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Fiscal Year 2019 Proposed Budget Message

To the County Board & the Arlington Community:

I am pleased to present my proposed budget for Fiscal Year 2019. While the development of any budget is challenging, this year has been one of the more difficult times in my tenure with the County. Although we are fortunate to see continued growth in County revenues, that growth has been more modest than in years past and will not keep pace with the significant funding needs and pressures we face today and over the coming years.

Maintaining our County's commitment to delivering priority core services efficiently and effectively will be challenging over the near term. Over the next few years, the County will need to:

- provide competitive compensation for our County employees in order to maintain a talented and effective team of public servants;
- maintain our financial support to sustain Metro;
- work with Arlington Public Schools to address substantial student enrollment growth;
- maintain our core infrastructure; and
- address housing affordability.

We will need to do this while facing the ongoing high vacancy rate in our commercial office market. While we have an economic development team second to none, strong support from the County Board and all County departments, we face continued pressures from our neighboring jurisdictions and macroeconomic forces. The commercial market vacancy rate is back up to 19.4 percent and "economic headwinds" will remain with us for the foreseeable future.

Over the past three years we have improved budget execution and have moved away from our previous reliance on unexpended funds available at year-end ("closeout") for use in future budgets. Departments have focused on executing the budgets as passed, and the amount of funds that are "discretionary" for allocation at closeout have been reduced annually ($11.1 million in FY 2017, compared to $17.8 million in FY 2016 and $21.8 million in FY 2015). Of those closeout funds that have been made available, immediate spending has been limited to commitments already made by the Board or for emergency needs. Most importantly, County staff has worked diligently and successfully to execute on the budgets and priorities adopted by the County Board.

My Proposed Budget for FY 2019 represents a series of tough choices designed to maintain the County's commitment to its priorities. The spending choices I offer in the following pages reflect a balance of the guidance I received from the County Board in November 2017, input I gathered from our workforce, suggestions from my leadership team, and my priorities as County Manager. This proposal also reflects important feedback gathered from residents (in community "budget roundtables"), who consistently stressed the need to ensure that our government is operating as efficiently as possible.

I want to be clear: these choices have not been easy. They affect County services and they affect people. However, at the end of the day, my responsibility is to be a good steward of County resources and to draw on the data and expertise available to me to identify the most efficient allocation of taxpayer dollars.

Fiscal Year 2019 – By the Numbers

My proposed budget totals $1.6 billion for all funds and $1.3 billion for the General Fund. Incremental tax revenue over FY 2018 totaled $28.8 million. Under the Revenue Sharing Principles with Schools, the County's share totaled $15.4 million, and Schools' share totaled $13.4 million, assuming no change in the current real estate tax rate. Our largest source of revenue is real estate property taxes, and property assessments grew by 1.9 percent this year, approximately 1.3 percent less than anticipated when we first discussed the upcoming budget with the community last fall. While residential values increased by 3.8 percent, office properties declined by 7.3 percent, a function of the vacancy rate (19.4 percent at the end of CY 2017 compared to 19.0 percent at the end of CY 2016 and 12.7 percent at the beginning of 2012) and rent concessions offered by developers.

Focusing on Core Services

The County Board's guidance was clear, and this proposal meets that direction. The proposed budget is balanced with no increase in the real estate tax rate, while focusing on priority core services: County employees, Metro, Schools, and affordable housing.

Employees: We cannot deliver high quality services without the support and hard work of our employees. Since becoming Manager over two years ago, I have proposed annual salary increases in an effort to stay competitive with other governments and to retain our highly skilled workforce. Unfortunately, we still lag behind our competitors in many job classes. With this budget I am proposing the beginning of a five-year classification maintenance plan, with my immediate priority being addressing needs for recruiting and retaining public safety personnel. This multi-year plan will evaluate and adjust salary ranges to ensure we are aligned with the regional market – a market which is essentially at full employment.

Over the last year, it has become clear that we are specifically lagging in compensation for our public safety workforce, which has affected recruitment and retention of firefighters and police officers. We face particularly difficult pressures with our Fire staff, whose standard workweek is 56 hours. My budget includes the first installment of a multi-year plan to gradually reduce the workweek for firefighters. Our police department is also reviewing service delivery options based upon the reduction of available staffing resources.

Metro: In FY 2018, we increased our taxes to meet the ongoing funding requirements for WMATA. For FY 2019, we have met the request of the General Manager for a 3 percent increase in operating funding, while relying on a comprehensive solution (among Virginia, Maryland, and the District) to meet our capital obligations.

