to the reduction in interest rates resulting from the Federal Reserve lowering rates in March 2020. Depending on the length of the economic recovery at the national level, a lower interest rate environment will result in lower interest income on cash balances invested by the Treasurer.
- **Charges for Services:** A variety of Charges for Service revenues will be impacted due to the revised service and programming offered throughout a number of County agencies. Park and Recreation program changes, ART transportation ridership, and parking meter revenue will all be affected through the first quarter of the fiscal year.
- **State and Federal Revenue** have been held steady with the expectation that more information will be forthcoming from various state and federal agencies. One adjustment was made to Grantor's tax revenue. This revenue is received as a percentage of real estate transactions similar to the County's receipt of Recordation taxes noted above.

Proposed Expense Changes in the Revised FY 2021 Proposed Budget

In order to balance declining revenues and fund critical needs, my revised budget makes expenditure adjustments in several areas as described below.

The most difficult choice was foregoing compensation increases for our workforce, but I make this recommendation in order to preserve jobs for our employees. I have not made any changes to benefit levels but will be deferring the Consumer Driven High Deductible health insurance plan until the middle of FY 2021. Preservation of jobs is the surest way, in my mind to ensure that we lessen the shocks to the economy and that we have a reliable framework in place once we escape the grip of the pandemic. I watch with dismay the furloughs in other local governments in the Commonwealth and we are fortunate that we are not yet at that point.

This revised proposed budget keeps most service levels intact.

	FY 2020 Adopted Level	FY 2021 Proposed Level	FY 2021 New Level	$ Change - Original Proposed to New Level
Compensation Increase	n/a	$16.0 million	$2.7 million	($13.3 million)
Delay in Opening Long Bridge & Lubber Run	-	$4.2 million in new funding	$1.0 million in new funding	($3.2 million)
New or Augmentation of Existing Programs	n/a	$14.7 million	$7.3 million	($7.4 million)
Metro	$47.6 million	$49.3 million	$47.8 million	($1.5 million)
Debt Service	$72.2 million	$75.0 million	$69.0 million	($6.0 million)
Transfer to Capital (Ongoing)*	$6.8 million	$6.8 million	$3.8 million	($3.0 million)
Stabilization Reserve**	$4.0 million	$13.5 million	$7.8 million	($5.7 million)
Contingents for added services or additional loss in revenue	n/a	n/a	$10.2 million	$10.2 million

**In addition to the reallocation of $3.0 million of FY 2021 funding for PAYG, this revised budget also proposes the redirection of $5.0 million of capital projects deferrals and project balances where the funding was provided in multiple prior fiscal years.*
***Stabilization Reserve is 1.0% of the General Fund. Some funding was utilized for emergency technology needs after the February proposed budget. This revised budget utilizes an additional $4.0 million.*

What Hasn't Changed from the Proposed Budget

My revised budget proposal continues support in the following areas:

Compensation, Recruitment & Benefits

While I am proposing no compensation increase at this time, I am not proposing any changes to the County's pension, health care program or other existing benefits (I am delaying the new health care option of the Consumer Driven Health Plan (CDHP)).

There are several compensation enhancements which remain in the FY 2021 revised budget.

- Continued hiring for our public safety agencies: recruitment funding for Police ($129,000, one-time) and Sheriff ($75,000, one-time)
- Increase to Fire staffing (9 FTEs) to continue the implementation of Fire's Kelly Day and a second recruit class ($2.4 million). Continuation of this effort is extremely important so when we exit from these difficult times, Arlington's Fire Service will continue to be appropriately staffed.

- Increase in dependent care subsidy ($500 to $1,000), increase to vacation leave accrual for new/recent hires, increase in paid parental leave from 4 to 6 weeks, one-time Election Day holiday, and an additional floating holiday.

Affordable Housing

- *Housing Grants*: $10.1 million total, including an $0.8 million increase, to meet the estimated increase in demand prior to COVID.
- *Permanent Supportive Housing*: $2.5 million, including an $0.4 million increase, to meet the estimated increase in demand. In addition, two additional positions were added to support this at-risk population and the growing demand in this program ($200k). The program has grown 9% since 2018 and approximately 46% over the last five years.
- *Affordable Housing Investment Fund*: Revised budget matches the FY 2020 level of $16.0 million.

