ARLINGTON
VIRGINIA

ARLINGTON COUNTY, VIRGINIA

County Board Agenda Item
Meeting of November 11, 2023

DATE: November 3, 2023

SUBJECT: Financial Results & Close-out for the Fiscal Year (FY) Ending June 30, 2023

C. M. RECOMMENDATION:

1. Adopt the FY 2023 County government appropriation resolution shown on Attachment 1A.

2. Allocate remaining balances from FY 2023 to legally restricted and priority areas identified by the County Board as shown on Attachment 1B.

3. Amend the FY 2024 County Budget by approving the appropriations in Attachment 2.

ISSUES: How should remaining funds from FY 2023 be allocated?

SUMMARY: Financial information presented here reflects the preliminary work of the County's external auditors (Cherry Bekaert LLP). Consistent with prior years, the County's Annual Comprehensive Financial Report (ACFR) will not be available until the end of November.

During FY 2023, more expense savings were generated by operating departments than projected. This was primarily the result of continued challenges of hiring and execution of services/projects due to continued supply chain delays. In addition, several tax sources continued to improve post-pandemic including Business, Professional and Occupational License (BPOL) tax, real estate tax, and personal property tax revenues that were higher than anticipated. Non-tax revenues also came in higher than projected largely due to higher interest earnings following the rise in interest rates.

After meeting legal restrictions and County Board policies regarding reserves and revenue-sharing with Arlington Public Schools, the amount of funding available for allocation totals $46.3 million, or 4.4% of the revised FY 2023 County General Fund budget, excluding Arlington Public Schools. This is an increase from last year. In FY 2022, available funds totaled $26.9 million, or 2.4%.

County Manager: MJS / MLC

County Attorney: MNC

Staff: Richard Stephenson, Department of Management & Finance

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 in excess of projections and /or expenditures less than budget). The County's historically conservative budgeting practices, along with appropriately sized and flexible contingents (such as the Stabilization Reserve and the County Manager's Operating Contingent) have allowed us to accommodate unanticipated events – both more frequent ones such as winter storms and state / federal budget cuts as well as the recent pandemic – without having to go back to the County Board and community for mid-year service reductions and budget cuts.

In recent years, most of the available year-end funding has been dedicated to the next year's budget deliberations. However, given time-sensitive needs, the County Manager is recommending several items for the Board to consider funding in the current fiscal year.

Total discretionary funding is $46.3 million at the conclusion of FY 2023. The main drivers of the sources contributing to the higher level of discretionary funds will be discussed later in this report. The County Manager is recommending the following items/areas be considered in the adoption of the FY 2023 Close-out.

- *Funds to paydown a portion of the Barcroft Apartment outstanding debt ($15.0 million).* The Barcroft apartments is a 1,334 unit market-rate affordable garden apartment complex purchased in partnership with Jair Lynch Real Estate Partner. The County's debt obligation for this purchase totals $150 million. With current interest rates significantly higher than just two years ago, the buydown of a portion of this debt would reduce current and future debt interest obligations on the County's budget.
- *Land Acquisition ($5.0 million).* Over the last several years there have been a number of opportunities to purchase parcels for both Parks and Facility usage. With several recent opportunities, the land acquisition contingent has been depleted. These funds would allow for the purchase of property without re-allocating from other obligated sources.
- *FY 2025 bridge to reducing reliance on one-time monies supporting ongoing commitments ($3.0 million).* During the COVID-19 pandemic, one-time funds were used to expand and enhance a variety of health and human service programs. These one-time funds were used to support a variety of ongoing programs critical to our community. Pursuant to County Board guidance, over the last few years the County has reduced the level and need of one-time funds in support of these programs. It is expected that after FY 2025, no more one-time funds will be required for support of these programs unless the economic situation does not stabilize.
- *Development Fund contingent ($2.0 million*). A variety of internal and external pressures have contributed to a projected shortfall in the County's Development fund, which supports a majority of the County's permitting activity. With a slowdown in the commercial market due to the economic impacts of the pandemic and the uncertainty of office's "return to work," development activity has slowed. In addition, internal cost pressures like compensation for staff and costs related to the implementation of a new permitting system have all contributed to the need for a set aside through this fiscal year to ensure fiscal stability of the fund. Fiscal year to date spending and revenues indicate

that there will be a need for additional funds. If these funds are not required, they will be returned to the General Fund.

