ARLINGTON
VIRGINIA

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:** March 17, 2010

From: Barbara Donnellan, Acting County Manager

Subject: Mid-year Review of Fiscal Year 2010

Summary

This is a report to the County Board on the status of the Fiscal Year (FY) 2010 budget. Latest analysis of the County's revenues and expenses for FY 2010 indicates that the **FY 2010 budget will be balanced at fiscal year-end**.

The table below summarizes mid-year estimates of revenues and expenditures and shows how we have sufficient funds in the Budget Stabilization Fund to meet the revenue/expenditure gap. In short, mid-year estimates of revenues are $10.7 million below the FY 2010 revised budget and expenditure estimates are projected to be $5.0 million below the FY 2010 revised budget. The **$5.7 million gap** between revenues and expenditures can be met through a $5.7 million allocation from the Budget Stabilization Fund.

FY 2010 Balanced Budget Projection – Mid-Year Summary

Revenue	FY 2010 Revised to FY 2010 Mid-Year ($ million)
Real Estate Tax Revenue (at Current Tax Rates)	(17.1)
One-time Real Estate Tax Revenue from 5.9 Cent Tax Rate Increase	15.8
One-time Real Estate Tax Revenue Carried-over to FY 2011 in Manager's Proposed Budget	(4.3)
Other Tax Revenue	0.1
Non-Tax Revenue	(5.2)
Total Revenue	**(10.7)**

A.8

Expense Savings	FY 2010 Revised to FY 2010 Mid-Year ($ million)
Departmental Savings	5.0
Total Expense Savings	**5.0**
Revenue/Expenditure Gap	**(5.7)**
Budget Stabilization Fund	
Budget Stabilization Fund (balance)	9.4
Stabilization Fund Allocation to Balance Budget	**(5.7)**
Balance After Mid-Year Revenue Shortfall Allocation	3.7
One-time Cost for Additional Volunteer Separation Program (50 employees)	(3.0)
Balance of Funds Available	0.7

Revenues

As shown in the table below, FY 2010 revenues are estimated to be $10.7 million below the FY 2010 revised budget due to:

- $5.5 million decline in tax revenues; and
- $5.2 million decline in non-tax revenues.

Mid-Year Revenue Summary – Fiscal Year 2010	Incremental +/(-) Over Budget ($ millions)	County share	Schools share
Tax Revenue:			
Real Estate (at existing tax rate)	(17.1)	(9.1)	(8.0)
Real Estate (with 5.9 cent rate increase from June payment)	15.8	8.0	7.8
Real Estate (misc. adjustments)	1.4	0.7	0.7
Revenue from CY 2010 rate increase (June Payment) for carryover to FY 2011 for the budget stabilization	(4.3)	(4.3)	0.0

fund, capital, and radio maintenance			
Personal Property	2.1	1.1	1.0
Sales	(0.5)	(0.3)	(0.2)
Recordation	(0.3)	(0.2)	(0.1)
Cigarette	0.2	0.1	0.1
Car Rental	0.5	0.3	0.2
Transient Occupancy	(1.6)	(0.8)	(0.8)
Commercial Utility	0.7	0.4	0.3
Meals	(1.7)	(0.9)	(0.8)
Communications	(0.7)	(0.7)	0.0
Tax Revenue Change	**(5.5)**	**(5.7)**	**0.2**
Non-Tax Revenue:			
License Fees	(1.0)	(1.0)	0.0
Fines	(2.2)	(2.2)	0.0
Interest Income / Rents	(1.3)	(1.3)	0.0
Charges for Services	0.2	0.2	0.0
State – Additional Reductions Projected	(0.5)	(0.5)	0.0
Reimbursements for federal prisoners	(0.4)	(0.4)	0.0
Non-Tax Revenue Change	**(5.2)**	**(5.2)**	**0.0**
Total Projected Revenue Shortfall	**(10.7)**	**(10.9)**	**0.2***
			* The Schools will receive this $200,000 as an increase to their transfer

The $5.5 million decrease in tax revenue is due to:

Real Estate tax revenues are projected to decline $4.2 million. Real Estate tax assessments, as announced in January 2010, decreased 7.2%, rather than the 0% CY 2010 growth that was built into the FY 2010 adopted budget. At existing tax rates, this creates a **revenue shortfall of $17.1 million** in FY 2010; or $9.1 million for the County and $8.0 million for the Schools. This decrease caused by lower assessments is **partially offset** by the revenue generated from 5.9 cents of the Manager's recommended CY 2010 tax rate increase of 6.7 cents. This 5.9 cent increase would generate an additional $15.8 million from the June 2010 tax payments, which would be split (pursuant to the Revenue Sharing agreement with Arlington Public Schools) with $8.0 million credited to the County and $7.8 million to the Schools. Revenue generated from the remaining 0.8 cent increase proposed by the Manager has been set aside to fund FY 2011 costs associated with increased enrollment of 699 students.

