ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of November 19, 2011

DATE: November 23, 2011

SUBJECT: Fiscal Year (FY) 2013 Financial Forecast and Budget Guidance

C. M. RECOMMENDATIONS:

1) Receive the County Manager's Budget Forecast for Fiscal Year 2013.

2) Provide Budget Guidance for Fiscal Year 2013.

ISSUE: Providing guidance to the Manager in developing a spending plan for Fiscal Year 2013 that protects our community values while ensuring our long-term financial sustainability.

SUMMARY: The FY 2013 forecast is similar to the one the County faced this time last year. Real estate revenues are currently projected to increase slightly at current tax rates, while a number of expense pressures grow. The County and Schools are projecting expense increases for FY 2013, that, when combined with revenue projections, will lead to a budget gap of between $13 and $15 million for FY 2013 if current services are maintained.

Current projections rely on incomplete revenue data and preliminary costs estimates. Projections will change as more data becomes available and further analysis is completed. Cost estimates could increase and revenue projections could decrease, exacerbating the problem; or estimates could also improve. These projections are based on staff's best analysis with limited information.

DISCUSSION:

Revenue Projections

Overall, FY 2013 revenues are expected to increase $22.8 million above the FY 2012 adopted budget. This growth assumes approximately 2.7 percent positive growth in real estate tax revenue due to three percent assessment appreciation projected in CY 2012 and in CY 2013. In the aggregate, other tax revenues are projected at 2.9 percent growth. It is anticipated that non-

County Manager: BMD/mjs

County Attorney:

Staff: Michelle Cowan, Director and CFO, Department of Management and Finance
Richard Stephenson, Budget Director, Department of Management and Finance

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tax revenues increase a marginal amount (0.1%). Growth in license, permit fees, and service charges is offset by declines in state revenue and interest income.

The following table outlines current revenue estimates for FY 2013 projected at this time.

	FY 2012 Adopted Budget (in millions)	FY 2013 Projected (in millions)	% Change FY12 Adopted to FY13 Projected	$ Change FY12 Adopted to FY13 Projected (in millions)
LOCAL TAXES				
Real Estate Tax	$541.7	$556.6	2.7%	$14.9
Personal Property	94.5	96.9	2.5%	2.4
Business Tax (BPOL)	59.6	61.5	3.2%	1.9
Sales Tax	36.9	37.6	1.9%	0.7
Transient Occupancy Tax	22.1	22.5	1.5%	0.4
Meals Tax	30.1	31.3	4.0%	1.2
Other Taxes	36.9	38.1	4.1%	1.2
Sub-total taxes	**$821.8**	**$844.5**	**2.8%**	**$22.7**
NON-TAX REVENUE				
License, Permits & Fees	$9.5	$9.9	4.2%	$0.4
Fines, Interest, Misc.	19.0	18.4	-3.2%	(0.6)
Charges for Services	46.8	48.2	3.0%	1.4
State	64.2	63.5	-1.1%	(0.7)
Federal	17.8	17.5	-1.7%	(0.3)
Transfers in	2.8	2.7	-3.6%	(0.1)
Sub-total non-taxes	**$160.1**	**$160.2**	**0.1%**	**0.1**
REVENUE (Excluding Fund Balance)	**$981.9**	**$1,004.7**	**2.3%**	**$22.8**
Carryover Fund Balance	**$22.9**	**$0.3**		
TOTAL REVENUE	**$1,004**	**$1,005.0**	**0.01%**	**$0.2**

Real Estate Tax. Current projections for real estate assessment changes in January 2012 have the total tax base increasing three percent over CY 2011. This percent change assumes modest growth in the residential market, and slightly stronger growth in the commercial market. A three percent tax base increase in the out year (CY 2013) is also incorporated into FY 2013 real estate tax projections, accounting for new construction and assessment increases. More precise figures will not be available until January, when the Department of Real Estate Assessment completes the annual assessment process. The estimates at this time are based on very limited data.

Personal Property Tax. FY 2013 personal property tax revenue, which includes both business tangible and motor vehicle personal property tax, is expected to increase modestly. As more data on vehicle prices and purchases is received and analyzed, this projection will be revised.

