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Fiscal Year 2007 Budget Message to the Arlington County Board

To the County Board of Arlington, Virginia:

Arlington continues to be in an extremely strong financial position as we approach Fiscal Year (FY) 2007. We continue to enjoy a full-employment market, high income for residents, and growth in the value of all classes of property. Most significantly, business properties increased in value by 14.8% in calendar year (CY) 2005 and hotels regained all of their post September 11 losses.

The actions of the Base Realignment and Closure Commission (BRAC) in 2005 will result in a major realignment of federally leased commercial property over the next six years. However, this also represents a major opportunity to re-position the Crystal City market with a stronger mix of residential and commercial uses, more distinctive architecture, and much livelier street life. Additionally, Arlington prevailed in its argument to remove the relocation of defense research agencies from the BRAC relocation list, providing the ability to preserve the synergy of federal and private research activities in Ballston.

Resolution in 2005 of affordable housing requirements in connection with development also brings greater certainty to developers and ensures a flow of resources to help achieve an economically diverse workforce. As of February 2006, over $1.0 billion of private construction is underway.

The result of Arlington's strong economy is a projected increase in revenues for FY 2007 of $74.2 million (10%).

The recommended general fund base budget is $806.9 million, a total expenditure increase of 6.3%. The recommended FY 2007 budget is designed to sustain current service levels and address cost pressures from the full labor market and dramatic increases nationally in the cost of petroleum products.

Based on the revenue sharing agreement, the net increase for County operations is $28.3 million (6.0%) and the net increase in the County's transfer to the schools is $19.7 million (6.8%).

The budget also includes a non-distributed reserve of $26.1 million that the County Board may use for tax rate reduction or strategic investments. This is equivalent to five cents on the real estate property tax rate.

The following pages summarize the policy issues before the County Board: tax policy, community inclusiveness, service levels, employer of choice, and sustaining infrastructure. In the end, the County Board must determine the correct balance of revenues and expenditures that best enable Arlington to continue achieving its vision of a diverse and inclusive world-class urban community. Few communities have the opportunities we enjoy.

Respectfully,

Ron Carlee

Ron Carlee, County Manager

County Manager's Fiscal Year 2007 Budget Summary

The following summarizes the FY 2007 budget and highlights critical policy issues that will be before the County Board in the areas of tax policy, community inclusiveness, service levels, employer of choice, and sustaining infrastructure.

TAX POLICY

For over twenty years, Arlington has been in the enviable position of having the lowest real property tax rate among the large jurisdictions in Northern Virginia. In fact, only Fairfax City has had a lower property tax rate. Additionally, Arlington remains the only Northern Virginia jurisdiction that has not imposed a residential utility tax.

Arlington has achieved its historical low property tax rate because our tax base has the strongest balance of commercial and residential properties of any jurisdiction in Northern Virginia. This provides stability in changing markets.

The sustained, extremely hot residential market since 2000 jeopardizes Arlington's having the lowest tax rate in 2007. Outlying jurisdictions, which have residential properties as a much larger percentage of their tax bases, have closed the gap with Arlington. Several are positioned to implement lower tax rates than Arlington in Calendar Year (CY) 2006. Most notably, Prince William County is positioned to go from the highest tax rate in CY 2000 (31% higher than Arlington) to the potentially lowest tax rate in CY 2006. From FY 2000 to 2006, because of high residential assessments and the high proportion of residential property in its tax base, Prince William was able to reduce its tax rate by 37.2 cents while increasing its budget by 89%. By comparison, Arlington's budget increased 51% with a tax rate reduction of 14.5 cents.

These conditions will not be sustained over time. There are already signs of a cooling residential market, which can be expected to flatten over the coming years. Jurisdictions that depend heavily on residential properties to fund their services will again face pressure to increase their rates to sustain basic services, especially education.

Just as Arlington's property tax base has restrained dramatic rate decreases in the current market, our balanced base should prevent dramatic rate increases in a future flat residential market.

In Fiscal Year 2007, the County Board will have to determine how important it is to retain the lowest tax rate and at what cost?

To retain the lowest real estate tax rate may require service compromises. There are also limited alternative revenue choices to reduce real property tax rates.

COMMUNITY INCLUSIVENESS

Egalitarian values are at the heart of the Arlington vision and are a distinguishing feature of the community. Arlington actively embraces its immigrant community, actively seeks housing opportunities to support an economically diverse population, and seeks to provide opportunity for people who face challenges in their lives. This community views a caring philosophy as part of its core strategy for economic sustainability in a global economy.

As part of the recommended base budget, the following expenditures are proposed in order to translate these values into action.

