

Memorandum

To: County Board **Date:** March 27, 2026
From: Mark Schwartz, County Manager
Subject: Mid-Year Review of Fiscal Year 2026

This memo provides an update on revenues and expenditures for the current fiscal year (FY 2026).

Most years, excess revenue or expense savings are identified in this report and made available as one-time funds, which the Board considers in adopting the pending proposed operating budget. However, analysis indicates that **there will be a shortfall – anticipated to be \$11.5 million without the use of reserves – in the current fiscal year** based on several main factors including:

- Departments are executing their budgets as anticipated;
- Healthcare costs continue to exceed budgeted amounts (\$4.6 million after utilizing the \$1.5 million allocation of FY 2025 close-out funding);
- Snow removal costs significantly exceed budgeted amounts (\$4.5 million);
- Compensation impacts of proposed FY 2027 budget cuts will be incurred in FY 2026 (up to \$1.2 million dependent on final decisions by the Board at budget adoption);
- Local tax revenues and non-tax revenues are tracking below budget (\$6.6 million) including projected shortfalls in meals and transient occupancy taxes;
- Insurance costs for workers' compensation claims are trending higher than budgeted (\$1.0 million);
- Lack of data related to Business, Professional, and Occupational License (BPOL) taxes that we typically have before budget adoption; and
- Continued uncertainty on funding and regional economy due to changes in federal policy.
- Debt service savings (\$6.4 million) from delaying the bond sale partially offsets other budget pressures.

As outlined in the Manager's FY 2027 proposed budget ([beginning on page 22](#)), these budget pressures were anticipated. My recommendations to address this \$11.5 million shortfall include the following:

- Utilization of most of the Stabilization Reserve included in the FY 2026 adopted budget to meet \$9.2 million of the projected shortfall including offsetting half of the health insurance overage (\$2.3 million), leaving a balance of \$1.9 million of the available \$11.1 million. This Reserve was originally funded at \$11.5 million but now has a balance of \$11.1 million due to a previous appropriation to deal with critical food needs in the community.

- Utilization of the self-insurance reserve for the remaining \$2.3 million of healthcare overage. The self-insurance reserve currently has a balance of \$8.9 million. Financial policy requires any use of this reserve to be replenished within two years. Utilizing \$2.3 million for half of the expected shortfall would leave a balance of \$6.6 million available should expenditures be higher than anticipated in FY 2026 or should expenses outpace contributions in FY 2027 despite plan changes and premium increases.

I also recommend supplementing the remaining \$1.9 million in the Stabilization Reserve by adding in the \$5 million in the FY 2026 budget for buying down Barcroft Apartments debt that is on hold plus potential repayment of expenses related to Key Bridge Marriott (\$2.0 million). This new balance of \$8.9 million would be available during FY 2027 to deal with future unbudgeted risks such as recently highlighted proposed increases to electricity rates, potential loss of Continuum of Care or other federal policy changes, unmet local emergency needs or revenue shortfalls, or to replenish the Self-Insurance Reserve.

A summary of these recommendations and their impact on reserve levels are shown in the table below:

| Reserve | Replenishment Requirement | Current Balance | Allocations | Additions to Reserve | Revised Balance |
|---|---------------------------|-----------------|-----------------|----------------------|-----------------|
| Self-insurance Reserve | within two fiscal years | \$8.9 million | (\$2.3 million) | - | \$6.6 million |
| Additional Stabilization Reserve Allocation | none | \$11.1 million | (\$9.2 million) | \$7.0 million | \$8.9 million |

Over the next few weeks, we will have more data on the BPOL tax as well as updates on consumption tax trends. For now, Table 1 below outlines a high-level summary of our best estimates of year-end FY 2026 funding.

Note that the above revenue shortfall of \$6.6 million is the total for the County – an additional \$3.8 million of revenue shortfall is the responsibility of Arlington Public Schools.

Table 1. Total Available Funding

| | FY 2026 Variance from Budget <i>(in millions)</i> |
|---------------------------------|---|
| Local Tax Revenues ¹ | (8.1) |
| Non-Tax Revenues | (2.3) |
| Total Revenue | (10.4) |
| <i>School's Share</i> | <i>(3.8)</i> |
| County's Share | (6.6) |
| <i>Expenses</i> | <i>(4.9)</i> |
| Total Available Funds | (\$11.5) |

¹ The FY 2027 Proposed Budget includes a 1.5 cent increase in the real estate tax rate, which is estimated to generate an additional \$7.0 million one-time funds in FY 2026 (attributed to the June 2026 tax payment). Of this additional one-time funding in FY 2026, \$2.2 million will be used to offset a projected FY 2026 gap due to lower CY 2026 assessments than anticipated in the FY 2026 adopted budget and the remaining \$4.8 million in one-time funds (not shared with schools) is included in the County Manager's FY 2027 Proposed Budget. If the County Board were to adopt the advertised 2.0 cents increase to the real estate tax rate, an additional \$2.3 million in one-time funds would be generated from the June real estate tax payment in FY 2026.

Revenue and Expenditure Analysis

The FY 2026 revenue analysis shows both local tax and non-tax revenues trending below budget. Additional details on these variances are described in detail below.

The County's third largest tax source is BPOL. BPOL tax filings and receipts are due March 1 of each year. To date, receipts have been strong through the first half of March compared to prior years; however, it is unclear at this time whether it is due to earlier filings and payments compared to prior years. More information will be known for BPOL in early April prior to budget adoption.

With expenditures, most departments are executing their work within budget, while some departments – particularly public safety – continue to have difficulty with recruitment and retention resulting in continued high levels of overtime spending. Overtime spending is trending down as hiring improves, and operational changes are implemented; it is expected that public safety overtime spending will be at or below FY 2025 levels. Most County departments and programs are projected to spend at or below their FY 2026 authorized levels. However, no overall departmental savings are identified at this time.

Across all spending, the level of savings will be comparable to FY 2025 but lower than in other recent years. Debt service savings from delayed bond sales of \$6.4 million will also offset some expenses. The table below summarizes expected overages.

Table 2. Expense Details

| SUMMARY OF EXPENSES | TOTAL (\$ millions) |
|--|------------------------|
| Departmental savings | - |
| Costs for employees whose positions may be eliminated as a part of the potential budget reductions for FY 2027 | (\$1.2) |
| Healthcare net of the \$1.5 million from close-out | (4.6) |
| Snow removal | (4.5) |
| Countywide Insurance | (1.0) |
| Debt Service | 6.4 |
| Total Projected FY 2026 Expenses (Shortfall)/Surplus | (\$4.9) |

Revenue Details

Table 3 below summarizes the total changes to revenue projected compared to the FY 2026 budget. Overall, after assuming \$4.8 million in one-time funds is carried over into FY 2027 from the proposed 1.5 cents real estate tax rate increase, total revenues are trending \$10.4 million below budget. After adjusting for the portion of this gap attributed to Schools, the County is projected to see a total revenue shortfall of approximately \$6.6 million compared to the FY 2026 budget levels.

Table 3. Revenue Details

| Revenue Summary – (Changes from the FY 2026 Budget) ¹ | Funding +/- Over FY 2026 Budget (\$ millions) | Percent change compared to the FY 2026 Budget |
|---|---|---|
| | ONE-TIME | |
| Tax Revenue: | | |
| Real Estate (CY26 assessment shortfall) | (2.2) | |
| Real Estate (portion of proposed tax rate to fill the gap) ² | 2.2 | |
| Real Estate (refunds) | 2.0 | |
| Total Real Estate (sum of above) | 2.0 | 0.2% |
| Personal Property | (1.9) | (1.3%) |
| Business, Professional, & Occupational License (data not yet available; update at Q3) | - | |

| Revenue Summary – (Changes from the FY 2026 Budget) ¹ | Funding +/- Over FY 2026 Budget (\$ millions) | Percent change compared to the FY 2026 Budget |
|---|---|---|
| Meals Tax | (3.0) | (4.5%) |
| Transient Occupancy (Hotel) Taxes | (5.0) | (17.2%) |
| Cigarette Tax | (0.2) | (10.3%) |
| Recordation | 0.2 | 3.6% |
| Car Rental Tax | (0.2) | (2.3%) |
| Total Tax Revenue Change | (8.1) | (0.6%) |
| Non-Tax Revenue: | | |
| Land Use Permits and Fees | (1.7) | (14.1%) |
| Fines and Forfeitures | 0.9 | 8.7% |
| Interest & Rent | (1.7) | (4.1%) |
| Charges for Service | (0.9) | (1.2%) |
| Miscellaneous | 0.9 | 29.8% |
| State & Federal | 0.3 | 0.2% |
| Non-Tax Revenue Change | (2.3) | (0.8%) |
| Total Projected Revenue | (10.4) | (0.6%) |
| School’s Share of Tax Revenues | (3.8) | (0.6%) |
| Remaining Revenue to County | (6.6) | (0.6%) |

¹ Totals may not add due to rounding.

² If the County Board does not adopt the Manager’s FY 2027 Proposed tax rate increase, the \$2.2 million in one-time funds that are shown in the table above would not be generated in FY 2026 and additional adjustments would be required to close the resulting gap.

