ARLINGTON
VIRGINIA

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Memorandum

To: County Board of Arlington, Virginia **Date:** March 13, 2018

From: Mark Schwartz, County Manager

Subject: Mid-year Review of Fiscal Year 2018

Summary

The latest analysis of the County's revenues and expenses for FY 2018 indicates that there will be minimal funding available at fiscal year-end; based on the first eight months' of actual financial performance. With the allocation of some unanticipated revenue and expenditure savings included in the FY 2019 Proposed Budget, only $1.0 million in one-time funding is available at this time. In addition to the $1.0 million noted above, $0.6 million is available for allocation to affordable housing (AHIF) per Board policy due to the anticipated increase in recordation tax which the Board historically has dedicated to housing. This analysis does not include the potential loss in real estate taxes due to the current legislation in the Virginia General Assembly. This legislation, if adopted and implemented could impact County and Schools by an estimated $1.6 million to $1.7 million. An update will be made at 3rd Quarter to reassess any of the trends and assumptions made in this report. The tables below summarize mid-year estimates of revenues and expenditures.

Revenue	**FY 2018 Incremental Change Over Adopted Budget (One-Time) ($ millions)**
Real Estate Tax & Refunds	(0.3)
Personal Property	0.6
Other Tax Revenue	1.3
Sub-Total Taxes (0.2% change)	**1.6**
Non-Tax Revenue	(0.6)
Total Revenue (0.1% change)	**1.0**
Expense Adjustments	
FY 2018 Departmental Savings	2.0
Other Post Employment Savings (OPEB)	1.0
Budget Reduction Carryover Funds (Lee Hwy/ConnectArl.)	0.75
Housing Grant Saving Carryover to FY 2019	0.5
TOTAL MID-YEAR	5.2

Transfer to Schools (46.6% share of tax revenue)	(0.7)
County Share of Mid-Year	4.5
Proposed Allocations Made as Part of Proposed FY 2019 Budget in February 2018 for One-Time Items such as AHIF	(2.9)
Portion of Recordation Tax Allocated to AHIF (by Board Policy)	(0.6)
ONE-TIME AMOUNT AVAILABLE, March 2018	**$1.0**

Current estimates indicate that the County's revenue will be consistent with the budgeted amounts while expense estimates show departments executing in line with their appropriations. At third quarter, there will be a better estimate of Business, Professional & Occupational License (BPOL) tax revenue, which is received primarily in February and March; early indications are that this revenue source will also be in line with budget. Full details are provided in the table below. Total tax revenue changes $1.6 million, which represents only a 0.2% change from the adopted budget.

In February, as part of the proposed budget, some of these revenue and expenditure changes ($2.9 million) were identified. This includes $1.7 million in revenue due to an unexpected reimbursement and a portion of revenue from supplemental real estate taxes. In addition, this includes $1.2 million in expenditures from one-time savings and reductions included in the FY 2019 Proposed Budget. This includes reducing the Lee Highway planning process budget by $500,000, eliminating ConnectArlington Connection Grants by $250,000, and savings identified from the housing grants program $485,029. The Manager's proposed budget allocated these funds to priority service areas including AHIF and economic development incentives. In particular, the proposed FY 2019 AHIF budget totals $13.7 million, including $7.0 million in one-time, in part funded from the proposed reductions noted above.

Revenues

Fiscal Year 2018 revenues are estimated to be $1.0 million higher than the FY 2018 budget due to $1.6 million increase in projected tax revenues, partially offset by a $0.6 million shortfall in non-tax revenues.

Revenue Summary – Fiscal Year 2018	Incremental +/(-) Over Budget ($ millions)
Tax Revenue:	
Real Estate Tax & Refunds*	(0.3)
Personal Property	0.6
Sales Tax	(0.2)
Meals Tax	(0.2)
Car Rental	0.6
Recordation	1.6
Utility Taxes	(0.6)
Other Taxes	0.1

Revenue Summary – Fiscal Year 2018	Incremental +/(-) Over Budget ($ millions)
Total Tax Revenue Change	**$1.6**
Non-Tax Revenue:	
License, Permits, Fees, and Charges for Service	(0.3)
Fines & Interest	(3.7)
Miscellaneous Revenue	2.5
Federal	0.9
Non-Tax Revenue Change	(0.6)
Total Projected Revenue Increase*	**$1.0**

* 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 – Actual real estate tax revenue at the current tax rate is projected to be lower for FY 2018 than the adopted budget due to a variety of factors. Base real estate tax revenue at the current tax rate is slightly lower due to less growth in the overall assessment tax base for CY 2018 from projected amounts in the FY 2018 adopted budget. As announced in January 2018, assessments increased 1.9%. At existing tax rates, this generates $1.3 million less than the FY 2018 budget. In addition, real estate refunds are anticipated to be $1.1 million higher than budgeted.

County Manager Recommendation to Adjust the Crystal City TIF Allocation from 30% to 25%: Included in the real estate tax revenue projections is the one-time revenue which would be available to the General Fund ($0.5 million) if the County Board adjusts the Crystal City TIF Allocation from 30% to 25%. The County Manager has included this recommendation in the FY 2019 Proposed Budget; splitting the revenue based on the Principles of Revenue Sharing with APS (53.4% County / 46.6% Schools).

