

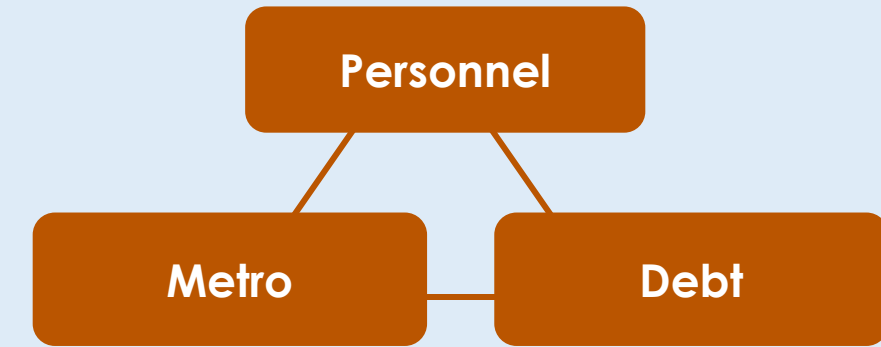
# FY 2026 Budget Planning Projections

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# Base Budget Challenge for Next Two Years

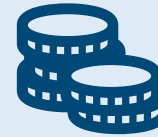
## Expenses – 70% of General Fund Budget (excluding Schools)



- Historical Growth 4% - 5%
- Needed to Meet Cost = \$30+/- million

## Tax Revenue

**Taxes (85% of all revenue)**



Projected Growth = 2.3% which would generate \$15+/- million in additional tax revenue for the County (almost ½ going of tax revenue goes to Schools)

**County Gap to Fund = \$30 to \$40 million**

**FY 2026 School Funding Gap: \$35 million to \$55 million**

# Weathering Fiscal Challenges

## *County Has Been Resilient But Not Without Difficult Choices*

### Past Fiscal Challenges the Last 20 Years

- Government Shutdowns
- Sequestration
- Base Realignment and Closures (BRAC)
- Mortgage Housing Crisis
- COVID-19 Pandemic

### Future Challenges



Commercial Market  
Office Vacancy /  
Return-to-Work Slowdown



Inflationary Impacts on  
Housing, Lending,  
Contractual Cost  
Increases



Metro Cliff



Schools Return to Fiscal  
Sustainability



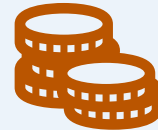
Federal Administration  
Changes could

- Impact federal support for Transportation, Human Services, and other areas
- Economic impacts in the regional

# FY 2026 Primary Budgetary Concerns



**Office Market – expected to be down between -7% to -17%**  
*Vacancies / Risk rates in valuation*



**Keeping a Structurally Balanced Budget**  
*Avoiding the use of one-time funding for ongoing expenditures*



**Financing costs have slowed new construction in other submarkets**



**Balancing Revenue Enhancements**  
*(impacts on residents and businesses) with ongoing expense reductions (program reductions)*



**Cost pressures include Wage Growth, Contractual Increases, Program Cost Increases**



**Schools projecting a significant budget gap**

# Additional Budget Pressures in FY 2027 and beyond



## **Continued Pressure in the Office Market**

*Vacancies / Risk rates in valuation*



## **WMATA**

*No local funding solution after FY 2026; regional solution requires support from Richmond and the federal government*



**Negotiation of new collective bargaining agreements with Police (ACOP) and Fire (IAFF)**



**Growth in demand for housing and human services programs**



**Schools budget will require multiple years to balance structurally**

# FY 2026 Budget Planning Summary



## Expect Multi-year Trend of Expense Growth Outpacing Revenue Growth

### **FY 2026 revenue growth of 1.7% to 2.5%**

- Modest growth in taxes
- Pressure in commercial real estate market
- Less one-time funding than in recent years
- Uncertain dynamics in regional market with change in administration

### **FY 2026 expense growth of 3% to 4%**

- Employee compensation & collective bargaining requirements
- Healthcare costs
- Inflation pressure & contractual increases
- Demand for housing and human services

### **FY 2027 & Beyond**

- Revenue expected to continue at the 2% - 3% growth over next few years while expense growth has been at least 3.5% in recent years



## **Preliminary Funding Gap (Base Budget) is \$30 to \$40 million**

Metro shortfall offset by regional funding set-aside unable to do past FY 2026

# Sustained Growth in New Program Areas

Recent Years	Upcoming
<ul style="list-style-type: none"><li>• Adding to Housing grants &amp; eviction prevention</li><li>• Operating impact of capital projects such as the ART maintenance facility</li><li>• Climate policy</li><li>• Independent Policing Auditor</li><li>• RACE Initiative &amp; NOFA</li><li>• Teen programming expansion</li><li>• Transportation Safety &amp; Compliance</li><li>• Crisis Intervention Center</li><li>• Mental health and policing</li><li>• Childcare</li><li>• Prevailing wage PLAs</li></ul>	<ul style="list-style-type: none"><li>• Implementation of new plans: climate action plan, planning Arlington's transportation future, transit plan, home ownership study, updated public spaces master plan</li><li>• Long Bridge: Transitioning from Boeing support to net tax support</li><li>• Jail Medical: increasing costs and exploration of new model</li><li>• Development Fund</li><li>• Unfreezing Police positions as hiring increases</li><li>• IT transition from capital expenditures to operating expenditures</li></ul>

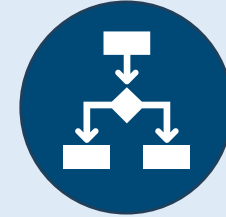
# Multi-Year Lens for Budget Sustainability

Addressing  
budget concerns  
using a multi-year  
approach



## Revenue Enhancements

- Tax and fee changes
- Increased compliance efforts
- Legislative changes enabling more local authority to generate revenue