Real Estate – The FY 2026 adopted budget assumed real estate assessment growth of 1.5% for Calendar Year 2026. The actual assessment growth (released in January 2026) was 1.1%. With actual assessment growth below the projected growth, there is an anticipated revenue shortfall of \$2.2 million in FY 2026.

The 1.5 cents real estate tax rate increase included in the Manager’s Proposed FY 2027 Budget will increase one-time real estate revenues in FY 2026 (attributed to the June payment) by \$7.0 million. Of this, \$2.2 million is proposed to be used to offset the funding gap on both the County’s and School’s side that is noted above. The remaining \$4.8 million of one-time funds, which is not shown in the table above, is proposed to be carried over to fund various one-time expenses included in the County Manager’s FY 2027 Proposed Budget. If the tax rate is raised to the maximum advertised for CY 2026 (at the 2.0 cent level), there would be additional one-time revenue in FY 2026 from the June tax payment of \$2.3 million.

Additionally, real estate refunds anticipated through the end of the fiscal year are projected to be below budget by \$2.0 million.

Personal Property – Vehicle personal property revenue is trending below the FY 2026 adopted budget due to slightly lower vehicle assessment growth from CY 2024 to CY 2025 than assumed in the FY 2026 adopted budget. Vehicle personal property tax revenue is forecasted to be \$1.9 million below the FY 2026 adopted budget.

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 1 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. Current sales tax receipts are expected to meet the budget in FY 2026. Originally concerned that sales tax would be susceptible to the regional economic volatility over the last calendar year, this tax source has maintained the projected growth that was assumed in the FY 2026 Adopted Budget.

Meals Tax – This five percent tax (increased from four percent in FY 2026) is charged on most prepared foods offered for sale. Meals tax revenue is forecasted to end the fiscal year \$3.0 million lower than the FY 2026 adopted budget due to slower growth than assumed in the FY 2026 Adopted Budget. This slower growth is driven by a slowdown in the regional market due to continued economic uncertainty and lower consumer sentiment that is anticipated to continue throughout the remainder of the fiscal year.

Transient Occupancy Tax (Hotel Taxes) – Revenues from this five percent tax on hotel and motel rooms have been significantly impacted by lower visitor demand and broader perception challenges affecting travel decisions. This tax source has seen a 10.0% decline through February compared to the prior year. Revenues from this tax source are anticipated to be \$5.0 million lower than the FY 2026 adopted budget level.

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 the record by the Circuit Court Clerk's Office. With lower interest rates there has been an increase in real estate transactions that generate recordation tax revenues. While this is mostly in the refinancing of existing mortgages, revenue is forecasted to be \$0.2 million higher than the adopted budget for FY 2026.

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 slowing of car rental tax likely related to lower visitor demand. Car rental tax is projected to end the fiscal year at \$0.2 million below the adopted budget.

Cigarette Tax – The local cigarette tax on every pack of 20 cigarettes sold in Arlington County is \$0.40. This tax source has been consistently declining year over year. For FY 2026, revenues are anticipated to be below the FY 2026 Adopted Budget level by \$0.2 million.

Other Local Taxes: Overall, other local taxes are expected to be within adopted budget projections for FY 2026.

County non-tax revenues are projected to be \$2.3 million lower than budgeted for FY 2026.

Highlights include:

- **Land Use Permits and Fees** are anticipated to be \$1.7 million below budget for FY 2026 primarily driven by lower permitting activity in both DES and CPHD.
- **Fine and Forfeitures** are anticipated to be \$0.9 million above the FY 2026 budget level primarily due to higher photo speed and red-light violation fee revenue.
- **Interest Income** is anticipated to be \$2.0 million lower than the FY 2026 adopted budget level due to lower portfolio balances being maintained for the General Fund.
- **Other Use of Money and Property** revenues are anticipated to be over the FY 2026 budget by \$0.3 million primarily due to DES lease revenues.
- **Charges for Service** revenues are anticipated to be below the FY 2026 budget by \$0.9 million. These changes are due to several programs including increased use of the DPR fee reduction program and lower fee revenues, lower ART bus revenues, and lower anticipated indirect administrative charges to other funds. These decreases are partially offset by increased parking meter revenues and Human Services revenues.
- **Miscellaneous Revenues** are anticipated to be almost \$0.9 million over the FY 2026 budget primarily due to revenues received from the sale of right of way.
- **State and Federal Revenues** are anticipated to be above the FY 2026 budget by almost \$0.3 million due to highway aid reimbursements from the State (Gasoline tax). These funds are derived primarily from the Commonwealth's collection of new car sales and gasoline taxes, and other vehicle-related fees and taxes. All other State and Federal revenues are anticipated to meet the FY 2026 budget level and if unused, carried over into the next fiscal year.