

Fiscal Year 2018 Proposed Budget Message

To the County Board & the Arlington Community:



I am pleased to present you with my Proposed Budget for Fiscal Year 2018. The budget proposal, for the Fiscal Year beginning July 1, 2017, continues the County's long and established practice of carefully managing County resources and services to deliver excellent value to our community. The value provided by Arlington County government, whether fire and ambulance services, libraries, parks, or police, serves as an important complement in supporting the economic strengths that make Arlington an attractive, successful, and vibrant community. In turn, the economic vitality we enjoy enables us to tackle important challenges, like housing affordability, facing residents who, with a little assistance, can make their own significant contributions to our community.

My proposed budget continues the multi-year focus on the three priorities I have laid out: economic development, service delivery and transparency, and strategic budget planning and fiscal sustainability, while addressing the core service demands of the County mainly through budget reallocations.

By The Numbers

As in past years, the County Board's guidance [[linked here](#)] for preparing the FY 2018 Proposed Budget called for me to "assume continuation of the current level of services within the existing tax rate." The Proposed Budget I am presenting today, which totals \$1.6 billion for all funds and \$1.24 billion for the General Fund, implements this guidance. My Proposed Budget supports County operations at their current level of services, which is made possible by the additional \$34.3 million in revenue (County's share of \$20.5 million and Schools' share of \$13.8 million) realized at the current tax rate. This additional revenue results from real estate assessment growth of 3.0% and other revenue growth of 3.8%. In addition to current services, my Proposed Budget, recommends small investments to enhance public safety, infrastructure, economic development, housing, and our county workforce, which are funded primarily through strategic reallocations of existing resources.

The budget guidance also called for me to present options for a "possible tax rate increase to meet extraordinary needs" of the Washington Metropolitan Area Transit Authority (WMATA) and the Arlington Public Schools (APS). My proposed budget also implements that guidance: I am recommending property tax increases of one cent each (\$7.4 million per penny) to fund the clearly extraordinary needs of WMATA and APS.

Continued Focus on Multi-Year Priorities

When I became County Manager in July 2015, I told the County Board and community that my focus over the next few years would be on three key priorities: **economic**

development, service delivery and transparency, and strategic budget planning and fiscal sustainability. This year's budget continues these priorities and places significant emphasis on service delivery. Service delivery involves process improvements, improving access to our programs, and renewed focus on core infrastructure.

The documents that follow this message lay out, for each of my initiatives, progress made to date, multi-year activities that are underway, and new efforts, the majority of which are funded with budget reallocations. These enhancements include an additional staff person for the highly successful BizLaunch program and investments in our aging streetlight infrastructure. All of my recommendations will be highlighted at each of the County Board's work sessions, which will be livestreamed and described in documents available on our website.

Major Pressures in FY 2018 and Beyond

Metro – By now, the very serious challenges facing WMATA today, and for the foreseeable future, are evident to anyone in the region who relies on the transit system to transport them or their employees across the metropolitan area. In October, WMATA's General Manager proposed a budget for FY 2018, beginning July 1, 2017, that would address a projected \$290 million operating deficit through fare increases, services changes, and \$100 million in additional subsidies from local jurisdictions. Arlington County's share of this request is \$6 million. Additionally, WMATA has requested that Arlington County issue an additional \$22 million in bonds to fund the transit agency's FY 2018 capital request. This will require another \$1.5 million in annual debt service funding from the County beginning in FY 2018.

WMATA's finances are clearly under significant pressure. The request for additional County support is important and critical for our residents and the County's economy. I am, therefore, recommending funding this request through a dedicated property tax rate increase of \$0.01/\$100, not to be shared with Arlington Public Schools. This would provide WMATA with an additional \$7.4 million in funding. Of this amount, \$5.9 million would fund the County's \$36.24 million contribution to WMATA's operating budget, a 19% increase from the subsidy the County provided in FY 2017. In addition, the remaining \$1.5 million of the tax rate increase would fund debt service on an additional \$22 million of general obligation bonds that will be issued to meet the County's FY 2018 contribution to WMATA's capital budget.

However, while I am recommending this increase, the pressures beyond FY 2018 are even more intense. Provision of these additional resources in FY 2018 is done assuming that this will provide the additional time needed for Arlington, its Virginia neighbors (including the Commonwealth), the District of Columbia, Maryland, and the Federal Government to work out a more permanent solution. The proposed increase assumes that WMATA will make progress in rectifying its current financial situation, improve safety and reliability, revamp work practices, improve governance, and that a new source of regional funding will be formulated.

Arlington Public Schools (APS) APS is in the midst of substantial enrollment growth and the accompanying demands of maintaining its high achievement rates. Over the past several years, funding for APS through the County transfer has increased from \$400.4 million in FY 2014 to \$478.3 million in the FY 2018 proposed budget, an almost 20 percent increase over the last five years. In November 2016, APS projected a prospective shortfall in its FY 2018 Budget of between \$22.6 million and \$28.6 million. Growth in assessed values, along with slight changes in other County taxes, and various adjustments made by Schools decreased their potential gap to approximately

\$14 million as reported in January 2017. The Superintendent proposed his final budget to the School Board on February 23rd.

