

MULTI-YEAR FORECAST & FUTURE BUDGET PRESSURES

Consistent with the County's debt and financial policies, staff has prepared a multi-year financial forecast. This forecast is intended to help inform the Board and the community with greater awareness of medium and long-term budget pressures as it considers policy and service delivery choices. The County is required to adopt a balanced budget annually, so none of the shortfalls projected for the out-years will actually occur. The shortfalls would be eliminated through a combination of expenditure / service reductions, revenue increases (increased taxes / fees) or a combination of the two.

Two scenarios are presented on the following pages: 1) Low growth – this scenario assumes that over the next three years, aggregate assessment growth remains in the 1% to 1.5% range, driven by 1% to 1.5% increases in single-family residential and 2% increases multi-family, offset by flat to slower growth in the commercial office sector due to vacancy rates; and 2) Modest growth – this scenario assumes that aggregate assessment growth will be in the 2.5% range, with residential and multi-family increasing at approximately 2.5% and commercial office increasing from 1% to 2.5%. Under both scenarios, there could be a gap between projected revenues and expenditures ranging from \$9 – \$21 million in FY 2019, excluding metro increases, Schools projected budget gap, and new facilities. The scenarios do not assume any significant change in service levels or proposed new services.

The two greatest pressures and uncertainties for the County's budget in both FY 2018 and continuing into future years are the budget requests from Metro to the regional jurisdictions and increasing enrollment in Arlington Public Schools.

Metro - Metro faces significant pressures in FY 2018 and in future years in both its operating and capital budgets as a result of declining ridership, lower fare revenues, and contractual increases in wages and benefits. WMATA's operating budget is primarily funded by only two sources, fare revenues and jurisdictional subsidies. Fare revenues continue to decline due to a combination of several factors impacting ridership including lower gas prices, regional trends in telework, new alternatives such as Uber, Car2go and Lyft, and the impacts of Safetrack and deteriorating rail reliability discouraging use of the Metrorail system. As fares have become a smaller percentage of funding for the Metro budget, jurisdictional subsidies have increased significantly to offset these declines.

To balance the FY 2018 WMATA budget, a number of preliminary options are on the table to include management reductions, fare increases, service adjustments, a shift of some maintenance expenditures to capital, and increases in jurisdictional subsidies. With an expected WMATA budget adoption no earlier than April 2017, the County does not have sufficient information to fully know Arlington's FY 2018 Metro subsidy during its own budget preparation. Staff must make an assumption on the mix of actions the WMATA board and our jurisdictional partners will take to resolve the budget gap; current estimates of the County's increase in funding for FY 2018 total \$6.7 to \$9.6 million, which is funded with a proposed increase in the real estate tax rate in the County Manager's Proposed Budget.

In future years, if a broader regional solution is not identified and adopted, it is anticipated that the County will continue to be asked for significant increases in its support of Metro both for the operating budget but even larger increases to fund its capital projects.

Schools - The estimates shown for the Arlington Public Schools (APS) transfer reflect a revised revenue-sharing percentage (46.3 percent of local taxes) after adjusting the FY 2017 percentage for a one cent tax rate increase related to metro; this revenue-sharing percentage may change based on the FY 2018 budget deliberations. For FY 2018, the County Manager's Proposed Budget includes \$13.8 million in additional ongoing to School compared to FY 2017. The Manager is also recommending that the Board advertise up to an additional one cent tax rate increase that could be dedicated to schools. The total new funding needed by schools will be known after the Superintendent releases his proposed

budget in late February. If the additional one cent is dedicated to APS, the revised revenue-sharing percentage would be 46.6 percent of local taxes.

In the forecast's out-year projections, it has been assumed that the revenue sharing percentage would stay constant. However, based on current enrollment projections, 6,300+ additional students will enter the School system by Fall 2026 and the opening of new schools over the next several years will put significant additional pressure on the APS budgets. Three new schools – the new elementary at Jefferson, the new middle school at Stratford, and the new school at Wilson – will add 1,839 seats in FY 2019 followed by an expansion of Reed in 2021 and a new high school in 2022. The County and APS will continue to work together to ensure that resources are dedicated to our growing school-aged population that maintain our quality schools and services in the coming years.