However, as already described to the County Board during presentation of the Manager's FY 2011 budget on February 20, 2010, the proposed budget dedicates $4.3 million of this $8.0 million for use in FY 2011, specifically for:

- $3.5 million for the FY 2011 budget stabilization fund,
- $0.5 million for traffic signal replacement; and
- $0.3 million as a contingent for radio maintenance in the Office of Emergency Management.

In addition, higher than expected penalties from delinquent tax payments and lower than expected real estate tax relief—which offset real estate tax revenue—should generate higher revenues of $1.4 million in FY 2010.

Other Local Taxes are projected to decline $1.3 million, driven by lower than anticipated sales, meals, transient occupancy and communications tax, but offset by a higher than projected personal property and commercial utility tax receipts.[1] BPOL taxes were required to be filed by March 1; as additional information is available, further refinements in the FY 2010 estimate will be made at the third quarter review in April.

County Non-Tax revenues are projected to be $5.2 million less than the FY 2010 revised budget. Significant components include:

- **Interest income/rents** are down $2.0 million. This is due to lower yields from the State Nonarbitrage Program—the investment vehicle through which the County invests proceeds

[1] Based on County Board policies the revenue changes described above will have the following impacts on other funds:

- $0.2 million <u>more</u> allocated to Pay-As-You-Go Capital from the commercial utility tax increment;
- $0.1 million <u>less</u> allocated to the Affordable Housing Investment Fund (AHIF) from lower than expected incremental revenue from the recordation tax.

from bond sales. This decline is partially offset by higher than expected rent payment from Vornado for the ground lease at Courthouse Plaza.

- **Parking tickets** are down $1.7 million, due primarily to fewer tickets issued, severe weather and increased compliance rates, due to more multi-space meters in operation.
- **Site plan fees** are down $0.7 million, due to decreased development.
- **State revenue** is down $0.5 million. This decline primarily reflects reductions in the State's FY 2010 "caboose" bill. These reductions will primarily affect funding for the Constitutional offices and law enforcement aid.
- **Federal revenue** is down $0.4 million due to a decline in reimbursements from housing fewer federal inmates in the County jail.

Expenditures

Current estimates, based on an analysis of each Department's activities to date, are that at year end General Fund expenditures will be **$5.0 million below** the FY 2010 revised budget totals. This results mainly from savings achieved through the hiring freeze imposed earlier this Fiscal Year. The $5.0 million total is a net number that already accounts for:

- County overtime, materials, and contract expense relating to the numerous snow events from December 2009 through February 2010 which total close to $5.25 million. The costs associated with the storms exceed budgeted amounts by approximately $4 million.
- 32 employees who accepted the December 2009 early retirement offer, for whom there were one-time General Fund costs of approximately $0.4 million, and FY 2010 savings from vacancies created by the departure of those employees of $0.5 million.

I will update the Board on these potential savings during 3rd Quarter review, and provide a final analysis with closeout of the FY 2010 Budget in October 2010.

Budget Stabilization Fund

It is my recommendation at closeout to meet the $5.7 million gap in FY 2010 through allocation from the Budget Stabilization Fund to ensure a balanced FY 2010 budget.

The County Board established a $10 million stabilization fund when it adopted the FY 2010 budget. As stated by the County Board "[t]he fund's purpose is to manage in FY 2010 the impact of economic changes, including lower revenue, unanticipated consequences of budget reductions or additional safety net requirements."

In January 2010, the County Board allocated $0.6 million of the Stabilization Fund to offset a portion of almost $2.0 million in unforeseen revenue losses from the State. These funds were used to replace revenue losses to public safety including activities of the Sheriff. With the drawdown of $0.6 million, there remains a balance in the Budget Stabilization fund of $9.4 million.

It would be my intent to use the Budget Stabilization Fund for two purposes for the remainder of this fiscal year. First, $5.7 million is necessary to offset the remaining revenue shortfall not covered by the departmental expenditure savings. Secondly, $3.0 million can be used to offset the one-time cost of an additional employee buyout program that will create substantial savings in FY 2011 and position the county to handle the challenges expected in FY 2012. These actions would leave a balance in the Budget Stabilization Fund of $0.7 million.

Status of Voluntary Separation Program

In February 2010, I announced a second voluntary separation program, which allowed for enhanced severance for up to 50 employees wishing to leave County employment. By March 5, 2010, eighty-eight (88) employees had filed paperwork to elect to accept the proposed voluntary separation package. A lottery was held on March 8, 2010, to randomly select 50 employees. Employees have until April 29, 2010 to finally accept the offer and terminate employment. Based on the 50 employees randomly chosen, the one-time cost of the buy-out in FY 2010 is projected to be $3.0 million. Employees chosen in the lottery who elect to leave County service will be allowed to stay until May 21, 2010, but may leave before that date.

I am committed to capturing vacancy savings from this voluntary separation program in FY 2010 and beyond. Some of these positions will need to be refilled and all the positions cannot be eliminated or remain vacant indefinitely without commensurate service changes. Because the deadlines for exercise of the options under the Voluntary Separation Program have not passed, estimates of savings under the program are currently uncertain. I will report back to the Board on the results of the program. Current plans are to use vacancy savings achieved to "buy back" the furlough day included in the County Manager's Proposed FY 2011 budget.