## Restructure/Reduce Programs & Services

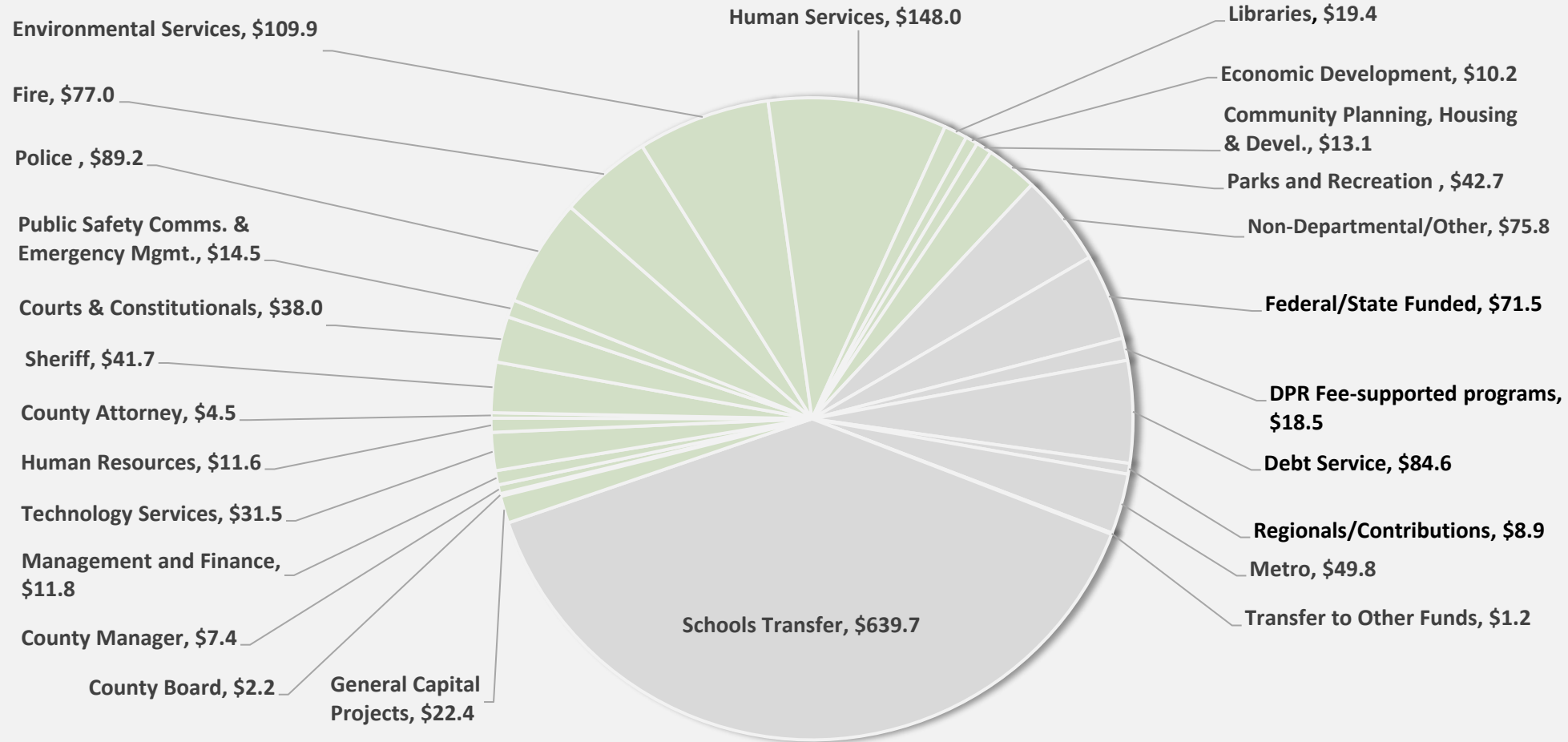
- Elimination of services/ lines of business
- Vacancy Savings

Multi-Year Effort



# Possible Budget Reduction Sources

**FY 2025 Adopted Budget = \$1.650 Billion**

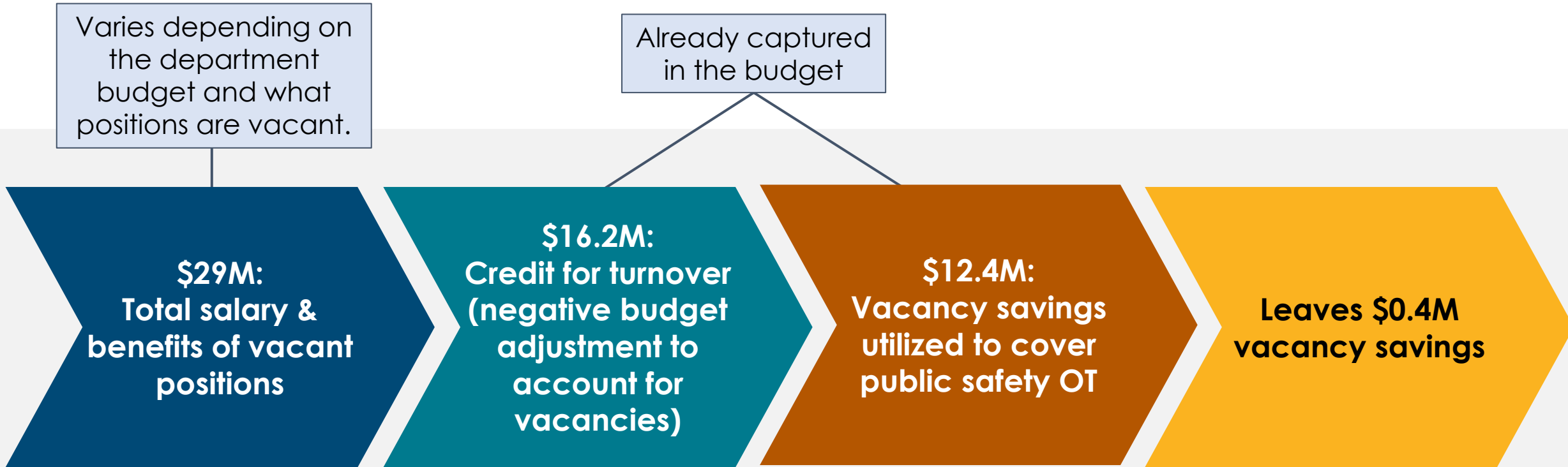


Funding cuts will come from County Operations that total \$672.7 million – approximately 40% of the \$1.65 million General Fund Budget

Department Personnel budgets total \$519.9 million of the \$762.6 million in total department funding. Of the \$519.9 million in personnel, \$29 million is for vacant positions.

