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 13, 2023

From: Mark Schwartz, County Manager

Subject: Mid-year/ Third Quarter Review of Fiscal Year 2023

Available Funding

This mid-year/third quarter memo provides an update on revenues and expenditures of the current fiscal year (FY 2023) and revised estimates for the coming fiscal year (FY 2024). With two more months of detailed information in hand now (April 10) following the February 18 submission of the FY 2024 budget, the following describes revenues above budget and expenditure savings in FY 2023 (these will generate one-time funding that can be allocated to uses in the FY 2024 budget) and any one-time or ongoing expense and revenue savings in FY 2024.

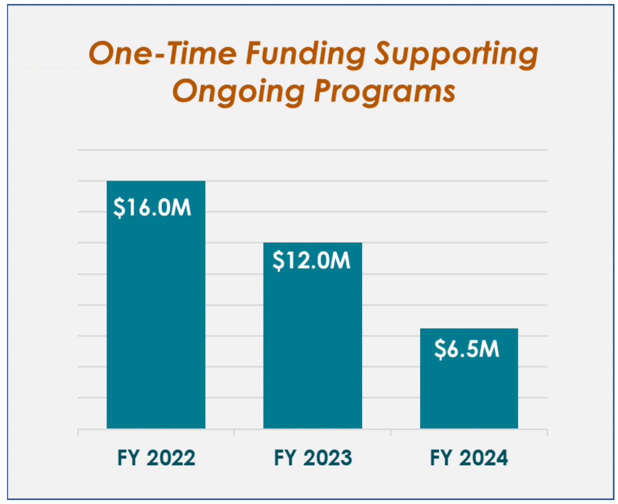
The table below summarizes the **funding not yet allocated that is available** to the County Board for use prior to budget adoption. This includes the amount left unallocated in the February County Manager's Proposed FY 2024 Budget and the updates noted from above.[1]

	FY 2023 One-time	FY 2024 One-time	FY 2024 Ongoing	Total
Tax Revenue Above Proposed Budget (County side)	($0.2)	-	$2.0	$1.8
Non-tax Revenue	(5.5)	$5.0	1.0	0.5
Expense Savings	3.4	-	-	3.4
Available Funding already included in FY 2024 Proposed Budget	4.4	-	-	4.4
Total Available Funding	**$2.1**	**$5.0**	**$3.0**	**$10.1**
Total One-time = $7.1 million **Total Ongoing = $3.0 million** **Total Funding = $10.1 million**				

[1] Anticipated one-time FY 2023 monies were included in the proposed budget and a full summary revenue and expense changes from FY 2023 are provided on page 8 in this report. A detailed analysis of these sources can be found in the "Expense & Revenue Analysis" section of this memo on the following pages.

Funding Recommendations

As uses of the available funding are considered, it is important to remember that the County is working to reduce reliance on one-time funding. With the onset of the economic impacts of the COVID-19 pandemic, one-time funding was utilized to meet some of the extraordinary demands on County services. Over the past couple years, the use of one-time funding to meet ongoing needs has been reduced as shown in the graph and the County is planning to transition back to a structurally balanced budget by FY 2026. Any allocations of new one-time funding from midyear/third quarter should not be used to fund ongoing programs.



Similarly, allocations of funds should consider the budget pressures that the County will be facing in the FY 2025 budget. The potential for diminished office values and the resulting decline in overall commercial property tax revenue will likely contribute to more modest increases in revenue in FY 2025. This modest revenue growth coupled with expenditure pressures – including continued investment in affordable housing and the support of residents that use it, mental health services, WMATA budget challenges, and employee compensation – will require the County to balance its priorities in budgets in the coming years and should inform decision-making now. Funding of new programs or priorities that could compete with existing programs for funding in FY 2025 should be weighed carefully.

