
Expense and Revenue Analysis

The analysis of expenditures and revenues for FY 2024 shows the County's revenues have recovered and, in some cases, exceed pre-pandemic levels. Department operations have, in almost all cases, either returned to a more "normal" level of operations or have shifted to respond to new demands. While some departments – particularly Police – continue to have difficulty with recruitment and retention, some have been able to fill vacancies better in FY 2024 than in the past couple years resulting in less vacancy savings. For FY 2024, with the return to more "normal" operations and cost pressures such as overtime staffing costs in public safety, only \$2.5 million in department savings have been included at this time. The table on page 6 summarizes expense and revenue projected for FY 2024.

Expenditures

Most County departments and programs are projected to spend at or below their FY 2024 authorized levels with \$2.5 million of departmental savings identified at this time. However, the County is anticipated to have lower savings compared to recent years on the expenditure side due to several factors including:

- Public safety departments are experiencing higher than normal expenses in overtime as existing staff are covering the high number of vacancies.
- Increased filling of vacancies compared to prior years.
- Departments have been responsive to changing needs in their programs, such as human services demands.
- Increased utility costs across all departments.

All department spending is being closely monitored for the remainder of the fiscal year.

As noted in the FY 2025 proposed budget, healthcare costs for the County are currently trending higher. For FY 2024, it is projected that actual healthcare costs will exceed budget by \$2.0 million.

Revenues

[Table 2](#) summarizes the total changes to revenue projected from the FY 2024 adopted budget to current year-end projections; page 7 of this report breaks this total into the amounts included in the FY 2025 budget versus the amount of net funding available for allocation. The FY 2025 proposed budget included several revenue re-estimates.

Overall, Fiscal Year 2024 revenues are trending \$53.0 million higher than budget. The FY 2025 budget included \$33.8 million of this total, \$5.4 million to APS and the remaining \$28.4 million to the County. **The net revenue available for allocation is \$31.2 million, \$6.6 million to APS and \$24.6 million to the County based on the existing Principles of Revenue Sharing.**

Table 2. Revenue Summary

Revenue Summary – (Changes from Adopted Budget)	Funding +/- Over FY 2024 Adopted Budget (\$ millions)	Percent change compared to the FY 2024 Adopted Budget
	ONE-TIME	
Tax Revenue:		
Real Estate Tax (assessment change)	\$2.3	0.3%
Real Estate Tax (1.5 cent tax rate proposed)	6.8	0.8%
Personal Property	5.9	4.1%
Business, Professional, & Occupational License	-	-
Sales Tax	1.9	3.6%
Meals Tax	3.8	8.4%
Car Rental	0.5	6.3%
Recordation	(1.6)	(24.6%)
Transient Occupancy (Hotel) Taxes	2.8	12.7%
Other Taxes	3.4	5.6%
Total Tax Revenue Change	25.8	2.0%
Non-Tax Revenue:		
License, Permits, Fees	(1.1)	(12.2%)
Fines	(0.9)	(17.8%)
Interest / Unrealized Gain-Loss	30.2	78.3%
Charges for Service	0.4	0.6%
Payment for Site Plan Condition	8.3	-
State & Federal	2.4	1.9%
Non-Tax Revenue Change	39.3	8.6%
Total Projected Revenue Increase	65.0	
Tax Revenue to APS	(12.1)	
Remaining Revenue to County	\$53.0	

Real Estate – As identified above and in the FY 2025 proposed budget, real estate taxes are anticipated to be above budget for FY 2024 due to increased assessments (\$2.3 million) and the

1.5 cent proposed tax rate increase (\$6.8 million). Because that funding was included for the County and APS as one-time funding in the FY 2025 proposed budget, no additional funding is available for allocation. If the tax rate is raised to the maximum advertised for CY 2024 (at the 2.5 cent level), there would be additional revenue in FY 2024 from the June tax payment of \$4.5 million.

Personal Property – Vehicle personal property revenue is trending above the FY 2024 adopted budget due to the continued strength in the used car and new car sales market. In addition, business tangible revenues are up three percent year over year from FY 2023. Overall, this tax revenue is forecasted to be \$5.9 million above the FY 2024 adopted budget by fiscal year-end.

Business, Professional, and Occupational License Tax – These taxes are levied on entities doing business in the County and are in the form of fixed fees or a percentage of gross receipts. These tax receipts are due March 1st of each year. A re-estimate of this tax source will be provided in April when more information on the tax revenue is available.

Sales Tax – Arlington receives one percent of the total sales tax applied to sales in the County. Sales tax receipts have continued to grow steadily in FY 2024 and are forecasted to be \$1.9 million higher than budgeted.

Meals Tax – This four percent tax is charged on most prepared foods offered for sale. Like other monthly taxes, this tax revenue continues to grow steadily. Meals tax revenue is forecasted to end the fiscal year \$3.8 million higher than the FY 2024 adopted budget.

Car Rental Tax – The local car rental tax is collected by the State and remitted to localities where the rental transaction occurred. Arlington's local car rental tax rate is four percent, which is in addition to the State's tax. Recent receipts show continued growth and are projected to end the fiscal year \$0.5 million higher than the adopted budget.

Recordation Tax - The local recordation tax is assessed at the rate of \$0.0833 per \$100 of value for all transactions including the recording of deeds, deeds of trust, mortgages, leases, contracts, and agreements admitted to record by the Circuit Court Clerk's Office. As interest rates have increased over the year, both residential and commercial real estate market activity has slowed. With lower recordation tax transactions, revenue is forecasted to be \$1.6 million lower than the adopted budget for FY 2024.