Unable to Cut Funding for Debt, Metro, Schools, Regionals, State & Federally funded programs, and Non-Departmental (office rent, retiree health benefits, etc.)

# Why not cut all vacant positions?



# Expenses: FY 2026 Base Budget Funding Assumptions

## Personnel

- Salaries: Range of salary increases; Grade/step consistent with labor agreements for ACOP & IAFF
- Healthcare: Up 7.5%
- Retirement: Rate decreasing from 21.1% to 20.7%

## Non-Personnel

- Contractual & Inflationary Increases: Up 3.0%
  - Significant contractual increases include impacts of labor negotiations to provide ART Service (\$4.5 million) and significant anticipated increases in providing healthcare in the jail
- Housing Grants: expect to continue at FY 2025 ongoing level (\$15.1 million)
- Metro: can mitigate some growth with use of NVTC balances
- Debt Service: increasing 7.8% (\$7.3 million) and includes short-term financing
- AHIF: At FY 2025 funding level (\$9.7 million ongoing), no one-time set-aside yet (\$11 million allocated in FY 2025)
- School Transfer: Maintain Revenue Sharing percentage of 46.8%
  - *Change in transfer amount dependent on total tax revenue*
  - **Schools FY 2025 base budget includes a significant amount of one-time \$'s supporting ongoing costs**

# Compensation's Impact on the General Fund

Employee Group	Low End Ongoing	High End Ongoing
Non-Bargaining Unit: <ul style="list-style-type: none"> <li>• Low end: 3.0% increases, no range movement</li> <li>• High end: 4.0% increases, 2% range movement</li> <li>• Funding to address Sheriff compression</li> </ul>	\$7.5 million	\$10.7 million
Service, Labor, & Trades: 4.0% increases, 2% range movement	\$0.4 million	
Fire CBA: grade/step (4%) with longevity bonus plus additional \$3M funding	\$3.9 million	
Police CBA: grade/step with skip steps, average increase is approximately 2.6%; with additional \$3.5M funding, average increase goes up to 9%	\$4.0 million	
<b>TOTAL</b>	<b>\$15.8 million</b>	<b>\$19.0 million</b>

# FY 2026 One-Time Funding

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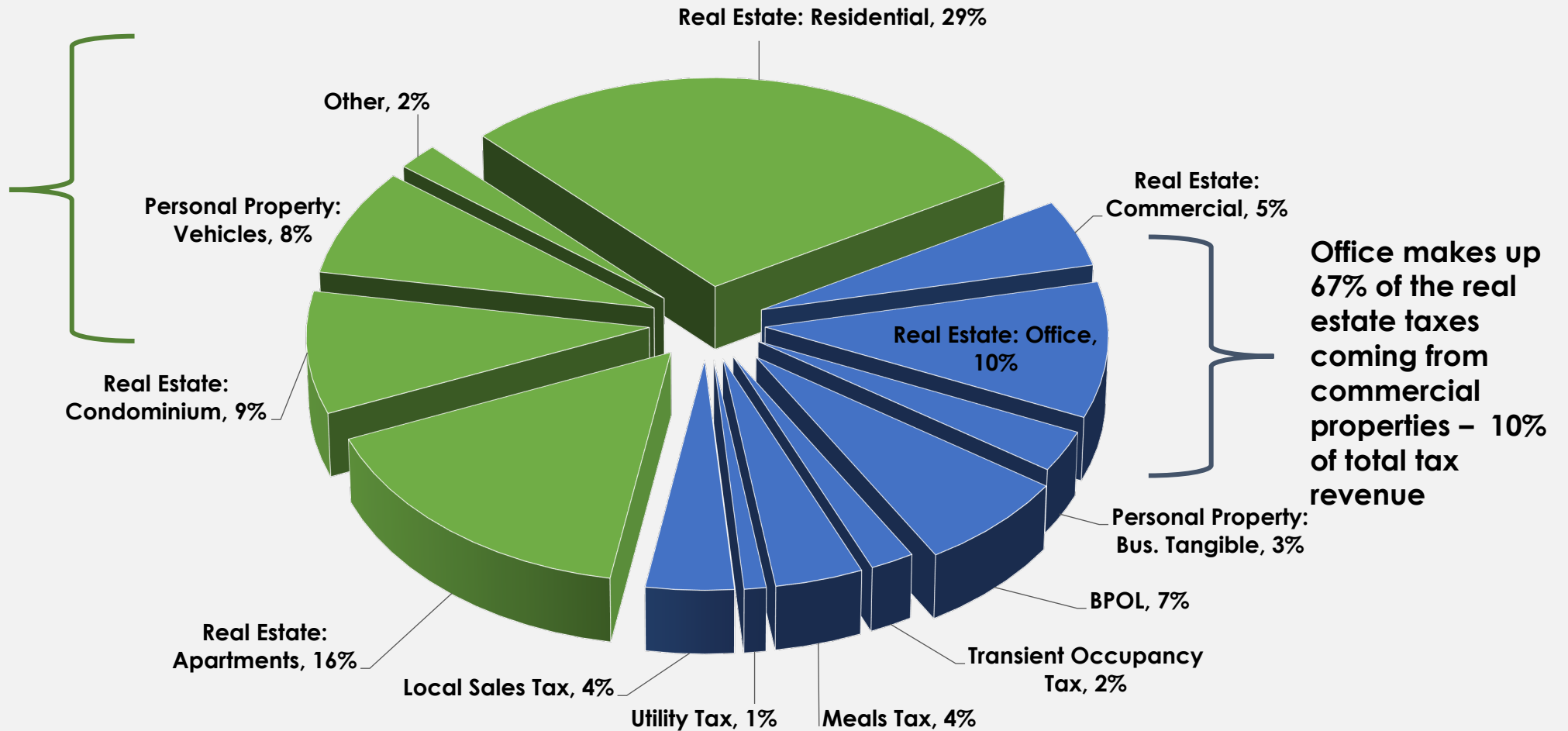
## Estimates to maintain current level of service delivery