Arlington Public Schools: In FY 2018, we increased our taxes to meet the additional requirements associated with almost 1,000 additional students each year. The

FY 2019 proposal meets the commitment to Arlington Public Schools articulated as part of the Revenue Sharing Principles (local taxes split with 53.4 percent to the County and 46.6 percent to APS) and provides an additional $13.4 million in ongoing funding compared to FY 2018. Increasing taxes each year to meet school enrollment needs is not sustainable.

Affordable housing and housing grants: This proposal funds the same level proposed last year for the Affordable Housing Investment Fund (AHIF) at $13.7 million, including shifting from one-time to ongoing funding. The proposed budget provides 49 percent of the total appropriation through ongoing funds as compared to 33 percent in the adopted FY 2018 budget. This budget also continues efforts to shift funding of Housing Grants to ongoing funding sources. My proposed budget fully funds the FY 2019 housing grant need of $8.7 million with only $0.7 million funded with one-time funding, compared to one-time funding for housing grants of $1.6 million in FY 2018. Through these funding efforts the County will be able to sustain its commitment to affordable housing, while also continuing to explore land use tools to further increase the supply of affordable units.

In building this budget, we have sharply examined many of our lines of business for reductions, focusing on duplicative programs, or those that no longer are needed. Examples of these instances are included in this message, the FY 2019 Proposed Budget Reductions & Realignments on book page 47, and the overall budget document.

We have carefully reviewed all revenue options and recognize that there are few options that remain after adoption of the FY 2019 budget that will enable us to avoid increases in real estate or personal property tax rates. In addition, we are unsure of the revenue impacts of new Federal tax legislation on our current tax structures. We will also begin operating, and funding, new school and county facilities in FY 2020. These trends suggest that the budget challenges we are likely to face in FY 2020 and beyond (the next 3 to 5 years) will mean acutely difficult choices regarding direct reductions in current services.

The approach taken this year of exploring fee changes, funding realignments, and spending reductions is the model we will continue to follow, but over time, our revenue options will decline. Consequently, the majority of our budget containment efforts will necessarily be in spending reductions.

I invite you to read on to better understand this year's budget, the changes I am proposing, and my reasoning and rationale in each area.

Closing Our Revenue-Expenditure Gap

The combination of lower than anticipated revenue growth, the growing demand of core services, affordable housing, and compensation have resulted in a gap between revenues and expenditures of $20.5 million.

I am proposing several options to address this gap, including spending reductions, targeted fee and committed tax increases, and funding realignments. I discuss my approach to each of these areas in detail below and in the following pages, but most significantly, **my budget includes reductions totaling $8.4 million in ongoing funding and $0.9 million in one-time funding, and the elimination of 48.06 positions.**

Proposed Reductions

As part of each year's budget process, we evaluate ways to deliver services more efficiently and effectively, and where feasible, we reallocate existing resources to support new priorities or increasing service demands. The extraordinary pressures we face this year required a much broader and deeper reexamination than in years past. I challenged my leadership team and County staff to suggest any and all possible options to the County's 140-plus lines of business.

The aim was to look beyond traditional lines of departmental business and find service redundancies, efficiencies that could be gained, different ways to provide services, and market forces or trends that have reduced the need for specific programs. Those options that were rejected this year may need to be pursued in future budget seasons.

Of the over 50 reductions, those seven with the largest dollar amount are as follows:

- **Reduce Ongoing Funding to Pay-As-You-Go Capital (PAYG) ($1,553,535):** The FY 2019 Proposed Budget reduces ongoing funding to PAYG by $1,553,535. Total ongoing PAYG funding included in FY 2019 Proposed Budget is $5,544,983, comprised of $5,321,750 in ongoing annual funding and $223,233 in one-time funding. In addition to the FY 2019 ongoing funding in the Proposed Budget, there is an additional $4.1 million in one-time PAYG funding.

  The largest programmatic decrease in ongoing PAYG funding is in paving, which will see a decline in funding from FY 2018 of $1.6 million. The County utilizes a Pavement Condition Index (PCI) to assess the condition of the County's 1,051 lane miles. The County has established a desired average PCI range of 75-80 (with 100 representing the best possible condition) and has raised the overall average PCI to 74.6 in 2017 from an average PCI of 67 in 2015. The paving program for FY 2019, which will likely include approximately $11 million in funds from a bond sale in the Spring of 2018, will enable the County to continue making progress toward achieving its stated PCI goal, as long as changes in winter weather, contracting costs, and oil prices do not negatively impact the anticipated paving program.

