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 2, 2021
From:	Mark Schwartz, County Manager		
Subject:	Mid-year/ Third Quarter Review of Fiscal Year 2021		

The mid-year/third quarter memo I typically share with the County Board each year provides updates on revenues and expenditures of the current fiscal year (FY 2021), revised estimates for the coming fiscal year (FY 2022), and recommendations on allocations of these funds.

This year's analysis also includes potential impacts of the American Rescue Plan. The Plan provides approximately $46 million for Arlington - $23 million next month and the balance in FY 2022. The Rescue Plan's legislative text only provides broad language on allowable uses. While we await Treasury guidance that will establish the rules governing this funding, for now we have limited the use of these funds to restoring service reductions caused by the drop in revenue from the pandemic (clearly covered by the Rescue Plan) and set aside the remainder for pandemic relief expenditures consistent with types of expenditures under the CARES Act allocations. Given this, I recommend the following actions:

- Free up the $17.5 million County COVID contingent proposed in February and direct its use to meet current needs.
- With $5.7 million in additional ongoing revenue, aided by stronger than expected BPOL (Business, Professional, Occupational and License) taxes in FY 2022, allocate $3.7 million and share $1.9 million with Arlington Public Schools.
- Use, as needed, a portion of the $13.4 million set aside at closeout of the FY 2020 budget.

Adjustments to the FY 2022 Proposed Budget

As I have outlined throughout the budget process, my priority for any additional funding that might become available is to increase compensation to staff. Our neighbors in the area have proposed salary increases and our staff have worked tirelessly over the past 13 months without a raise.

Given this, I am recommending that the majority of the $3.7 million in ongoing funds that have become available -- a total of $2.4 million -- be allocated to a merit pay adjustment for all employees and adjusting the minimum and maximum of pay ranges so they can be increased 5% for general employees and 1% for public safety staff. Increasing these ranges will ensure that all employees receive a raise, including those who are "maxed" out. This 1% merit raise is in addition to the one-time $500/net employee bonus included in the FY 2022 Proposed budget.

As more information becomes available on potential use of the American Rescue Plan funds, I may return to the Board with recommendations for additional employee compensation.

In addition, I am proposing that the County Board fund a small number of investments that have been identified throughout the budget process. For example, funding to bring support for the Lee Highway Alliance back to the FY 2021 level, redaction software needed by the Commonwealth's Attorney for implementation of the body worn program, restoration of funding for Virginia Cooperative Extension and Northern Virginia Conservation Trust, and restoration of funding eliminated for Arlington Independent Media.

Additional allocations to restore service reductions at libraries, recreation centers and other County facilities is appropriate given the change in circumstances. Such funding will enable the facilities to reopen when staff is available and assuming all pandemic protocols can be met. At this time, I have no additional specific recommendations, but I would note that opportunities that were included in the Fiscal Year 2021 Proposed Budget that were deferred due to the pandemic may be an appropriate set of proposals to consider. FY 2021 Proposed Budget

Revenue and Expense Analysis

The tables on the following page summarize mid-year estimates of revenues and expenditures. The estimates detail anticipated impacts to both the County and the projected School transfer of local tax revenue. Given the worsening of FY 2021 estimates for local tax revenue (below amounts assumed when the FY 2021 budget was adopted), it is projected that Schools will receive $5.5 million less in FY 2021 local tax funding under the Principles of Revenue Sharing.

	FY 2021 Incremental Change Compared To Adopted Budget ($ millions)	FY 2022 Incremental Change Compared To Proposed Budget ($ millions)
Revenue	**ONE-TIME**	**ONGOING**
Real Estate Tax & Refunds	$10.6	-
BPOL	7.7	4.1
Meals	(13.0)	-
Sales	(3.6)	-
Hotel (TOT)	(14.3)	-
Other Tax Revenue	1.0	-
Sub-Total Taxes	**(11.6)**	**4.1**
Non-Tax Revenue	(26.4)	1.6
Total Revenue	**(38.0)**	**5.7**
Expense Adjustments		
FY 2021 Departmental Savings	20.4	-
Debt Service	2.0	-
Healthcare	4.0	0.2
Miscellaneous Adjustments	(0.3)	-
CARES funding of Pandemic staffing	13.0	-
Fire ET3 Program (expense offset by revenue above)		(0.3)
Total Expense	39.2	(.1)
TOTAL MID-YEAR	1.2	5.7
47% Tax Revenue Transfer to Schools (FY 2021 is reduction in revenue / FY 2022 is increase in revenue)	5.5	(1.9)
County Share of Mid-Year	6.7	3.7
Proposed Real Estate Allocations Made as Part of Proposed FY 2022 Budget in February 2021 for One-Time Items	(5.2)	-
Portion of Recordation Tax Allocated to AHIF (by Board Policy)	(1.5)	-
TOTAL AMOUNT AVAILABLE	**$0.0**	**$3.7**

As noted above, total tax revenue changes are $11.6 million below budget while non-tax revenue is expected to be $26.4 million below budget resulting in a projected revenue shortfall of $38.0 million.

In February, as part of the proposed budget, an increase of $9.7 million in real estate tax revenue from higher than expected assessment growth in January 2021 ($9.7 million) was identified and included in the FY 2022 Proposed Budget.

The FY 2021 revenue shortfall was offset by both departmental expense savings and the use of CARES funding for public health, public safety and human service pandemic related payroll costs.

After the budget was proposed, new fees for the implementation of the Emergency Triage, Treat, and Transport (ET3) pilot program in the Fire Department were advertised and the State imposed right-of-way fee was increased. Preliminary BPOL tax receipts have exceeded the FY 2021 budget, indicating a significantly faster recovery than originally anticipated for this tax source. Additional non-tax revenue is also projected for FY 2022 based on increases in recent motor vehicle license fee and grantor's tax receipts. These additional revenues are included in the table above as part of the ongoing incremental change from the FY 2022 Proposed Budget.

Revenues

Overall, fiscal year 2021 revenues are estimated to be $38.0 million lower than the FY 2021 adopted budget due to $11.6 million decrease in projected tax revenues and a $26.4 million shortfall in non-tax revenues.

Revenue Summary – Fiscal Year 2021 (Changes from Adopted Budget)	Incremental +/(-) Over Budget ($ millions)
Tax Revenue:	
Real Estate Tax*	$10.6
Personal Property	(1.0)
Business, Professional, & Occupational License	7.7
Sales Tax	(3.6)
Meals Tax	(13.0)
Car Rental	(0.7)
Recordation	3.8
Transient Occupancy (Hotel) Taxes	(14.3)
Other Taxes	(1.2)
Total Tax Revenue Change	**(11.6)**
Non-Tax Revenue:	
License, Permits, Fees	(1.0)

Revenue Summary – Fiscal Year 2021 (Changes from Adopted Budget)	Incremental +/(-) Over Budget ($ millions)
Fines & Interest	(7.8)
Charges for Service	(17.3)
Miscellaneous Revenue	1.0
State & Federal	(1.2)
Non-Tax Revenue Change	**(26.4)**
Total Projected Revenue Decrease*	**($38.0)**

* Net of Crystal City, Potomac Yard, and Pentagon City and Columbia Pike Tax Increment Financing Area allocations

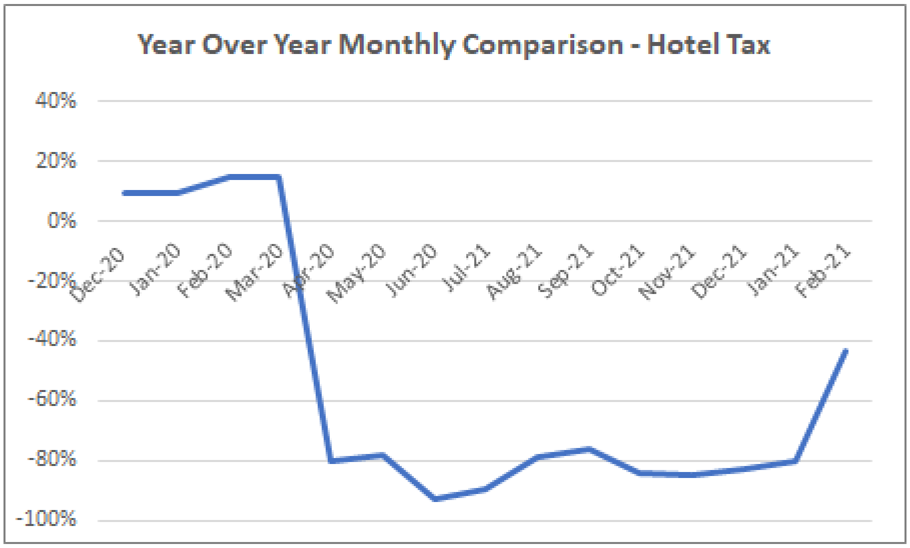
Note: Numbers may not add due to rounding.

Real Estate – Actual real estate tax revenue at the current tax rate is projected to be higher for FY 2021 than the adopted budget due to a variety of factors. Base real estate tax revenue at the current tax rate is higher due to growth in the overall assessment tax base for CY 2021 from projected amounts in the FY 2021 adopted budget. As announced in January 2021, assessments overall increased 2.2%. At existing tax rates, this assessment increase combined with revenue from supplemental assessments generates $10.6 million more than the FY 2021 budget.

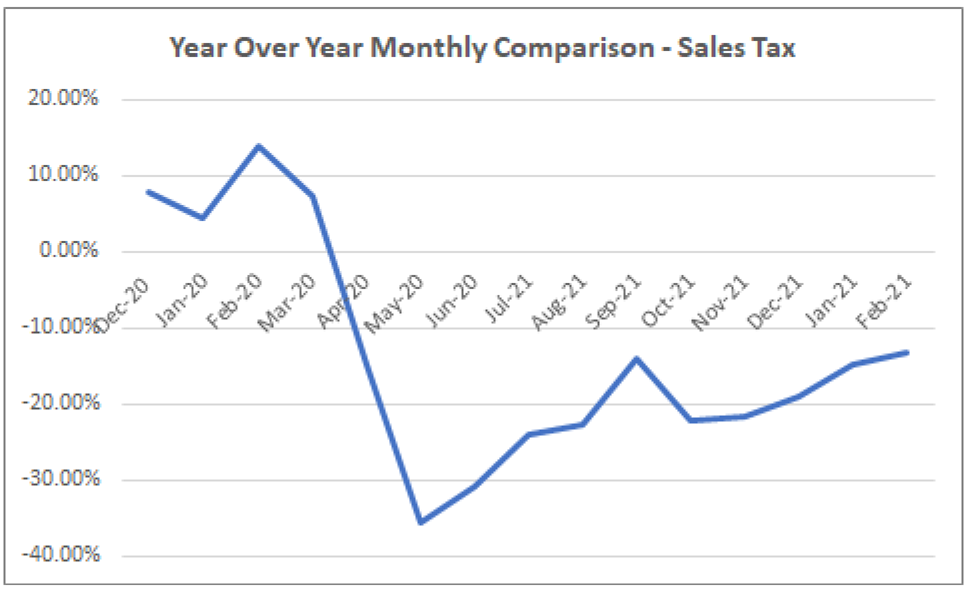
Personal Property – Vehicle personal property revenue is trending below the FY 2021 budgeted level while business tangible revenue is trending higher. This tax revenue is forecasted to be $1.0 million (0.8%) under budget by fiscal year-end.

Business, Professional, and Occupational License Tax – These taxes are levied on entities doing business in the County and are in the form of fixed fees or a percentage of gross receipts. Early receipts indicate continued strength, comparable to pre-COVID levels. The projected revenue receipts in FY 2021 are $7.7 million above the adopted budget levels. This revenue source was lowered significantly at the onset of the pandemic in anticipation of much slower business activity in the County for FY 2021.

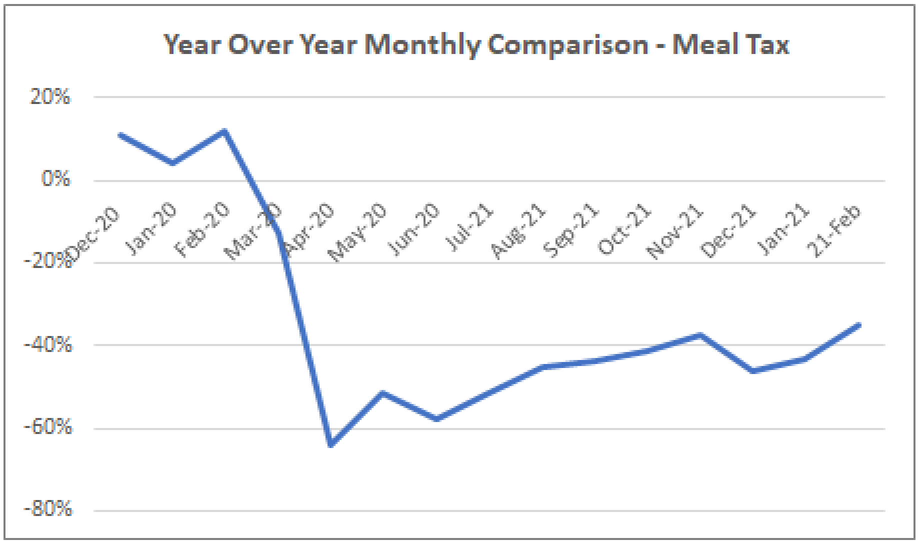
Transient Occupancy Tax (Hotel Taxes) – This five percent tax on hotel and motel rooms had seen substantial year over year growth in the months preceding the initial COVID-19 shutdown. Since that time, monthly receipts have averaged nearly 80 percent down from the prior year. Based on current projections, recovery of this revenue source will continue to be slow. The recent increase in hotel taxes displayed in the graph below is due to the spike typically experienced in the February after a presidential inauguration. Overall, hotel tax revenue is expected to be down $14.3 million from the adopted FY 2021 level.



Sales Tax – Arlington receives one percent of the total sales tax applied to sales in the County. Although this tax revenue had started to show signs of recovery early last fall, monthly receipts were still well below the fast-growing pre-COVID-19 receipts. This slow recovery has continued throughout the fiscal year and the FY 2021 sales tax is forecasted to be $39.5 million, $3.6 million lower than budgeted.



Meals Tax – This four percent tax is charged on most prepared foods offered for sale. Like other monthly taxes, this tax revenue had been growing steadily prior to COVID-19. While receipts have remained above the lows observed at the end of fiscal year 2020, the recovery has been slower than anticipated. Meals tax revenue is forecasted to at $13 million lower than originally budgeted.



Car Rental Tax – The local car rental tax is collected by the State and remitted to localities where the rental transaction occurred. Arlington local car rental tax is four percent, which is in addition to the State's tax. Recent receipts remain well under pre-COVID levels so projected car rental tax revenue is expected to be slightly lower than the adopted budget, down $0.7 million to $3.6 million for FY 2021.

Recordation Tax - The local recordation tax is assessed at the rate of $0.0833 per $100 of value for all transactions including the recording of deeds, deeds of trust, mortgages, leases, contracts, and agreements admitted to record by the Circuit Court Clerk's Office. Monthly receipts have grown substantially this fiscal year and are forecasted to be $8.0 million, $3.8 million above budget. Based on prior Board policy, a portion of the recordation tax is dedicated to housing. Due to the projected increase in recordation tax revenue, an additional $1.5 million would be allocated to AHIF.

Other Local Taxes: Decrease $1.2 million - Cigarette, Utility, Consumption, and Communication taxes are trending lower than budget.

County Non-Tax revenues are projected to be $26.4 million lower than budgeted. Highlights include:

- **Licenses, Permits, and Fees** are anticipated to be $1.0 million below budget due to lower than expected site plan fees ($0.5 million), systems testing and taxicab fees ($1.3 million), partially offset by higher motor vehicle license tag revenue and highway permit fees ($0.9 million).
- **Fines and Interest** are expected to be $7.8 million lower than budget primarily due to lower interest rates and earnings ($3.0 million), ground rent revenue ($2.8 million), and parking ticket and other fine revenues ($1.8 million).
- **Charges for Service** have been significantly impacted by service and programming changes from the pandemic and are forecasted to be $17.3 million under budget. Capacity restrictions and other programming restrictions and reductions have substantially reduced revenue from recreation programs ($7.1 million). ART bus revenues are lower due to lower demand and waived bus fares for the first half of the fiscal year ($2.9 million) while demand for parking meters has been significantly lower resulting in lower revenue ($4.8 million).

- **Miscellaneous Revenues** are trending $1.0 million higher than budgeted.
- **State and Federal Revenue** is expected to be $1.2 million lower than budgeted mainly due to decreased human services ($2.7 million) and transportation grant revenue ($0.8 million), partially offset by cost reimbursements expected from FEMA ($3.0 million).

Expenditures

Most County departments and programs are projected to spend at or below their FY 2021 authorized levels. All department spending is being closely monitored for the remainder of the fiscal year.

Expenditure Adjustments (estimated changes from adopted FY 2021 levels)

- Departmental Savings – As noted above, most County departments are projected to spend at or below their FY 2021 authorized levels. Personnel savings account for over half of the anticipated department savings due to slowed hiring and holding positions vacant because of the early retirement buyout from December and January. Personnel savings also accrued with the elimination of many temporary positions normally needed to work at library and parks facilities. Non-personnel savings reflect changes in operations during COVID including the suspension of Parks and Recreation programming, savings in utility and other facility operation costs, and savings in Sheriff inmate care and pharmaceuticals. Departmental savings is partially offset by additional General Fund support for the Travel and Tourism Fund, which has been significantly impacted by lower hotel tax receipts.

- Debt Service – In November 2020, the County refinanced $212 million of previously issued County, Schools, and Utility Fund bonds for interest savings of more than $18 million over the next 15 years. In FY 2021, this resulted in $2.0 million of interest savings in the General Fund.

- Health Care – As noted in the FY 2022 Proposed Budget, healthcare costs for the County are currently trending lower. For FY 2021, $4.0 million in savings is projected.

- CARES – The County can cover payroll expenses of staff who are substantially dedicated to the COVID response including those in public safety, public health, health care, and human services. CARES funding that is not dedicated to directly responding to the pandemic is being utilized to cover the salaries and benefits of staff already budgeted for in FY 2021.[1]

- Metro - Staff is closely monitoring Metro's budget deliberations. We are not anticipating any impact on the FY 2021 budget. However, future years are much more uncertain and current projections show substantial funding needs in the out years.

[1] The FY 2021 adopted budget included a $10.2 million COVID contingent which has been used to offset a variety of pandemic related expenses incurred by the County which could not be covered with CARES monies. At this time, there are balances in this contingent; however, the final available balance at the end of the fiscal year will heavily depend on the continued costs of contact tracing and case investigation, as well as other COVID-response costs which may be offset by FEMA reimbursement.

- Other Non-Department Specific Accounts:
    - Northern Virginia Juvenile Detention Center – After the Arlington County Board adopted its FY 2021 annual budget in April 2020, the Northern Virginia Juvenile Detention Center decreased its FY 2021 budget request from all three of its participating jurisdictions due to lower staffing levels and revenue increases from state contract programs. Originally budgeted at $1,438,797, the Center's revised contribution request of $956,188 results in a savings of $482,609 to Arlington County in FY 2021.
    - Utilities & Fuel – A negative adjustment is budgeted in non-departmental to account for savings in these budgets across departments.

Expenditure Adjustments (changes from the Proposed FY 2022 levels)

- Fire's ET3 Program – The proposed ET3 program (new fees referenced above in the revenue section) requires the establishment of a Program Manager position and use of qualified health practitioners as outlined in the March Board Report. These costs will be offset by the revenue generated from fees.

- Kaiser Healthcare Savings – Since the FY 2022 budget was proposed, the County has learned that healthcare rates for Kaiser can be decreased 2.5% resulting in savings of $175,000.

SCHOOLS

The County initially projected that the FY 2021 tax revenue shortfall for Schools based on the Principles of Revenue Sharing would range between $14.1 million and $21.2 million below the adopted budget levels. A number of taxes varied from the adopted budget; meals tax and hotel taxes are lower than originally forecasted while real estate and business license taxes are higher.

In the FY 2022 Proposed Budget, the County indicated that Schools would receive as much as $4.6 million in additional real estate tax revenue based on the revised CY 2021 real estate assessment information. Prior to the Superintendent proposing their budget, County staff informed Schools that while real estate tax revenue increased, overall tax revenues would most likely be lower in the aggregate for FY 2021. Schools did not include the additional real estate revenue from FY 2021 due to the uncertainty of the total overall tax revenues for FY 2021.

As of the mid-year/ Third Quarter. projection, Schools will see a budgeted reduction of $5.5 million to their County transfer based on the Principles of Revenue Sharing percentage of lower overall projected tax revenues for FY 2021.

AFFORDABLE HOUSING INVESTMENT FUND

FY 2021 projections for Recordation tax are higher than budgeted. The County Board earmarked a portion of recordation tax revenue to AHIF when the rate increased from $0.05/$100 to $0.0833/$100 in FY 2005. Based on the Board adopted funding allocations for recordation tax, the amount which would be allocated to AHIF totals $1.5 million above the adopted FY 2021 budget.