ARLINGTON
VIRGINIA

COUNTY MANAGER'S OFFICE

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Memorandum

To: County Board of Arlington, Virginia **Date:** April 1, 2016

From: Mark Schwartz, County Manager

Subject: Mid-year /3rd Quarter Review of Fiscal Year (FY) 2016

Summary

As described in the following analysis, the following amounts of funding are available to the County Board above and beyond those described in the February 23, 2016, Proposed FY 2017 County Manager's base budget proposal. These amounts rely on the application of the Revenue Sharing Principles to determine possible funds for Arlington Public Schools

	County	Schools (1)
One-time funds	$1,387,234	$596,679
Ongoing (FY 2017)	$267,500	$232,500
Unallocated **ongoing** (presented as an option in the Manager's Proposed 2017 budget)	$900,000	

(1) See table on page 6 for a summary of additional funds to Schools as proposed in the FY 2017 budget.

FY 2016: This report summarizes the status of the FY 2016 budget and adjustments to the FY 2017 revenue forecast for consideration in adoption of the FY 2017 budget. **This year's projection of overall revenues and expenditures are much tighter than previous fiscal years. Extraordinary costs for this year's snow events, tightening of departmental budgets, and accurate revenue forecasting have all contributed to a reduced estimate of extra funding available. In addition, demands on the various public safety departments have resulted in projected over-expenditures for overtime (Sheriff / Police / Fire).**

Typically, the County Manager presents a Mid-Year Review followed by a 3rd Quarter Analysis. With the substantial costs of snow (January through March) and increased spending on overtime by a few departments, Mid-Year was delayed for staff to collect the most accurate information. With the 3rd Quarter of the fiscal year not officially ending until March 31st but with budget deliberations needing to conclude by mid-April, a combined report is being presented to the County Board.

Analysis of the County's revenues and expenses for FY 2016 indicates that the FY 2016 budget will be balanced at fiscal year-end. After allocations already included in the proposed FY 2017 budget, there is one-time money of $1.4 million available for allocation. Available funding assumes a set-aside for a potential ½ cent real estate tax rate reduction; further reductions in the real estate tax rate would require additional funding.

FY 2017: Two adjustments are recommended to the FY 2017 revenue projections made by the County Manager in the development of the FY 2017 Proposed Budget. These are included in the table on the following page.

Financial Review Summary

Revenue	FY 2016 Incremental Change Over Budget (One-time) ($ millions)	FY 2017 Incremental Change Over Budget (Ongoing) ($ millions)	FY 2017 Incremental Change Over Budget (One-time) ($ millions)
Real Estate Tax Revenue (at Current Tax Rates & net of Crystal City & Columbia Pike Tax Increment Financing Areas)	$4.8		
BPOL – Portion of Reserve Fund (assumed in FY 2017 proposed budget)	2.5		
BPOL – Additional Revenue	0.5	$0.5	
Other Tax Revenue	0.4		
Sub-Total Taxes	**$8.2**	**$0.5**	
Non-Tax Revenue	(0.3)		$1.0
Total Revenue	**$7.9**	**$0.5**	**$1.0**
Expense Adjustments			
Department Over Spending (Snow / Public Safety Overtime)	(8.9)		
Aggregate Departmental Savings	7.0		
Debt Service Savings	1.9		
TOTAL FUNDS AVAILABLE	**$7.9**	**$0.5**	
Set-Aside for ½ Cent Real Estate Tax Rate Reduction	(1.8)		
Transfer to Schools (46.5% share of tax revenue less tax rate reduction; $2.4 million of the $3.0 million one-time assumed in FY 2017 proposed budget leaving $0.6 million in new one-time money)	(3.0)	(0.2)	
Amount already allocated in proposed FY 2017 budget	(2.7)	-	
BALANCE AVAILABLE	**$0.4 (one-time)**	**$0.3 (ongoing)**	**$1.0 (one-time)**

The funds listed in the table above are in addition to the $900,000 of unallocated ongoing funding included in the FY 2017 County Manager Recommendations Above Board Guidance. If the County Board accepts the County Manager's recommendations, the Board would have a total of $1.4 million in one-time funding and $1.2 million ($0.9 million + $0.3 million) in ongoing funding to apply to other County Board priorities.

I am recommending to the County Board:

Sharing tax revenue with Schools: Based on the adopted Principles of Revenue Sharing, excess local tax revenue is shared between the County and Schools based on the current year's revenue sharing percentage split. For FY 2016, Schools receives 46.5% and the County receives 53.5%. The FY 2017 Proposed Budget included $2.4 million in one-time funding to Schools. Based on the Mid-Year review, the Schools would receive an additional $0.6 million based on the Principles of Revenue Sharing, for a total of $3.0 million in one-time funds. In FY 2017 with the increase in BPOL taxes, the Schools receive an additional $0.2 million in on-going funds.