As the Board has considered my proposed budget, we have heard from the community about investment priorities. I have considered these options in the context of our long-term budget pressures, commitments we have made for staffing, and meeting the most urgent needs of our community. I am recommending that the Board consider the following allocations of $3.6 million with available funds:

	One-Time $'s	Ongoing $'s
Collective Bargaining – IAFF	$62,200	$11,600
Collective Bargaining – ACOP		$520,000
Site Security/Asset Disposal – Key Bridge Marriott site	$100,000	
Restoration of Cut – Rock & Recycling		$20,000
Overtime Costs – Police & Sheriff Staffing Costs Due to High Vacancies and Minimum Staffing Requirements	$531,000	
Inspections for Safe Housing in CAF Unit		$150,000
Eviction Prevention	$1,000,000	
DHS Public Assistance Staffing – VDSS Recertification and Audit	$500,000	
Youth Substance Abuse – Residential Medical Treatment		$180,000

Staffing in Schools – 4.0 FTEs for Opioid Health Therapists for Youth (funded by Schools Tax Revenue Share funding)		$520,000
Total	**$2,193,200**	**$1,401,600**

Should the Board fund the recommendations above, there will still remain $6.5 million available for allocation ($4.9 million one-time & $1.6 million ongoing).

	One-time	Ongoing	Total
Additional Funding Identified	$2.7	$3.0	$5.7
Unallocated Funding in FY 2024 Proposed Budget	4.4	-	4.4
Total Available Funding	**7.1**	**3.0**	**10.1**
County Manager's Recommended Allocations	(2.2)	(1.4)	(3.6)
Balance of Available Funding	**$4.9**	**$1.6**	**$6.5**

Expense and Revenue Analysis

The analysis of expenditures and revenues for FY 2023 and revisions to estimates for FY 2024 shows the County continues to recover from the economic impacts of the pandemic; however, there are still a number of revenue and expense areas which either lag in recovery or continue to be impacted by cost or demand pressures. For FY 2023, with the significant cost pressures (due to overtime staffing costs and human service demands), no departmental savings have been included at this time.

The tables on the following pages summarize expense and revenue projected for FY 2023 and revisions to the FY 2024 revenue presented in the FY 2024 proposed budget.

Expenditures

Most County departments and programs are projected to spend at or below their FY 2023 authorized levels. However, the County is anticipated to have lower than typical savings on the expenditure side due to a number of factors including:

- Some departments are experiencing higher than normal expenses in overtime as existing staff are covering the high number of vacancies.
- Expenses related to COVID have exceeded budget and reimbursements from FEMA will not fully cover those costs in FY 2023. Revenue will be received in future fiscal years for this year's expenses.
- Support to those facing eviction prevention has continued to be a significant budget pressure exceeding the FY 2023 budget amount.

All department spending is being closely monitored for the remainder of the fiscal year.

However, there is savings in County debt service, as the deferral of the June 2022 GO bond sale resulted in no new principal or interest payments in FY 2023, yielding $3.4 million of debt service savings. New debt service is budgeted and will begin in FY 2024 as part of the planned June 2023 GO bond sale.

Revenues

The table on the following page summarizes the total changes to revenue projected from the FY 2023 adopted budget to current year-end projections. It should be noted that the FY 2023 proposed budget included a number of re-estimates which are summarized in the last table in this report.

Overall, Fiscal Year 2023 revenues are estimated to be $24.1 million higher than the FY 2023 adopted budget due to a $29.6 million increase in projected tax revenues partially offset by a $5.5 million shortfall in non-tax revenues.

Fiscal year 2024 revenues are estimated to be $8.8 million higher (one-time and ongoing funding) than the FY 2024 proposed budget due to a $2.8 million increase in projected tax revenues and a projected $6.0 million increase in non-tax revenues.

Revenue Summary – (Changes from Adopted/Proposed Budget)	Incremental +/(-) Over FY 2023 Adopted Budget ($ millions)	Incremental +/(-) Over FY 2024 Proposed Budget ($ millions)	Incremental +/(-) Over FY 2024 Proposed Budget ($ millions)
	ONE-TIME	**ONE-TIME**	**ONGOING**
Tax Revenue:			
Real Estate Tax*	$8.4	-	-
Real Estate Tax Refunds	(2.8)	-	-
Personal Property	7.4	-	-
Business, Professional, & Occupational License	2.0	-	$2.1

Revenue Summary – (Changes from Adopted/Proposed Budget)	Incremental +/(-) Over FY 2023 Adopted Budget ($ millions)	Incremental +/(-) Over FY 2024 Proposed Budget ($ millions)	Incremental +/(-) Over FY 2024 Proposed Budget ($ millions)
Sales Tax	6.8	-	1.9
Meals Tax	6.0	-	-
Car Rental	2.4	-	-
Recordation	(3.5)	-	(1.0)
Transient Occupancy (Hotel) Taxes	4.0	-	-
Other Taxes	(1.1)	-	(0.2)
Total Tax Revenue Change	**29.6**	**-**	**2.8**
Non-Tax Revenue:			
License, Permits, Fees	0.8	-	0.1
Fines & Interest	(1.9)	-	-
Charges for Service	(5.5)	-	-
Miscellaneous Revenue	0.4	-	-
State & Federal	0.7	5.0	1.0
Non-Tax Revenue Change	**(5.5)**	**5.0**	**1.1**
Total Projected Revenue Increase*	**24.1**	**5.0**	**3.8**

* 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 – Real estate tax revenue for FY 2023 at the current tax rate is projected to be higher than the adopted budget due to a variety of factors. As announced in January 2023, assessments overall increased 3.6% from CY 2022. This growth exceeded the projected level in the adopted FY 2023 budget and will generate an additional $8.4 million at current tax rates. Offsetting this revenue growth are higher real estate tax refunds expected to exceed the FY 2023 budgeted amount by $2.8 million. At existing tax rates, the net increase in real estate revenue is $5.6 million more than the FY 2023 budget.

Personal Property – Vehicle personal property revenue is trending above the FY 2023 adopted budget due to an unprecedented year over year increase in used vehicle values due to supply chain shortages impacting pricing. The market increase in vehicle values was partially offset by the Board adopting an adjustment to the vehicle assessment ratio, lowering it from 100% to 88%. In addition, personal property tax revenue is partially offset by lower business tangible revenues which are trending below the FY 2023 budgeted level. Overall, this tax revenue is forecasted to be $7.4 million above the FY 2023 adopted 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 growth. The projected revenue receipts in FY 2023 are $2.0 million above the FY 2023 adopted budget levels and with this projected growth in FY 2023, FY 2024 is adjusted up to anticipate this trend carrying into the next fiscal year.

Transient Occupancy Tax (Hotel Taxes) – Receipts from this five percent tax on hotel and motel rooms have had one of the slowest recoveries from the impact of the COVID-19 pandemic but occupancy and room rates have started to approach pre-pandemic levels during FY 2023. Hotel tax revenue overall is still lagging behind pre-pandemic levels due to a number of hotel property conversions and still lagging business travel compared to pre-pandemic levels. Overall, FY 2023 revenue receipts are expected to be $4.0 million higher than the adopted FY 2023 level.

Sales Tax – Arlington receives one percent of the total sales tax applied to sales in the County. Sales tax receipts have continued to grow steadily in FY 2023 and are forecasted to be $6.8 million higher than budgeted. With the continued strength in sales tax receipts in FY 2023, the projection for FY 2024 is also being adjusted up by $1.9 million to reflect this continued strength in sales tax receipts for FY 2024.

Meals Tax – This four percent tax is charged on most prepared foods offered for sale. Like other monthly taxes, this tax revenue continues to grow steadily. Meals tax revenue is forecasted to end the fiscal year $6.0 million higher than the FY 2023 adopted budget.

Car Rental Tax – The local car rental tax is collected by the State and remitted to localities where the rental transaction occurred. Arlington's local car rental tax rate is four percent, which is in addition to the State's tax. Recent receipts show continued growth and are projected to end the fiscal year $2.4 million higher than the adopted budget.

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. As interest rates have increased over the year, both residential and commercial real estate market activity has slowed. Monthly receipts decreased by up to 89 percent year over year. With lower recordation tax transactions, revenue is forecasted to be $3.5 million lower than the adopted budget for FY 2023 and $1.0 million less than originally budgeted for in the FY 2024 Proposed budget.