- Capital Needs: \$9.8 million
- Eviction Prevention: \$1.0 million
- AHIF: \$11.0 million
- OPEB: \$3.0 million
- RACE Notice of Funding Availability (NOFA): \$0.9 million
- Economic Development Grants: \$1.2 million
- IAFF Bonuses in line with CBA: \$0.8 million

# Tax Revenue Supporting County & Schools

## 2025 Taxes: Residential Vs. Commercial

Early Estimates of Residential Real Estate and Vehicle Personal Property Tax indicate modest growth



# Tax Revenue Carve Outs

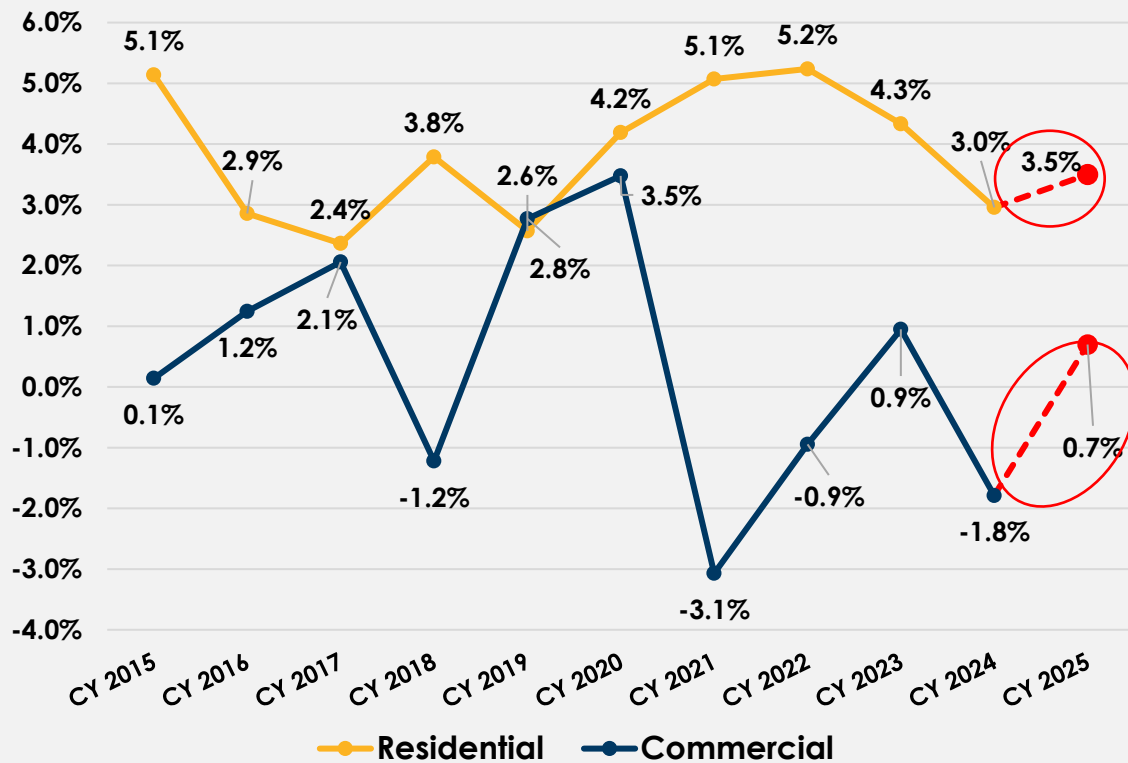


## Dedicated Revenues

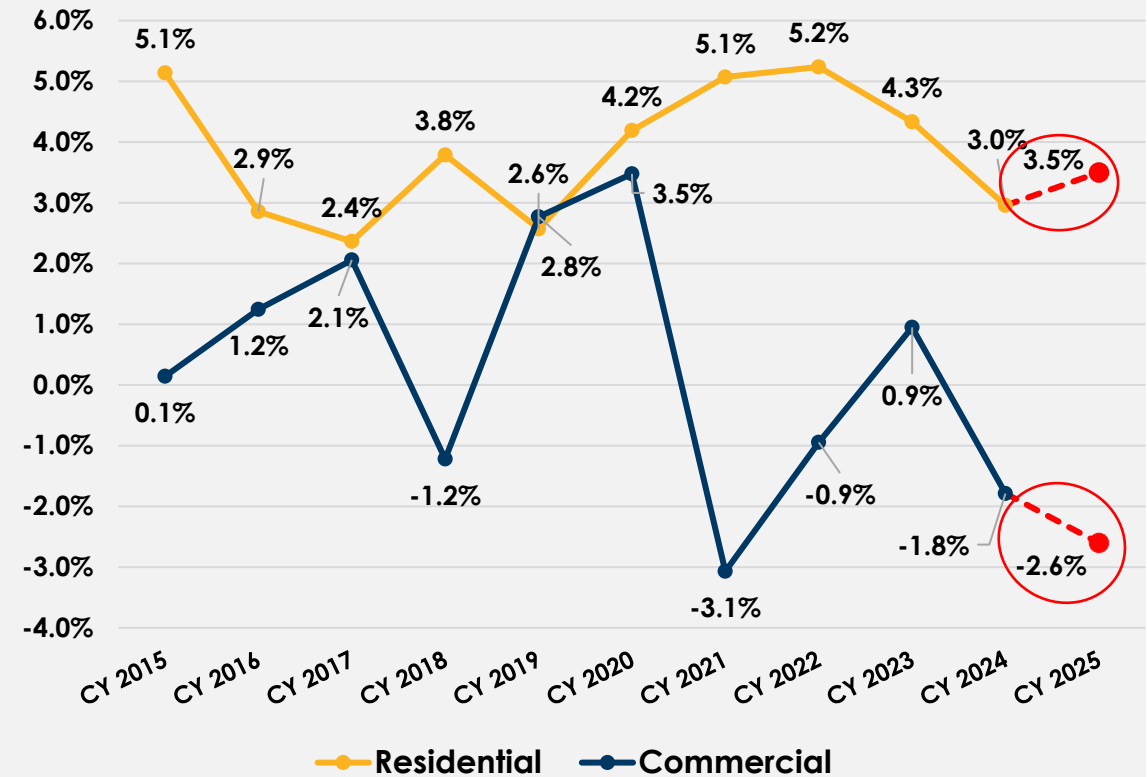
- **Crystal City, Potomac Yard, Pentagon City Tax Increment Financing (TIF) Fund** (\$6.5 million – funds capital projects)