One-Time Balances: $2.7 million is included in the FY 2017 Proposed Budget. The remaining $1.4 million is available for allocation by the County Board as part of adoption of the FY 2017 budget. A summary of the funding included in the FY 2017 Proposed Budget can be found at the end of this report and is a combination of County Board-approved actions at close-out of FY 2015 and one-time funds received in FY 2016 and included in the FY 2017 Proposed Budget.

On-Going Balances: A total of $1.2 million is available from the combination of $0.3 million identified at 3rd quarter and $0.9 million available in the Manager's Proposed Budget.

Revenues

Fiscal Year 2016 revenues are estimated to be $7.9 million higher than the FY 2016 budget due to:

- $5.7 million increase in tax revenues
- $2.5 million release in the BPOL reserve set aside for potential impacts of the Virginia Supreme Court ruling as described in more detail below and
- $0.3 million decrease in non-tax revenues.

Revenue Summary – Fiscal Year 2016	Incremental +/(-) Over Budget ($ millions)
Tax Revenue:	
Real Estate (at existing tax rate)	$4.8
Business, Professional, and Occupational License (BPOL)	0.5
Sales	(1.0)
Transient Occupancy (TOT)	0.4
Cigarette	(0.2)
Car Rental	1.3
Communications	(0.1)
Total Tax Revenue Change	**$5.7**
Release of BPOL Reserve	$2.5
Non-Tax Revenue:	
Fines, Interest, & Charges for Services	(0.4)

Revenue Summary – Fiscal Year 2016	Incremental +/(-) Over Budget ($ millions)
State	0.1
Non-Tax Revenue Change	**($0.3)**
Total Projected Revenue Increase*	**$7.9**
*** 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 is higher due to a slightly higher real estate tax base in CY 2015. As announced in January 2016, assessments increased 2.8%. At existing tax rates, this generates $6.8 million above the FY 2016 budget. Offsetting this increase are higher than budgeted real estate refunds ($0.8 million).

Revenue to the Crystal City, Potomac Yard, and Pentagon City Tax Increment Financing Area (Crystal City TIF) is higher due to the increase in assessed values from the projection for CY 2016. With assessments increasing in these districts, revenue to the General Fund decreases $1.1 million. Currently, the TIF receives 33% of all incremental real estate tax revenue generated over CY 2011 in this TIF area.

The Columbia Pike Tax Increment Financing Area (Columbia Pike TIF) revenue projections are modified slightly ($0.06 million) higher due to an increase in assessed values from the projection for CY 2015. Currently, the TIF receives 25% of all incremental real estate tax revenue generated over CY 2014 in this TIF area.

With the offsets of refunds and funds directed to the TIFs, the real estate tax revenue is projected to increase $4.8 million. $4.4 million of this was recommended for one-time School and County uses in the County Manager’s FY 2017 Proposed Budget.

Business, Professional, and Occupational License Tax (BPOL) – As part of the FY 2017 Proposed Budget the County Manager recommended releasing $2.5 million of the $5.6 million BPOL refund reserve set-aside for the Virginia Supreme Court decision on BPOL tax apportionment. The $2.5 million was included in the Proposed Budget for one-time County and School needs. In addition to the BPOL reserve funds, current BPOL revenue is trending slightly higher in FY 2016. Based on current receipts, BPOL revenue will exceed budget by at least $500,000. It is also recommended that the estimate for FY 2017 be increased by $500,000 to a revised total of $57,020,000. BPOL filings continue through March and early April so a complete picture of FY 2016 in not yet known.

Other Local Taxes: Increase $0.4 million

- Sales tax revenue growth has slowed over the last twelve months. Assuming flat growth for the remaining months of the fiscal year, sales tax will be down $1.0 million from the adopted budget.
- Transient Occupancy increases are driven by increased occupancy rates and slightly higher hotel daily rates.

- Car Rental tax revenue has been strong and is projected to exceed the FY 2016 budget by $1.25 million.
- Cigarette and Communications taxes are also trending slightly lower than budget.

County Non-Tax revenues are projected to decrease by $0.3 million. Significant revenue sources to highlight include:

- **Fines, Interest, and Charges for Service** are anticipated to be $0.4 million below budgeted amounts. This is primarily due to lower than anticipated parking meter and parking ticket revenue, fines, and ambulance fees. These lower than budgeted projections are partially offset by higher than anticipated interest income.
- **State** revenue is expected to be slightly higher ($0.1 million) over budget due to higher than budgeted highway aid.