Funding Recommended in Base Budget

- Affordable Housing – a total of $38.4 million is devoted to a range of housing programs, of which $17.5 million is from local taxes, effectively representing 3.3 cents of the real estate tax rate. Changes to note in the FY 2007 budget include the following increases:

  - Affordable Housing Investment Fund - $131,000 (for a $5.8 million total budget), which represents the incremental increase in the recordation tax;
  - Housing Grants - $431,000 to sustain current participants ($4.3 million total budget);
  - Homeowner's Grant Program - 20% increase in the grant amount, from $500 to $600 plus a goal to increase participation 50% to 3100 homeowners (total budget of $2.2 million);
  - Supportive Housing - $123,000 to meet inflationary needs related to housing options for persons with developmental disabilities ($2.0 million total program).

- Living Wage – $351,000 to support the policy established by the County Board in FY 2004. The FY 2007 budget includes a 5.35% increase from $11.20 to $11.80 an hour.
- Non-Profit Service Providers - $331,000 to meet selected inflationary requirements from the approximately 40 organizations that provide services to the community ($16.0 million total budget).
- Paratransit - $1.0 million to support increased use of this door-to-door service for people with disabilities who cannot use other transit options. Arlington manages the paratransit program separately from the services provided by the Washington Metropolitan Area Transit Authority and has been able to provide the service at a lower cost and with higher customer satisfaction. The total budget is $3.5 million.
- Americans with Disabilities Act Improvements - $783,000 of pay-as-you-go funding for modifications of County facilities to improve accessibility. These include closed captioning of Arlington Virginia Network channel 71 programming and facility improvements.

Unfunded Alternatives

The following items could not be accommodated within the base budget and should be part of the County Board's deliberation as it seeks to balance the many competing demands.

- Non-Profit Service Providers - $531,000 to provide additional support for personnel and operating costs to enable non-profits to be more competitive in the full labor market and to keep pace with increasing costs for rent, utilities, and insurance.
- Supportive Housing - $583,000 to provide additional project based housing grants and to provide greater housing stability for persons with disabilities.
- Living Wage – $986,000 to fully fund the recent analysis that indicates that the living wage should be established at $13.25 an hour, an 18.3% increase over the FY 2006 level of $11.20 an hour.

- Paratransit - $605,000 in additional funds may be required to fund demand fully. Actual levels of demand are difficult to predict; however, this is the best estimate of additional financial exposure in FY 2007.

SERVICE LEVELS

The recommended budget does not reduce service levels in any area supported by local funds; however, it also does not expand services to meet increased demands. Lower intergovernmental revenue has resulted in some service reductions.

Service Reductions

- Local Public Assistance Cost Allocation Plan (LPACAP) reimbursements funding a variety of programs previously impacted by State budget cuts ($841,000, 2.1 FTEs).
- Refugee Program in the Public Health Division's Communicable Disease Bureau. This program is revenue supported ($35,000, 0.5 FTE) and works to prevent or minimize the spread of communicable disease and long-term chronic illness in people newly arrived in the United States through federal refugee programs.
- Comprehensive Health Investment Project of Virginia (CHIP) in the Public Health Division's Family Health Services ($264,000, 5.0 FTEs). This project targets the physical health and well being of children, from birth to six years of age, through home-based visiting services and providing links to other community based health care providers.

Increased Service Costs Recommended in the Base Budget

- METRO - $1.7 million (13% increase) to support ongoing operations. Total budget will be $14.7 million. Additional transit services are not recommended in the budget. Two major studies are in progress to enhance transit services in the Columbia Pike corridor and the Route 1 corridor. It is recommended that consideration of other enhancements be deferred until the costs of these priority programs are known.
- Utilities/Gasoline - $1.2 million to cover a 30% increase over FY 2005 costs. The cost could be higher. A task force has been appointed to analyze fuel use in the County and develop both long-term conservation measures as well as crisis contingency plans were fuel supplies interrupted. Currently, Arlington's fleet includes 60 hybrid vehicles (7 %) and 128 alternative fuels vehicles (14 %).
- Public Safety - $708,000 to complete upgrades to the public safety vehicle fleet, split between both police and fire. The budget also provides $3 million to fund market salary adjustments implemented in January 2006.
- Debt Service - $4.2 million (9.5%) to pay debt and principal for capital projects previously approved by the County Board, including Neighborhood Conservation projects and development of North Tract. Total debt service is $47.9 million.

Increased Service Costs Not Funded

The following items were not funded in the recommended base budget and are recommended for County Board consideration as it balances competing demands: