

Fiscal Year 2023 Proposed Budget Message

To the County Board and the Arlington Community:



After nearly two years of dealing with the human and economic effects of the COVID-19 pandemic, our community and County workforce are resilient, and our commitment to the services this community expects is steadfast. The signs of good news mixed with challenges and opportunities abound.

- Our revenue has rebounded – not back to pre-pandemic levels – but to levels that demonstrate our economic vitality.
- Our lives are forever altered by the pandemic as many more employees are not tethered to a physical location, have more mobility and an easier time in changing jobs in an economy with close to full employment.
- All our staff – including those who telework and those who provide direct services to our residents – whether they be police officers, firefighters, water and sewer workers, staff in our parks, recreation centers and libraries – face increased costs of living. Inflation, once thought to be transitory, is at its highest level of increase in decades.
- Our businesses struggle with vacant office spaces, and supply challenges while our retail operations try to provide services in a COVID world where many of us avoid brick and mortar stores and restaurants.

These trends have focused attention on the status of County staff and our economy. Last July, the County Board approved a collective bargaining ordinance for employees and took concerted steps to address employee compensation. In an unprecedented move, the Board included in budget guidance commitments to the largest raises in the past decade and signaled to our workforce the importance of their efforts.

In preparing the budget, four main considerations were part of each discussion:

- The need to balance year-to-year **funding stability** while relying on structurally sustainable sources of revenue;
- The need to support **goals identified by the County Board**: focusing on Schools, affordable housing, the environment, and continuing implementation of the recommendations of the Police Practices Group and meeting prior commitments;
- Asking how each of our budget investments follows the spirit of the Board's **Equity Resolution**; and

- Identify **needs that could not be funded** but are worthy of consideration if additional resources become available.

I will discuss each of these in turn.

1. Funding Stability:

The FY 2023 proposed budget totals \$1.47 billion, a 5.5 percent increase over the FY 2022 adopted level. This fall, we entered the budget planning process with projected revenue recovery but with continued uncertainties. We anticipated some growth to real estate assessments and other tax sources but were unsure about the strength of the growth and faced several potential cost pressures (Schools, Metro, inflation, etc.). Fortunately, final real estate assessment growth was stronger than anticipated with overall real estate growth of 3.4 percent and overall tax growth of 7 percent.

The 7 percent growth in taxes is certainly good news. However, some revenue sources are still not completely back to pre-pandemic levels. The table below highlights the changes from FY 2022 to FY 2023 in several of our largest tax sources.

(\$'s in millions)

<u>Tax Source</u>	<u>FY 2022</u>	<u>FY 2023</u>	<u>% Change</u>	<u>\$ Change</u>
Real Estate	\$804.2	\$852.2	6.0%	\$47.9
Personal Property	118.1	125.5	6.3%	7.4
Business License	72.5	78.0	7.6%	5.5
Meals	31.5	39.0	23.9%	7.5
Sales	43.8	45.0	2.7%	1.2
Hotel	10.0	16.5	65.0%	6.5
Other Tax Sources	<u>41.4</u>	<u>43.6</u>	<u>5.4%</u>	<u>2.2</u>
TOTAL TAXES	\$1,121.5	\$1,199.8	7.0%	\$78.3

This proposed budget continues to restore the service levels we experienced pre-pandemic by leveraging federal funding received through the American Rescue Plan Act (ARPA) and other local one-time funds. We are still not able to fully fund all the needs in the community with ongoing funding but have substantially reduced our reliance on one-time funding by 50% in the FY 2023 proposed budget and plan to continue to reduce the structural imbalance as revenues continue to improve. This

proposed budget reduces the need for one-time funding to support ongoing programs from \$16.0 million in FY 2022 to \$8.1 million for FY 2023.

With the continued improvement of tax and local revenue, federal ARPA funding, and other one-time monies, the Proposed Budget keeps all tax rates unchanged. Due to CY 2022 assessment growth, the "average" residential property tax burden increases 5.3 percent or \$395 (\$33/month) and the average bill for all taxes and fees for a homeowner grows by \$505 (\$42/month).

2. County Board Identified Goals:

Every year, the County Board asks me to keep our fiscal health, community health, and safety net services top of mind. We were able to do that while focusing on additional priorities.

Pandemic Response: As we enter year three of the pandemic, it is important to highlight the response to COVID-19 – a monumental, unprecedented effort across all departments and employees. To date, the County has distributed over 300,000 masks to County employees and partners, including a recent batch of N95 masks. Additionally, the County continues to offer masks to the public, with over 70,000 distributed to the community. Testing continues to be an important part of the COVID-19 response, with the County now operating five, no-cost Curative kiosks. As of February 6, nearly 150,000 tests have been administered at those kiosks.

We are fortunate and thankful to our community for its efforts to help make Arlington one of the most-vaccinated counties in the Commonwealth – as of February 6, over 194,000 Arlington residents have had at least one dose of a COVID-19 vaccine, and 77% of the County is fully vaccinated.

As a necessary step to provide a safe working environment, a safe community for residents, and continuity of services, Arlington County Government implemented a COVID-19 vaccine mandate for employees, which required all employees to be fully vaccinated – or to have a reasonable accommodation in place – by February 1, 2022. Nearly 96% of permanent County employees are vaccinated, and approximately 135 individuals have received religious or medical/disability accommodations; in total, more than 99% of employees are following the vaccine policy. Several of the employees placed on administrative leave are in the process of completing their primary series of a COVID-19 vaccine, so we expect our overall vaccination rate to rise, and with such a high vaccination rate, we expect minimal disruptions to County services.

Schools: The budget proposes transferring \$576.0 million to Arlington Public Schools (APS), consistent with the revenue sharing principles, an increase of \$46.0 million

(or 8.7%). This funding will enable APS to address compensation and learning initiatives. Our students have been deeply affected by the pandemic and the challenges in hiring teachers mirror those seen in other parts of the County workforce.

Housing: The Proposed budget, following County Board guidance, maintains the prior year's funding level to the Affordable Housing Investment Fund (AHIF) of \$16.9 million and includes \$14.3 million to support the County's Housing Grant program. Support to the Permanent Supportive Housing program increases \$588,046 to a total of \$3.7 million. This growing demand for direct assistance is accelerating. Accordingly, I am suggesting that County staff gather data on the program trends and that we work with the County Board on a process that will review, during this year, the eligibility criteria and operations of the Housing Grant program.

Over the past months, the County has committed to its single biggest investment in affordable housing ever. The County has worked with both Jair Lynch and Amazon to preserve the Barcroft Apartments as affordable housing. The proposed budget includes the funding needed to meet the costs of the \$150 million line of credit and also ensure the AHIF pipeline remains strong and able to assist with other projects. FY 2023 will see Park Shirlington and the Crystal Houses projects move ahead and potentially significant additions to AHIF through the site plan community benefit process.

Eviction Prevention: The Department of Human Services (DHS) has historically provided eviction prevention assistance to Arlington residents in need to assist them with rent, rent arrears, security deposits, and utility payments. Since the onset of the COVID-19 pandemic, DHS has experienced an increase in requests from Arlington residents for eviction prevention assistance.

In FY 2020, DHS served 1,555 unduplicated residents an average of 1.6 times each – with 2,500 total payments and an average payment of \$1,001. In FY 2021, DHS served 1,586 unduplicated residents an average of 2.6 times each – with 4,091 total payments and an average payment of \$1,230. And in FY 2022 to date, DHS has served 600 unduplicated residents an average of 2.1 times each. There have been 1,273 total payments made in FY 2022 to date, with an average payment amount of \$1,233.

The lower number of residents served locally in FY 2022 is not due to a decrease in need, but because the state has also been providing rental assistance since December 2020. DHS has been assisting many residents and landlords in applying directly through the state portal. Since December 2020, the state has provided eviction prevention assistance to 1,414 unduplicated Arlington households with a total of \$15,642,506 (as of December 31, 2021). However, the state portal is winding down and expects to end its assistance by the summer of 2022.

CAF Inspections: The COVID-19 pandemic has strained the conditions of Committed Affordable Units (CAFs), as in-person inspections were shifted to virtual reviews, and non-emergency maintenance and repairs often were deferred due to safety and resource considerations. The County is utilizing ARPA funding to proactively assess building conditions and resident needs in buildings with CAFs, specifically in properties that have not had substantial renovations within the last five years. This project is underway and will last into FY 2023; a contracted external partner is increasing our capacity to provide Housing Quality Standards (HQS) inspections to CAF units. Additionally, staff, with the support of community organizations, is providing resident outreach and education as well as listening sessions to learn more about the resident experience at our CAF properties.