There are also a series of ongoing expenditures pressures *before consideration of service expansion or policy changes* that drive the County's expense forecast:

- **Health care costs** –Employee healthcare continues to be a budget driver with increases projected to exceed the rate of inflation.
- **Pension and post-employment benefit costs** – While the County's defined benefit pension fund is currently among the best funded in the country, this is due in large part to the County's steady funding levels. As investment returns remain volatile and liabilities (e.g., increasing salaries) increase, the County's contribution will increase. Additionally, the County has taken important steps to fund other post-employment benefits (OPEB) for future retirees; as the number of retirees increase and as health care costs rise, contribution to the OPEB trust will continue to be a budget pressure.
- **Compensation** – The County has made progress in recent years to address the issue of competitiveness of our compensation levels compared to other jurisdictions. The forecasts assume continuation of annual pay increases to maintain this status.
- **State and federal budget actions** – Budgetary actions at the state and federal level could have both direct and indirect impact on the County's budget.
- **Capital investment** – As the County's infrastructure ages and as more new facilities are brought into the County's inventory, additional capital investment will be required.

Multi-Year Financial Forecast													
Baseline													
REVENUE	Adopted FY 2017	Proposed FY 2018	% chg	Forecast FY 2019	% chg	Forecast FY 2020	% chg	Forecast FY 2021	% chg	Forecast FY 2022	% chg	Forecast FY 2023	% chg
Real Estate	692,936,155	717,638,620	3.6%	743,340,980	3.6%	760,408,320	2.3%	779,348,910	2.5%	800,235,470	2.7%	822,074,680	2.7%
Less Crystal City TIF Real Estate	(4,812,420)	(6,304,880)	31.0%	(6,826,780)	8.3%	(7,445,470)	9.1%	(8,164,160)	9.7%	(8,989,760)	10.1%	(10,021,580)	11.5%
Less Columbia Pike TIF Real Estate	(952,180)	(881,550)	-7.4%	(1,179,730)	33.8%	(1,489,850)	26.3%	(1,812,380)	21.6%	(2,147,790)	18.5%	(2,496,620)	16.2%
Personal Property	112,052,147	115,452,147	3.0%	117,761,000	2.0%	120,116,000	2.0%	122,518,000	2.0%	124,968,000	2.0%	127,467,000	2.0%
BPOL	57,020,000	63,088,073	10.6%	63,719,000	1.0%	64,675,000	1.5%	65,645,000	1.5%	66,958,000	2.0%	68,297,000	2.0%
Sales	40,200,000	42,000,000	4.5%	42,210,000	0.5%	42,632,000	1.0%	43,058,000	1.0%	43,704,000	1.5%	44,578,000	2.0%
Meals	38,500,000	39,900,000	3.6%	40,898,000	2.5%	42,125,000	3.0%	43,389,000	3.0%	44,691,000	3.0%	46,032,000	3.0%
TOT	25,000,000	25,450,000	1.8%	26,214,000	3.0%	27,000,000	3.0%	27,810,000	3.0%	28,644,000	3.0%	29,503,000	3.0%
Other Taxes	37,075,000	37,430,000	1.0%	37,804,000	1.0%	38,182,000	1.0%	38,564,000	1.0%	39,142,000	1.5%	39,729,000	1.5%
SUBTOTAL: TAXES	997,018,702	1,033,772,410	3.7%	1,063,940,470	2.9%	1,086,203,000	2.1%	1,110,356,370	2.2%	1,137,204,920	2.4%	1,165,162,480	2.5%
State	72,877,877	73,140,683	0.4%	73,141,000	0.0%	73,141,000	0.0%	73,141,000	0.0%	73,141,000	0.0%	73,141,000	0.0%
Federal	14,455,320	15,174,207	5.0%	15,174,000	0.0%	15,174,000	0.0%	15,174,000	0.0%	15,174,000	0.0%	15,174,000	0.0%
Other Revenue	89,308,868	93,299,860	4.5%	94,699,000	1.5%	96,119,000	1.5%	98,041,000	2.0%	100,002,000	2.0%	102,002,000	2.0%
SUBTOTAL: OTHER	176,642,065	181,614,750	2.8%	183,014,000	0.8%	184,434,000	0.8%	186,356,000	1.0%	188,317,000	1.1%	190,317,000	1.1%
CARRYOVER FUNDS	24,044,470	22,864,364	-4.9%	4,000,000	-82.5%	4,000,000	0.0%	4,000,000	0.0%	4,000,000	0.0%	4,000,000	0.0%