Business, Professional and Occupational License Tax (BPOL). BPOL tax revenue is generated by taxes levied on entities doing business in the County and is based on a percentage of gross receipts or a fixed fee. FY 2010 and FY 2011 realized two and three percent revenue growth, respectively. That fairly small growth trend is expected to continue, with FY 2013 BPOL revenue projected to increase 3.2 percent. Actual FY 2012 revenues will not be available until the third quarter of the fiscal year.

Other Local Tax Revenues:

- **Sales Tax, Meals Tax, Transient Occupancy Tax:** Cumulatively, these three large tax revenue sources are expected to increase approximately 2.6 percent over the adopted FY 2012 level.
- **Car Rental Tax, Recordation Tax, Utility Taxes:** Other local taxes are expected to grow at a slightly stronger rate of 4.1 percent.

Non-Tax Fees and Miscellaneous Revenue. Revenues in this category are levied to offset the cost of licensing certain trades, interest income, charges for services, and fine revenue. For FY 2013 these categories are expected to increase approximately 1.6 percent.

Intergovernmental Revenues. This category includes state and federal revenue received by the County. Arlington receives funds from the Commonwealth of Virginia for a variety of state-mandated and supported functions and services. The County also receives a portion of some revenues collected by the state. Most federal revenue is received in the form of grants. In FY 2013, intergovernmental revenue is expected to be slightly negative, reflecting an end to jail construction debt service reimbursement from the state and anticipated continuation of reduced aid to localities. This category will be revised based on General Assembly actions during the upcoming legislative session. In particular the County will be attentive to future proposals to lower state funding levels for highway aid, prisoner reimbursements, law enforcement aid, and human services programs.

Expense Projections

The County provides a wide range of services to residents and the daytime population. The County provides basic public works services including water distribution, wastewater treatment, street maintenance, and storm sewer management. The County also provides a full array of public safety services, comprehensive and integrated human services, and extensive education and leisure services. Consistent with this diversity of services, there are a number of expense pressures ranging from the cost of fuel and asphalt to the cost of software licenses. After sharing local tax revenue with the Schools, the County anticipates a projected expenditure and revenue gap of between $10 and $13 million. Expenditure pressures primarily stem from new facility costs, normal compensation adjustments, increases in other post-employment benefits (OPEB), the County's share of increased Metro costs, debt service, and normal inflationary cost increases.

Inflation, as measured by the consumer price index, is currently running at 3.5 percent. No services, other than planned new facilities, are adjusted for increased service demand or need.

Specific cost pressures include:

New Facilities: There are several projects that have been approved by the County Board over the last few years that will begin operations in FY 2013 or will begin operation sometime in FY 2012 and now require full year instead of partial year funding. .

- Mary Marshall Assisted Living Facility: This assisted living facility will serve up to 52 residents. Scheduled to open in FY 2012, an additional $0.6 million is needed for full-year funding.
- Long Bridge Park Phase 1: Newly opened this fall, full year operation of the multi-purpose athletic fields and other facilities is estimated to cost an additional $0.2 million in FY 2013.
- Building Acquisition for Shelter & Office Needs: The strategic acquisition of an existing building will help meet the County's current and future space needs, move forward on redevelopment plans in the Courthouse area, and meet the County's commitment for a replacement winter shelter. Additional debt service for this acquisition is projected to be $2.1 million in FY 2013.
- Other Park Facilities: Three new or significantly renovated parks will be operational in FY 2013. The James Hunter Park, remodeled Barcroft fields, and Penrose Square Park will have additional operating costs of approximately 0.2 million in FY 2013.

Employee Compensation & Healthcare: The County has 3,283 full-time equivalent funded positions approved in the FY 2012 General Fund budget. These positions account for 56% of the County's general fund operating budget. Key to maintaining the County's competitive position the FY 2013 budget forecast includes merit/step pay adjustments, actuarially-required other post-employment benefit costs, and employer share of projected increases in health care ($6.9 million).