Safety Net Non-Profits*:* Continuing to fund the same level of support as in the proposed budget, including contractual services levels for the Residential Program Center, the Homeless Services Center and various group homes as well as other base budget contributions for organizations like Offender Aid & Restoration (OAR) and others.

Other Services and Programs: The rest of my revised budget assumes continuing the same level of day to day services as provided prior to COVID. This may be overly optimistic depending on the recovery trajectory, but it is too early to consider full-scale program and service reductions.

I did want to highlight areas where my original budget included additional funding to: 1) meet contract increases due to the results of new procurements; 2) areas where we have been experiencing an increase in demand or we were falling behind; or 3) maintaining filled staff positions that had been funded with one-time funds in prior years; and 4) prior commitments or legally mandated new programs that are underway and likely cannot be eliminated, like election funding. These include:

- Contractual cost increases: A number of base budget increases remain due to the increased cost of procured services. One of the most significant increases in FY 2021 was due to the new operator contract for the County's ART bus service ($4.4 million full year impact). Other increases include rent costs for the County occupying leased space, technology software increases, and other services provided to County residents and businesses.
- Service demand & County infrastructure:
  - Additional staffing for Transportation Engineering and Operations: $0.2 million
  - Procurement: $0.1 million
  - Concrete maintenance: $0.3 million
  - Facilities maintenance: $0.1 million
- Maintaining filled staff positions in Cultural Affairs, Human Services, Parks & Recreation, CPHD, Technology Services and Commonwealth Attorney's Office: $1.4 million, 13.5 FTEs
- Prior commitments or legally required:

- New Mental health docket positions: $0.2 million
- One-time funds for the November election: $0.3 million
- Commitments to regional partners (e.g. NOVA Park Authority, COG)

Proposed Reductions: In February, I proposed a budget that added back targeted investments in areas that were falling behind after two years of reductions. My revised budget now proposes that $10.5 million of program adjustments be postponed: $4.8 million in new services and $5.7 million in enhancements to existing programs. The following tables outline those items.

Postponed Program Adjustments: New Programs

Dept.	Expense Adjustment	Ongoing	One-time	Total
AED	Signature Costume Shop Management		$ 70,000	$ 70,000
Clerk CCT	Marriage license request portal		$ 75,000	$ 75,000
CMO	Innovation funding	$ 200,000		$ 200,000
CPHD	Historic Preservation Master Plan		$ 35,000	$ 35,000
DES	Pilot low cost flood sensors for 300 high risk homes		$ 9,000	$ 9,000
DHS	Housing Support to those aging out of foster care	$ 251,736		$ 251,736
DHS	Case Manager for Housing Support for foster care	$ 91,923		$ 91,923
DPR & DES	Lubber Run Community Center*	$ 1,141,000	$ 180,000	$ 1,321,000
DPR	Long Bridge Aquatics and Fitness Center**	$ 1,600,000	$ 285,000	$ 1,885,000
DPR	Community Engagement Position	$ 100,000		$ 100,000
LIB	Courthouse Library staffing & materials		$ 75,000	$ 75,000
POL	Traffic Control Officers	$ 453,992	$ 104,012	$ 558,004
Non-D	GARE equity training ($25,000 remains)		$ 75,000	$ 75,000
Non-D	Northern VA Economic Development Consortium		$ 75,000	$ 75,000
		$ 3,838,651	**$ 983,012**	**$ 4,821,663**

** Note: $0.3 million of new funding remains in the revised budget for Lubber Run Community Center to cover basic building maintenance and to fund the maintenance of the outdoor park.*

***Note: Elimination of funding for Long Bridge Aquatics & Fitness Center does not result in net tax support savings, as these operations were offset by program revenue and Boeing grant funding. $0.7 million of new funding remains in the revised budget for the General Manager & Maintenance Tech positions for facility management, minimal cleaning and utilities, pool chemicals, and outdoor park maintenance*

