



ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of November 15, 2025

DATE: November 12, 2025

SUBJECT: County Manager's Presentation of the Financial Results and Close-out for the Fiscal Year (FY) Ending June 30, 2025. (The Public Hearing on this item will take place at the November 18, 2025, County Board Recessed Meeting.)

C. M. RECOMMENDATION:

1. Adopt the FY 2025 County government appropriation resolution shown on Attachment 1A.
2. Allocate remaining balances from FY 2025 to legally restricted and priority areas identified by the County Board as shown on Attachment 1B.
3. Amend the FY 2026 County Operating Budget by approving the appropriations in Attachment 2.
4. De-appropriate \$500,000 from FY 2026 Washington Metropolitan Area Transit Authority (WMATA) funding (101.9011006) to reflect final contribution to the Stabilization Reserve in line with [FY 2026 Budget Guidance](#) from the County Board.
5. Appropriate \$350,000 from the Stabilization Reserve to the Department of Human Services (101.5016002) for additional food aid during the federal government shutdown.

ISSUES: The Board is being asked how should remaining one-time funds from FY 2025 be allocated?

DISCUSSION: Financial information presented here reflects the preliminary work of the County’s external auditors (Clifton Larsen Allen LLP). As in prior years, the County’s Annual Comprehensive Financial Report (ACFR) will be available in December.

Consistent with the financial updates provided to the County Board in April and June 2025, the County ended the fiscal year with very little discretionary savings or additional revenues. After meeting legal restrictions, County Board financial reserve policies, and revenue-sharing with Arlington Public Schools, the funding available for discretionary allocation totals \$1.8 million,

County Manager: MJS / MJC

County Attorney: RES

Staff: Richard Stephenson, DMF

or 0.2% of the revised FY 2025 County General Fund budget, excluding Arlington Public Schools. This is a significant decrease from FY 2024 when available funds totaled \$16.7 million, or 1.5% of the General Fund. The available funding results from a combination of tax revenues very close to budget and certain expenses coming in above budget.

Best practices in financial management and retention of the County's triple-AAA bond ratings require that the County end each year with a surplus (revenues more than expenditures). The County's historically conservative budgeting practices, along with appropriately sized and flexible contingents (such as the Stabilization Reserve which was increased in FY 2025 in anticipation of current economic issues) have allowed us to accommodate unanticipated events – such as cybersecurity, contractual cost increases, and state / federal budget cuts – to avoid mid-year service reductions and budget cuts.

Total discretionary funding is **\$1.8 million** at the conclusion of FY 2025. The main sources contributing to the discretionary funds will be discussed later in this report. The County Manager is recommending the following items be considered in the adoption of FY 2025 Close-out:

- Healthcare (\$1.5 million): costs of the County's health insurance plans are trending higher than employee and County-paid premiums; given the high-cost claims of FY 2025, it is recommended to set aside additional funding to meet the expense trends of FY 2026.
- Juvenile & Domestic Relations Court's (JDR) Safe Havens Program (\$276,070).

In addition to the numerous appropriation actions included in this report, two additional actions are recommended by the County Manager:

- 1) De-appropriate \$500,000 in accordance with [County Board direction in April 2025](#) and transfer the WMATA budgetary savings to the County's Stabilization Reserve.

“The Board directs \$11 million to be added to the County's Economic Stabilization Reserve. In addition, if anticipated reimbursements from the Washington Metropolitan Area Transit Authority are greater than \$500,000, the additional amount should be added to the Economic Stabilization Reserve, which was created in FY 2013 to address unforeseen ‘economic displacement or potential federal/state budget cuts.’ Over the years, the reserve has increased in funding and scope to address unexpected temporary events such as major weather events, revenue declines, and local or regional economic stress.”

- 2) Appropriate \$350,000 from the Economic Stabilization Reserve to support needs in the community for food aid during the federal government shutdown.

Financial information presented here will be finalized when the County's external audit is complete and the County's Annual Comprehensive Financial Report will be available in December. Expenditures, revenues, and recommended actions are discussed on the following pages.