TOTAL REVENUE	1,197,705,237	1,238,251,524	3.4%	1,250,954,470	1.0%	1,274,637,000	1.9%	1,300,712,370	2.0%	1,329,521,920	2.2%	1,359,479,480	2.3%
EXPENDITURES	Adopted FY 2017	Proposed FY 2018	% chg	Forecast FY 2019	% chg	Forecast FY 2020	% chg	Forecast FY 2021	% chg	Forecast FY 2022	% chg	Forecast FY 2023	% chg
Salaries	264,460,630	274,301,378	3.7%	282,078,000	2.8%	290,075,000	2.8%	298,299,000	2.8%	306,756,000	2.8%	315,453,000	2.8%
Benefits	133,676,976	143,589,304	7.4%	146,844,284	2.3%	150,185,914	2.3%	153,616,895	2.3%	157,140,029	2.3%	160,758,210	2.3%
SUBTOTAL: PERSONNEL	398,137,606	417,890,682	5.0%	428,922,284	2.6%	440,260,914	2.6%	451,915,895	2.6%	463,896,029	2.7%	476,211,210	2.7%
Ongoing Operating Expenses	168,221,898	171,815,021	2.1%	175,896,215	2.4%	180,109,628	2.4%	184,367,244	2.4%	188,022,596	2.0%	191,579,338	1.9%
One-time Operating Expenses	7,165,939	4,468,871	-37.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Metro	30,343,315	36,239,655	19.4%	40,593,000	12.0%	42,832,650	5.5%	45,184,283	5.5%	47,653,497	5.5%	50,246,171	5.4%
Contingents (General & Stabilization)	3,250,000	4,250,000	30.8%	4,250,000	0.0%	4,250,000	0.0%	4,250,000	0.0%	4,250,000	0.0%	4,250,000	0.0%
Ongoing AHIF	4,355,957	4,475,884	2.8%	4,475,884	0.0%	4,475,884	0.0%	4,475,884	0.0%	4,475,884	0.0%	4,475,884	0.0%
One-time AHIF	9,363,829	9,243,902	-1.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Regionals	8,090,741	7,531,562	-6.9%	7,531,562	0.0%	7,531,562	0.0%	7,531,562	0.0%	7,531,562	0.0%	7,531,562	0.0%
Ongoing Capital	7,054,646	6,875,285	-2.5%	6,875,285	0.0%	6,875,285	0.0%	6,875,285	0.0%	6,875,285	0.0%	6,875,285	0.0%
One-time Capital	4,561,300	4,661,102	2.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Debt	61,267,819	62,964,345	2.8%	67,763,664	7.6%	75,263,844	11.1%	82,412,054	9.5%	85,832,877	4.2%	89,129,432	3.8%
Debt Service for Master Lease	7,419,185	7,641,761	3.0%	7,871,013	3.0%	8,107,144	3.0%	8,350,358	3.0%	8,600,869	3.0%	8,858,895	3.0%
OPEB	20,400,000	20,400,000	0.0%	21,012,000	3.0%	21,642,360	3.0%	22,291,631	3.0%	22,960,380	3.0%	23,649,191	3.0%
SUBTOTAL: NONPERSONNEL	331,494,629	340,567,388	2.7%	336,268,624	-1.3%	351,088,356	4.4%	365,738,301	4.2%	376,202,950	2.9%	386,595,758	2.8%
Schools Ongoing (based on 46.3% of tax revenue)	464,510,831	478,285,656	3.0%	492,604,438	3.0%	502,911,989	2.1%	514,094,999	2.2%	526,525,878	2.4%	539,470,228	2.5%
Schools One-time	2,453,402	655,463	-73.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Transfers to Other Funds	1,108,769	852,335	-23.1%	852,335	0.0%	852,335	0.0%	852,335	0.0%	852,335	0.0%	852,335	0.0%
Operating Impact from CIP	-	-	-	1,254,000	-	4,591,000	266.1%	5,430,000	18.3%	5,933,000	9.3%	6,578,000	10.9%
TOTAL EXPENSES	1,197,705,237	1,238,251,524	3.4%	1,259,901,681	1.7%	1,299,704,594	3.2%	1,338,031,530	2.9%	1,373,410,191	2.6%	1,409,707,531	2.6%
Shortfall/Surplus \$ (millions)	Adopted FY 2017	Proposed FY 2018		Forecast FY 2019		Forecast FY 2020		Forecast FY 2021		Forecast FY 2022		Forecast FY 2023	
Revenue	1,197,705,237	1,238,251,524		1,250,954,470		1,274,637,000		1,300,712,370		1,329,521,920		1,359,479,480	
Expenditures	1,197,705,237	1,238,251,524		1,259,901,681		1,299,704,594		1,338,031,530		1,373,410,191		1,409,707,531	
Annual Deficit/Surplus*	-	-		(8,947,211)		(25,067,594)		(37,319,160)		(43,888,271)		(50,228,051)	

*Arlington County is required to adopt a balanced budget each year. Deficits that appear in out-years will be reduced by the actions taken to balance the prior year.