Postponed Program Adjustments: Enhancements of Existing Programs

Dept.	Expense Adjustment	Ongoing	One-time	Total	Remaining Services
AED	Lee Highway Alliance	$ 25,500		$ 25,500	Base budget of $60,500 included in revised budget
AED	Clarendon Alliance	$ 15,000	$ 10,000	$ 25,000	Base budget of $80,000 included in revised budget
AED	Columbia Pike Revitalization		$ 60,000	$ 60,000	Base budget of $350,000 included in revised budget
AED	Arts Grants		$ 30,000	$ 30,000	Arts Grants funding will remain at the base budget level of approximately $215,810.
CBO	Audit consulting funds		$ 60,000	$ 60,000	The Board Auditor base budget of $235,000 remains funded.
CBO	Salary increase	$ 58,480		$ 58,480	Salaries remain flat, consistent with staff compensation
Clerk CCT	Court Clerk	$ 68,000		$ 68,000	The Court will continue to operate with four Court Clerks.
CPHD	Housing Arlington		$ 248,750	$ 248,750	The Housing Arlington staff budget remains unchanged from the FY 2020 Adopted budget.
CPHD	Principle Planner, Housing	$ 147,000		$ 147,000	
CPHD	Principle Planner	$ 147,000		$ 147,000	Comprehensive Planning staffing will only increase by 0.5 FTE, which fully funds an existing position.
DES	Facilities Planner/Architect	$ 81,254		$ 81,254	DES Facilities Planning base budget remains at the FY 2020 Adopted level.
DES	Water/Sewer/Streets Training Specialist	$ 28,020		$ 28,020	Admin and training work for the Water/Sewer/Streets Bureau will continue to be supported centrally within DES.
DES	Streetlight Support	$ 111,643	$ 23,000	$ 134,643	Major repairs remain at 45 days instead of improving to 30 days, and minor repairs remain at 14 days instead of improving to 7 days.
DMF	Commercial Real Estate Appraiser	$ 103,846		$ 103,846	Existing Commercial Real Estate Appraisal team (4.0 FTEs) remains unchanged.
DMF	Internal Audit		$ 50,000	$ 50,000	Revised proposal retains 1.5 FTEs and consulting support.
DPR	Restructure Roving Monitor Program	$ 70,000		$ 70,000	Roving monitor program will be restructured by reallocating existing budget
DPR	Additional Urban Forester	$ 135,000	$ 53,000	$ 188,000	Urban Forestry team remains at 3.0 FTEs.
DPR	Tree Maintenance (pruning)	$ 200,000		$ 200,000	Tree pruning cycle remains unchanged at 17 years instead of improving to 10 years.
DPR	Disease/Pest Maintenance for trees	$ 50,000		$ 50,000	
DPR	Temp Employee Conversion	$ 596,875		$ 596,875	Existing staff will remain temporary employees.
HRD	Business Partner	$ 121,366		$ 121,366	Human Resources and the departments impacted will continue handling human resources issues although less optimally than would be possible with this additional resource.
HRD	Class & Compensation position	$ 140,000		$ 140,000	With the pause in classification studies, Classification & Compensation will continue studying positions although they will not be completed as quickly without this additional resource.
LIB	Collections materials		$ 100,000	$ 100,000	Libraries collection budget increases from $1.5 million in FY 20 adopted budget to $1.6 million in revised proposal (instead of $1.7 million).
Non-D	AHIF		$ 2,700,000	$ 2,700,000	AHIF funding remains at the FY 20 Adopted Budget level of $16.0 million.
Non-D	Probation & Parole: increase supplement to 15%	$ 97,225		$ 97,225	Supplement for Probation and Parole remains at 7.5%.
Non-D	Transfer to Capital		$ 119,795	$ 119,795	In addition to this reduction in PAYG funding, the base is reduced by an additional $3 million resulting in total FY 21 funding of $3.8 million.
		$ 2,196,209	**$ 3,454,545**	**$ 5,650,754**	
	TOTAL EXPENSE ADJUSTMENT	**$ 6,034,860**	**$ 4,437,557**	**$ 10,472,417**	

Metro: Similar to the County's budget, Metro's FY 2021 budget is in a state of flux given COVID. The WMATA Board adopted its revised budget last week with the caveat that it will be revisited prior to July 1, 2020 given the decline in ridership, COVID-related expenses and the likelihood of significant federal aid via the CARES Act. The revised WMATA budget also assumes that the Silver Line will begin revenue operations in April 2021, a delay from the original budget assumption of July 2020. My revised budget reflects a $1.5 million, or 3% reduction in the County's contribution due to the delay of the Silver Line and the possibility of federal assistance. Should additional funding be required after WMATA's FY 2021 budget is amended, staff will return to the Board with additional options to meet those regionally agreed upon needs.

Debt Service: With turmoil in the financial markets and unprecedented uncertainty in the municipal bond market, I am opting to delay the planned June sale of general obligation bonds. By doing this, and assuming a sale of bonds much later in this calendar year, close to $6 million in expenditure savings will be available. The delay in issuance is expected to have no effect on the major projects now under construction. It will also provide APS with debt service savings and we will be working with them to ensure appropriate cashflow for such projects as the new elementary school at Reed.

Capital Projects: I am proposing a series of immediate reductions and deferrals in capital projects, totaling $8 million. In developing this proposal, I have focused as much as possible on which projects should continue, with the initial criterion being that if a construction contract is in place and construction is underway, we will continue the project due to the complexities of contract renegotiations and restarting construction at a later date. The most significant examples in this area are Lubber Run Community Center and the Long Bridge Aquatics and Fitness Facility, which are well underway. However, for these two projects, we will be deferring their operational opening until at least FY 2022.

Our analysis has focused on projects funded with PAYG, which is largely funded by monies transferred from general tax support and can be used with flexibility to be reprogrammed to other operating budget needs. A vast majority of our capital program is funded with legally restricted funds that cannot be reallocated to general capital projects (e.g., commercial and industrial real estate tax for transportation projects, water-sewer rate for utilities projects, stormwater real property tax add-on). Additionally, there are IRS and legal restrictions on general obligation bond proceeds that prohibit their use on operating expenditures.

The proposed PAYG reductions and deferrals are broken into two primary categories:

Proposed FY 2021 PAYG projects – the February Proposed Budget included $6.8 million in ongoing General Fund dollars and $100,000 in one-time carryover funds for capital projects and support that have not yet begun or begun the procurement process and where staff have been redirected to other COVID responsibilities. My revised budget **proposes deferring $3.0 million** as summarized below:

- *Project deferrals* – examples include the replacement of overhead doors at Fire Station 9 ($0.4 million); new DHS system for child care centers and in-home care licensing ($0.6 million); and fitness center equipment replacement ($0.1 million), among others.

- *Ongoing program reduction & deferrals* – There are a number of ongoing programs across the County's facilities, parks and transportation infrastructure that receive annual PAYG funding but also bond funding and in some cases developer funding. The revised budget assumes that these programs are reduced in part but not in whole given the other sources of funding and prior years' balances, which will allow some level of effort to continue, yet focus will be on critical needs. I am also conscious that our procurement and project management infrastructure will be backlogged as our efforts have been prioritized on COVID. Program examples include facilities and parks planning; interior maintenance and furniture replacement projects; and energy management.
- *What projects and programs remain funded* — Many of the staff that support and manage capital projects across the County are charged directly to PAYG funds; I have continued those allocations to ensure that staff retain their jobs. I have continued to fund projects where an asset is at risk of operational failure, such as deferred investments in the Court Square West and Courts-Police building and the initial phases of a child welfare management system. I am also continuing to fund voting machine and election-related investments.

A full list of project deferral detail will be published in the coming week.

Prior Years' PAYG projects – I am proposing **reallocation of $5 million in prior year's PAYG** projects.

- *Contingencies and leftover project balances – $1.8 million* - Staff has conducted an initial review of all program and project contingencies and is recommending $1.1 million in allocation from transportation PAYG and energy management contingents. While there is some risk in utilizing these contingents, if emergency needs arise, we will utilize the County Manager's contingent or delay other projects. Staff has also done an initial evaluation of projects that have recently concluded or will conclude shortly and identified $0.7 million that can be reallocated to the operating budget. This review of balances would normally occur as part of the close-out process.
- *Project deferrals – $3.2 million* - examples include the initial planning funds for Virginia Highlands Park ($0.6 million) and where construction funding had not yet been allocated in the CIP; deferral of new furniture for Central Library ($0.5 million); delay in replacement of the Aurora Hills Library and Community Center roof ($0.6 million) and delay in intersection and roadway improvements at N. Sycamore and Lee Highway together totaling $1.2 million, among others.