Inflationary Costs for Continuing Services: The cost of doing business and providing services in FY 2013 is expected to increase due to normal inflationary pressures. Rent on County leased facilities increase annually along with many other contractual services. Budget planning forecast projects an increase of $3 million for contractual increase in FY 2013 for providing the same level of services to the community as is provided in FY 2012.

Other Non-Personnel Cost Adjustments:

- Metro: The County's contribution to Metro is expected to change by almost $1 million from the FY 2012 adopted level.
- Debt Service: Based on projected debt issuance (including the building acquisition for shelter and office needs) and interest rates, debt service is estimated to be almost $1.9 million more than FY 2012.
- General Fund General Contingent – Funded with one-time funds in FY 2012, the FY 2013 forecast includes ongoing funding for this contingent.

Schools Transfer: The adopted FY 2012 budget included a transfer of ongoing funds to Schools equivalent to 46.1 percent of local tax revenue (excluding the Crystal City tax increment fund.) The FY 2013 forecast assumes the same percent (46.1%), resulting in a transfer to Schools totaling $378.9 million, an increase of $10.4 million (2.7 percent) over FY 2012.

The following table compares revenue and expenditure projections for FY 2012 and FY 2013. The FY 2012 adopted budget included a number of one-time items; excluding these items, ongoing revenue is projected to increase by 2.3 percent and ongoing expenditures are projected to increase by 3.1 percent, resulting in a budget gap ranging from $10 - $13 million. The table below reflects the lower end of this range.

	FY 2012 Adopted	**FY 2013 Forecast**	**% Change**	**$ Change**
Revenue				
Local Tax, Fee & Other Revenue	$981.9	$1,004.7	2.3%	$22.8
Fund Balance Carryover	22.9	0.3	-98.7%	(22.6)
Total Revenue	**$1,004.8**	**$1,005.0**	**-**	**$0.2**
Expenditures				
Personnel	$338.1	$345.0	2.0%	$6.9
Contractual/Materials/Misc.	171.7	174.7	1.7%	3.0
Metro	24.7	25.5	3.2%	0.8
Debt Service	55.4	57.3	3.4%	1.9
PAYG (1)	12.3	7.6	-38.2%	(4.7)
AHIF (1)	6.7	5.4	-19.4%	(1.3)
Contingents/Regional/Other	10.3	10.3	-	-
Total County Operations	**$619.3**	**$625.8**	**1.0%**	**$6.5**
Schools Transfer (ongoing)	$378.9	$389.3	2.7%	$10.4
Schools Transfer (one-time)	6.7	0	-100.0%	(6.7)
Total Expenditures	**$1,004.8**	**$1,015.1**	**1.0%**	**$10.3**
Revenue/Expense Difference	**-**	**($10.1)**		**($10.1)**

(1) Reduction due to one-time funding in FY 2012 that is not included in FY 2013.

FY 2014 & Beyond

While this report is focused on FY 2013, the County also prepares multi-year financial projections as the decisions that are made in one year impact future years. While we anticipate revenue growth will be positive over the next few years, it is unlikely that it will reach the levels experienced in the mid-2000's and will range between 2 – 4% annually. Expenditure growth, assuming continuation of current services and no expansion of services, is estimated at 3-4%, driven by compensation, pension, health care, and general inflationary pressures. Particular pressures that the County will face in FY 2014 include the County's share of Silver Line costs at Metro, the expiration of the Comcast franchise agreement (with its potential reduction in revenue and increase in operating costs), and the opening of the new Arlington Mill Community Center. Based on these pressures, we preliminarily anticipate a budget gap ranging from $25 to $30 million.

Summary

The budget is where the County Board translates the vision, values and polices of the community into action. Every year the development and adoption of the County's operating budget is challenging because our desires for the community exceed resources available. The FY 2013 budget will continue to be difficult in light of revenue growth lagging behind historical averages and the expense pressures facing the County. We will be required to focus more on priority needs than discretionary desires that enhance Arlington as a place to live and work. As the County positions itself for the economic recovery, it will be necessary to adopt a strategic balance between the fundamental services that local government delivers with the programs that are so important to Arlington residents and the community at large. The creation and adoption of the County budget is always about striking a balance; obviously a financial balance, but also a service balance.