Multi-Year Financial Forecast													
Low Growth													
REVENUE	Adopted FY 2017	Proposed FY 2018	% chg	Forecast FY 2019	% chg	Forecast FY 2020	% chg	Forecast FY 2021	% chg	Forecast FY 2022	% chg	Forecast FY 2023	% chg
Real Estate	692,936,155	717,638,620	3.6%	725,754,110	1.1%	733,578,280	1.1%	742,789,870	1.3%	753,146,960	1.4%	764,351,320	1.5%
Less Crystal City TIF Real Estate	(4,812,420)	(6,304,880)	31.0%	(5,700,520)	-9.6%	(5,786,000)	1.5%	(6,043,270)	4.4%	(6,388,590)	5.7%	(6,737,370)	5.5%
Less Columbia Pike TIF Real Estate	(952,180)	(881,550)	-7.4%	(956,080)	8.5%	(1,106,670)	15.8%	(1,260,270)	13.9%	(1,416,930)	12.4%	(1,576,740)	11.3%
Personal Property	112,052,147	115,452,147	3.0%	117,184,000	1.5%	118,942,000	1.5%	120,726,000	1.5%	122,537,000	1.5%	124,375,000	1.5%
BPOL	57,020,000	63,088,073	10.6%	63,404,000	0.5%	64,038,000	1.0%	64,678,000	1.0%	65,325,000	1.0%	66,305,000	1.5%
Sales	40,200,000	42,000,000	4.5%	42,000,000	0.0%	42,000,000	0.0%	42,000,000	0.0%	42,210,000	0.5%	42,421,000	0.5%
Meals	38,500,000	39,900,000	3.6%	40,299,000	1.0%	40,702,000	1.0%	41,109,000	1.0%	41,726,000	1.5%	42,352,000	1.5%
TOT	25,000,000	25,450,000	1.8%	25,959,000	2.0%	26,608,000	2.5%	27,273,000	2.5%	27,955,000	2.5%	28,794,000	3.0%
Other Taxes	37,075,000	37,430,000	1.0%	37,430,000	0.0%	37,617,000	0.5%	37,805,000	0.5%	37,994,000	0.5%	38,374,000	1.0%
SUBTOTAL: TAXES	997,018,702	1,033,772,410	3.7%	1,045,373,510	1.1%	1,056,592,610	1.1%	1,069,077,330	1.2%	1,083,088,440	1.3%	1,098,658,210	1.4%
State	72,877,877	73,140,683	0.4%	73,141,000	0.0%	73,141,000	0.0%	73,141,000	0.0%	73,141,000	0.0%	73,141,000	0.0%
Federal	14,455,320	15,174,207	5.0%	15,174,000	0.0%	15,174,000	0.0%	15,174,000	0.0%	15,174,000	0.0%	15,174,000	0.0%
Other Revenue	89,308,868	93,299,860	4.5%	94,233,000	1.0%	95,175,000	1.0%	96,603,000	1.5%	98,052,000	1.5%	99,523,000	1.5%
SUBTOTAL: OTHER	176,642,065	181,614,750	2.8%	182,548,000	0.5%	183,490,000	0.5%	184,918,000	0.8%	186,367,000	0.8%	187,838,000	0.8%
CARRYOVER FUNDS	24,044,470	22,864,364	-4.9%	4,000,000	-82.5%	4,000,000	0.0%	4,000,000	0.0%	4,000,000	0.0%	4,000,000	0.0%
TOTAL REVENUE	1,197,705,237	1,238,251,524	3.4%	1,231,921,510	-0.5%	1,244,082,610	1.0%	1,257,995,330	1.1%	1,273,455,440	1.2%	1,290,496,210	1.3%
EXPENDITURES	Adopted FY 2017	Proposed FY 2018	% chg	Forecast FY 2019	% chg	Forecast FY 2020	% chg	Forecast FY 2021	% chg	Forecast FY 2022	% chg	Forecast FY 2023	% chg
Salaries	264,460,630	274,301,378	3.7%	282,078,000	2.8%	290,075,000	2.8%	298,299,000	2.8%	306,756,000	2.8%	315,453,000	2.8%
Benefits	133,676,976	143,589,304	7.4%	146,844,284	2.3%	150,185,914	2.3%	153,616,895	2.3%	157,140,029	2.3%	160,758,210	2.3%
SUBTOTAL: PERSONNEL	398,137,606	417,890,682	5.0%	428,922,284	2.6%	440,260,914	2.6%	451,915,895	2.6%	463,896,029	2.7%	476,211,210	2.7%
