RLINGTON
VIRGINIA

OFFICE OF THE COUNTY MANAGER

2100 Clarendon Blvd., Suite 302 Arlington, VA 22201
TEL 703.228.3120 FAX 703.228.3218 TTY 703.228.4611 www.arlingtonva.us

MEMORANDUM

To: Members of the County Board

From: Ron Carlee, County Manager

Date: December 15, 2008

Subject: December 2008 Budget Update

I am pleased to report that there appears to be no further deterioration of economic conditions in Arlington from the projections presented to you in November. The previous estimates of a $14 million shortfall in FY 2009 and a $40 million shortfall in FY 2010 are not being revised. Most importantly, we are not seeing conditions worsen beyond early estimates.

Residential Real Estate Values Have Modest Decline

The most encouraging news is in real estate assessments. Residential assessments for existing properties (single family, townhouse, and condo) will decline by only 2.05%. We had estimated earlier that declines could be as high as 5%.

Additionally, Arlington's housing base expanded in 2008, including new condos and renovations and expansions of existing housing. As a consequence of these investments in Arlington, our net change in residential assessments is a **net decline of only 1.25%.**

We cannot conclude that there will not be further declines affecting 2010 assessments; however, by any objective standard, the Arlington housing market has been extremely resilient during this economic downturn. This is not only good news for the County's budget, but it is extremely good news for homeowners.

Commercial assessments are still in progress. Information will be available in about a week.

Based on what we know at this time, we do not expect the decline in commercial and residential real estate values together to be greater than the -2% previously estimated. In fact, performance may be slightly better.

We will learn later this week how the Governor's recommended budget will affect us. We also are carefully watching trends in sales, meals, and hotel taxes.

As much as the real estate report is good news, it is good only in context of the much larger negative economy. **Overall, real estate and other revenues will be below the FY 2009 approved budget and we will be required to adjust tax rates and reduce services.**

Detailed Review of Services Continues

On the expenditure side of the budget, we continue to conduct a thorough review of all County programs to determine the best way to downsize government to match our anticipated revenue constraints.

We have two sensitivities in the process. The first concern is ensuring that we provide adequate services to meet the most critical needs in the community. The second concern is that we deal fairly and sensitively with employees who are doing work that we may not be able to continue in this economic environment.

Rarely does a day go by that there is not a new announcement of layoffs in one industry or another.

Emphasis Placed on Preserving Services and Preserving Jobs

After considerable discussion by the County's executive staff, it is our conclusion that we should do all that we can to preserve jobs in this economic environment. By instituting a hiring freeze, we are building capacity to provide alternative work opportunities for our employees who provide services that may be cut back.

Before we complete our review of services and engage with the public on reduction alternatives, we will need to inform employees who may be affected by reductions and have a comprehensive plan to assist them with the transition.

The executive staff has not come to these positions lightly. It is our conclusion that is best for the public and for our employees to maintain as much service capacity as we can, and also to retain the workforce that provides those services -- to the maximum extent that we can.

Capital Projects Provide Emergency Contingency Fund

Finally, we all hope that the economy will stabilize soon, but we cannot take this for granted. As part of our effort to address economic uncertainties, staff has completed a comprehensive review of all capital projects ($34 million) funded with General Fund PAYGO dollars, to determine if funding associated with any projects could be accessed in an economic emergency.

This is consistent with what we have previously communicated to the bond rating agencies and the community: when faced with difficult economic circumstances, one of the first places that the County would look to cushion the impact is capital funding.

Based on this comprehensive review...

- **$15.0 million for projects not started or in the very early phases of planning and design can be accessed in the event of an economic emergency.**

- **$19.0 million in urgent or already underway capital projects will continue.**

We are not recommending de-funding any approved capital projects at this time. The purpose of this effort is to determine what funds could be available if needed.

Absent severe economic deterioration, projects would be released on a quarterly basis, based on project readiness and priority. Project readiness is related to each project's lifecycle, which involves planning, design, and construction. Staff has examined each project to determine whether or not the project would be executed within the next year -- in light of where the project is in terms of community input and process, staffing capacity, and specific project issues. The priorities for advancing projects that are ready to proceed include the following:

- Ensuring the safety of buildings;
- Avoiding system failures; and
- Achieving operational efficiencies, including reduction in energy use.

These principles were used in determining which projects would proceed immediately and be excluded from the contingency pool. Additionally, some projects were already underway before the initiation of the review and no projects in progress have been interrupted.

At each quarterly milestone, staff will revisit economic and revenue data and determine which additional projects could be released. In most cases, projects will proceed on what would have been their normal schedule.

Quarterly reports will be provided to the County Board. Staff's analysis at this time suggests that approximately $3.7 million in projects could be ready to proceed during the third quarter of FY 2009, and an additional $6.7 million could be ready to proceed in the fourth quarter of FY 2009.

As is always the case, if emergencies occur and projects need to be released earlier than expected or new unforeseen needs supplant currently planned projects, the County Manager will take appropriate action and expeditiously inform the County Board.