I am recommending that the County Board consider advertising up to an additional 1 cent in the real estate tax rate for Schools funding, in addition to the 1 cent I am recommending for Metro. If 1 cent for Schools is adopted, the County's ongoing transfer to schools will increase from \$464.5 million (adopted FY 2017) to \$485.7 million for FY 2018 – \$7.4 million above the current FY 2018 proposed transfer of \$478.3 million and a 4.6% increase over the current year. The proposed 1 cent is consistent with the Revenue Sharing Principles agreed to by both the County Board and School Board which specifically call out "enrollment growth" as a critical priority.

While APS has additional needs beyond the student enrollment funds proposed here, it is my belief that APS, like the County, should be able to fund any increases for salary enhancement for staff, and program enhancements, within the revenue provided by the current tax rate. In formulating the County's Proposed Budget, I have made numerous trade-offs to achieve this on the "County side".

The proposed property 1 cent tax rate increase would provide an additional \$7.4 million in ongoing revenue to the Schools. In addition, the FY 2018 Proposed Budget (including the 1 cent increase) will provide APS with \$4.3 million in new one-time revenue that will supplement existing cash reserves held by APS of \$77.7 million. The strategic use of these resources should give APS the ability to address their student enrollment increase and other budget pressures over the near term fiscal horizon.

County Services Supporting the Growth in School-Age Population

The County is also facing the challenges of addressing the rapidly growing preschool and school-aged population. Demands for childcare in the County by both employers and our residents are significant. Our front-line providers for those children most in need (the Department of Human Services and the Juvenile & Domestic Relations (JDR) Court) are facing increasing workloads. Our parks and libraries staff are serving more and more children every day with the same amount of staff.

My Proposed Budget will also provide modest additional funding for services to school aged children, including an additional school health nurse, a youth services librarian and additional resources to key programs at JDR. These additions are being funded through revenues collected under the current tax rate. More specifically, the rate of assessment growth in the Crystal City, Potomac Yard and Pentagon City Tax Increment Financing (TIF) District has exceeded average County growth. The Proposed Budget increases TIF funding from the FY 2017 Adopted level of \$4.8 million to \$6.3 million. The 5.6% assessment growth (above the Countywide growth of 3.0%) provides an extra \$630,470 that is proposed for redirection to the General Fund for County needs (the nurse, Library and Juvenile and Domestic Relations and a Joint Facilities Advisory Committee support position) and provides \$293,799 to APS (included in the totals above). This is done while maintaining our commitment to infrastructure in the Crystal City, Potomac Yard, and Pentagon City TIF area.

The County already provides a robust set of assistance to the school-age population through County programs and directs more than \$7.0 million in funding for programs that directly benefit APS students while in school. These efforts include School crossing guards, School Resource Officers and School Health Nurses and Clinic Aides. This amount has grown over the past several years as the number of schools, and students has increased. For example, since 2015, the County has continued to add Clinic aides and School Health Nurses to support our schools, including the addition of the School Health Nurse in my FY 2018 budget, an increase of 5.65 positions.

Addressing Additional County Board Direction

In addition, there are a few areas which the Board directed me to report on/study for FY 2018:

- **Senior and Disabled Tax Relief** – I am pleased that the working group we established is reaching the conclusion of its work, which will be presented to the Board in late March / early April, after it completes its next phase of public engagement with the commissions and community at large. The workgroup has proposed a series of recommendations, many of which can be implemented in the very near term without additional resources and others which can be implemented as part of the FY 2019 budget process if the Board were to choose to do so.
- **Child care** - Demands for childcare in the County by both employers and our residents are significant. I have laid out a proposed plan that takes a multi-prong approach to facilitating the increase in supply of child care, and looking at affordability and quality aspects as well. (See Child Care Initiative following)
- **Non-profit analysis** –As directed by the Board, the Proposed Budget begins the discussion on how and to what degree we provide assistance to non-profits. (See Non-Profit Summary and Policy Considerations following)
- **Potential adjustments to taxes & fees** – The Proposed Budget includes several fee changes for the Board to consider. (See the Revenue section following)

Investment in Our Workforce

All of the initiatives I describe here would not be possible without the great workforce of Arlington County. Every day, I am impressed with our employees' hard work and dedication to service. I am pleased that my budget includes merit-based compensation increases for our employees and continues to fully fund our pension and retiree health care obligations. I am proposing some modest enhancements (within current tax rates) to our benefits, particularly for dependent care and transit subsidies, which are described in more detail in the following documents.

Public Input Process

Since September, we have sought community and employee input in a variety of ways. We solicited broad public feedback online via OpenArlington. The Superintendent and I conducted a joint public budget forum in December and made the presentations available online. We held a special briefing for commission chairs, and I held several online chats and in-person town halls for employees.

I want to thank our great community and workforce for all of their input into this Proposed Budget. I look forward to refining these recommendations in the coming months.

Sincerely,



Mark Schwartz
County Manager