Ongoing Operating Expenses	168,221,898	171,815,021	2.1%	175,896,215	2.4%	180,109,628	2.4%	184,367,244	2.4%	188,022,596	2.0%	191,579,338	1.9%
One-time Operating Expenses	7,165,939	4,468,871	-37.6%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Metro	30,343,315	36,239,655	19.4%	42,466,512	17.2%	48,284,186	13.7%	52,482,921	8.7%	57,017,555	8.6%	61,914,959	8.6%
Contingents (General & Stabilization)	3,250,000	4,250,000	30.8%	4,250,000	0.0%	4,250,000	0.0%	4,250,000	0.0%	4,250,000	0.0%	4,250,000	0.0%
Ongoing AHIF	4,355,957	4,475,884	2.8%	4,475,884	0.0%	4,475,884	0.0%	4,475,884	0.0%	4,475,884	0.0%	4,475,884	0.0%
One-time AHIF	9,363,829	9,243,902	-1.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Regionals	8,090,741	7,531,562	-6.9%	7,531,562	0.0%	7,531,562	0.0%	7,531,562	0.0%	7,531,562	0.0%	7,531,562	0.0%
Ongoing Capital	7,054,646	6,875,285	-2.5%	6,875,285	0.0%	6,875,285	0.0%	6,875,285	0.0%	6,875,285	0.0%	6,875,285	0.0%
One-time Capital	4,561,300	4,661,102	2.2%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Debt	61,267,819	62,964,345	2.8%	67,763,664	7.6%	75,263,844	11.1%	82,412,054	9.5%	85,832,877	4.2%	89,129,432	3.8%
Debt Service for Master Lease	7,419,185	7,641,761	3.0%	7,871,013	3.0%	8,107,144	3.0%	8,350,358	3.0%	8,600,869	3.0%	8,858,895	3.0%
OPEB	20,400,000	20,400,000	0.0%	21,012,000	3.0%	21,642,360	3.0%	22,291,631	3.0%	22,960,380	3.0%	23,649,191	3.0%
SUBTOTAL: NONPERSONNEL	331,494,629	340,567,388	2.7%	338,142,136	-0.7%	356,539,892	5.4%	373,036,939	4.6%	385,567,008	3.4%	398,264,546	3.3%
Schools Ongoing (based on 46.3% of tax revenue)	464,510,831	478,285,656	3.0%	484,007,935	1.2%	489,202,378	1.1%	494,982,804	1.2%	501,469,948	1.3%	508,678,751	1.4%
Schools One-time	2,453,402	655,463	-73.3%	-	0.0%	-	0.0%	-	0.0%	-	0.0%	-	0.0%
Transfers to Other Funds	1,108,769	852,335	-23.1%	852,335	0.0%	852,335	0.0%	852,335	0.0%	852,335	0.0%	852,335	0.0%
Operating Impact from CIP	-	-	-	1,254,000	-	4,591,000	266.1%	5,430,000	18.3%	5,933,000	9.3%	6,578,000	10.9%
TOTAL EXPENSES	1,197,705,237	1,238,251,524	3.4%	1,253,178,690	1.2%	1,291,446,519	3.1%	1,326,217,973	2.7%	1,357,718,319	2.4%	1,390,584,842	2.4%
Shortfall/Surplus \$ (millions)	Adopted FY 2017	Proposed FY 2018		Forecast FY 2019		Forecast FY 2020		Forecast FY 2021		Forecast FY 2022		Forecast FY 2023	
Revenue	1,197,705,237	1,238,251,524		1,231,921,510		1,244,082,610		1,257,995,330		1,273,455,440		1,290,496,210	
Expenditures	1,197,705,237	1,238,251,524		1,253,178,690		1,291,446,519		1,326,217,973		1,357,718,319		1,390,584,842	
Annual Deficit/Surplus*	-	-		(21,257,180)		(47,363,909)		(68,222,643)		(84,262,879)		(100,088,632)	

*Arlington County is required to adopt a balanced budget each year. Deficits that appear in out-years will be reduced by the actions taken to balance the prior year.