Utilization of Reserves: The Stabilization Reserve is funded to address unexpected events, such as major weather events or a local/regional emergency requiring immediate spending in response, revenue declines, and local or regional economic stress. Over the past few fiscal years, the County has increased the funds in the Stabilization Reserve to further our ability to weather such events. If there is ever a time to tap reserves, this is it. I am recommending using $4.0 million of the Stabilization Reserve to fill a portion of the gap created by the significant revenue declines noted above. This leaves about $7.8 million in the Stabilization Reserve should there be further economic impacts or another major event such as weather in the future. Our financial policies require any use of reserves to be replenished within the subsequent two (2) fiscal years.

The County has weathered significant financial downturns, such as September 11, 2001 and the Great Recession of 2008, without utilizing our General Fund Operating Reserve. As I said above, I fear we are being optimistic in our assumptions for how quickly we will rebound economically from this pandemic and we won't know the real economic impact for some time. While appropriate to tap into our Stabilization Reserve for this proposed budget, utilizing funds in the General Operating Reserve to fund FY 2021 ongoing costs at this time would not be prudent.

New COVID Contingency Funding

In order to address the ever-evolving nature of this crisis and our recovery efforts in FY 2021, I am recommending a $10.2 million COVID contingent funded by the reductions discussed above. I am intentionally, with one exception, not recommending specific allocations to any particular use given how rapidly our assessments of needs is changing. There are four major areas where I envision the COVID contingent could be used.

1. *Safety Net & Housing* – $2.7 million – Our first and foremost priority is to ensure that the basic needs of food and shelter are met for our residents, particularly those who have lost their jobs. In the area of direct housing assistance, my original budget proposal ($68.5 million total; $45.0 million net tax support) included funding to meet prior year levels and proposed increases to meet new demand; these continue in my revised budget as discussed earlier in this memo.

   Consistent with the Board's direction, I included an option in my proposed budget to increase the allocation to AHIF by $2.7 million with one-time funding, reaching a total of $18.7 million, a 17% increase over the FY 2020 budget. I am now recommending that this $2.7 million increase be allocated to a contingent to address housing stabilization needs and other life-safety needs as we move into recovery. I am mindful of the key role that our safety-net non-profits play and will continue to play as we move into recovery and so some of this allocation and/or the balance of the COVID contingent may be used to meet their needs.

2. *Community Resiliency – Small Business and Recovery Investments* – Additional support for our small businesses, tourism industry and the non-profit network of arts and other cultural organizations will likely be needed.

3. *Service Delivery Recovery & Employee Support* – There will also likely be many costs to restart our programs and reopen our facilities or even new services and programming needed post-COVID that we have not yet envisioned. We will need to replenish our inventory of personal protective equipment and cleaning supplies and likely will have additional technology refreshment needs. The impact on our healthcare expenses and future pension obligations are also unknown at this time. Finally, I am mindful of the toll that COVID has taken on our entire workforce, and our front-line employees in particular, who may need additional mental health resources as we go through and emerge from this crisis.

4. *Revenue loss* – We do not know if there will be future phases of this pandemic or how and when the economy will bounce back. This contingent may also be used to make up for additional revenue shortfalls not yet known.

Future Funding Options

If the current economic circumstances persist and worsen there are other potential tools that could be used to bridge the gap. We could further cut back on capital projects, reduce program levels, draw more money into the General Fund by reducing the percentage for the Crystal City Tax Increment Financing District, and redirect balances set aside in the Development Fund. We will also continue to monitor possible additional aid from the federal government and the Commonwealth including how funding from the CARES act will be distributed.

The core General Fund Operating Reserve (5.5% of the General Fund) is not an option I am considering now, but I would review that option if the community should suffer through multiple waves of COVID-19 infections.

Revised Budget Process

As I mentioned previously, the FY 2021 budget may need to be amended several times during the fiscal year to recognize the changing fiscal conditions (revenue and expenditures). This FY 2021 revised budget proposal to the County Board is a high-level overview of the impacts to revenue and expense along with recommendations to utilize existing County resources in contingent accounts, reserves, and capital project budgets. A compressed budget adoption schedule has been proposed with a delayed tax & fee hearing and budget adoption date. Current revised budget process dates are as follows.