- *Time-sensitive Public Safety Items Needed in FY 2024 ($1.1 million).* There are several recruitment, retention, and training needs in FY 2024 including monies for Sheriff ($620,000), Police hiring incentives ($130,000) and Fire professional standards training ($150,000). In addition, the Manager is recommending additional jail medical funds be allocated to enhance the Medication Assisted Treatment (MAT) program ($85,000), make investments in mobile police camera technology ($80,000), and allocate non-personnel funds for the County's independent police auditor ($40,000).
- *Teen & Disadvantaged Youth Programming ($500,000).* This funding will augment existing resources and programs to help address the increase in substance use and mental health issues with Arlington teens. The network of organizations providing these services to youth and families is broad – including numerous County departments (DHS, DPR, Police, and JDR), APS, and community partners. In advance of the release of the FY 2025 proposed budget, the County will be collaborating with these partners to develop a gap analysis and specific programmatic recommendations for this funding source. Allocation of this funding now will allow implementation of any enhanced or new programming to begin as soon as feasible.
- *Northern Virginia Juvenile Detention Center (NVJDC) contingent ($200,000).* This funding contingency would provide back-stop funding if other revenue sources to NVJDC are reduced. In addition, this funding could be utilized if programming or capital improvements are needed as NVJDC evaluates its program and facility and agreed to by other regional partners.
- *DHS bonuses ($150,000).* Funding to address recruitment and retention challenges in hard to fill positions within Human Services.

DISCUSSION: Financial information presented here will be finalized when the County's external auditors complete their field work. However, the County's Annual Comprehensive Financial Report will not be available until the end of November. Expenditures, revenues, and recommended actions are discussed on the following pages.

The County ended FY 2023 with a balanced budget. At the end of FY 2023, the County's General Fund balance is anticipated to be $363.5 million, an increase of $0.6 million from the end of FY 2022.

General Fund 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 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 $317.1 million, or 87%, 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 ($317.1 million): Funding which remained from FY 2023 which will carry over to their restricted and assigned areas includes:

- Reserves: $106.9 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: $85.3 million.
    - Self-Insurance Reserve: $6.0 million
    - Stabilization Reserve: $15.5 million

- Restricted & Non-Spendable Funding: $33.7 million
    - Seized Asset funds: $2.0 million
    - Grants, Transit, & Restricted funds: $5.5 million
    - Fiduciary accounts: $18.6 million
    - Pay-As-You-Go capital from easement or property transfers and capital transfer reconciliation: $1.8 million
    - Governmental Accounting Standard Board (GASB) Adjustments: $5.9 million (net)
        - $26,219,463 to a restricted account offset by a non-spendable account for recognition of GASB 72 requirements for unrealized loss calculations as of June 30, 2023, which measures investments at fair value and discontinued their valuation at acquisition price, also known as mark-to-market adjustments.
        - $4,514,249 to a non-spendable account for GASB 87 and 96 for the recognition of leases and subscription-based technology.
        - $1,336,872 to restricted non-spendable items identified in the FY 2023 year-end audit process for prepaids.

- Schools: $34.7 million – Schools' carryover is a combination of School expenditure savings ($14.6 million), and School's portion of tax revenue per the Principles of Revenue Sharing ($21.4 million), partially offset by School's contribution to the General Fund Operating Reserve ($1.4 million).

- Affordable Housing Investment Fund (AHIF): $86.5 million – A combination of previously allocated project funds ($28.0 million) and unallocated funds for anticipated projects ($58.5 million). Some examples of projects with allocated funding include Barcroft debt service, Marbella 4% and 9%, Arna Valley rehab, and Merion Pike West. In addition to the $86.5 million carried over in the General Fund, an additional $5.1

million in federal HOME funds dedicated to AHIF will be carried over in the Community Development Fund.

- Prior County Board Appropriations and Allocations: $55.4 million – The County Board has taken a number of actions as a part of the adopted FY 2024 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 ($10.2 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 2024 Adopted Budget ($29.2 million), such as FY 2024 compensation bonus to staff ($9.0 million), PAYGO funding for capital projects ($6.3 million), eviction prevention ($4.0 million), other post-employment benefit (OPEB) trust fund ($3.0 million), a County Manager contingent ($2.0 million), housing grant funding ($2.4 million), economic development activity ($1.9 million), and library collections and operations ($1.1 million). See page 629 of the FY 2024 Adopted Budget for a full list.
    - Incomplete & Multi-Year Projects ($10.3 million): This allocation funds specific projects whose schedule covers multiple fiscal years – particularly community planning 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 Langston Boulevard Study, Disparity Study, the Broadband Study, and the Integrated Forestry and Natural Resources Master Plan as well as funding for supplies that experienced supply chain delays, additional funding for the Stormwater Utility Relief Program, arts programming at 2700 S. Nelson Street, environmental initiatives, and completion of training for a Fire recruit class. See Attachment 2D for additional details.
    - Payments for projects that were substantially complete but require purchase order encumbrance for the completion of purchases after June 30 ($0.3 million).

The County Manager also recommends setting aside discretionary funding in some priority areas as detailed above:

- Barcroft Debt ($15.0 million);
- Land Acquisition ($5.0 million);
- Bridge funding in FY 2025 for ongoing expenditures ($3.0 million);
- Development Fund Contingent ($2.0 million);
- Time-sensitive Public Safety Items Needed in FY 2024 ($1.1 million);
- Teen and Disadvantaged Youth Programming ($500,000);
- Northern Virginia Juvenile Detention Center contingent ($200,000); and
- DHS bonuses ($150,000).

The balance of $19.4 million is recommended to be set aside for the FY 2025 budget process.

Governmental Accounting Standard Board (GASB) Adjustments

Fund balance, revenue, and expenditures are impacted by the ongoing reporting of several Governmental Accounting Standard Board (GASB) requirements over the last several years. This report for FY 2023 includes adjustments impacting how municipal governments report financial results. These standards impacts the presentation of fund balance, restricted funding, and FY 2023 revenue and expenditures:

- GASB 72 – "Measurement and Application" was first implemented in FY 2016. The Standard requires governments to measure investments at fair value and discontinued their valuation at acquisition price. Fund balance reflects unrealized gains and losses in line with GASB 72 (Measure and Application) and the allocation of cash to cover any unlikely losses associated with the unrealized loss experienced in FY 2023 (-$935k);
- GASB 84 – The County and Schools both adopted GASB 84 in FY 2021, which establishes specific criteria for identifying activities that should be reported as fiduciary activities. Fund balance includes balances of $18.6 million for restricted fiduciary funds (GASB 84); and
- GASB 87 & 96 - In June 2017, the Government Accounting Standards Board (GASB) issued Statement No. 87, Leases. GASB 87 is effective for the Arlington County Annual Comprehensive Financial Report (ACFR) for the period ending June 30, 2022. This standard increases the usefulness of governmental financial statements by requiring recognition of certain lease assets and liabilities for all leases, including those that previously were classified as operating leases and recognized as income by lessors and expenditures by lessees. The County is also a lessor of assets and under the GASB 96 standard, which applies to subscription-based software; the County has recorded a lease receivable asset and an equal deferred inflow of resources associated with this receivable balance (-$4.5 million).

Expenditures

General Fund FY 2023 expenditures, including transfers to other funds and $605.2 million to Schools, totaled $1,537.1 million. County Operating Department budgets totaled $688.1 million for FY 2023, an amount which includes $3.8 million in GASB required adjustments described above. Excluding these reporting adjustments, there was $37.3 million which was not spent by operating departments. However, this includes unspent grant funding which must be carried over to the next fiscal year ($11.2 million) and monies provided by the County Board for prior years' one-time projects which are still underway or legally restricted ($9.6 million). Adjusting for grant funds and restricted/incomplete projects, the County departments ended the fiscal year with $16.4 million in expenditure savings or approximately 2.3% of FY 2023 department operating budgets. For comparison, in FY 2022, the County ended the fiscal year with $33.1 million in expenditure savings or approximately 4.7% of the FY 2022 department operating budgets after adjusting for grant funds and restricted/incomplete projects.

The expenditure savings was the result of department vacancies due to attrition and the difficulty in hiring a number of position types (e.g., police officers and healthcare workers). In addition, continued challenges with supply chain generated some non-personnel savings due to the difficulty in receiving some operating supplies.

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

- Fire (-$1,243,929): The over-expenditure was primarily due to overtime costs required to meet minimum staffing requirements as well as for unused leave payouts, partially offset by savings from the delayed timing of recruit class 82.

- Sheriff (-$528,190): The over-expenditure was primarily due to unused leave payouts and overtime costs required in the detention facility for minimum staffing requirements partially offset by savings from staff vacancies.

- Public Defender (-$17,420): The over-expenditure was primarily due to vacant positions being hired at slightly greater levels than originally budgeted.