The County ended FY 2025 with a balanced budget. At the end of FY 2025, the County's General Fund balance is anticipated to be \$360.7 million, a decrease of \$11.6 million from the end of FY 2024.

General Fund balance comes from three sources:

- 1) Amounts carried over from year-to-year for reserves and other County Board policy designations (e.g., Schools revenue sharing and Affordable Housing Investment Fund (AHIF) and subsequently reaffirmed by the County Board;
- 2) Revenues in excess of projections; and
- 3) Expenditures that are under budget.

Allocation of Fund Balance

The most significant portion of General Fund balance falls into the first category of funds carried over year-to-year: approximately \$359.0 million, or 99.5% of \$360.7 million, is for required reserves, restricted funding, allocations already approved by Board action, or for continuing projects that happen to straddle fiscal years.

Carryover for Reserves & Restricted Funding (**\$359.0 million**): Funding which remained from FY 2025 which will carry over to their restricted and assigned areas includes:

- **Reserves: \$134.6 million**
 - Operating Reserve to maintain the required minimum of 5.5% of General Fund operating budget per policy and needed to maintain the County's triple-AAA bond ratings: \$92.8 million.
 - Self-Insurance Reserve: \$8.9 million to remain in compliance with the County's financial policies. This reserve is primarily intended for one-time events in workers' compensation, employee health insurance, and the self-insured portion of general, automobile, and public officials' liability. For example, this reserve was utilized for a judgement related to a large FLSA payment several years ago. By policy, any utilization of the reserve requires repayment in the subsequent two years.
 - Stabilization Reserve (\$32.9 million): \$21.9 million to maintain the required minimum of 1.3% of General Fund operating budget per policy. An additional \$11.0 million was set-aside by the County Board at FY 2026 budget adoption while another \$0.5 million is recommended to be added in closeout

In most cases, utilization of reserves requires replenishment over a two-to-three-year period in accordance with the County's financial policies. However, as noted above, the \$11.5 million added in FY 2026 adoption does not have such a replenishment requirement.

- **Restricted & Non-Spendable Funding: \$29.5 million**
 - Seized Asset funds: \$2.8 million
 - Grants, Transit, & Restricted funds: \$5.3 million
 - Fiduciary accounts (funds held in trust or for dedicated uses): \$15.5 million
 - Legally restricted and non-spendable: \$5.9 million

- \$3.1 million to a non-spendable account for requirements under the Governmental Accounting Standards Board (GASB) 87 and 96 for the recognition of leases and subscription-based technology.
 - \$2.7 million to restricted non-spendable items identified in the FY 2024 year-end audit process for prepaid expenditures. Prepaid expenditures include annual operating licenses / subscriptions paid in advance such as the County’s financial and human resources system contract that is paid in the spring.

- Schools: **\$21.9 million** – Schools’ carryover is a combination of School expenditure savings (\$20.0 million), and School’s portion of tax revenue per the Principles of Revenue Sharing (\$2.8 million), partially offset by School’s contribution to the General Fund Operating Reserve (\$1.0 million).

- Affordable Housing Investment Fund (AHIF): **\$110.7 million** – A combination of previously allocated project funds (\$61.3 million) and unallocated funds for anticipated projects (\$49.3 million). Some examples of projects with previously allocated funding include Barcroft debt service, Goodwill site redevelopment, and Crystal House #3 and #6. Unallocated funds are envisioned to support existing projects in the CAF portfolio with capital needs and/or projects at-risk due to expiring affordability. In addition to the \$110.7 million carried over in the General Fund, an additional \$6.65 million in federal HOME funds will be carried over in the Community Development Fund.

- Prior County Board Appropriations and Allocations: **\$62.3 million** – The County Board has taken a number of actions as a part of the adopted FY 2026 budget or where the funds are already dedicated in use (e.g., short-term financing) or the project has been previously funded by the County Board is a multi-year effort (e.g., planning projects). These items include the following:
 - Debt service for a number of technology and equipment purchases approved as part of prior budgets and CIP (\$15.8 million). Examples of items funded with short-term financing include PC replacement, server and network replacement, and public safety technology.
 - Funding for items already appropriated as part of the FY 2026 Adopted Budget (\$32.3 million) such as PAYGO funding for capital projects (\$12.1 million), compensation bonuses (\$1.1 million), other post-employment benefit (OPEB) trust fund (\$3.0 million), a second recruit class for Fire (\$2.2 million), upcoming Climate Action Plan funding (\$0.5 million), funding for buying down Barcroft debt (\$5.0 million), and a County Manager contingent (\$2.0 million). See page 655 of the [FY 2026 Adopted Budget](#) for a full list.
 - Incomplete & Multi-Year Projects (\$14.2 million): This allocation funds specific projects whose schedule covers multiple fiscal years – particularly community planning or Notice of Funding Availability grant-making processes. In some cases, these projects have already encumbered funds or the funding has been spent since July 1. This allocation will ensure that these multi-year projects are completed. Examples include the Historic Resources Inventory, Low Residential

study, and Comprehensive Plan update as well as funding for teen-based programs initiated and continuing in FY 2026, environmental and childcare initiatives, and completion of training for a Fire recruit class. See Attachment 2D for additional details.

The County Manager also recommends setting aside discretionary funding for healthcare (\$1.5 million) and JDR's Safe Havens program (\$276,070) as noted in the recommendations above, which leaves no one-time funding unallocated.

Funding for healthcare is recommended to meet the expected expense trends of FY 2026. Premiums for the County's self-insured health insurance plans are set as part of the budget process – well before the beginning of the fiscal year. The two-year trend has shown healthcare costs outpacing contributions; in FY 2025, active employee costs exceeded budget by \$7.7 million due to increasing costs and high-cost claims. Cost increases have been partially driven by the increased use of a variety of weight loss drugs (e.g., GLP-1 type medication) and utilization of in vitro fertilization (IVF) while the plans have also seen high-cost claims for treatment of cancer. The County is considering plan design changes to address these cost increases as well as monitoring market trends. Because the County cannot introduce plan design changes off-cycle of the health care enrollment period, the proposed \$1.5 million allocation will help bridge health care costs for FY 2026. Current estimates are that the FY 2026 costs could be over budget between \$7 and \$13 million.

The JDR Safe Havens Supervised Visitation and Exchange program helps children maintain essential contact with the parent who used violence in the home, while keeping the victim parent safe through sight and sound isolation. JDR applied for but was not awarded a federal grant to fund the Safe Havens Program. Funding for the program was not included in the FY 2026 adopted budget as it was not known yet whether the grant would be received.

Expenditures

General Fund FY 2025 expenditures, including transfers to other funds and \$636.5 million to Schools, totaled \$1,666.9 million. County Operating Department expenses totaled \$784.9 million for FY 2025, an amount which includes \$8.0 million in GASB (under GASB 72, 84, 87, and 96) required adjustments. Excluding these reporting adjustments, there was \$23.1 million that was not spent by operating departments. This amount includes unspent grant funding which must be carried over to the next fiscal year (\$14.1 million) and monies provided by the County Board for prior years' one-time projects that are still underway or legally restricted (\$8.3 million). Adjusting for grant funds and restricted/incomplete projects, the County departments ended the fiscal year with \$0.6 million in expenditure savings or approximately 0.1% of FY 2025 department operating budgets. For comparison, in FY 2024, the County ended the fiscal year with \$13.4 million in expenditure savings or approximately 1.8% of the FY 2024 department operating budgets after adjusting for grant funds and restricted/incomplete projects.

After accounting for GASB adjustments related to leases, six departments exceeded their budget appropriation:

- Fire (-\$3,470,205): The over-expenditure was primarily due to overtime costs required to meet minimum staffing requirements as well as for unused leave payouts.
- Police (-\$1,262,403): The over-expenditure was primarily due to overtime costs required to meet minimum staffing requirements as well as for unused leave payouts.
- Sheriff (-\$506,288): The over-expenditure was primarily due to unused leave payouts, additional costs for inmate medical care, and overtime costs required in the detention facility for minimum staffing requirements, partially offset by savings from staff vacancies.
- Emergency Management (-\$321,693): The over-expenditure was primarily due to overtime costs in the Emergency Communications Center.
- Libraries (-\$30,661): The over-expenditure in personnel is due to the additional costs in staffing the evening and weekend hours at the Courthouse library and several staff unused leave payouts.
- Circuit Court (-\$40,041): The over-expenditure was primarily due to unused leave payouts and overtime costs.

Across County departments, a small level of savings is anticipated each year. There are always unexpected vacancies or program delays. The difficulty is predicting where these vacancies and delays will occur. As each fiscal year progresses, budgets are monitored, and adjustments are made for the unpredictability of expenditures.

Other Fund Highlights

In Attachment 2 Supplemental Appropriations (recommendation F), a temporary year-end bridge loan is recommended to the Development Fund (570) from the Stormwater and Utilities Funds. At the end of FY 2025, the CPHD Development Fund experienced a deficit due to slowing revenue activity and increased operational costs. This fiscal situation has been outlined to the County Board through the budget process, and the Board has continued to raise fees over the last two fiscal years to return this fund to positive cashflows.

As required by accounting for governmental funds, the cash balance is being shored up with this temporary loan. The Utilities fund and the Stormwater are providing a temporary loan by splitting the \$11,290,430 equally. This temporary loan is for the end of FY 2025.

The Development Fund continues to be on a multi-year plan to reach fiscal sustainability including the significant fee increases and expense reductions over the past two years and anticipated fee increases again in FY 2027.

Revenues

In March 2025, the County Board was presented with [updated revenue projections for the fiscal year as a part of the Mid-Year/3rd Quarter Review](#). This update accounted for new economic

data and actual revenue collection trends. With the regional economic uncertainty at the time, the Board directed the Manager to return in June with a revenue and economic update.

The second half of FY 2025 proved to be more volatile for the County’s tax revenue collection primarily due to the changing federal administration and the impacts it had on the regional economy. In the spring, with the various rounds of federal layoffs, federal retirement offers, tariff uncertainty, and federal contracting uncertainties, the County began to experience declines in a variety of consumption taxes. Meals, sales, and transient occupancy (hotel) taxes all began to slow from prior growth trends.

In June 2025, [revenue projections were updated](#) to reflect the changing tax revenue patterns and provided an update on revenues received from Business, Professional, and Occupational License (BPOL) receipts (due to the timing of these revenues, this information was not available at the time of the March 2025 revenue update). In June, the Manager reported that the decreases in various tax sources would be offset by slightly higher BPOL and real estate tax receipts.

By fiscal year end, actual General Fund revenues, excluding fund balance, were \$1.656 billion, compared with a revised budget of \$1.638 billion reported at the June 2025 revenue and economic update.

Of this, final tax revenues were 0.4 percent, or \$4.7 million, higher than the revised June projections. The following tables show budgeted revenues, revised projections, and FY 2025 actual revenue receipts.

FY 2025 Revised Budget to Actual Tax Revenues

	Budgeted Revenue (adopted in April 2024)	Revised Projection (June 2025)	Actual Revenue	\$ Change (June 2025 to Actual)	% Change (June 2025 to Actual)
Real Estate	\$920,564,640	\$923,564,640	\$928,825,454	\$5,260,814	0.6%
Personal Property	146,802,147	145,302,147	144,885,030	(417,117)	(0.3%)
BPOL	89,823,887	91,823,887	92,394,582	570,695	0.6%
Sales	57,700,000	55,000,000	54,795,088	(204,912)	(0.4%)
Transient	26,000,000	25,400,000	25,517,705	117,705	0.5%
Meals Tax	50,500,000	50,500,000	50,560,320	60,320	0.1%
Other Taxes	43,637,000	44,737,000	44,073,331	(663,669)	(1.5%)
Tax Totals	\$1,335,027,674	\$1,336,327,674	\$1,341,051,512	\$4,723,838	0.4%