Environment: The County continues to invest in mitigation of climate change. With both new federal funding and local net tax support, the Proposed Budget includes funding for the electrification of the vehicle fleet, renewable energy assessments for County facilities, solar projects, a Zero Waste plan update, and steps to advance the Community Energy Plan.

Guidance from the Board urged a “whole of government approach” to our County work. To ensure this focus remains strong, I am proposing a \$1.0 million Arlington CEP (Community Energy Plan) Action Fund. Details on this proposal are covered later in the budget, but it will enable us to have the resources available with both internal and external expertise to review our programs for improvements and to explore new approaches to doing business. These funds will also enable the hiring of contractor staff to supplement current staff to assist in the implementation of the Community Energy Plan and a “whole of government approach”.

In September, the Board adopted the five-cent plastic bag tax effective January 1, 2022, with the aim of reducing the use of single-use plastic bags and combatting the negative environmental impacts. I hope that the tax will have the intended effect of reducing or even eliminating the use of single-use plastic bags – resulting in little to no revenue; however, the impact is not yet known due to the lag in payment of the tax to the County. For any revenue that is received, I will come back to the Board at close-out of FY 2022 with a recommended use of the funding in line with the allowable uses of environmental cleanup; providing educational programs designed to reduce environmental waste, mitigating pollution and litter; or for providing reusable bags to recipients of either Supplemental Nutrition Assistance Program (SNAP) or Women, Infants, and Children Program (WIC) benefits.

Meeting Prior Commitments: This budget continues prior commitments in several areas:

- Full year funding of the Fire Department Kelly Day implementation
- Additional funding to complete the required staffing at the newly opened Lubber Run Community Center
- Continued support for the Commonwealth Attorney efforts to review police and sheriff body worn camera footage
- Next steps in a multi-year effort to bring Public Defender attorney compensation in line with other County agencies
- Funding to continue making progress in electrifying the County's fleet
- Expansion of the Lubber Run Preschool program to twelve months, offering more options for childcare in the County
- Arts and Cultural Programming at 2700 S. Nelson
- Additional operating funding for renovated or new parks projects including Madison Manor, Alcova Heights, Rosslyn Highlands, Zitkala-Sa, Marcey Road, and Towers Park.

Adjusting to post-pandemic world: As we begin to turn away from a focus on the pandemic, we continue to consider how service delivery has changed. Virtual services remain and the challenges of staffing lead to a new staffing model for how our libraries provide service. To that end, I am recommending a change in the Libraries' staffing model that allows for more consistency of staffing at each branch, incorporating branch staff into the community of their neighborhoods.

Customer Service: Over the last several years, the complexity and volume of construction projects and permitting activity has put a significant strain on the review and approval timeframes of permits in the Departments of Community Planning, Housing and Development (CPHD) and Environmental Services (DES). When the CPHD Development Fund was created in FY 2008, it was designed to expand and contract staffing as permitting activity and revenue fluctuated. With the significant rise in complexity and volume of permitting activity, it is necessary to adjust staffing resources accordingly. The Proposed Budget includes one position for the Zoning Office, seven in Inspection Services, and two for Development Services as well as funding for nine temporary staff to provide flexibility to expand or contract staffing as needed based on future permitting activity and revenue changes. These units work in tandem to permit, review plans, and perform inspections. The addition of these positions will allow for maintenance and in some areas an enhancement of service delivery in the permitting process.

Police Practices Group follow up: The County continues to implement the recommendations of the Police Practices Group (PPG), presented to the community in February 2021. The PPG provided recommendations in four key areas: Civilian Oversight Board, Traffic Enforcement & Policing, Mental Health and Policing, and

Alternative Dispute Resolution. Over the last year, the County has taken concrete steps in the following areas:

