



OFFICE OF THE COUNTY MANAGER

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County Manager's Budget Message Fiscal Year 2006

To the County Board of Arlington, Virginia:

Arlington is once again extremely fortunate to have a thriving economy that has resulted in high incomes, low unemployment, and increased values in all classes of property. Due to these increased property values, \$33.6 million is recommended for tax relief and the creation of a new reserve fund. By comparison, only \$26.6 million is recommended for County and School budget growth in the proposed General Fund budget of \$745 million. This budget increase of only 3.7% is a significant achievement given higher than normal inflationary pressures in areas such as Metro, debt service, retirement and health care; however, it is also necessary in order to maintain the long-term sustainability of the County - the ability to live within our means - in any economic environment.

Five critical decision areas are presented in the Fiscal Year (FY) 2006 County Manager's Proposed Budget. Each is discussed below.

Tax Relief & Reserve Fund

This is the largest item in the FY 2006 budget. The recommended tax package would be the fourth consecutive tax rate reduction, resulting in the lowest tax rate in over 10 years and the largest rate reduction in 15 years. The package provides relief to all taxpayers and targeted assistance to those most in need. Included in this tax relief package are the proceeds from the higher cigarette tax, as directed by the County Board when the increased tax rate was approved. Additionally, funds are recommended for a new reserve that could be used for revenue stabilization, critical capital needs, or emergencies. Were Arlington's economy to remain strong, some or all of the reserve could also be used for additional tax relief. Major elements in this package include the following:

- Tax rate reduction of not less than five cents (\$21.6 million);
- A new homeowners' grant program – equivalent to one-half cent -- to provide additional relief of approximately \$500 to households earning \$72,000 or less (\$2.2 million);
- Increased income and asset limits for tax exemptions and deferrals for persons who are elderly or disabled and earn less than \$72,000 a year (\$0.1 million);
- Creation of a new reserve fund of 2.25 cents (\$9.7 million).

Increased Support for Affordable Housing

Recognized by the County Board as Arlington's most important program priority, affordable housing programs are recommended to increase by approximately \$4.5 million. As directed by the County Board, this increase is supported by using all the revenues from the increase in the recordation tax: \$1.9 million in the current year and \$2.6 million projected for FY 2006. Allocation of these resources is recommended as follows:

- \$2.9 million for the Arlington Housing Investment Fund contingent to be used as loans to leverage private investment. This is in addition to the \$4.0 million base budget recommendation;
- \$0.5 million for Housing Grants to support current participants (an increase to the \$3.4 million included in the base budget);
- \$0.2 million for increased funding to sustain providers of supportive/assisted housing for persons with developmental disabilities (\$1.7 million is proposed in the base budget for residential services);
- \$0.1 million to manage condo conversions and \$50,000 for tenant outreach;
- \$0.7 million to support a transition at Culpepper Garden to maintain assisted living opportunities for low-income elderly people.

Sustaining the Base Operating Budget

The base budget contains no new programs, initiatives, or positions. Funds for the Arlington Public Schools are provided based on the revised revenue sharing agreement at approximately \$289 million, an increase of 5%.

The routine costs of most County services can be sustained within normal inflationary costs; however, a small number of high cost items are escalating at a much faster rate. To deal with these items, we have three options: recognize that the overall cost of government will exceed basic inflation, implement cost containment in these areas, or reduce other programs. The major cost drivers in the base operating budget are the following:

- Transit: Metro (up \$1.2 million; 10%), Arlington Transit (up \$0.3 million; 5%);
- Personnel: defined benefit retirement system (up \$4 million; 30%) and employee health care (up \$2.4 million; 10%);
- Debt Service (up \$6.5 million; 17%)

Additionally, we are still analyzing future needs for paratransit and medical care in the detention center.

Strategic Options

A limited number of program changes above the base budget guidelines are recommended for consideration. A total of \$1.4 million has been put in a contingent to enable the County Board to consider these priorities and others that may be identified during the budget review process. Items identified through staff review have been narrowed to the following:

- New facilities recently or soon to open
 - Facilities Maintenance & Upkeep \$291,293
 - Barcroft Recreation Center Garage \$100,920
 - Barcroft Park Maintenance \$109,363 (1.0 FTE)
 - Shirlington Bus Transfer Station \$ 52,940
 - Walter Reed Community Center \$ 99,241 (2.3 FTEs)
 - Shirlington Library \$ 39,367 (1.5 FTEs)
- Strategic Initiatives
 - Performance Audits \$100,000
 - Replace Grant for Aurora House \$372,894
 - MR/DD Case Manager \$ 61,894 (1.0 FTE)
 - Traffic Enforcement \$ 88,631 (1.0 FTE)
 - Community Arts Facilities Monitor \$ 0 (1.0 FTE)
(Expense offset by user fees)

Providing for Long-Term Economic Sustainability

Maintaining the basic infrastructure of a community is one of the greatest challenges facing all governments. Infrastructure is built incrementally, over time, often using one-time funds generated by budget surpluses, private investment, or bond sales. To get the maximum return on these investments, ongoing maintenance is required, but not always explicitly included in fiscal planning. Historically, Arlington has used unanticipated revenue and expense surpluses to fund the pay-as-you-go capital budget, the primary purpose of which is to provide the maintenance necessary to preserve the County's capital assets. This is a sound practice and should be continued; however, relying on surpluses will not be sufficient for the future. As budget projections become increasingly accurate for both revenues and expenditures, surpluses will diminish. The FY 2006 budget includes recommendations to raise a limited number of taxes and fees to provide a modest base of \$3.5 million for capital asset preservation.

- Commercial Utility Tax \$2.0 million;
- Parking meter fees \$0.7 million;
- Ambulance fees \$0.4 million;
- Parking fines \$0.4 million.

This step should only be considered a beginning. As the County is able, additional base funding should be allocated to preserving the County's assets. I expect this to be a major policy element of the FY 2007 biennial update to the Capital Improvements Program.

Conclusion

The guiding principles in developing the County Manager's Proposed Budget for FY 2006 have been tax relief and fiscal sustainability. In preparing the budget, I met with leaders from the County Board's Citizen Commissions, a number of whom made compelling cases for program expansions or improvements. Additionally, each County agency has areas it would recommend for enhancement. This is not a time for growth, however. It is a time to be sensitive to the tax pressure on homeowners and to focus on long-term stability and sustainability. In the end, the County Board is once again faced with balancing the budget – not just fiscally – but from a policy perspective. How do we ensure that our funding choices support the vision that the Board and community have articulated? The Manager's Proposed Budget becomes only a starting point for the discussion.

Respectfully submitted,

Ron Carlee
County Manager