Personal Property – Both vehicle personal property and business tangibles revenue are trending higher than the FY 2018 budgeted levels. This tax revenue is forecasted to be $1.0 million (1.2%) over budget by fiscal year-end, partially offset by higher than anticipated refunds ($0.4 million).

Other Local Taxes: Increase $1.2 million

- Sales and meals tax revenue have grown slightly less than anticipated and are expected to be $0.4 million under budget.
- Car Rental tax revenue is projected to exceed the FY 2018 budget by $0.6 million.
- Recordation tax is trending above budget; note that $0.6 million of the $1.6 million of additional revenue anticipated is allocated to AHIF.
- Utility taxes are trending lower than budget.

County Non-Tax revenues are projected to be $0.6 million lower than budgeted. Highlights include:

- **Licenses, Permits, Fees, and Charges for Service** are anticipated to be $0.3 million below budget due to increased utilization of fee reductions in Parks and Recreation programs ($0.6 million) as well as lower than anticipated site plan fee revenue ($0.5 million) and ambulance fee revenue ($0.2 million), partially offset by higher than anticipated highway permit revenue ($0.7 million).
- **Fines and Interest** are expected to be $3.7 million lower budget due to lower interest earnings ($3.0 million) and fine revenue ($0.9 million), partially offset by higher parking ticket revenue ($0.3 million).
- **Miscellaneous Revenue** includes cost reimbursements from FEMA ($1.6 million) received in FY 2018; $1.3 million of this reimbursement was utilized in the FY 2019 proposed budget.
- **Federal Revenue** is expected to be $0.9 million higher than budgeted due to increased human services revenue.

Expenditures

Most County departments and programs are projected to spend at or below their FY 2018 authorized levels. Several departments are experiencing specific expenditure pressures as outlined below and may exceed appropriations by the close of the fiscal year:

- Fire Department – due to overtime, callback pay, and leave payouts;
- Sheriff's Office – due primarily to overtime costs.

Expenditure Adjustments

- Departmental Savings – As noted above, most County departments are projected to spend at or below their FY 2018 authorized levels. In FY 2017, departmental operating savings totaled $5.3 million, or approximately one-percent of department operating budgets (after adjusting for grant carryover and restricted funding), the lowest amount of savings in recent years. We estimate the approximately $2.0 million in savings will be available at the end of the fiscal year after factoring in potential impacts for the compensation payouts related to employees taking the early out incentive. In addition, since no departmental projects were approved for funding at close-out, departments have been reallocating base budget dollars to fund those carryover projects and other priorities as discussed during the FY 2018 budget process.

- Health Care – Healthcare costs for the County are currently trending at budget and no adjustments are anticipated at this time. However, these costs can swing suddenly depending on one or two significant individual healthcare events.

- Early Retirement Buyout – The County Manager authorized an early retirement buyout program in January 2018 to create organizational flexibility as the FY 2019 budget was being developed. The program generates one-time costs that are incurred from employees cashing out leave balances they have accrued.

- Metro - Staff is closely monitoring Metro's budget deliberations and the impact that Metro's budget could have on future fiscal years. We are not anticipating any impact on the

FY 2018 budget. However, future years are much more uncertain and current projections show substantial funding needs in the out years.

- Other Non-Department Specific Accounts
  - Insurance – Several accounts are trending higher than budget with one significant cost of a settlement claim paid earlier in the fiscal year of $875k.
  - OPEB – The expected transfer of funding to the trust account for Other Post-Employment Benefits will be lower based on recent actuarial projections ($1.0 million) in part due to strong investment returns
  - Auto Fund Transfer – In the FY 2019 Proposed budget it was assumed that $2.6 million would be transferred from the Auto Fund to the General Fund. As part of the FY 2019 budget process, balances of other funds were evaluated and it was determined that monies were available in the Auto Fund that could be used to offset the need for one-time expenditures in FY 2019, particularly AHIF and economic development incentives. These balances will be transferred to the general fund in FY 2018 and carried over during the FY 2018 closeout process.

Schools

Expense Transfers –The County Manager included $0.4 million in one-time funds to Schools in the Proposed Budget. Based on higher tax revenue forecasted and the Principles of Revenue Sharing, Schools would receive an additional $0.3 million for total one-time funding of $0.7 million. Schools did not include these monies in their FY 2019 Proposed budget.

Affordable Housing Investment Fund

FY 2018 projections for Recordation tax are higher than budgeted. The County Board earmarked a portion of recordation tax revenue to AHIF when the rate increased from $0.05 to $0.0833 in FY 2005. Based on the Board adopted funding allocations for recordation tax the amount which would be allocated to AHIF totals $0.6 million above the adopted FY 2018 budget. It should be noted that the County Manager provided $13.7 million in funding to AHIF in the FY 2019 Proposed Budget. This additional one-time funding could be used to enhance the FY 2019 AHIF funding level.