Expenditures

Most County departments and programs are projected to spend at or below their FY 2016 authorized levels. Several departments are experiencing specific expenditure pressures as outlined below and may exceed appropriations by the close of the fiscal year:

- Environmental Services ($5.5 million) – due to the significant contractual and overtime costs associated with snow removal;
- Sheriff's Office ($1.6 million) – due primarily to overtime costs associated with detention center staffing and lockdown management;
- Fire Department ($1.4 million) – due to overtime, callback pay, and leave payouts;

Expenditure Adjustments

- Departmental Savings – As noted above, most County departments are projected to spend at or below their FY 2016 authorized levels. At this time, no operating department savings are being identified for allocation to other uses.

  This mid-year / 3rd quarter review is based on data for 8-9 months of the fiscal year. Each year these areas of savings may be different depending on how costs, staffing, and market forces (e.g., utilities, inflation) have changed since the budget was originally developed eighteen months earlier. Staff will continue to monitor expenditure trends both County-wide and by department to ensure that the County remains within its overall budget. Consistent with prior years' practice, any expenditure savings will be available for allocation at year-end close-out.

- Health Care – Healthcare costs for the County are currently trending at budget. No adjustment to budgeted healthcare costs are anticipated at this time. Since we are self-insured, these costs can swing depending on one or two significant individual healthcare events.

- Debt Service savings of $1.9 million are due to updated cash flow projections for previously approved capital projects and the associated debt service impact of those reductions in the June 2015 general obligation bond issuance.

- Snow Related Expenditures – With the greater than normal weather events this year, expenditures for snow related events exceed the budgets in various operating departments. Not only are the budgets of the Departments of Environmental Services and Parks & Recreation affected by snow events but also overtime costs in other departments such as the Office of Emergency Management and public safety agencies. Expenditures are projected to have the County over-spend snow budgets by over $5 million. Based on preliminary estimates, the County will be receiving approximately $2 million in reimbursement though FEMA, however these funds are not likely to be received until FY 2017 or later. The County is in the very early stages of cost submissions and discussions with FEMA and the final approved expenditures for reimbursement and the timeline are still uncertain. Because of this uncertainty, we are only assuming that $1 million will be received in FY 2017; when additional funds are received, they will be presented to the Board for expenditure either as part of close-out or the next budget process.

Schools

Expense Transfers – As mentioned in the summary section above, the County Manager included $2.4 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 $0.6 million for total one-time funding of $3.0 million. With the additional projection of BPOL tax revenue in FY 2017, Schools would receive an additional $1.5 million in on-going funds ($1.3 million from real estate taxes and $0.2 million in additional BPOL forecasted.

School Funding Summary – FY 2016 & FY 2017

Funding to Schools	Ongoing ($ millions)	One-Time ($ millions)
County Manager's Proposed Budget	$462.5	$2.4
Funding Above County Board Guidance	1.3	
Additional Mid-Year/ 3rd Qtr tax Adjustments		0.6
BPOL FY 2017 Increase	0.2	
Total Transfer to Schools	$464.0	$3.0
Additional Funding NOT Included in Superintendent Proposed Budget		
FY 2017 Funding Above County Board Guidance	$1.3	
FY 2017 Additional BPOL Adjustment	0.2	
FY 2016 Mid-Year / 3rd Qtr Tax Adjustments		$3.0
Total Additional Funding to Schools	$1.5	$3.0

Recommendations on One-Time Funding Included in FY 2017 Proposed Budget

During FY 2015 Close-Out, the County Board allocated $15.9 million for one-time needs in FY 2017. The FY 2017 Proposed Budget includes an additional $7.9 million for one-time needs, for a total of $23.8 million. The following chart shows the recommended uses of these funds. This includes $1.8 million in excess revenue set-aside for a real estate tax cut of up to ½ cent.

County Manager Recommended Allocation of One-Time Funds in the FY 2017 Proposed Budget	
FY 2015 Close-Out	$15,900,000
Real Estate Tax Revenue (at current tax rate)	4,415,450
BPOL Contingent Reserve	2,500,000
Total One-Time Funds	$23,815,450
Recommended Allocation of One-Time Funds	
Affordable Housing Investment Fund (AHIF)	$8,200,000
Budget Stabilization Contingent	3,000,000
Housing Grants	3,724,000
Maintenance Capital	1,700,000
Economic Incentive Fund	1,500,000
Election & Inauguration	629,691
Public Safety Staffing Needs	422,261
Library Pop-Up Initiative	250,000
Fair Housing Study & Regional Commitments	234,605
Schools Allocation	2,399,363
½ Cent Tax Cut Set-Aside	1,755,530
County Manager Allocation Recommendations	$23,815,450