Other Local Taxes: Overall, other local taxes are expected to be $1.1 million less than the FY 2023 adopted budget. Utility and communication taxes continue to trend lower than budget and smaller taxes including short-term rental and estate taxes are projected to come in slightly higher than the FY 2023 adopted budget.

County Non-Tax revenues are projected to be $5.5 million lower than budgeted for FY 2023 and $6.0 million higher than budgeted for FY 2024. Highlights include:

- **Licenses, Permits, and Fees** are anticipated to be $0.8 million above budget for FY 2023. Higher highway permits and site plan fees are partially offset by a variety of slightly lower miscellaneous permits and fees including the right of way fee which is also expected to come in slightly lower than budgeted for FY 2024.
- **Fines and Interest** are expected to be $1.9 million lower than budget for FY 2023. Higher interest rate revenue is being offset by lower fines revenue and the recognition of unrealized loss (GASB 72) projections.
- **Charges for Service** continue to be impacted by service and programming changes from the pandemic. A variety of programs including those in Parks and Recreation and Human Services along with transit, parking meter, and ambulance fees are forecasted to be $5.5 million under budget for FY 2023.
- **Miscellaneous Revenues** are expected to be slightly higher ($0.4 million) than budgeted in FY 2023 due to an Alternative Fuels Tax Credit.
- **State Revenue –** In FY 2023, revenue is expected to be $2.8 million lower than budgeted mainly due to lower than anticipated revenues in the Department of Human Services ($1.9 million) and from the State Compensation Board ($1.4 million). Other decreases are stemming from grantor taxes ($0.6 million) due to the lower number real transactions and decreased prisoner expense reimbursements ($0.2 million) in the detention center. These decreases are partially offset by higher reimbursements for law enforcement aid ($0.3 million) and highway aid ($0.9 million) in FY 2023.

  For FY 2024, additional revenue is projected for highway aid offset partially by slightly lower State Compensation Board revenue ($0.3 million) projected by the state.
- **Federal Revenue -** In FY 2023, revenue is expected to be $3.5 million higher due to FEMA reimbursements ($3.7 million) for expenses paid in prior years which is partially offset by slightly lower revenues from the Department of Human Services ($0.2 million). In FY 2024, additional FEMA reimbursements ($5.0 million) are anticipated for expenses incurred in FY 2023.

Revenues & Expense Summary

The tables below summarize mid-year estimates of revenues and expenditures.

	FY 2023 Revenue included in FY 2024 Proposed Budget ($ millions)		FY 2023 Incremental Change Compared to Adopted Budget ($ millions)	FY 2023 Available Funding for Midyear/ Third Quarter ($ millions)	FY 2024 One-Time Change from Proposed Budget ($ millions)	FY 2024 Ongoing Change from Proposed Budget ($ millions)
			ONE-TIME		**ONE-TIME**	**ONGOING**
Expense Adjustments						
Debt Service Savings	-		$3.4	$3.4	-	-
Total Expense	**-**		**3.4**	**3.4**	**-**	**-**
Revenue Adjustments						
Real Estate Tax	$8.4		$8.4	-	-	-
Real Estate Tax Refunds	(2.8)		(2.8)	-	-	-
Vehicle Personal Property	9.8		9.8	-	-	-
Business Tangible Property	(2.4)		(2.4)	-	-	-
BPOL	-		2.0	2.0	-	$2.1
Meals	6.0		6.0	-	-	-
Sales	6.8		6.8	-	-	1.9
Hotel (TOT)	4.0		4.0	-	-	-
Other Tax Revenue	0.1		(2.2)	(2.3)	-	(1.2)
Sub-Total Taxes	**29.9**		**29.6**	**(0.3)**	**-**	**2.8**
FEMA Reimbursements	-		3.7	3.7	$5.0	-
Other Non-Tax Revenue	-		(9.2)	(9.2)	-	1.0
Total Revenue	**29.9**		**24.1**	**(5.8)**	**5.0**	**3.8**
Schools' Share of Taxes (46.8%)	**(14.0)**		**(13.8)**	**0.2**	**-**	**(1.3)**
TOTAL AMOUNT AVAILABLE			**13.7**	**(2.2)**	**5.0**	**2.5**