- April 6th (Monday) Revised Proposed Budget
- April 16th (Thursday) Work Session
- April 23rd (Thursday) Budget Hearing and Tax & Fee hearing
- April 27th (Monday) Wrap-up
- April 30th (Thursday) Budget Adoption

Other Fund Adjustments

The following funds do not need to be adjusted from the February Proposed Budget at this time.

Fund	FY 2021 Revenue Budget	FY 2021 Expense Budget
203 - Ballston BID	1,569,935	1,569,935
204 - Rosslyn BID	4,053,393	4,053,393
205 - Crystal City BID	4,739,568	4,739,568
208 – Housing Choice Vouchers	19,688,410	19,473,520
503 - Utilities	104,667,295	103,667,295
519 - PAYG	23,422,000	23,422,000
570 - CPHD Development Fund	26,363,154	24,200,894
609 - Auto Fund	18,636,065	18,574,340
611 - Printing Fund	2,611,841	2,384,695

The revenue receipts in each fund will be closely monitored for any needed adjustments throughout the fiscal year. If additional federal funding is available for Arlington's Housing Choice Voucher program, I will come back to the Board with an adjustment for that fund.

Several other funds require funding adjustments based on changing tax assumptions or revised activity projections based on a variety of other market conditions (detailed in the table below). Funds have been balanced on the expenditure side through the hiring freeze to ensure personnel savings and non-personnel budgets have also been adjusted; in some cases, the funds are utilizing existing fund balance from prior years.

	Originally Proposed	Revised Proposed	Change	Originally Proposed	Revised Proposed	Change
Fund	**FY 2021 Revenue Budget**			**FY 2021 Expense Budget**		
201 - Ballston Quarter TIF	2,889,318	2,018,464	(870,854)	2,889,318	2,018,464	(870,854)
202 - Travel & Tourism	1,546,700	1,209,582	(337,118)	1,546,700	1,209,582	(337,118)
206 - Community Development	3,231,142	3,378,470	147,328	3,231,142	3,378,470	147,328
313 - General Capital	6,952,022	3,952,022	(3,000,000)	6,952,022	3,952,022	(3,000,000)
321 - Stormwater Fund	12,026,019	11,729,047	(296,972)	12,026,019	11,729,047	(296,972)
330 - TCF NVTA 30% Local	8,668,304	7,870,399	(797,905)	8,668,304	7,870,399	(797,905)
331 - TCF C&I Tax	26,882,741	26,566,401	(316,340)	26,882,741	26,566,401	(316,340)

335 - Crystal City TIF	6,202,220	5,759,940	(442,280)	6,202,220	5,759,940	(442,280)
336 - Columbia Pike TIF	1,094,670	968,520	(126,150)	1,014,000	1,014,000	-
540 - Ballston Parking Garage	4,435,800	4,214,010	(221,790)	4,144,996	4,144,996	-
548 - Ballston Parking Garage 8th Level	253,200	240,540	(12,660)	92,841	92,841	-

Revised projections for these funds are based on:

- 201 - Ballston Quarter TIF: Changing assumption for Real Estate tax revenue, Sales taxes, and Meals taxes
- 202 - Travel & Tourism: Changing assumption for Transient Occupancy Tax
- 206 - Community Development: Revised estimates of funding from Housing and Urban Development
- 313 - General Capital: Reduction of $3.0 million in transfer from General Fund
- 321 - Stormwater Fund: Changing assumptions for Real Estate Taxes
- 330 - TCF NVTA 30% Local: Changing assumptions for taxes that fund NVTA
- 331 - TCF C&I Tax: Changing assumptions for Real Estate Taxes
- 335 - Crystal City TIF: Changing assumptions for Real Estate Taxes
- 336 - Columbia Pike TIF: Changing assumptions for Real Estate Taxes
- 540 - Ballston Parking Garage: Changing assumptions for parking revenue
- 548 - Ballston Parking Garage 8th Level: Changing assumptions for parking revenue

It is anticipated that Arlington will receive approximately $830,000 in additional CDBG funding as well. Because the funding may be available for use during FY 2020, it is not included in the proposed FY 2021 budget so that it may be appropriated and used as soon as it is available.

In conclusion, I look forward to discussion of this proposal.