For pandemic response in FY 2023, the County received unbudgeted reimbursements from FEMA ($9.7 million) as well as utilized federal grant funds through the Coronavirus State and Local Fiscal Recovery Funds (SLFRF) program ($23 million), a part of the American Rescue Plan Act. The County was ultimately able to apply these grant funds to the budget through ARPA's revenue loss provision, which allows local governments to use the grant to provide most governmental services if they can demonstrate revenue losses due to the pandemic. The County leveraged the grant funds in order to provide essential services to those most in need, maintain core services for resident health and safety, and lay the foundation for economic recovery.

Revenues

Actual General Fund revenues, excluding fund balance, were $1.538 billion for FY 2023, compared with a revised budget of $1.669 billion.

In early April 2023, the Board was presented with updated revenue projections for FY 2023 to account for a changing inflationary and interest rate environment. At that time, this included projected increases in all major tax revenues including real estate, personal property, and meals tax. By fiscal year end, final tax revenues were 1.3% higher than the revised projections. Real estate tax revenue was 0.6% higher than the third quarter projection, providing $8.4 million of one-time revenue that was included in the FY 2024 budget. Personal property and BPOL taxes exceed projections due to the continued strength of vehicle values and business gross receipts. Meals, sales, and car rental taxes all experienced significant growth, exceeding the third quarter estimates and reaching record highs due to increased demand and inflation. The hotel tax also increased significantly based on rising room rates although occupancy continues to recover to pre-pandemic levels. A few other taxes experienced decreases including the recordation tax, the communications tax, and utility taxes. The following table shows budgeted tax revenue, third quarter projections, and FY 2023 actual tax revenue receipts for the major tax categories.

FY 2023 Revised Budget to Actual Tax Revenues

	Budgeted Revenue (adopted in April 2022)	**Revised Projection (April 2023)**	**Actual Revenue**	**$ Change** (April 2023 to Actual)	**% Change** (April 2023 to Actual)
Real Estate	$852,164,325	$857,786,680	$862,594,538	$4,807,858	0.6%
Personal Property	132,652,147	140,052,147	141,574,707	1,522,560	1.1%
BPOL	78,000,000	80,000,000	83,191,768	3,191,768	4.0%
Sales	46,000,000	52,800,000	53,332,446	532,446	1.0%
Transient	16,500,000	20,500,000	22,697,994	2,197,994	10.7%
Meals Tax	39,000,000	45,000,000	46,534,736	1,534,736	3.4%
Other Taxes	44,635,000	42,388,500	44,732,412	2,343,912	5.5%
Totals	**$1,208,951,472**	**$1,238,527,327**	**$1,254,658,601**	**$16,131,274**	**1.3%**

Non-tax revenue excluding fund balance — including fees, fines, state and federal support, grants, and interest — was $32.6 million higher than budget. This includes $8.3 million of unbudgeted GASB adjustments (which were largely offset by adjustments on the expenditure side). Excluding the GASB adjustments, non-tax revenue was $24.3 million higher than budget.

FY 2023 Revised Budget to Actual Non-Tax Revenues

	Revised Budget	**Actual Revenue**	**$ Change**
License, Permits, Fees	$7,344,004	$10,162,288	$2,818,284
Fines, Interest, & Rent	21,725,128	38,137,523	16,412,395
Charges for Service	66,946,879	59,030,346	(7,916,533)
Miscellaneous Revenue	3,768,467	8,984,270	5,215,803
AHIF	-	15,280,336	15,280,336
State Revenue	92,385,904	85,807,699	(6,578,205)
Federal Revenue	49,536,949	55,128,922	5,591,973
Transfers & Other	9,032,704	10,825,215	1,792,511
Totals	**$250,740,035**	**$283,356,599**	**$32,616,564**

License, Permits, Fees – Exceeded the budget mainly due to highway permits and site plan fees.
Fines, Interest, & Rent – Interest income exceeded the budget due to rising interest rates and relatively low unrealized losses. This was partially offset by lower fine revenues.
Charges for Service – Came in under budget due to lower parking meter and transit revenues.

Miscellaneous Revenue – Came in over budget mainly due to unbudgeted contributions for AHIF.
State Revenue – Came in under budget mainly due to lower funds for mental health and intellectual disabilities.
Federal Revenue – Exceeded the budget due to unbudgeted reimbursements from FEMA. The budget included the second $23 million tranche from the American Rescue Plan Act.

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 to staff's recommendation by emailing: DMF@arlingtonva.us.

FISCAL IMPACT: There is no fiscal impact at this time for the recommendations of the FY 2023 financial results. When the County Board makes final allocation and appropriation decisions at the November 2023 board meeting on the FY 2023 Close-out package, the Board will ratify final appropriations for FY 2023 fulfilling all County obligations and use of one-time funds to meet critical priorities.