

**Arlington County Civic Federation Revenues & Expenditures Committee Report on
“Resolution on General Fund Available Balance Allocations”
May 3, 2016**

Purpose

R&E is bringing this resolution to the membership for two reasons:

1) There are large available discretionary balances which are allocated by the Board each year. These amounts and the ways these funds are allocated are not well known or particularly transparent. Through good planning and rising property assessments, the County has been able to generate a surplus in most years.

2) While the needs of major programs (e.g., public safety, housing, schools, parks, etc.) are substantially funded through the annual operating budget and the biannual CIP, relatively little consideration is given to reducing the overall tax and fee burden for the average resident, homeowner and small business owner.

Our objective is simply to ask the board to give due consideration to reducing taxes and fees, when this is possible.

Budget Background

There are actually two or three 'budgets' that the County works with, as well as various pools of 'discretionary' funds. The two principal budgets are:

1) Fiscal Year Operating Budget. This is the budget approved each April for known and anticipated operating needs. It is mostly department-driven, with support of various commissions and special interests. It is funded primarily by residential and commercial property taxes.

2) Bi-Annual Capital Budget (“CIP”). This bond-funded budget is used for long-term capital expenditures. This would include school capital projects, parkland acquisition, etc.

There are many moving parts to the County budget. Adjustments are made throughout the year, and from year-to-year. One of the most important adjustments is made following completion of the audit of the County's financial statements. This adjustment is generally referred to as the 'year-end closeout' and carry-over, and occurs during the October-November time frame each year.

Following this annual audit, the County Manager reviews funds from all sources (carryover, higher than projected revenues, lower than expected expenditures, incomplete projects, etc.) He then makes recommendations to the County Board for the use of this available 'fund balance' (aka 'surplus'). A significant portion of these funds are 'discretionary', meaning they can be used for any purpose, but traditionally they are used for 'one-time' expenses such as reserves, contingencies, repairs, road maintenance, etc. For example, in the most recent 'closeout', a surplus of \$21.8 million was identified. This amount was further increased by a transfer of \$2.5 million from the County's \$5 million 'BPOL Reserve Fund'. The County Manager recommended allocation of these funds as follows:

Affordable Housing Investment Fund (AHIF) \$8,200,000

Budget Stabilization Contingent 3,000,000

Housing Grants 3,724,000

Maintenance Capital 1,700,000

Economic Incentive Fund 1,500,000

Election & Inauguration 629,691

Public Safety Staffing Needs 422,261

Library Pop-Up Initiative 250,000

Fair Housing Study & Regional Commitments 234,605

*Schools Allocation 2,399,363

1/2 Cent Tax Cut Set-Aside 1,755,530

Total: \$23,815,450

*(Based on revenue-sharing principles, APS received the following allocation: The County Manager included \$2.4 million in one-time funds to Schools in the Proposed Budget. Based on higher tax revenue forecasted and the Principles of Revenue Sharing, Schools would receive an additional \$0.6 million for total one-time funding of \$3.0 million. With the additional projection of BPOL tax revenue in FY 2017, Schools would receive an additional \$1.5 million in on-going funds (\$1.3 million from real estate taxes and \$0.2 million in additional BPOL forecasted).

The above allocations is fairly typical. Previous year's allocations were as follows:

2014: *AHIF - \$8.2 million

Housing Grants: \$1.5 million

Connect Arlington: \$1.5 million

Employee compensation adjustments, one-time technology, planning and public safety projects, \$18.6 million

2013: *AHIF: \$2.9 million

*Housing Grants: \$1.5 million

Board Contingent*: \$3 million

Economic stabilization fund*, employee compensation adjustments, one-time projects: \$18.2 million

2012: One-time infrastructure and incomplete projects: \$21.1 million

Economic stabilization fund* and employee compensation adjustments: \$15 million

2011: One-time infrastructure and incomplete projects: \$23.8 million

Economic stabilization funds*, contingents* for Metro and waste-to-energy, Artisphere wind-down: \$8 million.

All of the above amounts are in addition to any funds obligated in the annual operating budget.

*(Amounts allocated for reserves, 'stabilization funds', contingents and housing may not result in actual expenditures in the following fiscal year. In that event, those amount are carried over to the following year and are re-allocated at the Board's discretion.)

Competing priorities: As the membership is aware, increased density and population growth have created competing priorities for land use as well as for funding, primarily among affordable housing, education and parks. In accordance with revenue-sharing, APS receives a portion of the annual budget to cover the Superintendent's budget request, as well as bond funding from the CIP. APS additionally receives a portion of any annual surplus that may be generated. Similarly, DPR and CPHD receive regular appropriations in the operating budget, as well as bond funding provided for in the CIP. For facilities and capital projects and improvements, the CIP is the principal means for meeting those requirements.

The proposed R&E resolution deals with amounts over and above funding provided for in the operating budgets and the CIP. In recent years, some of this surplus has been allotted for affordable housing, contingency funds and grants, in addition to budgeted amounts. However, should a particular or unexpected need be identified, the County has the discretion to allot those funds.

The Process

Considering the amounts of money involved, the closeout and re-allocation process is not well known or understood. While the Manager's recommendations are placed on the agenda, and the meetings and reports are available to the public, it is difficult for the average resident to interpret the nomenclature, let alone understand the consequences. Meetings have frequently taken place at recess sessions. While we are not proscribing the exact measures that should be taken, it's clear that more notice, better explanations, and at least one additional public meeting would make the process more accessible and transparent.

Summary

The annual closeout and allocation process involves substantial sums of money. Most of the county's identified needs are funded through the annual operating budget and the CIP. However, should unexpected needs be identified, the Board may use available or 'surplus' funds to meet those needs. And while we commend the County Manager for including a tax rate reduction in this year's budget, it has generally not been the practice to use available or surplus amounts to reduce the tax and fee burden on residents. What has been lost in this process is the need to contain taxes and fees for homeowners and small businesses, which add to everyone's cost of living. The resolution simply asks the County Board to consider allocating a 'fair and reasonable' share (at their discretion!) of any available surplus for this purpose. It does not suggest how much nor that other specific needs be left out.