Transient Occupancy Tax (Hotel Taxes) – Receipts from this five percent tax on hotel and motel rooms have had one of the slowest recoveries from the impact of the COVID-19 pandemic but occupancy and room rates have recovered. While business travel is still lagging from pre-pandemic levels, projected revenue for FY 2024 is expected to be similar to levels prior to the pandemic's economic downturn. FY 2024 revenue receipts are expected to be \$2.8 million higher than the adopted FY 2024 level.

Other Local Taxes: Overall, other local taxes are expected to be \$3.4 million higher than the FY 2024 adopted budget. Bank Stock tax which was adjusted and included in the FY 2025

Proposed budget is anticipated to be up \$2.5 million over the adopted FY 2024 budget and utility taxes are expected to be \$1.1 million higher. There are a variety of smaller local taxes that are \$0.2 million below FY 2024 levels in the aggregate.

County Non-Tax revenues are projected to be \$39.3 million higher than budgeted for FY 2024.

Highlights include:

- **Licenses, Permits, and Fees** are anticipated to be \$1.1 million below budget for FY 2024. Higher highway permits are offset by a variety of miscellaneous permits and fees including site plan fees (down \$1.0 million).
- **Fine Revenue** is expected to be \$0.9 million lower than budget for FY 2024. A variety of lower miscellaneous fines are partially offset by higher parking ticket fees.
- **Interest Income** is expected to be significantly higher than the FY 2024 adopted budget. With the rapid and significant increase in interest rates on invested cash income, the County is experiencing high general interest income and bond interest income and reduced losses in unrealized gains from prior years. Yields by funds invested have more than doubled in the last year and increased from approximately 1.0 percent at the beginning of FY 2023 to over 3.5 percent by the middle of FY 2024. This significant change in yields coupled with the County's invested principal, which ranges from approximately \$600 million to \$1 billion depending on the time of year and revenue receipts, have resulted in this higher interest income.

Given the volatility of interest rates over the last few years and the 2019 change in GASB accounting standards, we have been monitoring interest income closely. In FY 2024, we expect overall interest income from County investments will exceed the original budget (developed in late calendar year 2023) by \$30.2 million. This is composed of \$16.6 million in actual interest income and \$13.6 related to the reversal of funding set aside in prior years to comply with GASB.²

In recognition of the increase in interest rates and GASB issues, we included \$14.0 million in one-time funding in the proposed FY 2025 budget. Based on updated information over the last few months, particularly GASB's requirement for unrealized losses that will not actually be realized, an additional \$16.2 million in one-time funding is available.

- **Charges for Service** revenues are up slightly with higher ambulance fee revenues (\$0.9 million) offset by slightly lower parking meter fees (\$0.5 million).

² The Governmental Accounting Standards Board (GASB) issued a new accounting standard in FY 2018 that requires state and local governments to annually value its short-term investments based on current market value and recognize either anticipated gains or losses (assuming that these investments would be sold at market value) through the creation of balance sheet reserves. In FY 2022 and FY 2023, when interest rates were rising quickly and significantly, this resulted in the creation of loss reserves as then-current investments, if sold, would be valued on a lower basis. With the passage of time and the rise in interest rates on pause, the set-aside of these reserves is not needed in the same levels as originally calculated. Because the County generally holds investments to maturity, these reserves for book losses are released from reserves as investments mature without incurring actual losses.

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- **Miscellaneous Revenues:** \$8.3 million is anticipated to be received in FY 2024 from a large site plan project in Rosslyn. The FY 2025 proposed budget assumes this amount to be transferred to PAYG capital.
 - **State Revenue:** In FY 2024, revenue is expected to be \$2.4 million higher than budgeted mainly due to an increase in transportation support for roads and law enforcement aid adjusted by the state in the last legislative session (\$2.9 million). These increases are partially offset by decreases to grantor taxes (\$0.4 million) due to the lower number of real estate transactions and decreased prisoner expense reimbursements (\$0.1 million) in the detention center.
 - **Federal Revenue** is expected to come in line with budget or be offset by expenses tied to the federal grant revenues.

Revenues & Expense Summary

Table 3 summarizes mid-year estimates of revenues and expenditures.

Table 3. Revenue and Expense Summary

	Funding +/- Over FY 2024 Adopted Budget (\$ millions)	FY 2024 Revenue included in FY 2025 Proposed Budget as One-Time Funding (\$ millions)	FY 2024 Available Funding for Midyear/ Third Quarter (\$ millions)
Expense Adjustments			
Personnel Savings	\$2.5	-	\$2.5
Healthcare Costs	(2.0)	-	(2.0)
Total Expense Savings	0.5	-	0.5
Revenue Adjustments			
Real Estate Tax	9.1	9.1	-
Personal Property	5.9	-	5.9
Car Rental	0.5	-	0.5
Meals	3.8	-	3.8
Sales	1.9	-	1.9
Hotel (TOT)	2.8	-	2.8
Recordation	(1.6)	-	(1.6)
Bank Stock	2.5	2.5	-
Other Tax Revenue	0.9	-	0.9
Subtotal Taxes	25.8	11.6	14.2
License, Permits, Fees	(1.1)	-	(1.1)
Fines	(0.9)	-	(0.9)
Interest Income	30.2	14.0	16.2
Charges for Services	0.4	-	0.4
Sale of Land & Building	8.3	8.3	-
State Revenue	2.4	-	2.4
Subtotal Non-tax	39.3	22.3	17.0
Total Revenue	65.0	33.8	31.2
Schools' Share of Taxes (46.8%)	(12.1)	(5.4)	(6.6)
TOTAL AMOUNT	\$53.5	\$28.4	\$25.1