- Civilian Oversight Board (COB) – The ordinance establishing the COB was authorized by the County Board in July 2021. Additionally, the County has funded positions to staff the COB, including, most importantly, the Independent Policing Auditor. This position will begin recruitment immediately after the General Assembly considers legislation regarding where the Independent Policing Auditor will report organizationally – to the County Board or to the County Manager.
- Traffic Enforcement & Policing – In January 2022, the County approved an ordinance change to allow for placement of automated speed cameras near schools and work zones, which will decrease police interaction on traffic enforcement. Staff is working to determine the locations of the cameras and procurement of the contract operator, all of which is anticipated to be complete by the end of CY 2022. Police are also underway with the formation of the non-uniformed Transportation Safety Specialist unit, with the lead position onboard and beginning additional recruitment and implementation efforts.
- Mental Health & Policing – The top priority over the last year has been the operational expansion of the Crisis Intervention Center (CIC) at the DHS Sequoia complex. The vision is a 24x7 facility that would provide an alternative location for those individuals who need emergency mental health evaluations while awaiting the availability of state psychiatric hospital beds and an alternative for law enforcement drop-off where office-based crisis stabilization services can be provided. While progress has been made in procurement of vehicles / equipment and development of operational / administrative procedures, recruitment and retention issues in the behavioral health field are very challenging and impacting the CIC implementation timeframe.
- Also, last month, I released a summary report from our outside consultant on best practices in policing and the steps taken by the Arlington County Police Department to meet those standards.

3. Equity

To continue the advancement of Racial equity in our organization and community, I am recommending additional funding of \$215,000 to support training, professional development, and technical assistance as well as the use of \$500,000 in ARPA funds to conduct a disparity study to determine if there are inequities in our public

procurement practices. Additional information on our equity work can be found at www.arlingtonva.us/Government/Topics/Equity/ and details of the budget proposal can be found on subsequent pages.

The biggest challenge to Arlington around equity is to ensure that outcomes for residents cannot be easily predicted by the color of their skin. To tie our budget investments to the key metrics of health, education, and property ownership, Arlington has much further to go. Each of the investments in our budget – through assistance to our schools and funding of a Human Services Department committed to equity – are small steps in that direction. Further steps in zoning and property ownership are proceeding on a parallel track through the County Board's review of land use policies.

4. Unmet Needs

While I am pleased that we have been able to decrease the use of one-time funding to meet ongoing needs and happy that we can make selected investments in priority areas, I have not been able to fund all the programs and services that I would like to.

Each year when formulating the budget, I hear a number of requests from Departments and members of the community touting various programs. This year I was struck by the number of asks that, given two years of level budgets, might have been included in previous proposals. These items include:

- Additional investments in **employee compensation, training, and recruitment.**
- **Technology investments** including moving forward with a transition to the cloud: while we were very successful in moving most of our workforce quickly to a virtual environment during the pandemic, we need to move more of our IT infrastructure off premises and we also need additional staff to review, create and analyze software needed for service delivery.
- **Sidewalk investment and maintenance:** The preliminary findings from the concrete assessment – which surveyed every sidewalk in the County to identify characteristics, catalog deficiencies, and develop an overall condition assessment for each segment – identified approximately \$64 million in high priority sidewalk maintenance needs, geographically dispersed throughout the County. While the data is still being analyzed and will be used to develop a comprehensive concrete maintenance program in the coming year, County staff and contractors have the capacity to execute up to an additional \$2.0 million of concrete maintenance in FY 2023 to begin addressing deficiencies; the program is currently funded at \$1.35 million.
- Expansion of **Developmental Disability programs:** DHS projects an increase of 30-35 students with developmental disabilities anticipated to age out of services provided by Arlington Public Schools (APS) over the next five

years. To prepare for the expected influx of new clients, a consultant was contracted with to complete a comprehensive analysis of the County's existing day support and employment services programs. The consultant report recommends the expansion of Arlington's day support programs to meet the projected need. The study also explored best practices for transitioning students from APS, service delivery options, and future day and employment program expansion options.

I will return to the Board with additional information on the settlement of opioid related litigation and offer proposals for the spending of settlement funds. As of now, the County anticipates receiving at least \$2 million in funds that can be allocated to human service needs.

Including this budget, since February 2020, we have proposed six operating budgets and two Capital Improvement Plans. These eight efforts over the past 24 months have taken us through a whirlwind of change – and have provided the solid fiscal basis for so many programs essential to the public health and welfare of our community.

In this budget, we look to our post-pandemic future and investments to carry us forward and shape our community's future. I am grateful to continue working with our committed and dedicated workforce – and with our community to meet their needs and envision what is next. I look forward to further discussions about the proposed budget at the work sessions in March.

Sincerely,



Mark Schwartz
County Manager