- **Re-envisioning of employment services (Department of Human Services) ($825,584)**: The County provides a robust set of employment services to our community through several departments, non-profits, and regional partners. This proposed reduction is the first step in a multi-year process to evaluate the entirety of our workforce development program in light of a rapidly changing employment market, consistently low unemployment rates, and a declining caseload. This effort will help ensure that the resources dedicated to employment services across the County are used in the most efficient way possible and are targeted to priority areas. The initial reduction will result in increased caseloads in a few areas and reduced supervisory support. Finally, this proposal includes a reduction in administrative support for the REEP program (the English as Second Language program operating by Arlington County Schools); however, no direct services will be impacted.

- **Reallocation and reduction of resources from the AIRE program (Department of Environmental Services) ($554,312):** This proposal would provide targeted reductions in the AIRE program including elimination of the residential rebate program, consultant funding, and some energy efficiency investments in County facilities.

- **Lee Highway Planning (Community, Planning, Housing and Development) ($500,000):** This one-time reduction would decrease the scope of the Lee Highway planning process, limiting it to a defined section or commercial center to be funded with previously allocated funding of $250,000. Staff would continue its work on the process but use of consultant support may be limited later in the fiscal year.

- **Elimination of the Office of Community Health (Department of Parks and Recreation) ($483,238)**: This program provides nutrition, healthy lifestyle, and exercise support for internal parks and recreation programs and County-wide initiatives. We believe the core functions can be or are already provided through other County programs.

- **Provision of lab services to Department of Human Services' clients through contractors ($449,359)**: This proposal would partially transition lab services to an outside contractor, similar to the approach of other jurisdictions for this service.

- **ART service reductions (Department of Environmental Services) ($356,771)**: This proposal eliminates two routes (92 & 54) that are not meeting minimum service standards and where service delivery can potentially be met by other transit or other modes such as Capital BikeShare.

These proposals are not made lightly. Although some can be absorbed without an impact in services to our community, a number of them will mean reductions in services valued by certain members of the community. Full descriptions of the impacts of these proposed reductions can be found in the FY 2019 Proposed Budget Reductions & Realignments section on book page 47.

Revenue Increases & Realignment of Funding Sources

Consistent with Board direction to limit any revenue increases to fees or sources other than the existing real property tax rate, we have prepared several proposals, which together total $6.6 million in additional revenue. A full list of proposed tax and fee increases can be found at book page 41; highlights are below:

- **Increase in parking hours and parking rates ($3.8 million):** This proposal would increase parking meter hours to 8 p.m. from 6 p.m. and also increase rates by $0.25 per hour. This will help to better manage our curb resources, a key contributor to the financial health of the County's commercial corridors. The majority of the revenue here is dedicated to enforcement functions which have been rising in costs, in part due to proposed salary increases. These proposed new hours and fees would bring us into closer alignment with our peer jurisdictions.

- **Utility taxes ($1.7 million):** This proposal is to increase the residential and commercial utility taxes, sharing the additional revenues with Schools. The majority of the revenue would be dedicated to AHIF in part to ensure energy efficiency improvements in affordable housing developments.

- **Fee changes ($1.1 million for General Fund)**: Each year we evaluate fees to ensure appropriate cost recovery and to address inflation. This year's budget includes proposals to adjust permit and development related fees in DES and CPHD, adjustment of fire systems testing fees in office and apartment buildings, and cost recovery increases for commercial recycling. For the first time, we are also proposing, where technologically feasible, recovery of transaction fees charged to the County by credit card processing companies. For example, users of the County's many parks and recreation program offerings will begin to be charged a credit card processing fee when paying with credit cards. Finally, we are also proposing increasing parking tickets by $5.00 for exceeding the time limit on parking meters. Additional details of each of these fee adjustments can be found in the following pages.

We also regularly evaluate our cost allocation among various functions and operating versus capital and other funds supported by dedicated revenues. These proposed realignments are to ensure appropriate cost allocation totaling $1.6 million in ongoing funds and $244,284 in one-time funds and include the following:

- **Reduction in allocation to Crystal City, Potomac Yard, and Pentagon City Tax Increment Fund (TIF) ($503,882 in ongoing and $244,284 in one-time):** This proposal reduces the percentage of incremental tax revenues generated in this area and dedicated to the TIF from 30 percent to 25 percent. This proposal will still provide the funding stream necessary to deliver Capital Improvement Plan (CIP) commitments in the TIF area. Reducing the TIF increment from 30 percent to 25 percent would redirect an estimated $943,600 in ongoing funding and $457,460 in one-time funding from the TIF to the General Fund, with $503,882 in ongoing and $244,284 in one-time to the County and the balance going to Schools based on Revenue Sharing Principles.