- **Columbia Pike TIF Fund** (\$2.3 million – dedicated to AHIF)
- **Ballston Quarter TIF Fund** (\$1.8 million – committed to TIF debt service)
- **Tax Relief for Elderly & Disabled** (\$5.0 million)
- **State Required Tax Relief for Disabled Veterans & Surviving Spouses** (\$1.1 million)

# Impact of Negative Office Values

**Total Residential vs. Commercial**  
CY25: -7% office decline, total change of +2%



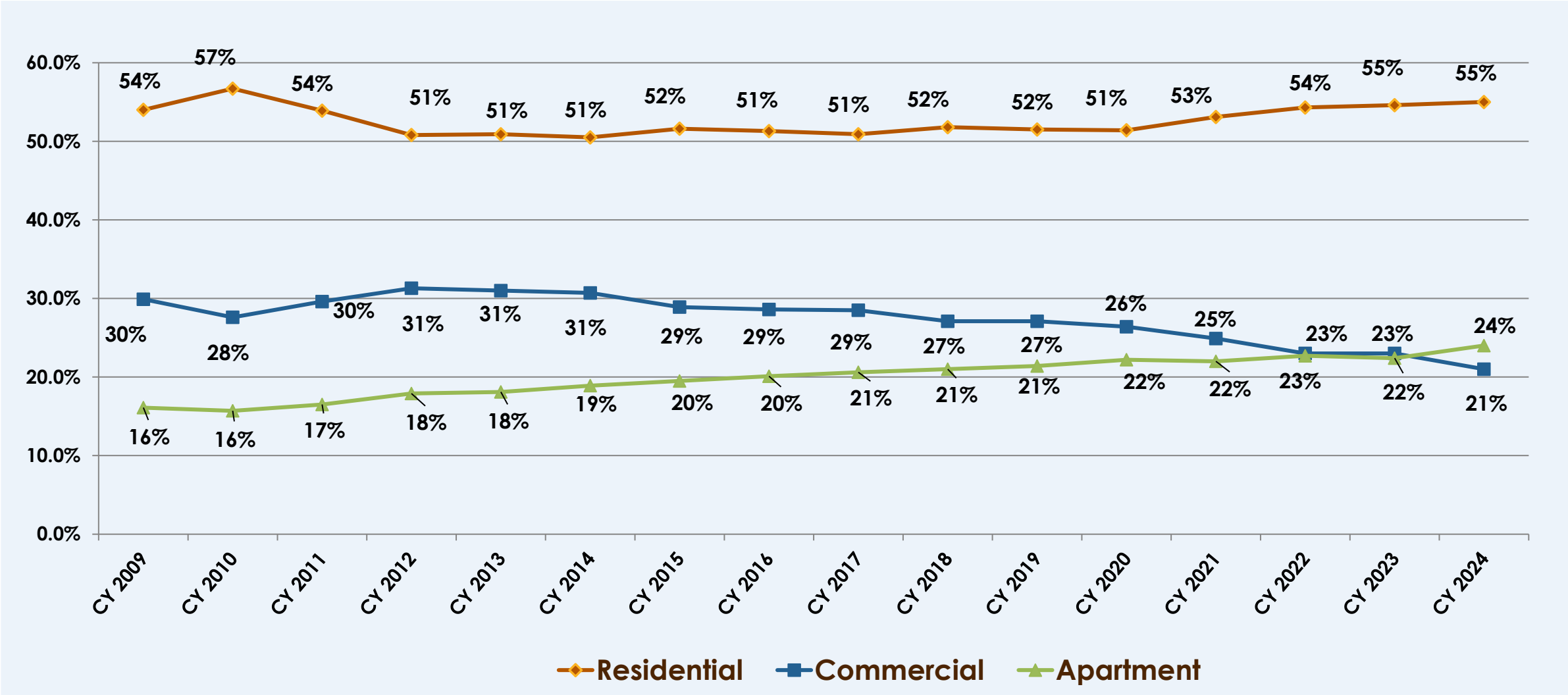
**Total Residential vs. Commercial**  
CY25: -17% office decline, total change of +1%



\* The actual % changes above are based on values from the assessment profiles for each year and exclude any new construction values.