FY 2025 Revised Budget to Actual Non-Tax Revenues

	Budgeted Revenue (adopted in April 2024)	Revised Projection (June 2025)	Actual Revenue	\$ Change (June 2025 to Actual)	% Change (June 2025 to Actual)
License, Permits, Fees	\$17,771,087	\$17,371,087	\$17,129,035	(\$242,052)	(1.4%)
Interest & Rental Income	22,756,443	48,256,443	57,114,589	8,858,146	18.4%
Outside Charges for Service	72,397,879	74,480,879	75,403,219	922,340	1.2%
Miscellaneous Revenue	2,441,471	11,090,364	10,592,650	(497,714)	(4.5%)
Affordable Housing Investment Fund (AHIF)	-	-	9,994,598	9,994,598	-
State Revenue	95,484,483	110,398,282	98,657,570	(11,740,712)	(10.6%)
Federal Revenue	18,681,302	24,892,573	23,110,321	(1,782,252)	(7.2%)
Transfers & Other	10,236,950	15,095,111	12,112,996	(2,982,115)	-19.8%
GASB	-	-	11,129,616	11,129,616	-
Non-Tax Totals	\$239,769,615	\$301,584,739	\$315,244,594	\$13,659,855	4.5%

License, Permits, Fees – Came in slightly below the revised budget primarily due to lower than anticipated site plan revenues and parking ticket revenues. This is partially offset by higher than anticipated revenues for photo red light and photo speed fines.

Interest & Rental Income – Interest rates on investments remained elevated throughout FY 2025 but with the Federal Reserve expected to begin reducing the federal funds target rate, investment earnings are likely to moderate in future periods.

Outside Charges for Service – Exceeded budget primarily due to increased parking meter revenue and Department of Human Services charges revenue, partially offset by ART bus fare revenue and Department of Parks and Recreation fee reductions.

Miscellaneous Revenue – Exceeded budget primarily due to unbudgeted contributions for Affordable Housing Investment Fund (AHIF), which consist of both developer contributions and loan repayments. The County’s practice has been not to budget these funds given the uncertainty

of timing of receipt which is dependent on individual project financial closings. However, anticipated receipts are factored into multi-year AHIF financial and project planning.

State Revenue – Came in under budget primarily due to unspent grant funds in the Department of Human Services and the Department of Environmental Services that will be carried over into FY 2026.

Federal Revenue – Came in under budget primarily due to a Department of Environmental Service grant that was terminated during the fiscal year along with unspent grant carryover funds in DES that will be carried over into FY 2026.

Transfers & Other Revenue – Actuals came in under budget due primarily to the budgeted transfer from the IDA for the Ballston skating facility if revenues generated were not sufficient to meet the debt service obligation. In FY 2025, revenues exceeded the debt service obligation, so no transfer in from the IDA was required.

FY 2025 Revised Budget to Total Actual Revenues

	Budgeted Revenue (adopted in April 2024)	Revised Projection (June 2025)	Actual Revenue	\$ Change (June 2025 to Actual)	% Change (June 2025 to Actual)
Tax Revenues	\$1,335,027,674	\$1,336,327,674	\$1,341,051,512	\$4,723,838	0.4%
Non-Tax Revenues	239,769,615	301,584,739	315,244,594	13,659,855	4.5%
Total Revenues <i>(excluding fund balance)</i>	\$1,574,797,289	\$1,637,912,413	\$1,656,296,107	\$18,383,694	1.1%

PUBLIC ENGAGEMENT: The County Board will consider the County Manager’s recommendations for adoption after a public hearing is held at the November County Board meeting. Additionally, the public is invited to give feedback on staff’s recommendations by emailing: DMF@arlingtonva.us.

FISCAL IMPACT: When the County Board makes final allocation and appropriation decisions at the November 2025 board meeting on the FY 2025 Close-out package, the Board will ratify final appropriations for FY 2025 fulfilling all County obligations and use of one-time funds to meet critical priorities.