- **Street Sweeping & Allocation to Stormwater Fund ($0.4 million):** Currently, equipment associated with the County's street sweeping functions are allocated to the Stormwater Fund. This proposal would move the entire cost of the program from the General Fund to the Stormwater Fund. Over the long term, if the current stormwater capital investment plan is to be maintained, this proposal may require review and a possible increase to the dedicated Stormwater Fund tax rate (currently at 1.3 cents).

- **Allocations to Capital /Transportation Projects ($0.7 million):** This proposal would more appropriately allocate certain positions and activities, particularly in DES, to the respective capital projects that staff are assigned to on a daily basis.

Finally, we have employed other tools in balancing this year's budget totaling $3.9 million in ongoing funds. These items are not reductions, but areas where we realized savings from both refining estimates from budget planning and decisions I made to provide flexibility to the organization. For example, we have offered a voluntary retirement incentive program that yields both budget savings and creates flexibility as we work to find placements for those employees affected by budget reductions. We may offer further incentive programs as the budget process proceeds. We received updated cost estimates for a number of items that provided savings, including the FY 2019 healthcare rate increase (decreased from a 7.5 percent increase to a 5 percent increase), lower Other Post Employment Benefits (OPEB – retiree health care) estimates based on the most recent actuarial study, savings from county-wide fuel and utility costs, and reducing the County's contribution to the Northern Virginia

Juvenile Detention Home based on a recent grant award to the agency which reduced the County's contribution.

Continued Focus on Multi-Year Priorities

My budget continues investments and progress on my multi-year initiatives:

- **Focus on Economic Development:** We recognized three years ago that we needed a new approach to economic development in the face of a changing and more competitive office market that was resulting in higher office vacancy rates. Our approach to performance-based financial incentives has yielded firm results and therefore I have included $1.5 million in ongoing funds and $2.7 million in one-time funds in this year's budget. I also have preserved core economic development staff during our discussion of reductions.

- **Focus on Service Delivery:** We continue our multi-year effort to improve our residents' and businesses' experience as they work through the permitting process through the One-Stop Arlington project, and we expect to reach major milestones over the next 12 months as the system implementation progresses. We have also begun the planning process for the renovation of the Ellen M. Bozman Government Center at Courthouse Plaza, which will yield benefits to residents and employees alike. We recently kicked off the Child Care Initiative to address quality, accessibility, and affordability of child care to benefit Arlington families and businesses. Finally, we have undertaken an organization-wide effort to improve customer service – the CARES initiative, which includes mandatory training for all employees. This effort is accompanied by a review of our existing call center, public facing phone numbers, and online tools that we hope will yield a better customer experience. More detail on each of these initiatives is included in the following pages.

- **Focus on Government Transparency:** Our OpenArlington strategy has accelerated this past year with the formation of an Open Data Advisory Group. To date a total of 185 data sets have been made available to the public with seven more schedule for publication by early March. We will also be unveiling a new portal this year offering transparency for County financial information.

The Long Range Outlook

I anticipate that this period of tight budgets will continue for the foreseeable future. Our multi-year forecasts assume that we must continue our commitments in the following areas:

- Investment in our workforce – Funding the multi-year compensation maintenance studies for all job classes to ensure that we do not lose our competitive position.

- Addressing the core needs of a growing population, specifically the growing population that is impacting Schools enrollment and County services.

- Funding the operating costs associated with new facilities, including new schools and the Long Bridge Aquatics & Fitness Facility & Park.

The approach we took this year yielded ideas that we did not pursue for variety of reasons, including the need for more analysis and / or community engagement. I have included many of these ideas in the attached documentation and expect that these will need to be pursued in the coming years or could be considered as options by the Board for this year. I also can't leave a discussion of budget priorities without acknowledging that some programs and services, ranging from streetlight maintenance to library materials to community engagement would benefit from additional resources, but given the current budget climate, will not receive them.

I greatly appreciate the effort of all staff in the County as we prepared this budget.

Sincerely,

Mark Schwartz
County Manager