# Residential, Apartment & Commercial Share of Assessments



# Revenue: FY 2026 Base Budget Assumptions

## Tax Revenue: flat to modest growth

### Real Estate Assessments

- Residential up 3.5%
  - A penny on the tax rate increases residential bill by another \$85
- Commercial range from up 0.7% to down -2.6%
  - Office down
  - Apartments and hotels up slightly
  - General Commercial flat
- Uncertainty of the impact of adjustments by the Assessor to office risk rates in overall valuation
- Continued stress in commercial investments and interest rate environment

### Other Tax Revenue

- Personal Property: Vehicles holding value
- BPOL: Gross receipts have continued to grow
- Sales, Meals, TOT: Continued growth in receipts in recent months

## Fees & Charges for Services: Variable

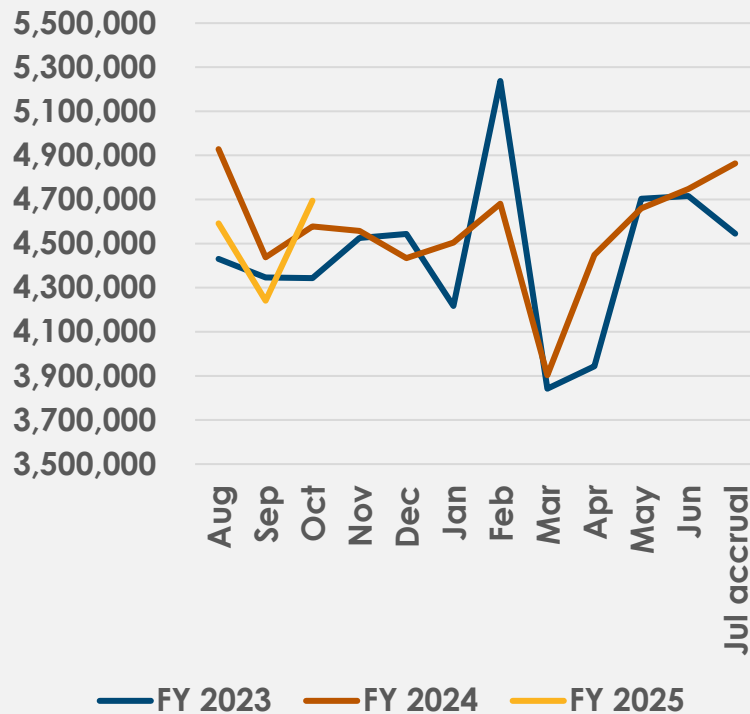
*Modest growth; interest income strong due to higher interest rates on monies invested*

## State & Federal

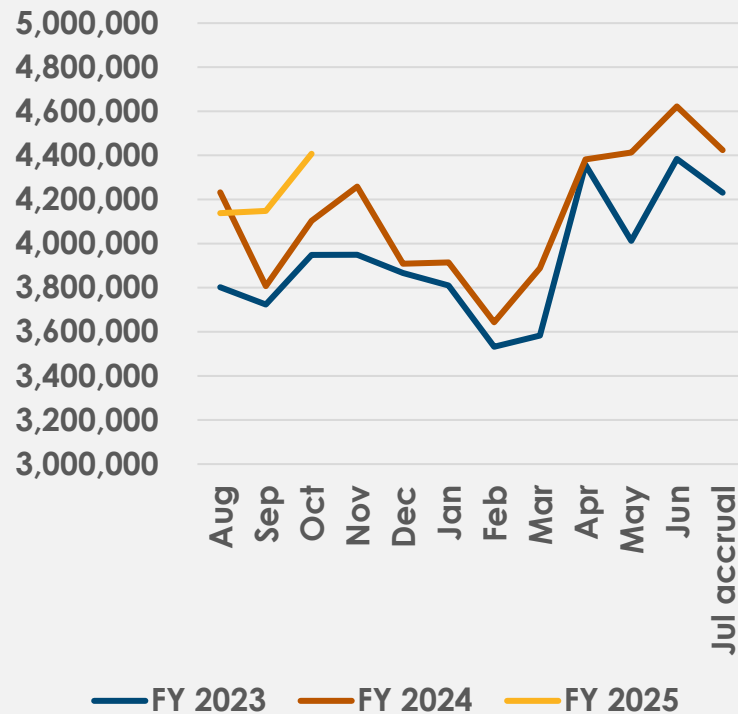
*Relatively flat with historical norms*

# Sales, Meals & Transient Occupancy Taxes

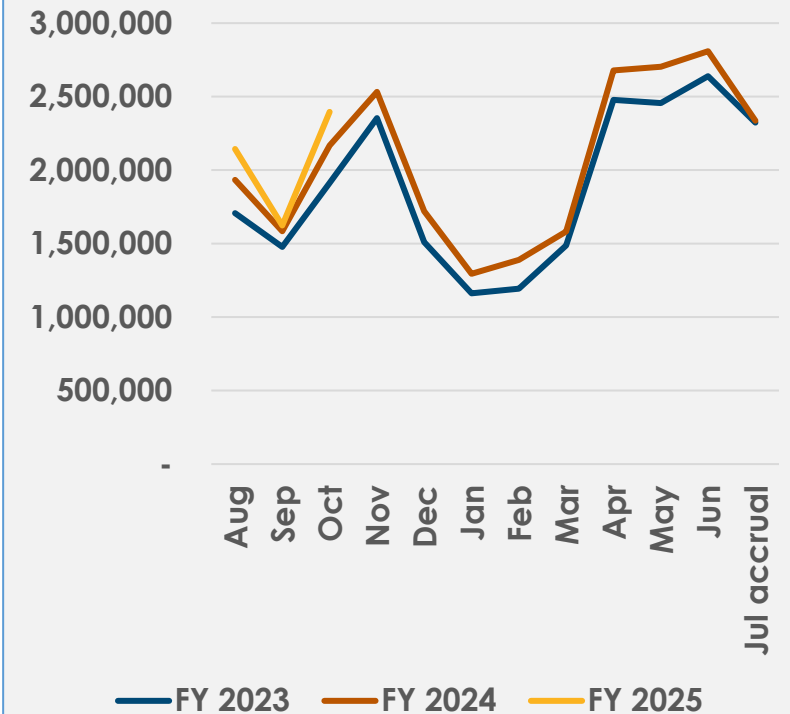
## Sales



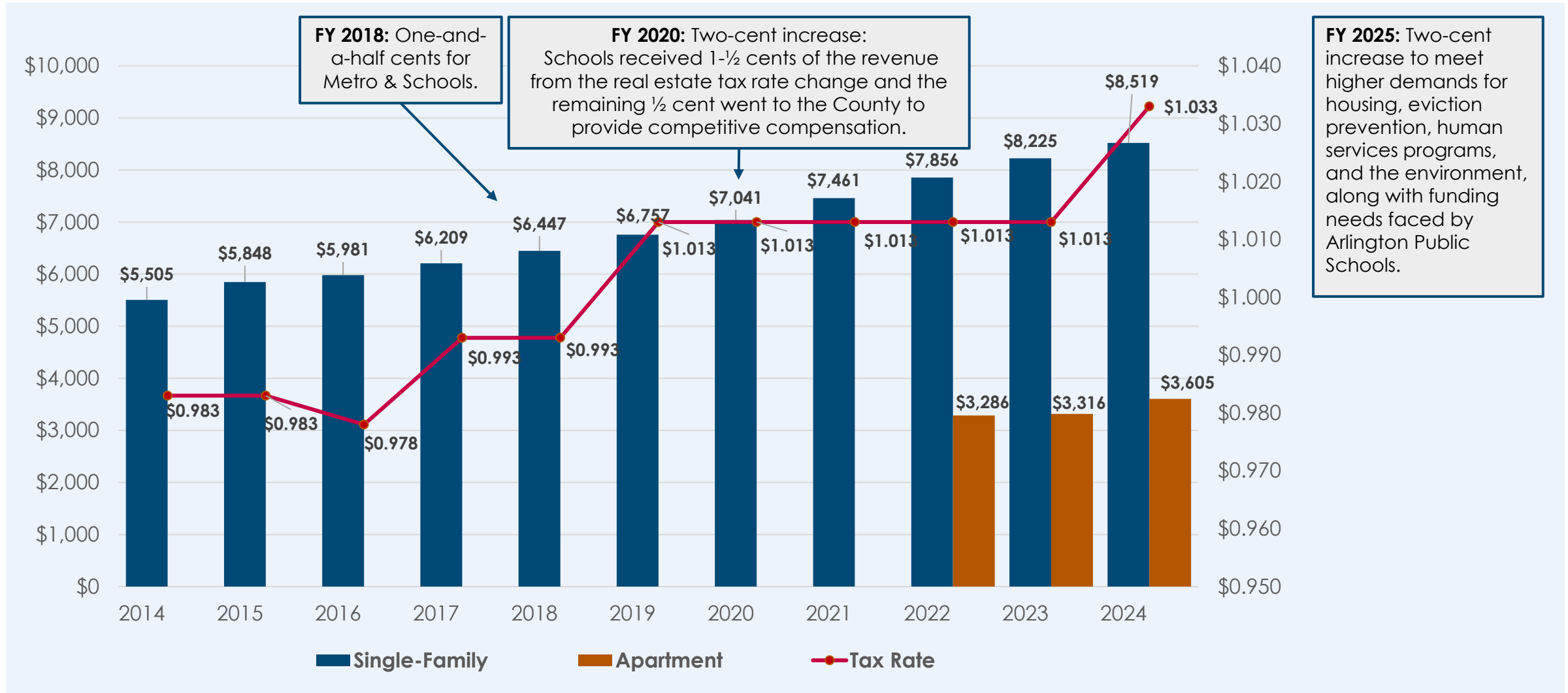
## Meals



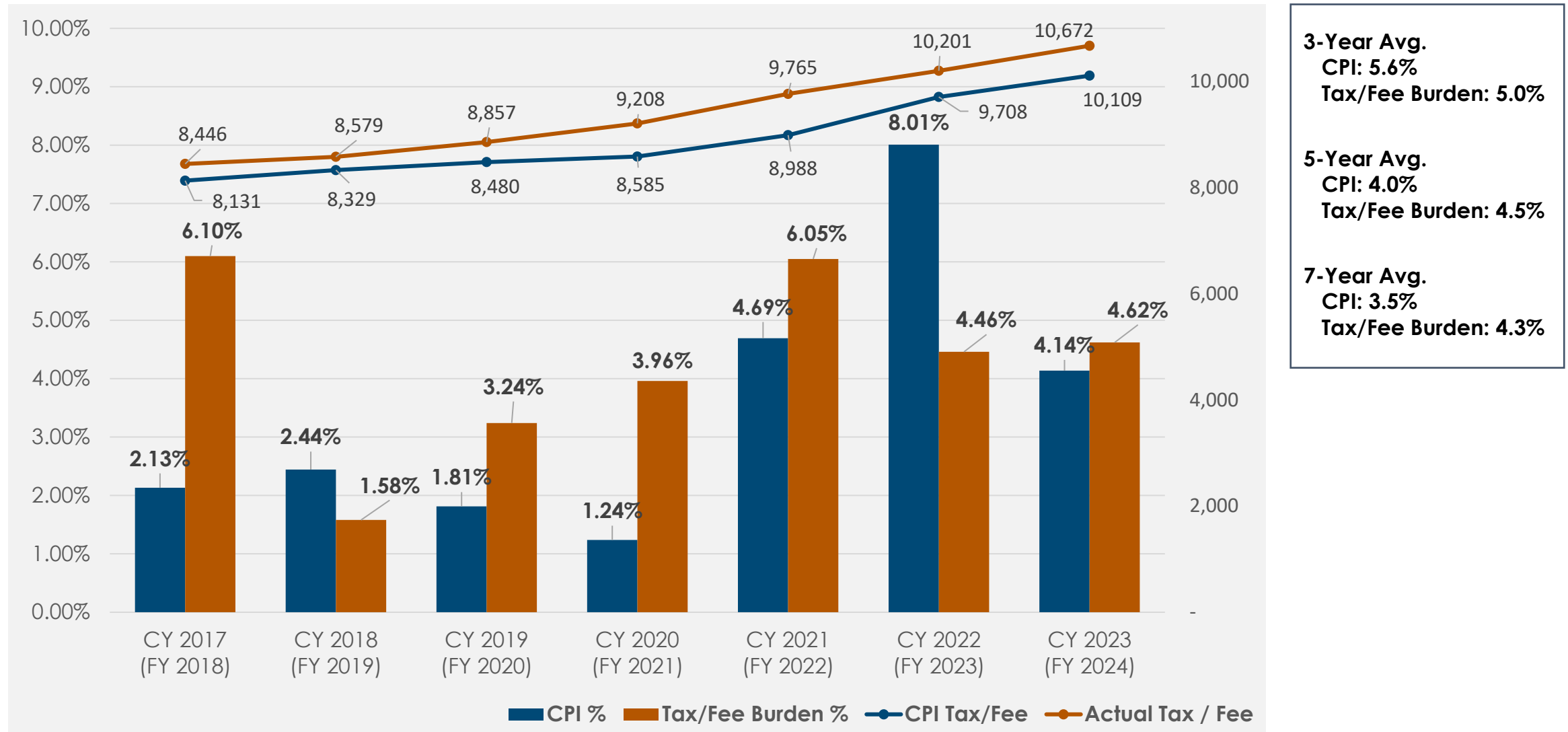
## Transient Occupancy



# Real Estate Tax Rates & Average Tax Burden



# Historical Inflation (CPI) vs. Tax & Fee Burden Increases



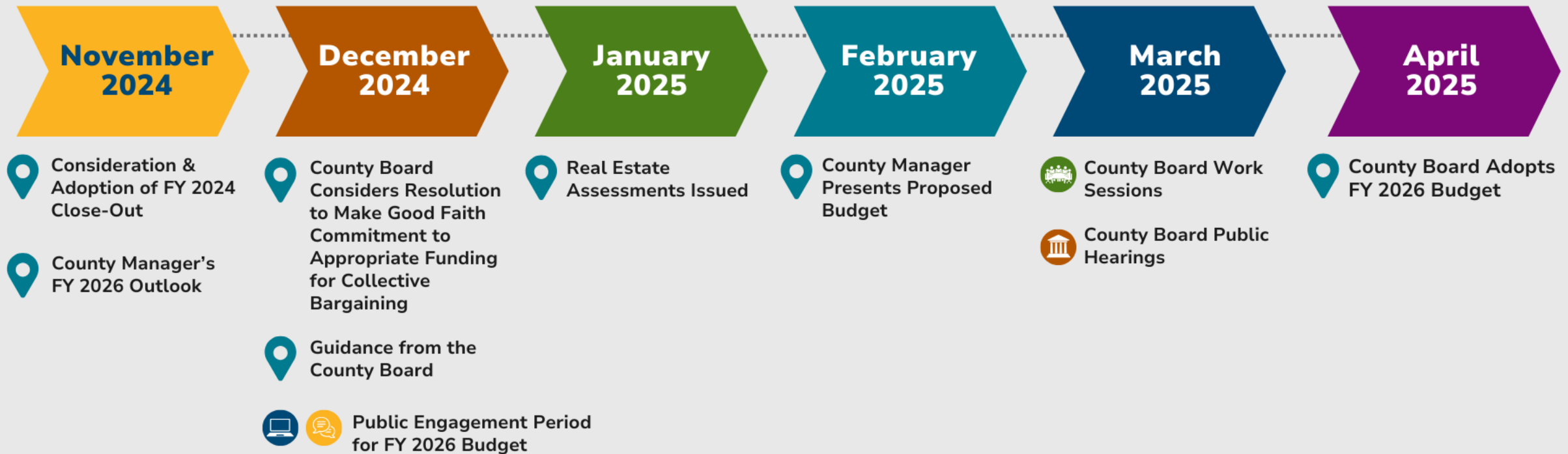
# School Enrollment & County Transfer

Fiscal Year	Student Enrollment	Enrollment YoY Change	Adopted Budget County Transfer	County Transfer \$'s YoY Change
FY 2010	20,233		352,377,887	
FY 2011	21,241	5.0%	360,346,286	2.3%
FY 2012	21,841	2.8%	378,776,778	5.1%
FY 2013	22,613	3.5%	400,358,051	5.7%
FY 2014	23,316	3.1%	412,637,859	3.1%
FY 2015	24,529	5.2%	432,232,221	4.7%
FY 2016	25,238	2.9%	445,453,293	3.1%
FY 2017	26,152	3.6%	464,510,832	4.3%
FY 2018	26,941	3.0%	484,178,720	4.2%
FY 2019	27,436	1.8%	497,604,901	2.8%
FY 2020	28,020	2.1%	522,426,668	5.0%
FY 2021	26,895	-4.0%	524,631,091	0.4%
FY 2022	26,911	0.1%	527,096,320	0.5%
FY 2023	27,455	2.0%	563,897,292	7.0%
FY 2024	27,452	0.0%	594,385,235	5.4%
FY 2025	27,900	1.6%	624,792,951	5.1%


# FISCAL YEAR (FY) 2026 BUDGET TIMELINE




FY 2026 Begins  
July 1, 2025




 **Key Milestone**  
Important points in the budget development process.

 **Online Feedback**  
Share your opinions with the Manager or the Board.

 **Public Meetings & Pop-Ups**  
Ask questions and share your thoughts with County leadership.

 **Board Work Sessions**  
Watch for a detailed look at each department's budget proposal.

 **Public Hearings**  
Share your thoughts with the County Board.

# FY 2026 Budget Planning Projections

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